

Special Counsel's Third 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.*

October 29, 2010

SPECIAL COUNSEL'S THIRD 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 third such quarterly report. Pursuant to the terms of the Consent Judgment, Stevens is required to publish this report on its web page.

THIRD QUARTERLY REPORT

The format of this report has changed from the prior two quarterly reports. This report is not cumulative. Rather, in this Third Report, Special Counsel will report only on the remaining open items under the Consent Judgment, and portions of the earlier reports dealing with completed items will not be repeated here. Therefore, Special Counsel's prior two reports are incorporated by reference here, and familiarity with those reports is presumed. Accordingly, this report sets forth below only the operative paragraphs of Section C of the Consent Judgment as to which full compliance had not been achieved as of the date of the Second Quarterly report. As to each such operative paragraph, Special Counsel then reports upon the current 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 and Second Reports, 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.

On or about October 15, 2010, new Amended By-laws for Stevens were adopted by its Board. Those new Amended By-Laws reflect the product of discussion between Stevens and the Attorney General's office concerning the appropriate contours of the above-referenced age 72, 12-years of service limitations for Board membership. Accordingly, the new Amended By-Laws reflect a proposed agreement that the 12 years of service limitation is triggered when a Board member over the age of 72 has served for 12 years in any 16 year period. Special Counsel is advised that the Attorney General's office is presently reviewing this formulation of the service limitation and is expected to provide comment shortly. If agreed, this formulation will be reflected in amendments to the Consent Judgment that will be submitted to the Court in the near future. This will bring Stevens into full compliance with this section of the Consent 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 previous Amended Bylaws began the process of compliance with this provision of the Consent Judgment. In the First and Second Reports, special Counsel reported that Special Counsel was in discussions with the Board concerning whether a minor amendment to these provisions was necessary to achieve full compliance. Section 2.1 of the new Amended By-Laws now contains the desired amendment, which makes clear that the duties set forth above must be undertaken by the entire Board and that its responsibility is non-delegable. Accordingly, Stevens is now in full compliance with this provision of the Consent Judgment.

“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. Special Counsel is satisfied from his review that Mr. Salluzzo has brought heightened levels of leadership, professionalism and expertise to the functioning of the Audit Committee.

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. Dr. Taylor has been actively engaged in the task of performing the review and recommendations required by the Consent Judgment. Among other things, her efforts have included interviews with more than a dozen relevant persons, including trustees, administration and faculty, performance of a written survey, attendance at Board and Committee meetings and review of existing governance documents. Dr. Taylor reports receiving a high level of cooperation from all relevant Stevens personnel. Dr. Taylor is in the final stages of preparing her report and recommendations to the Board, and expects that the process will be complete in the next 30 days. Special Counsel will report further on the outcome of this process in the next quarterly report.

“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 former Amended By-laws achieved compliance with this provision of the Judgment in most respects. Both the former Amended By-laws and the new Amended By-laws, however, exclude the Human Resources, Executive and Audit Committees

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.

from the faculty membership requirement.² Stevens is of the view that such an exclusion is necessary to achieve best practices and to meet certain legal requirements. In addition, the new Amended By-laws somewhat modify the process for faculty participation on the remaining standing committees. The new Amended By-laws provide for one faculty trustee on those standing committees, while providing that the Board may appoint additional faculty members to participate in the activities of those standing committees and other committees of the Board. In fact, the Board has now done so and each standing committee and the other committees of the Board have faculty representation (excluding Human Resources, Executive and Audit). Ultimately, once the staggered election of a second faculty member to the Board takes place, the expectation is that both the faculty trustees will, between them, cover the standing committees (excluding Human Resources, Executive and Audit), in addition to such other faculty members as the Board may appoint to these and the other committees. These By-law changes have been the subject of ongoing discussion between Stevens and the Attorney General's office. Special Counsel is advised that the Attorney General's office is presently reviewing this new By-law provision. If agreed, this formulation will be reflected in amendments to the Consent Judgment that will be submitted to the Court in the near future.

² The Consent Judgment does not impose a faculty membership requirement on the Executive Committee.

“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, and that charter has now been posted on the Stevens Website at <http://www.stevens.edu/sit/trustees/governance-documents.cfm>.

“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:

Special Counsel has previously reported the adoption of charters in compliance with this Section of the Consent Judgment. Stevens's governance documents have now been posted at <http://www.stevens.edu/sit/trustees/governance-documents.cfm>.

"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. Special Counsel will report further on this matter in the event that the upcoming recommendations by Dr. Taylor cause any further change to the governance documents.

“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. 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 is advised that the formal and final execution of the necessary agreements is imminent.

“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, and Special Counsel is satisfied that it has been and continues to be pursued with appropriate diligence. Stevens’s Chief Financial Officer reports that all of the required data has been gathered and reviewed and that the necessary analysis is nearing completion. Stevens expects that a final report on the results of this limited accounting will be prepared in time for the scheduled February 2011 meeting of the Audit Committee.

“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:

As of September 2010, Stevens named Kathy L. Schulz as Vice President, General Counsel and Secretary, following a nationwide search. Special Counsel was invited to attend and did attend candidate interviews. Ms. Schulz is the former Associate General Counsel at Yale University, and very well qualified for her new post. Accordingly, Stevens has achieved full compliance with this section of the Consent Judgment.

“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:

The aforementioned appointment of Ms. Schulz as Secretary, with responsibility for overseeing the preparation of all Board and Committee minutes, achieves full compliance with this section of the Consent Judgment.

“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:

The required financial documents can be found by following the links at <http://www.stevens.edu/fd/>. Stevens is in the midst of performing its annual review of the endowment’s performance and anticipates that the required information on this subject will be available on the Stevens website by December 31, 2010.

“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.”

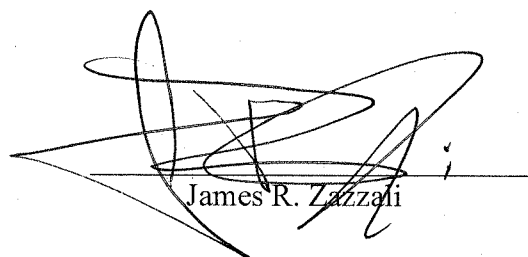
Status of Compliance:

As of the date of this report, no changes have been made to the referenced formal policies since the date of the Consent Judgment. Special Counsel does not intend to suggest by so observing that any changes are required. In any event, as reported elsewhere in this report, Stevens has recently hired a General Counsel, Ms. Kathy Schulz. Ms. Schulz, in consultation with Dr. Taylor, has been and continues to undertake the evaluation of these policies required by this section of the Consent Judgment. Special Counsel will report further in future reports concerning the completion of that evaluation and whether it results in any policy changes.

Overall Conclusion

Stevens remains fully cooperative with Special Counsel’s efforts to review and report on compliance with the Consent Judgment. Special Counsel finds that Stevens continues to pursue compliance diligently and in good faith, and has achieved appropriate progress toward full compliance since Special Counsel’s previous report. Special Counsel continues to perceive no reason for concern about Stevens’ willingness and ability to achieve full and timely compliance with the Consent Judgment.

October 29, 2010



James R. Zazzali