

THE TRUSTEES OF THE STEVENS
INSTITUTE OF TECHNOLOGY

Plaintiff,

v.

ANNE MILGRAM IN HER OFFICIAL
CAPACITY AS ATTORNEY GENERAL
OF THE STATE OF NEW JERSEY,

Defendant.

SUPERIOR COURT OF NEW JERSEY
LAW DIVISION
HUDSON COUNTY

DOCKET NO. HUD-C-115-09

ANNE MILGRAM, ATTORNEY
GENERAL OF NEW JERSEY, on behalf
of her office, and the STATE OF NEW
JERSEY,

Plaintiff,

v.

THE TRUSTEES OF THE STEVENS
INSTITUTE OF TECHNOLOGY, a New
Jersey nonprofit corporation, HAROLD J.
RAVECHÉ, LAWRENCE T. BABBIO,
etc.

Defendants.

SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION
HUDSON COUNTY

DOCKET NO. HUD-C-114-09

CIVIL ACTION

FINAL CONSENT JUDGMENT

THIS MATTER being jointly opened by the Trustees of the Stevens Institute of Technology ("Stevens" or the "Institute"), Dr. Harold J. Raveché ("Dr. Raveché"), and Lawrence T. Babbio ("Mr. Babbio") and Anne Milgram, Attorney General of New Jersey, and the State of New Jersey (collectively, the "State") (collectively, the "Parties") under R. 4:42-1 for entry of a Final Consent Judgment ("Consent Judgment") resolving all matters between the Parties; and

WHEREAS the Parties have engaged in negotiations and discussions after the State and Stevens filed civil complaints on numerous issues concerning governance reforms and treatment of certain charitable assets; and

WHEREAS Stevens, a distinguished institute of higher education enjoying a 140-year history of improving the use and understanding of technology, places the highest importance on integrity in all aspects of the Institute's life, and understands that Stevens will benefit from a review and evaluation of Stevens' governance policies and procedures to ensure that Stevens' programs are consistent with the goal of integrity in all aspects of the Institute's life; and

WHEREAS Stevens commenced a review and evaluation of its governance policies and procedures in advance of this litigation and has undertaken significant and important revisions to its governance policies and procedures to best ensure that Stevens is meeting its high standards of integrity; and

WHEREAS the Parties have agreed on additional reforms to Stevens' governance policies and procedures, which are contained in this Consent Judgment, and

WHEREAS Stevens has agreed to promptly take all necessary and appropriate actions, including without limitation amending Stevens' Charter, By-laws, Committee Charters, and other documents defining Stevens' governance practices ("Governance Documents"), to implement the reforms in this Consent Judgment for the purpose of improving and enhancing the governance and management of Stevens, its Board of Trustees, and the various Board committees; and

WHEREAS the Stevens Board (the "Stevens Board" or "Board" or "Board of Trustees") recognizes Dr. Raveché's contributions to Stevens over the years and his work to raise the visibility of the Institute, and wishes for him to consult with the Institute in the future; and

WHEREAS the Parties have reached an amicable agreement resolving the issues in controversy and concluding this action without trial, adjudication, or any admission of liability or unlawful conduct by any Party. The Parties enter into the Consent Judgment to avoid the expenses and uncertainty associated with further litigation. The Parties acknowledge that the resolution of this case and the mutual releases, injunctive relief, undertakings, mutual promises and other obligations provided for in this Consent Judgment constitute sufficient consideration.

IT IS HEREBY ORDERED, ADJUDGED AND AGREED AS FOLLOWS:

A. JURISDICTION

1. The Parties admit jurisdiction of this Court over the Parties for the purpose of entering into this Consent Judgment. The Court retains jurisdiction for the purpose of enabling the Parties to apply to this Court, at any time, for such further orders and relief as may be necessary for the construction, modification, enforcement, execution, or satisfaction of this Consent Judgment.

B. EFFECTIVE DATE

1. This Consent Judgment shall be effective on the date that it is entered with the Court ("Effective Date").

C. STEVENS GOVERNANCE AND MANAGEMENT

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.

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.

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.

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.

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.

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).

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.

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.

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.

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

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.

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

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.

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.

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.

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.

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

c. In addition to the existing members of the Board's current Executive Committee, the Board may name other members to the reconstituted Executive Committee.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

