Setting Politics Aside

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Scholars have documented a growing polarization between the two main U.S. political parties since about 1970. In the 2008 presidential campaign, candidate Barack Obama promised to buck this trend, heralding a new era of “post-partisanship.” The country soon witnessed how difficult it would be to realize this promise.

The debate over President Obama’s first major legislative initiative, the economic stimulus bill, was punctuated by theatrics and division. And today, prospects for setting politics aside in Washington, D.C., seem to be distant.

With our policy research roots in the scientific method, we have to set politics aside. In the United States and around the world, clients, donors, and supporters look to us for objective policy analysis. In 2008, we demonstrated the gains that can accrue to all when we look to facts and engage in rigorous analysis rather than indulge our differences.

We set aside politics over the Iraq war. We focused on the veterans who have suffered mental and cognitive injuries. We quantified the scale and scope of the tragedy for the first time in history. All can now agree that these veterans deserve better diagnoses and treatments. We pointed the way toward healing these invisible wounds.

We set aside politics over conflicting counterterrorist agendas and focused instead on what has worked in the past. We found that most terrorist groups have ceased to exist either as a result of police and intelligence actions or as a result of political agreements, not as a result of military campaigns. All can agree that we should do what works best.

We set aside politics over the geopolitical implications of a rising China and India and over the regional contest between the two nations. We focused on what the rest of the developing world can learn from their health and education systems. All can agree that the fate of the world’s poor rests greatly on what happens inside China and India.

These are challenging times for the global economy, and the impacts of the economic crisis confront policymakers at all levels of government and in all corners of the world. In such times, the RAND Corporation offers these and other stories in the following pages to illustrate our commitment to rising above politics in our policy analysis. Through our work, we hope to offer ideas and answers to the elected leaders who often represent opposing constituencies—ideas and answers that might allow them to rise above the fray for the benefit of all.

Ann McLaughlin Korologos
Chairman, RAND Board of Trustees

James A. Thomson
President and Chief Executive Officer
Months after returning home, thousands of soldiers are learning the hard way that they did not escape the war unscathed. Three months after he got back from Iraq, 28-year-old Spc. Joseph West was so overwhelmed by stress at his job as a military recruiter that he crawled under his desk. His wife had to come get him. 

AP Photo/Carolyn Kaster

RAND was presented with a 2008 American Publishers Award for Professional and Scholarly Excellence (or PROSE Award) from the Association of American Publishers for Invisible Wounds of War, in the Clinical Medicine category. A coordinated RAND outreach effort and timely recommendations helped put the issue on the agenda of key congressional committees and in editorials and newspaper stories across the country. Shortly after Invisible Wounds was published, the U.S. Secretary of Defense finalized modifications to DoD’s security clearance application to diminish potential stigma about psychological care. In October, the Chairman of the Joint Chiefs of Staff called for screening for all returning military personnel, including mandatory face-to-face evaluations for post-traumatic stress. Foundation funding for this research made it possible for RAND to examine the problems not merely as defense or veterans issues but as a challenge requiring a comprehensive response across the military and civilian health care systems. In addition to RAND reports, the study products included pamphlets designed for veterans and their families to inform them about these conditions and to describe available resources.
In 2008, controversy over the war in Iraq appeared to be at an all-time high. U.S. presidential candidates sparred over the length of time American troops would remain in the region; the support of a war-weary public continued to wane. Against this backdrop, a team of 25 RAND researchers released a first-of-its kind, comprehensive analysis of the mental health and cognitive care needs of servicemembers returning from duty in Iraq and Afghanistan. Effectively shifting the spotlight from the politics of war to the collective responsibility a nation shoulders to care for its veterans, the study has helped fill fundamental gaps in our understanding of the scope of mental health and cognitive challenges experienced by American troops in today’s wars, as well as the costs of these challenges, and the adequacy of our care systems to deliver treatment.

The study focused on three major conditions—post-traumatic stress disorder (PTSD), major depression, and traumatic brain injury (TBI)—and found that nearly 20 percent of all deployed servicemembers were currently experiencing PTSD or depression, and nearly 20 percent may have experienced a TBI while deployed. These conditions affect mood, thoughts, and behavior—and, unlike physical wounds, often remain invisible to other servicemembers, family, and society. Without treatment, the impact of these conditions can be severe and include higher risks of other psychological problems; unhealthy behaviors such as smoking, overeating, and unsafe sex; physical health problems; missed work and lower productivity; and high rates of attempted suicide and mortality.

Although both PTSD and depression are highly treatable, researchers found that only about 50 percent of servicemembers who needed treatment have actually sought medical care, leaving a substantial portion of the affected population at risk. And even among those who have received care, only about half are getting what researchers describe as minimally adequate care.

What contributes to these critical gaps in access and quality of care? Researchers identified fears among servicemembers about the confidentiality of mental health care and the perception that treatment would negatively impact their career or the confidence of their coworkers. Researchers also found institutional and structural impediments: Both U.S. Department of Defense (DoD) and U.S. Department of Veterans Affairs (VA) facilities had a shortage of mental health providers trained to provide evidence-based care and long wait times for appointments. Iraq and Afghanistan veterans also reported feeling out of place in VA facilities that may be oriented toward the needs of older veterans whose needs are different than servicemembers just now returning home from combat. Researchers also found room for improvement in the systematic use of organizational tools and incentives that support delivery of high-quality mental health care. DoD and VA have begun training in evidence-based practices for providers, but these efforts have not yet been integrated into a larger system redesign that values and provides incentives for quality of care.

Economic analyses revealed that if left untreated, PTSD and depression among the veterans of Iraq and Afghanistan will cost the nation as much as $6.2 billion in medical care and economic costs related to lost productivity and suicide—and this in just the first two years following a servicemember’s deployment. However, researchers also predict that the total costs associated with PTSD and depression could be reduced by as much as $1.7 billion over two years by providing evidence-based treatment to all those who need it. While providing treatment to more individuals would increase costs initially, these higher costs would be more than offset by savings from productivity gains and a lowered risk of suicide. At the rate of savings noted, evidence-based treatment would pay for itself within two years.

Caring for the Invisible Wounds of War

Safeguarding the health of servicemembers saves money, is important to future military readiness, and appropriately compensates and honors those who have served the United States.
Suspected Somali pirates are seen after they were captured by Marine commandos of the French Navy in the Gulf of Aden, off Somalia's coast Thursday, January 29, 2009. The French Navy handed over the suspected pirates to authorities in Puntland. AP PHOTO
Safeguarding Global Waterways

Piracy and Terrorism at Sea

Maritime piracy is on the rise. A total of 1,845 actual or attempted acts of piracy were registered around the world between 2003 and the end of 2008, representing a near doubling of the average annual rate of attacks recorded in the late 1990s. This, taken with a modest yet discernible spike in high-profile terrorist attacks and plots at sea over the same period, has galvanized fears in the West that terrorists, especially militants connected with the international jihadist network, are moving to extend their activities to global waterways.

A 2008 RAND study analyzed the current piracy situation to help policymakers better understand its causes and consequences, and also to investigate the presumed nexus to jihadi terrorism. While the study finds no solid evidence to support fears that terrorists are joining forces with maritime criminals to pursue sea-based assaults, it makes clear the very real dangers and destabilizing effects caused by the existing order of pirate activity and outlines specific policy actions the United States could take to lead the international community in mounting an effective response.

The concentration of piracy today is greatest around the Horn of Africa and the Gulf of Aden, which accounted for roughly 40 percent of all attacks reported in 2008. Other high-risk zones include Nigeria/Gulf of Guinea, Indonesia, India, Bangladesh, and Tanzania. The RAND study identifies a variety of factors to explain the rapid rise of piracy in recent years including a dramatic increase in maritime traffic due to expansion of the global supply chain, and ships with leaner staffs due to technological advances in seafaring and business interests in lowering operating costs. Weakened maritime surveillance has also played a role, with a post-9/11 emphasis by some nations on land-based security measures; and with the political corruption and instability in a number of littoral states resulting in governments either looking the other way when it comes to piracy or, in some cases, actively supporting the endeavor. Finally, the willingness to pay increasingly large ransoms for the return of hijacked vessels and cargo, combined with governance voids in Somalia, have directly contributed to the rash of pirate attacks currently being witnessed off the Horn of Africa and Gulf of Aden.

The significant increase in maritime crime—even if this trend is not related to terrorism specifically but to public safety more generally—presents challenges that are complex, multifaceted, and worthy of policymakers’ consideration. Piracy endangers civilians, can disrupt the economy, encourages corruption, and could trigger an environmental disaster if attacks occur in congested sea-lanes traversed by oil tankers. Terrorism at sea would cause similar disruptions—and cruise ships, ferries, and cargo freighters make attractive targets for inflicting human casualties and economic harm.

Piracy is a significant and dangerous phenomena, but one that is economically driven. There is no evidence to conflate it with terrorism, which has at its root political, ideological, or religious motives.

The absence of a link arguably reflects the diametrically opposed objectives of pirates and terrorists: The former depend on thriving sea-based trade to support their “business,” while the latter (at least in the context of contemporary jihadist extremism) actively seek to destroy such economic activity.

Since 2002, the United States—one of the world’s principal maritime trading states—has spearheaded several important initiatives to improve global and regional maritime security. The study’s author urges policymakers to consider four additional measures to better safeguard the world’s oceans: helping to further expand the nascent regime of post-9/11 maritime security; conducting regular and rigorous threat assessments; assisting with redefining mandates of existing multilateral security and defense arrangements; and encouraging the commercial maritime industry to make greater use of enabling communication and defensive technologies and accept a greater degree of transparency in its corporate structures.
Afghan police officers examine the wreckage of a vehicle on the Kabul-Jalalabad road in Kabul, Afghanistan. A car bomb targeting a British military convoy killed four Afghan civilians and one British soldier in the Afghan capital, NATO and Afghan officials said. AP PHOTO/MUSADEQ SADQI
Reconceptualizing the U.S. Approach to Terror

Since September 11, 2001, U.S. strategy against al Qa’ida has centered on the use of military force. But the so-called “war on terror” has not succeeded in defeating al Qa’ida: Since 2001, the group has been involved in more terrorist attacks—spanning Europe, Asia, the Middle East, and Africa—than it was during its prior history. Because people along all points on the political spectrum agree that counterterrorism efforts are a key component of any national security strategy, RAND researchers sought to determine why U.S. efforts have not been effective and to suggest future strategies—based on evidence—that could be.

RAND researchers compiled and analyzed a data set of all terrorist groups between 1968 and 2006, drawn from a terrorism-incident database jointly overseen by RAND and the Memorial Institute for the Prevention of Terrorism. The authors used that data to identify the primary reason for the end of terrorist groups and to statistically analyze how economic conditions, regime type, size, ideology, and group goals affected their survival. They then conducted comparative case studies of specific terrorist groups to understand how they ended.

The findings indicate that terrorist groups are defeated by military force less than 10 percent of the time, but that nearly 85 percent of groups end because of operations carried out by local police or intelligence agencies or because they negotiated a settlement with their governments. (In 10 percent of cases, terrorist groups ended because they achieved their objectives.) Researchers also observe that religious terrorist groups take longer to eliminate than other groups. Still, no religious terrorist group has achieved victory since 1968.

Based on this evidence, the study’s authors suggest that the U.S. approach to countering al Qa’ida has focused far too much on the use of military force. However, a political resolution with al Qa’ida is also unlikely: Previous groups that ended by reaching a peaceful political accommodation with their government had relatively narrow goals, whereas al Qa’ida’s sweeping ambition—to establish a pan-Islamic caliphate—renders negotiated settlements with governments in the Middle East unlikely. RAND researchers therefore recommend that the U.S. modify its approach to al Qa’ida and adopt a two-front strategy: (1) Make policing and intelligence the backbone of U.S. efforts and strengthen international cooperation in these areas to root out terrorist leaders in Europe, North America, Asia, and the Middle East; and (2) limit the use of military force to when insurgencies are involved, and even then look to local military forces who frequently have more legitimacy to operate and a better understanding of the operating environment than do U.S. forces.

The RAND study also recommends that the United States has the necessary instruments to defeat al Qa’ida but needs to shift its strategy to match what evidence tells us works in these scenarios.

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The RAND study also recommends that the United States move away from its war-on-terror orientation and recast its actions under a traditional counterterrorism framework. Characterizing U.S. counterterrorism efforts as a war plays into terrorists’ perceptions of themselves as holy warriors and suggests that the United States intends a battlefield solution to terrorism—an approach this analysis tells us will not work. Adopting a counterterrorism posture, which is employed by most governments facing significant terrorist threats today, reinforces the U.S. commitment to policing and implies that terrorists should be properly perceived as criminals, not holy warriors.
South Korean protesters shout slogans during a rally denouncing North Korea's missile threat in Seoul on February 18, 2009. South Korea described North Korea's nuclear and missile development as a serious threat to the world, as a media report said the communist state is operating a secret atomic program. JUNG YEON-JE/AFP/GETTY IMAGES
Prepping for a New Kind of Nuclear Threat

The nuclear ambitions of nations such as North Korea and Iran present persistent challenges for the United States and the international community. Ongoing multilateral diplomatic efforts strive to convince these states and others to forgo the development of nuclear weapons. Yet North Korea’s 2006 test of its first nuclear device brought into stark relief the possibility that such diplomacy may not succeed. To help policymakers and military decision-makers prepare for a nuclear-armed Pyongyang or Tehran, a 2008 RAND study analyzed the unique threats posed by a specific subset of nuclear-armed adversaries and proposes a response strategy focused on prevention and mitigating damages rather than on deterrence alone.

In the study, researchers begin by differentiating the motivations and security challenges posed by regional adversaries such as North Korea and Iran from larger, more powerful nuclear-armed states such as Russia, China, and India. Regional adversaries are defined to mean countries that pursue policies that are at odds with the interests of the United States and its security partners, whose actions run counter to broadly accepted norms of state behavior, and whose size and military forces are not of the first magnitude.

For a regional adversary, nuclear weapons may be seen as serving multiple purposes: to deter military threats or attacks by the United States or others; to redress military inferiority vis-à-vis neighboring states with nuclear weapons; to enhance national prestige and influence; to shore up domestic political support; and to ensure the regime’s survival in the event of war. Moreover, in the case of North Korea, a nuclear program may be seen as a source of leverage against the United States, Japan, South Korea, and China for extracting economic assistance.

Deterrenting the use of nuclear weapons by threatening retaliation via conventional and nuclear forces has been the U.S. strategy for preventing a nuclear attack for decades and a mainstay of Cold War military strategy. The success of this strategy is predicated on the adversary believing it will be worse off for having used nuclear weapons than if it were to forgo their use. But the study’s authors observe that when it comes to regional adversaries, U.S. conventional military superiority is virtually assured—which may lead the adversary leader to feel he has nothing to lose by employing nuclear weapons. Additionally, the United States has recently demonstrated in Serbia and Iraq the capability and willingness to attack enemy leaders, their command-and-control assets, weapons of mass destruction, and delivery means. An enemy leader’s fears of similar decapitation strikes or disarming counterforce attacks could lead him to think of his nuclear arsenal from a use-or-lose perspective, thus heightening the pressure to resort to nuclear use early in a conflict.

That an impoverished nation-state could develop and test a nuclear device in the face of opposition from the United States and all the other states in northeast Asia is a signal event in international relations.

Given the possibility that regional adversaries could view using nuclear weapons as an attractive option in a variety of circumstances involving a conflict with the United States, the study’s authors recommend that the U.S. develops military capabilities that offer far greater assurance that nuclear attacks by adversaries can be prevented (as opposed to deterred). This points to demands for forces that can locate, track, and destroy nuclear weapons and their delivery means before they are launched and, above all, active defenses that can destroy delivery vehicles after they have been launched. Researchers conclude that today, and for some time to come, the emphasis should be on fielding more-effective defenses against theater-range missiles that could be used to deliver nuclear weapons. Unless and until highly reliable means of attack prevention become available, U.S. leaders will be compelled to temper their objectives vis-à-vis nuclear-armed regional adversaries, avoiding conflict with them or using limited military force to minimize an adversary’s incentive to escalate to nuclear use.
Dodgers coach Manny Mota arrives at the dugout and parks his bicycle before a spring training baseball game against the Boston Red Sox, Friday, March 16, 2007. AP PHOTO /JULIE JACOBSON
Traffic congestion is more than an inconvenience. It takes a significant toll on economic competitiveness, fuel economy, driving safety, social justice, air quality, and quality of life. And while residents in congested areas uniformly desire freer-flowing traffic, the many stakeholders in a region’s transportation system often find themselves gridlocked with self-interest and unable to implement change. In this context, a team of RAND researchers set out to identify strategies to reduce traffic congestion in Los Angeles—arguably the worst in the nation—and developed a practical, integrated package of actions to improve traffic conditions and enhance transportation alternatives within the next five years.

In the study, researchers first illuminate critical factors underlying L.A.’s transportation challenges. Congestion is a result of an imbalance in the supply and demand for road space. Reducing congestion means either increasing the supply of road space or reducing the demand for peak-hour car travel. In L.A., the city’s prospects for increasing road space and building its way out of congestion are limited. The road network in L.A. is already by far the most extensive in the nation and there are significant shortfalls in transportation revenue to fund infrastructure projects. Managing the demand for roadways during peak hours, then, offers the greatest prospects for reducing congestion.

Yet while there are many strategies available for managing demand, evidence shows that few are sustainable in the long term. Only pricing strategies that raise the cost of driving—such as road tolls, gas taxes, and parking fees—provide an ongoing incentive for people to avoid driving during the busiest hours in the most congested areas. But pricing strategies raise legitimate concerns about the ability of lower-income drivers to pay. To mitigate equity issues, researchers argue that it’s critical that pricing strategies be complemented by significant improvements to public-transportation options throughout the region.

The RAND team studied successful transportation programs in cities around the world including London, Singapore, and Stockholm, and many major urban cities in the United States, such as New York and Seattle, to derive a set of 13 integrated recommendations for L.A. to reduce congestion. The recommended strategies are designed to accomplish four goals: manage peak-hour car travel, raise transportation revenue, improve alternative transportation options, and use existing roadway capacity more efficiently. The recommendations are also designed to complement one another in three important ways. Whereas some measures will require a significant initial investment of funds (signal timing and control and one-way street conversions), others will raise revenue (toll roads, variable curb parking rates). Whereas some measures may raise concerns about low-income individuals’ ability to pay (toll roads and high-occupancy toll lanes), others will alleviate those concerns by expanding fast, affordable car alternatives (deep-discount transit fares, bus-only lanes on surface streets). When considering more efficient use of road space, creating bus-only lanes to improve the flow of public transport will take away lanes for cars, but peak-hour curbside parking restrictions and one-way street conversions balance this reduction and provide additional automotive lane capacity.

Because their recommendations require substantial policy changes, the authors also researched how leaders can build consensus to support the reforms. They conclude by noting that though the challenge of consensus building is significant, successful collective action is possible. Moreover, the imperative to act is high. Without bold action, congestion across the region will continue to get worse and cost everyone more—financially, environmentally, and through a diminished quality of life.
Chinese children share a beat-up desk in a poorly equipped classroom in a school in Jingle county in China’s Shanxi province. Though China has improved education levels in the country, many rural areas are still underfunded, forcing schools to make do with poor facilities.

AP PHOTO
China and India account for more than 40 percent of the world’s population. Dramatic economic growth in both countries over the course of the past decade has inspired prolific debate about their ascendency as world powers and their anticipated economic, military, and environmental impacts. Yet little attention is paid to the investments each country has made in education and health, changes that are improving life prospects for millions of the world’s poor. In 2008, a pair of RAND analyses compared China and India’s health and education systems and examined the different policies, strategies, and historical circumstances that led each country to its current state, while drawing lessons for other developing countries.

China and India started building their national education systems in the late 1940s when the socio-economic landscape of each nation was marked by widespread illiteracy and large, impoverished, rural populations. The two countries pursued different education paths with divergent results. China’s strategy focused on educating the masses and its success has been dramatic. In 2007, China’s adult literacy rate was 93 percent, compared with a mere 20 percent in the late 1940s. China’s primary school gross enrollment rate reached 100 percent in 1985; its secondary gross enrollment rate hit 70 percent in 2003, representing a huge increase from just 40 percent in 1960. A large labor pool with basic education has been attractive to manufacturers and China’s economic development has depended largely on its rise as producer of the world’s goods. By contrast, India devoted a large proportion of its education resources to higher education, particularly in science and technology. As a result, India now has some of the finest institutes of higher education in the world and also has a higher percentage of college-educated people than China. India’s labor pool of college-educated, technologically savvy, English-speaking citizens has made India a choice destination for international software and services outsourcing. But at the same time, the Indian population at large remains uneducated, with an adult literacy rate of barely 61 percent. Female adult literacy in India is even worse and in 2004 was actually lower than that of sub-Saharan Africa.

With respect to health, both China and India have worked to develop public health care systems that value basic medical care, disease prevention, and health education. Each has made substantial health gains as a result, although China has been more successful. People in China live longer, healthier lives than their Indian counterparts, with the biggest difference being for Indian women who have a tenfold greater maternal death rate than Chinese women. India also lags in preventing communicable diseases with more than 40 percent of all deaths due to preventable illness. Both countries’ health systems fall short in protecting against the financial risks of becoming ill. In China, medical expenditures have become a principal cause of poverty. And in India, up to a third of hospitalized patients are impoverished by medical costs. Moreover, the privatization of health care in both countries is having negative effects; with greater incentives to provide curative rather than preventive treatments, strategies to prevent communicable disease and promote healthy lifestyles are losing ground.

RAND’s comparative analyses point some ways forward for India, China, and other developing countries. Both countries’ education models have contributed to economic growth but have produced very different distributional outcomes. China’s universal education strategy might be safer for more countries to emulate rather than India’s more-targeted approach, which produced a critical mass of English-proficient technical workers by educating a small fraction of a very large population. China should emulate two aspects of India’s health system: greater involvement of the private sector, where medical students increasingly prefer to work, and reduced regulation of prices. India should emulate two aspects of China’s health system: greater spending on basic national health infrastructure, such as clinics and preventive care services at the village level, and greater efforts to reduce preventable deaths from communicable diseases and from poor maternal and infant health. The Indian government should also commit more resources to improving hygiene, water quality, and nutrition.

The experiences of China and India in health and education can be seen as laboratories for opportunity for the world’s poor.
In 2008, RAND researchers made hundreds of presentations to policymakers and published hundreds of books, reports, articles, and research summaries to inform and advise public- and private-sector decisionmakers, while also enriching and shaping the public debate on prominent issues.

**Informing Policymakers**

**Senior Executive Branch Officials.** RAND briefings and reports help provide timely input to decisions confronting senior executive branch officials on issues ranging from geopolitics and global security; health care reform; education; intelligence policy; military force structure; energy; the environment; infrastructure; civil and criminal justice; and veterans affairs.

**U.S. Legislators.** RAND delivers research findings and lends analytical expertise to Congress to help legislators make better-informed decisions. Through expert testimony, bipartisan briefings, and topical electronic newsletters, RAND brings objective, nonpartisan analysis to Capitol Hill.

**State and Local Decisionmakers.** RAND researchers help state and local actors throughout the United States navigate complex policy challenges. In 2008, for instance, RAND participated in editorial board meetings with several newspapers in the U.S. Gulf States region—including Alabama’s Montgomery Advertiser and Press-Register; Louisiana’s Shreveport Times, News Star, and Times-Picayune; and Mississippi’s Clarion-Ledger and Sun Herald—as part of a concerted outreach effort to raise awareness about RAND’s capacity to assist local organizations, universities, and policymakers. And in August 2008, the RAND Gulf States Policy Institute hosted a forum in New Orleans—our first in the region—that featured presentations to 200 attendees by 23 RAND researchers.

**International Decisionmakers.** The RAND-Qatar Policy Institute—located in Education City in Doha, Qatar—facilitates the delivery of the full range of RAND’s capabilities to decisionmakers in North Africa, the Middle East, and South Asia—roughly, from Mauritania to Bangladesh. Cambridge, UK–based RAND Europe has been working to improve policy and decisionmaking through independent, quality research and analysis, largely for the public sector, for more than 15 years. In 2008, RAND Europe opened an office in Brussels, Belgium, to facilitate its growing portfolio of work with Brussels-based policy institutions, including the European Commission.

**Private-Sector Decisionmakers.** Increasingly, RAND findings are being discussed with and among senior executives in the corporate world. In 2008, for instance, findings from a RAND study on the benefits of creating a unique patient identification number for every person in the United States were shared widely among health industry leaders. Another 2008 study examined individual investors’ understanding of the difference between broker-dealers and investment advisors, findings of which are generating interest among not only individual investors but also financial services executives.
For RAND, the scholarly objectives of expanding knowledge, illuminating issues, and developing new ideas are but a first step in our efforts to help improve policy and decisionmaking through research and analysis. It’s equally important that we communicate our findings broadly to enrich the quality of public debate and help decisionmakers make sound choices.

A Public Resource

Better decisions are made by an informed populace. To that end, even though most of our research is client sponsored, RAND publishes its research as widely as possible to benefit the public good and fulfill our mission. The majority of publicly available research is available from www.rand.org through our online bookstore as a free download or by purchase. In 2008, 2,198 new reports and legacy documents were added to RAND’s Web site, bringing the total of free, downloadable materials to more than 10,000. We deliver research highlights and expert insights to more than 86,000 readers of topical e-newsletters and our flagship magazine, RAND Review.

RAND also disseminates research findings widely through media. In 2008, more than 4,000 individual media reports featuring RAND research or researchers were published or broadcast by newspapers, magazines, news services, and television and radio networks around the world. RAND researchers also provide informed insight into current events via published op-ed commentaries in influential media outlets such as Financial Times, the Guardian, International Herald Tribune, the Los Angeles Times, the New York Times, the Wall Street Journal, and the Washington Post.

RAND also hosts public programs that connect community audiences of civic and business leaders with RAND experts on issues of local, national, and global concern. Public forums in 2008 included discussions on the mental health needs of Iraq and Afghanistan veterans, the impacts of climate change on local water supplies, and maintaining military effectiveness in times of economic uncertainty.

Connecting with Experts: User-Directed E-Briefings

Delivering research and policy recommendations to far-flung audiences with multiple interests can be challenging. In 2008, RAND researchers participated in several high-profile, online briefing sessions that let a virtual audience direct the content to help zero in on a specific constituent’s needs. For instance, the Promising Practices Network—RAND’s Web-based resource dedicated to providing quality, evidence-based information about what works to improve the lives of children, youth, and families—hosted online “Ask the Experts” roundtables on low-birth-weight babies and on educational videos and television programming for children two years old and younger. Questions submitted were answered by a panel of content experts, allowing cutting-edge research on the subject to be presented in a user-friendly Q&A format. In addition, a RAND report on cultivating demand for the arts became the centerpiece of an online forum hosted by a prominent arts and culture journal. RAND experts responded to issues raised by more than 10,000 online visitors and facilitated dialogue among a group of 16 contributors from a variety of arts-related fields.
RAND operates on a uniquely broad front—assisting public policymakers at all levels, private-sector leaders in many industries, and the public at large. To provide the comprehensive experience needed to fully address complex policy issues, RAND hires staff from a variety of disciplines and backgrounds. Our people represent nearly every academic field and profession, from engineering and behavioral science to medicine and economics. We are diverse in work experience and academic training; political and ideological outlook; and race, gender, and ethnicity. The diversity of our workforce reinforces RAND’s core values of quality and objectivity by promoting creativity, deepening understanding of the practical effects of policy, and ensuring multiple viewpoints and perspectives.

**People at RAND:** Approximately 1,600

**Researchers:** Approximately 950

**Nationalities:** 45

**Principal U.S. locations:** Santa Monica, California; Arlington, Virginia; Pittsburgh, Pennsylvania

**Other locations:** RAND Europe—Cambridge, UK, and Brussels, BE; RAND-Qatar Policy Institute—Doha, QA; RAND Gulf States Policy Institute—New Orleans, LA, and Jackson, MS; (open 2009) Boston, Massachusetts

**Degrees Held by RAND Researchers**

- Economics: 13%
- Political science and international relations: 13%
- Engineering: 10%
- Law and business: 10%
- Computer sciences: 2%
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President’s Awards

President's Awards recognize individuals whose work exemplifies RAND’s two core values of quality and objectivity and who have made exemplary contributions to the RAND community, through new business development or fund-raising initiatives, outstanding outreach and dissemination efforts, or effective participation in internal activities aimed at improving the efficiency of our research environment. Made possible by the generosity of RAND donors, the awards provide staff with research time and support to pursue activities related to career development or exploratory research.

NURITH BERSTEIN, Director of Operations, RAND National Security Research Division, for her professional financial management of a large, complex research division, her skillful efforts to build and deepen relationships with key clients in the Office of the Secretary of Defense, and her creativity in developing new research opportunities in Mexico.

MITCHELL BLAKE, Director, Treasury and Risk Management, for spearheading the complex restructuring of RAND’s bond obligations in the midst of the monoline bond-insurance market collapse, which saved RAND several million dollars in 2008 alone.

FRANK CAMM, senior economist, for his large and inventive body of work on public-sector management of resources, including studies of risk management, sourcing and contracting policy, industrial policy, and adaptation of best commercial practice to a government setting, and for his wide-ranging contributions to quality assurance at RAND.

PAUL DAVIS, principal researcher and Pardee RAND Graduate School (PRGS) faculty member, for his body of work on defense strategy development—especially portfolio methods for framing, developing, and analyzing both strategic and capability options under uncertainty—and for his research on viewing terrorism and counterterrorism in “system terms.”

FEDERICO GIROSI, senior policy researcher, for his innovations in developing and using complex models in health policy research, ranging from investigations of the effectiveness of improved diagnostic tools to the creation of a comprehensive framework for analyzing health system interactions, and for his outstanding mentorship of promising junior researchers.

DAVID JOHNSON, senior political scientist and manager of the International and Security Policy Group, for his penetrating analysis of the changing roles of ground power and airpower in the past two decades, including his adroit use of case studies, and for his effectiveness in recruiting and developing RAND’s team of international security policy experts.

TERRENCE KELLY, senior operations researcher and PRGS faculty member, for his far-reaching analytical contributions while serving as Director (Policy, Planning, and Analysis) at the U.S. Embassy in Baghdad and for his earlier assistance in developing the capabilities of RAND’s Pittsburgh office.

CHARLENE ROHR, Director, Modelling, RAND Europe, for her contribution in making RAND Europe a leader in discrete choice modelling in Europe through the innovation and application of the approach to a range of policy areas and for contributing to the growth of RAND Europe.

SALLY SLEEPER, management scientist and Director of Programs, RAND Gulf States Policy Institute, for her outstanding leadership of the RAND Graduate Student Summer Associate Program, her influential research on local and regional governance, and her efforts to apply RAND’s analytical capabilities to policy challenges facing the U.S. Gulf Coast region.

TERRI TANIELIAN, senior policy analyst and comanager of the Center for Military Health Policy Research, for her leadership, with Lisa Jaycox, of the influential study of the symptoms, prevalence, treatment, and societal cost of the psychological and cognitive injuries sustained by veterans of deployments to Afghanistan and Iraq, including her extensive efforts to disseminate the findings and recommendations.

MARTIN WACHS, senior policy researcher; Director, Transportation, Space, and Technology Program; and PRGS faculty member, for his success in building RAND’s infrastructure policy analysis portfolio, his leadership of the creative study of Los Angeles metropolitan traffic problems, and his many contributions to PRGS.

PROFILE | Emma Aguila

Emma Aguila is an associate economist at RAND. On May 9, 2008, she was awarded the first prize of the Inter-American Award for Research on Social Security. The ceremony was held in Mexico City, where Emma was given her prize by the director of the Mexican Social Security Institute, Juan Molinar Horcasitas. Her research interests include pension reforms, retirement behavior, adequacy of saving, noncontributory pension programs as a poverty alleviation policy, health and labor market dynamics, and social security coverage of migrants.

Emma is one of the founders of the recently created Center for Latin American Social Policy (CLASP). The aim of CLASP is to conduct research on Latin America and the Latin American population in the United States in the areas of aging, social determinants and consequences of health, saving for retirement, social security coverage, labor market dynamics, and migration. This center also provides a platform to design and evaluate social policy interventions aimed at improving the well-being of the population.

Emma, along with other RAND researchers and other experts in the field, is currently developing a social policy intervention in Mexico. The project consists of designing a noncontributory social security program for towns with more than 20,000 inhabitants and evaluating its impact on the welfare of residents aged 70 years or older. This is a unique project to test and understand the effects of noncontributory pension systems on the health and welfare of the elderly.
Training the Next Generation of Policy Analysts

The Frederick S. Pardee RAND Graduate School (PRGS)

PRGS is the world’s leading producer of Ph.D.’s in public policy analysis. PRGS takes advantage of its unique location at RAND’s headquarters campus in Santa Monica, California, by combining advanced course work in economics, quantitative methods, and social science methods, including fields RAND helped pioneer (such as operations research and cost-benefit analysis), with on-the-job training that provides students an opportunity to work with RAND researchers and clients on interdisciplinary teams. The program is designed to train creative thinkers to play important roles in solving major problems facing the nation and the world. This powerful synergy of theory and practice is unique in American education.

PRGS currently enrolls approximately 100 Ph.D. students from more than 20 countries around the world. Our students’ prior fields of study represent a broad range of disciplines, including economics, social science, physical and natural science, engineering, law, and medicine.

The RAND Graduate Student Summer Associate Program

The Graduate Student Summer Associate Program is designed for students who have completed at least two years in a graduate program leading to a doctorate or other advanced degree. Each summer associate spends approximately 12 weeks at RAND assigned to a research project and mentored by a senior research staff member. In 2008, 28 summer associates from 19 different universities applied their skills to the analysis of a wide range of public policy problems. A sample of summer associate research projects in 2008 includes:

- a dynamic analysis of the change in Medicare Part D plan ratings, market share, and plan characteristics from 2006 to 2007
- the development of a simulation to train health department personnel on the distribution of medical supplies during a public health emergency
- an assessment of DoD’s capabilities to provide support to civil authorities in the event of a chemical, biological, radiological, nuclear, or high-yield explosive incident
- a study on the implications of obesity on staffing the all-volunteer force and potential solutions
- an examination of the social factors that influence the recruitment of Iraqis into bomb cells and related organizations, a project that also involves an examination of the effects of social networks and identities (e.g., ethnic, sectarian, national) on violent actors
- an exploration of the future of Pakistani–Indian security competition.

PRGS students get to be part of an intellectual community that doesn’t just write about problems but actually helps the government and other clients solve those problems.
Other Educational Opportunities
Several specialized pre- and postdoctoral programs are conducted under the auspices of individual research units. The programs offer formal and informal training and extensive collaboration with RAND researchers.

RAND Labor and Population offers the RAND Postdoctoral Training Program in the Study of Aging, which enables outstanding junior scholars in demographic and aging research to sharpen their analytic skills, learn to communicate research results effectively, and advance their research agenda. The program blends formal and informal training and extensive collaboration with distinguished researchers in a variety of disciplines. Fellowships are for one year, renewable for a second.

Participants in the Robert Wood Johnson Clinical Scholars Program at the University of California, Los Angeles (UCLA), have the opportunity to involve themselves in RAND Health projects as part of their education. The program is designed to allow young physicians committed to clinical medicine to acquire new skills and training in the nonbiological sciences that are important to improving medical systems and the health of people. In addition, RAND Health and the UCLA School of Public Health jointly sponsor a postdoctoral training program that offers training in health services research methods and policy analysis and research experience through ongoing research projects at RAND or UCLA.

New Security Challenges, an intensive weeklong program offered by the Pardee RAND Graduate School, equips participants with both an understanding of the most critical current security challenges and the most up-to-date analytical techniques for addressing them. The program aims to give participants both knowledge and tools they can employ upon their return to their organizations. Past participants have been from a variety of countries and backgrounds, from defense to other national security agencies, and from private industry to academia.

The RAND Summer Institute (RSI) consists of two annual conferences that address critical issues facing our aging population: the MiniMedical School for Social Scientists and a workshop on Demography, Economics, and Epidemiology of Aging. The MiniMedical School, sponsored by the National Institute on Aging and the National Institutes of Health Office of Behavioral and Social Sciences Research, is offered to non–medically trained scholars whose research relates to the aging process and the medical treatment of the elderly.

RAND is also one of the participating institutions in the Transatlantic Postdoctoral Fellowship for International Relations and Security. The program is open to candidates who have recently received their doctorate in social and political sciences or economics and whose research focuses on topics of international relations and security. Fellows have three eight-month stays at research institutions or think tanks participating in the program—at least one on the eastern and one on the western side of the Atlantic.

RAND acts as a host to active-duty service-members from all branches of our nation’s armed forces through the Military Fellows Program. Typically, fellows are stationed at RAND’s headquarters campus in Santa Monica for one year. Fellows are given access to all aspects of RAND’s research community and are encouraged to participate actively in RAND research projects, seminars, and discussion groups. Requirements and procedures for the Military Fellows Program differ by branch of service.
In 2008, RAND marked its 60th anniversary as an independent, nonprofit organization. To commemorate the milestone, we undertook a series of activities to both look back on our legacy and look forward to helping policymakers stay ahead of the curve on critical policy challenges in the coming years.

Issues Over the Horizon

In the spirit of RAND’s tradition of taking on the big issues of tomorrow, Jim Thomson, RAND’s president and CEO, called on all RAND staff around the world, inviting them to propose essays on “important policy issues not currently receiving the attention they deserve in the public debate”—issues, in other words, that might be on the back burner today but will likely become front-burner issues within the next five years. More than 100 issues were raised; 11 were published in the summer issue of RAND Review in a commemorative anniversary essay collection entitled “Issues Over the Horizon”:

- The Aging Couple: Medicare and Social Security
- Beating the Germ Insurgency
- Corporate America’s Next Big Scandal
- Corporate Counterinsurgency
- The Day After: When Electronic Voting Machines Fail
- The Future of Diplomacy: Real Time or Real Estate?
- From Nation-State to Nexus-State
- Innovative Infrastructure
- A New Anti-American Coalition
- Reality Check for Defense Spending
- A Second Reproductive Revolution

Discussions based on these issues and others were presented as public outreach programs in Santa Monica, California; Washington, D.C.; and Doha, Qatar.
Sixty Ways RAND Has Made a Difference

RAND’s strength has always been its people—a distinguished group whose intellectual pursuits have aimed to make the world safer, healthier, and more prosperous for all. In tribute to the many staff who have contributed to RAND’s work over the years, we produced *Sixty Ways RAND Has Made a Difference*, a commemorative book that illustrates some of the countless ways that RAND has helped improve policy and decisionmaking during its six-decade history. The selections reflect the breadth of RAND’s increasingly diversified organization and reveal a common motif: RAND’s ability to have a positive effect on the world by applying rigorous and objective analysis to challenging problems.

An interactive Sixty Ways Web feature at www.rand.org and related 60th anniversary timeline of world events allowed countless users to delve deeper into RAND’s contributions and understand the nature of our policy work in a historical context. With these projects, our goal was to affirm that public policy need not be inaccessible. It is about real people, real places, real organizations, real solutions. It is work that seeks to have a lasting positive effect on you, your family, your community, and your country.

### RAND at 60

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<th>Clients</th>
<th>1948</th>
<th>2008</th>
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<td>U.S. Air Force</td>
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<th>Research Agenda</th>
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<td>Social and Economic Policy: The arts, child policy, civil justice, education, energy and environment, health and health care, population and aging, public safety, science and technology, substance abuse, terrorism and homeland security, transportation and infrastructure, workforce and workplace</td>
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<th>Philanthropic Support for Emerging Research Areas</th>
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| Logo | The RAND Corporation |

**Designing a New Education System for Qatar and Focusing on the Psychological and Cognitive Health of Returning Veterans** are among the many ways RAND has made a difference.
Politics Aside Weekend
November 14–16, 2008

RAND’s 60th anniversary celebration culminated in the inaugural Politics Aside weekend, a three-day policy retreat that engaged policymakers, opinion leaders, philanthropists, and RAND researchers in a post-election exploration of some of the world’s most pressing challenges. The event featured more than 60 renowned and accomplished policymakers and experts from across the political spectrum who journeyed to Los Angeles from around the world to lead the conversation on more than 30 top policy issues. Participation was limited to 200 guests to promote candor and intimate discussion and featured a variety of activities including panel sessions, keynote dialogues, dinner discussions in distinctive homes and restaurants (see pages 28 and 29), and receptions at a leading Los Angeles art museum and major motion picture studio.

Politics Aside weekend festivities were cochaired by RAND trustees Ann McLaughlin Korologos and Ron Olson, and supported by RAND advisory board members and Policy Circle members who volunteered their time, guidance, and generous financial support. Proceeds from the weekend went to support the RAND President’s Fund, which supports research inquiries into critical, but often underappreciated, policy areas, and attracts the world’s top minds to address complex matters for the public good. Some of RAND’s most visionary work has been made possible as a result of private donations supporting the RAND President’s Fund.

Issues discussed at the Politics Aside weekend included energy and national security, U.S. health care reform, the wars in Iraq and Afghanistan, public diplomacy for a new American president, the crisis imposed by aging societies, contending with a second nuclear age, the future of public service, a changing military for a changing world, the West’s response to today’s Russia, and immigration policy.

(Above) Joanne Kozberg, Ann McLaughlin Korologos, and Lindsey Kozberg at Sunday’s morning event; (right) Fred Pardee and Santiago Morales at Friday’s evening event.
Mexican entrepreneur and RAND trustee Carlos Slim Helú joins world leaders in business and finance in discussing the global economic crisis.

Paul Light moderates a conversation with former White House Chiefs of Staff Andy Card and “Mack” McLarty.

(Above) David Price and Faye Wattleton at Saturday’s lunch; (above) Tom McNaugher and Charles Ries at a Saturday panel session

(Above) Carl Bildt, Shaukat Aziz, Vicente Fox, and (not pictured) Jose María Aznar discuss the New Global Agenda in a dialogue moderated by RAND Europe trustee and former UK defence minister, Michael Portillo; (left) Ambassador Zalmay Khalilzad and Seth Jones, a political scientist at RAND, help lead a session on the wars in Iraq and Afghanistan.
Investing in People and Ideas

Philanthropic support is vital to RAND’s ability to best serve the public interest.

Through generous contributions of financial resources and the volunteer leadership of distinguished advisors, RAND is able to

- support research inquiries into critical policy issues that are too complex, too controversial, or too little understood for conventional client-sponsored research; and
- compete in the bustling marketplace for talent to attract the world’s top minds and emerging stars to help us address complex matters for the public good.

RAND is grateful to the many individuals, corporations, and foundations that make gifts of financial support and lend us their time, wisdom, and expertise as members of RAND advisory boards and the RAND Policy Circle. The confidence and generosity of philanthropic supporters affords RAND invaluable flexibility as we pursue our mission to help improve policy and decisionmaking through research and analysis.
Contributions at Work

RAND’s philanthropic supporters are invested in making a difference; in helping to find effective, enduring solutions to complex and often urgent problems; and in ensuring that the policy research they support makes an impact. A politically and ideologically diverse group, our supporters are united in the conviction that making the world safer, healthier, and more prosperous for all requires setting politics aside and focusing on the kind of objective, nonpartisan, unbiased evidence of what works that RAND research is uniquely positioned to deliver.

In 2008, donor-supported research
• suggested an alternative to the heretofore unsuccessful “war on terror” approach to combating al Qa’ida by analyzing the ways prior terrorist groups have been defeated (see page 9)
• provided evidence-based guidance to corporate America on realizing the full benefits of diversity in the workplace, such as enhanced productivity, profitability, and overall job satisfaction
• explored the potential for and implications of radicalization and extremism among young Muslims in the prison environment
• developed approaches for strengthening emergency preparedness systems and improving their reliability
• helped countries in the Middle East address the challenges of developing the human capital of their populations for the 21st-century global economy
• conducted a comprehensive comparison of Chinese and Indian health systems to understand how the world’s most populous countries are faring when it comes to health outcomes, delivering care, and financing (see page 15).

The Rockwell Policy Analysis Prize
In 2008, the generosity and vision of RAND alum Marshall (“Tom”) Rockwell enabled us to establish the Rockwell Policy Analysis Prize. The prize fund will provide seed money each year for innovative research in service of the public good that promises to advance what is currently known about a policy issue, technology, or methodology. The first Rockwell Policy Analysis Prize—for a study on delivery pathways for genetic testing interventions for common diseases—was awarded to Maren Scheuner, Tanya Bentley, Elisa Eiseman, Stuart Olmsted, and Steve Wooding—a multidisciplinary RAND team that includes geneticists, natural scientists, and an economist. The team aims to translate some of the historic advances being made in understanding of the human genome into actual improvements in ordinary medical care.

Rockwell helped launch RAND Health, a research division of RAND, in 1968 and served as its first director before pursuing opportunities in the private sector. He attributes much of his post-RAND success to the methods and insights he learned while at RAND. “Through this prize, I want to encourage and reward the kind of forward-looking analysis that is critical to solving the world’s toughest problems and which RAND has always been uniquely situated to deliver.”

RAND Supporters Visit the Middle East
In February, a delegation of RAND volunteer leaders and donors visited the Middle East for meetings with high-level policymakers and influential people in business. The group included members of the RAND Center for Middle East Public Policy (CMEPP) Advisory Board, chaired by Zbigniew Brzezinski, as well as RAND trustee Lovida Coleman, president and CEO Jim Thomson, and CMEPP director Ambassador David Aaron. Meetings were held in Cairo, Jeddah, Damascus, Ramallah, Tel Aviv, and Jerusalem and included a private audience with President Hosni Mubarak of Egypt and President Bashar al-Assad of Syria. Through their investment in the trip, participants supported the expansion of RAND’s research agenda in the region and opened new dialogues for policy impact.
Support for the RAND President’s Fund

In November 2008, more than a dozen RAND friends graciously hosted dinner parties in private homes and distinctive venues throughout Los Angeles as part of RAND’s inaugural Politics Aside weekend. Over the course of the weekend, participants heard about the cutting-edge work that RAND researchers are able to conduct because of philanthropic support for the RAND President’s Fund. The generosity of these dinner hosts helped draw new friends into the RAND family and thereby expand our reach.

Dinner Hosts

Rachelle Carson and Ed Begley
Bill Benter
Linda and Alexander Cappello
Don R. Conlan
Homeira and Arnold Goldstein
Audrey and Arthur Greenberg
Mary Ann and Kip Hagopian
Gregory Keever
Betsy and Bud Knapp
Janine and Peter Lowy
Laura and Tom Rockwell
Maxine and Gene Rosenfeld
Kenin M. Spivak
Public policy need not be inaccessible. It is about real people, real places, real organizations, real solutions. Whether the research we do is about economic challenges, conflict zones, aging societies, energy, immigration, or health insurance, it is work that seeks to have a lasting, positive effect on you, your family, your community, and your country.

--James A. Thomson, President and CEO, Politics Aside weekend, 2008
Policy Circle

RAND gratefully acknowledges gifts made by the following donors during calendar year 2008.

** RAND Corporate Policy Circle **

** Leadership Circle **

$100,000+

- Alcoa Inc.
- Allstate Insurance Company
- American International Group, Inc.
- ExxonMobil Corporation
- Johnson & Johnson Family of Companies
- Korea Foundation
- Legatum Institute
- Liberty Mutual Insurance Companies
- Los Angeles County Metropolitan Transit Authority
- Pfizer, Inc
- Risk Management Solutions, Inc.
- Samueli Institute
- State Farm Insurance

** Frontier Circle **

$25,000–$49,999

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- Bingham Consulting
- Bingham McCutchen LLP
- Chevron Corporation
- Cooley Godward Kronish LLP
- The Walt Disney Company
- The Doctors Company
- Dresdner Kleinwort
- Etech Securities, Inc.
- The Family Connection Partnership, Inc.
- Farmers Insurance Group/ Zurich U.S.
- GE Fund
- Goldman Sachs
- Greater Kansas City Community Foundation & Affiliated Trusts
- Grocery Manufacturers Association
- Houston Police Department
- Kansas Action for Children
- KidsOhio.org
- Kraft Foods, Inc.
- Locke Lord Bissell & Liddell LLP
- New York State Office of Children and Family Services
- OTEKO (United Transport and Forwarding Company)
- The Port Authority of New York and New Jersey
- Port of Long Beach
- Fred Rogers Center for Early Learning and Children’s Media
- Shattuck Hammond Partners
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- Westfield Corporation, Inc.

** Visionary **

$100,000+

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- Leonard D. Schaeffer
- Patrick Soon-Shiong
- Edward Wanandi
- Theresa and Charles Wolf, Jr.

** Explorer **

$30,000–$99,999

- Anonymous
- Richard A. Abdoo
- Neal Baer
- Donna C. Boehme
- Daniel M. Bradbury
- The Harold and Colene Brown Family Foundation
- Marcia and Frank C. Carlucci
- John M. Cazier
- Meng Joon Chung
- Lovida H. Coleman
- Kelly Day
- Peter deNeufville
- Robert M. Deutschman
- Thomas Epley and Linnae Anderson
- Mary Kay and James D. Farley
- Arnie Fishman
- Robert E. Grady
- Karen Elliott House
- John M. Cazier
- Jessica Denson
- Jenny L. Chang
- Xinxing Ji
- Kelly Day
- Robert M. Deutschman
- Thomas Epley and Linnae Anderson
- Mary Kay and James D. Farley
- Arnie Fishman
- Robert E. Grady
- Karen Elliott House
- Jenny L. Chang
- Jessica Denson
- Xinxing Ji

** RAND Policy Circle **

$10,000–$29,999

- Peter Y.S. Kim
- Bud and Betty Knapp
- Joseph and Mirr Kowwiecki
- Ann and Tom Korologos
- Eric Landau
- Wook-Young Lee
- Arthur and Marylin Levitt
- Frank Lirvack
- James B. Lovelace
- Bonnie McElveen-Hunter
- Paul S. Miller
- Santiago Morales
- Hassan Nemazee
- William A. Owens
- Amy B. Pascal
- Paul M. Pohl
- Edward R. Pope
- Anthony N. Prizerker
- Lawrence J. Ramer
- Donald B. and Susan F. Rice
- Tom and Laura Rockwell
- James E. and Sharon C. Rohr
- The Sahand Daywi Foundation
- Hasan Shirazi
- Lucille Ellis Simon Foundation
- Kenin Spivak
- Suzanne S. and Michael E. Tenenbaum
- David L. Wang
- Lawrence Zicklin

** Trailblazer **

$10,000–$29,999

- Robert Abernethy
- Sheikh Khalid bin Saqr Al Qasimi
- Paul and Evelyn Baran
- Gurmind S. Bedi
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Department of Agriculture
Agricultural Research Service
Economic Research Service
Department of Defense
Counterdrug Technology Development Program
Department of the Air Force
Department of the Army
Biometrics Management Office
Department of the Navy
Marine Corps
Joint Staff
Office of the Secretary of Defense
Assistant Secretary of Defense (Networks and Information Integration)
Deputy Secretary of Defense
Director, Net Assessment
Under Secretary of Defense for Acquisition, Technology, and Logistics
Defense Advanced Research Projects Agency
Defense Research and Engineering
Defense Threat Reduction Agency
Missile Defense Agency
Under Secretary of Defense (Comptroller)
Defense Finance and Accounting Service
Director, Program Analysis and Evaluation
Under Secretary of Defense for Personnel and Readiness
TRICARE Management Activity
Under Secretary of Defense for Policy
Unified Combatant Commands
Department of Education
Institute of Education Sciences
Department of Energy
National Energy Technology Laboratory
Oak Ridge National Laboratory
Department of Health and Human Services
Agency for Healthcare Research and Quality
Centers for Medicare and Medicaid Services
Centers for Disease Control and Prevention
National Institute for Occupational Safety and Health
National Institutes of Health
National Cancer Institute
National Center on Minority Health and Health Disparities
National Heart, Lung, and Blood Institute
National Institute on Aging
National Institute on Alcohol Abuse and Alcoholism
National Institute of Child Health and Human Development
National Institute of Diabetes and Digestive and Kidney Disease
National Institute on Drug Abuse
National Institute of Environmental Health Sciences
National Institute of Mental Health
National Institute of Nursing Research
National Library of Medicine
Department of Homeland Security
Executive Office for U.S. Trustees
Federal Emergency Management Agency
U.S. Coast Guard
Department of Justice
Federal Bureau of Investigation
National Institute of Justice
Office of Justice Programs
Department of Labor
Department of State
Department of the Treasury
Department of Veterans Affairs
Sepulveda VA Medical Center
Director of National Intelligence
Environmental Protection Agency
Federal Reserve Bank of New York
Intelligence Community
Medicare Payment Advisory Commission
National Aeronautics and Space Administration
National Reconnaissance Office
National Science Foundation
Securities and Exchange Commission
Small Business Administration
Social Security Administration
U.S. Postal Service

Foreign Governments, Agencies, and Ministries
Commonwealth of Australia
European Commission
Directorate-General for Employment, Social Affairs and Equal Opportunities
Directorate-General for Information Society and Media
Directorate-General for Justice, Freedom and Security
Korean Institute of Science and Technology Evaluation and Planning (KISTEP)
Mexico
Institute for Science and Technology of the Federal District (ICyTDF)
Republic of Singapore
Institute of Mental Health
Singapore Ministry of Health
State of Qatar
National Health Authority
Supreme Education Council
United Kingdom
Department of Health
Department for Transport
Ministry of Defence
National Audit Office

International Organizations
Andrew T. Huang Medical Education Promotion Fund
Brunel University, West London
Health Economics Research Group

State and Local Governments
State of California
California Energy Commission
Commission on Health and Safety and Workers’ Compensation
Department of Corrections and Rehabilitation
California Municipal Agencies
City of San Diego
County of San Mateo
Los Angeles County
Los Angeles County Probation Department
Los Angeles Unified School District
Santa Barbara High School District
Western Riverside County Regional Conservation Authority
City of Cincinnati
Commonwealth of Massachusetts
Commonwealth of Pennsylvania
   Allegheny County
   Department of Human Services
   Allegheny Intermediate Unit
   Pennsylvania Legislative Budget and Finance Committee
   Pittsburgh Public Schools
District of Columbia
   Department of Health Executive Office of the Mayor
   State of Maryland
   Office of Central Services
New York City
   Department of Education
State of North Carolina
   Charlotte-Mecklenburg Schools Board of Education
State of Texas
   Department of Transportation

Colleges and Universities
   Boston University
   California Policy Research Center, University of California
   Carnegie Mellon University
   Columbia University Medical Center
   Dartmouth College
   Drew University
   Georgetown University
   The Johns Hopkins University
   Louisiana State University
   Agricultural and Mechanical College
   Pennsylvania State University
   Rutgers, The State University of New Jersey
   Stanford University
   Temple University
   Tulane University
   University of California, Berkeley
   University of California, Los Angeles
   University of Florida
   University of Medicine and Dentistry of New Jersey
   University of Michigan
   The University of North Carolina at Chapel Hill
   University of North Texas
   University of Pittsburgh
   University of Southern California
   Vanderbilt University

Foundations
   Arthritis Research Campaign
   Amgen Foundation
   BEST Foundation
   Brookings Institution
   California Community Foundation
   California Endowment
   California HealthCare Foundation
   Carnegie Corporation of New York
   Casey Family Foundations
   Communities Foundation of Texas
   The Commonwealth Fund
   John E. Fetzer Institute, Inc.
   The Ford Foundation
   Foundation of Research and Education of AHIMA
   Bill and Melinda Gates Foundation
   Hartford Foundation
   The Health Foundation
   Vira I. Heinz Endowment
   The William and Flora Hewlett Foundation
   The Robert Wood Johnson Foundation
   Ewing Marion Kauffman Foundation
   W. K. Kellogg Foundation
   Henry Luce Foundation
   MacArthur Foundation
   McCormick Tribune Foundation
   The Met Project Foundation
   New York City Police Foundation
   Open Society Institute
   The David and Lucile Packard Foundation
   The Ralph M. Parsons Foundation
   William Penn Foundation
   The Pew Charitable Trusts
   The Rockefeller Foundation
   Rosenberg Foundation
   Smith Richardson Foundation
   Wallace Foundation

Industry
   Aetna
   Amgen
   Analytical Services, Inc.
   Berkeley Policy Associates
   BioReliance Invitrogen Bioservices
   BlueCross of California
   CSSI, Inc.
   Deloitte & Touche LLP
   Ethicon Endo-Surgery Inc.
   Ferring Pharmaceuticals
   Florida Medical Quality Assurance, Inc.
   Genentech, Inc.
   GlaxoSmithKline
   Halcrow Group Ltd.
   Health Services Advisory Group
   HighMark, Inc.
   Humana, Inc.
   Intel
   KRA Corporation
   Mathematica Policy Research, Inc.
   Merck & Co., Inc.
   National Pharmaceutical Council
   Native American Industrial Distributors
   Ortho-McNeil Janssen Scientific Affairs, LLC
   PepsiCo Inc.
   Pfizer Inc
   Risk Management Solutions
   Sanofi Pharmaceuticals, Inc.
   Schering-Plough
   UnitedHealthcare
   UnitedHealth Group
   Wellpoint Health Networks, Inc.
   WSP UK

Professional Associations
   Bipartisan Policy Center
   Council of State Governments
   Gas Technology Institute

Other Nonprofit Organizations
   Altarum Institute
   American Colleges of Physicians
   American Red Cross
   AMRF (Adelson Medical Research Foundation)

Arkansas Tobacco Settlement Commission
   Arts Education Collaborative
   Battelle Pacific Northwest
   National Laboratory
   Beaver Valley Intermediate Unit
   BlueCross BlueShield / Blue Plus of Minnesota
   Center for Health Care Strategies, Inc.
   Center for Health Improvement
   Children’s National Medical Center
   Council for Aid to Education
   Dana-Farber Cancer Institute
   District of Columbia
   Primary Care Association
   Energy Future Coalition
   Filene Research Institute
   Integrated Healthcare Association
   Joint Commission International
   Kaiser Permanente
   Los Alamos National Laboratory
   Memorial Sloan-Kettering Cancer Center
   Merck Childhood Kettering Cancer Network, Inc.
   Missouri Foundation for Health
   The MITRE Corporation
   Motion Picture Association
   National Bureau of Economic Research
   National Hospice and Palliative Care Organization
   National Military Family Association
   New England Medical Center Hospitals
   New Leaders for New Schools
   Nuclear Threat Initiative
   Oklahoma City National Memorial Institute for the Prevention of Terrorism
   Partnership for Prevention
   Pennsylvania State Education Association
   Primary Care Coalition of Montgomery County
   Public Policy Institute of California
   Qualistar Early Learning
   Samuel Institute
   UPMC for You
   U.S. Chamber of Commerce
   U.S. Institute of Peace
   World Security Initiative
Report of Independent Auditors

To the Board of Trustees
The RAND Corporation

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the RAND Corporation and its subsidiary at September 28, 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the RAND Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the RAND Corporation’s September 30, 2007 consolidated financial statements, and in our report dated February 1, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

January 25, 2009
### The RAND Corporation

#### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*with summarized financial information for the year ended September 30, 2007
*(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$27,092</td>
<td>$36,174</td>
</tr>
<tr>
<td>Receivables, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed and unbilled costs and fees</td>
<td>$41,072</td>
<td>$37,555</td>
</tr>
<tr>
<td>Other receivables</td>
<td>$2,640</td>
<td>$4,424</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>$3,964</td>
<td>$4,387</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$74,768</td>
<td>$82,540</td>
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<tr>
<td><strong>Property and equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$1,334</td>
<td>$1,334</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$107,546</td>
<td>$106,655</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$15,016</td>
<td>$15,007</td>
</tr>
<tr>
<td>Equipment</td>
<td>$47,712</td>
<td>$44,626</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$3,336</td>
<td>$2,077</td>
</tr>
<tr>
<td><strong>Less: Accumulated depreciation and amortization</strong></td>
<td>$(46,469)</td>
<td>$(38,514)</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td>$128,475</td>
<td>$131,185</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>$183,752</td>
<td>$205,621</td>
</tr>
<tr>
<td>Building project fund investments</td>
<td>$1,105</td>
<td>$3,600</td>
</tr>
<tr>
<td>Other assets</td>
<td>$5,965</td>
<td>$7,475</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$394,065</td>
<td>$430,421</td>
</tr>
<tr>
<td><strong>LIABILITIES AND NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>$17,580</td>
<td>$20,892</td>
</tr>
<tr>
<td>Unexpended portion of grants and contracts received</td>
<td>$14,506</td>
<td>$20,152</td>
</tr>
<tr>
<td>Accrued compensation and vacation</td>
<td>$15,025</td>
<td>$14,352</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>$1,560</td>
<td>$1,870</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$48,671</td>
<td>$57,266</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>$12,065</td>
<td>$12,776</td>
</tr>
<tr>
<td>Accrued postretirement benefit liability</td>
<td>$12,136</td>
<td>$13,541</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>$8,070</td>
<td>$3,625</td>
</tr>
<tr>
<td>Long-term debt, less current portion</td>
<td>$126,580</td>
<td>$127,105</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$207,522</td>
<td>$214,313</td>
</tr>
<tr>
<td>Commitments and contingencies (Note 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated for investment</td>
<td>$117,187</td>
<td>$142,893</td>
</tr>
<tr>
<td>Designated for special use</td>
<td>$9,063</td>
<td>$11,411</td>
</tr>
<tr>
<td><strong>Total unrestricted</strong></td>
<td>$126,250</td>
<td>$154,304</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>$17,985</td>
<td>$23,638</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>$42,308</td>
<td>$38,166</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$186,543</td>
<td>$216,108</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$394,065</td>
<td>$430,421</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
### Consolidated Statements of Activities and Changes in Net Assets

*with summarized financial information for the year ended September 30, 2007*

**(in thousands)**

<table>
<thead>
<tr>
<th>Operations</th>
<th>Designated</th>
<th>Total</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue, Gains, and Other Support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts and grants</td>
<td>$228,078</td>
<td>—</td>
<td>$228,078</td>
<td>—</td>
<td>$228,078</td>
<td>$223,290</td>
</tr>
<tr>
<td>Fees</td>
<td>8,825</td>
<td>—</td>
<td>8,825</td>
<td>—</td>
<td>8,825</td>
<td>8,414</td>
</tr>
<tr>
<td>Income on investments, net</td>
<td>—</td>
<td>7,141</td>
<td>7,141</td>
<td>1,785</td>
<td>—</td>
<td>8,926</td>
</tr>
<tr>
<td>Net realized gains on investments</td>
<td>—</td>
<td>3,467</td>
<td>3,467</td>
<td>870</td>
<td>—</td>
<td>4,337</td>
</tr>
<tr>
<td>Net unrealized (losses) gains on investments</td>
<td>—</td>
<td>(26,849)</td>
<td>(26,849)</td>
<td>(6,268)</td>
<td>—</td>
<td>(33,117)</td>
</tr>
<tr>
<td>Contributions</td>
<td>10,057</td>
<td>—</td>
<td>10,057</td>
<td>3,278</td>
<td>2,142</td>
<td>15,477</td>
</tr>
<tr>
<td>Other investment income</td>
<td>119</td>
<td>—</td>
<td>119</td>
<td>—</td>
<td>—</td>
<td>119</td>
</tr>
<tr>
<td>Transfer of designated net assets to operations (Note 2)</td>
<td>6,804</td>
<td>(6,804)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>7,414</td>
<td>—</td>
<td>7,414</td>
<td>(7,414)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total revenues, gains, and other support</strong></td>
<td>261,297</td>
<td>(23,045)</td>
<td>238,252</td>
<td>(7,749)</td>
<td>2,142</td>
<td>232,645</td>
</tr>
<tr>
<td><strong>Expenses and Losses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>200,651</td>
<td>—</td>
<td>200,651</td>
<td>—</td>
<td>—</td>
<td>200,651</td>
</tr>
<tr>
<td>Management and general</td>
<td>58,948</td>
<td>—</td>
<td>58,948</td>
<td>—</td>
<td>—</td>
<td>58,948</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>259,599</td>
<td>—</td>
<td>259,599</td>
<td>—</td>
<td>—</td>
<td>259,599</td>
</tr>
<tr>
<td><strong>Change in net assets before other items</strong></td>
<td>1,698</td>
<td>(23,045)</td>
<td>(21,347)</td>
<td>(7,749)</td>
<td>2,142</td>
<td>(26,954)</td>
</tr>
<tr>
<td><strong>Other items:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in fair value of derivative instruments (Note 7)</td>
<td>(4,445)</td>
<td>—</td>
<td>(4,445)</td>
<td>—</td>
<td>—</td>
<td>(4,445)</td>
</tr>
<tr>
<td>Adjustment to accrued postretirement benefit liability (other than net periodic postretirement benefit cost) (Note 6)</td>
<td>1,834</td>
<td>—</td>
<td>1,834</td>
<td>—</td>
<td>—</td>
<td>1,834</td>
</tr>
<tr>
<td>Net asset transfers (Note 2)</td>
<td>913</td>
<td>(5,009)</td>
<td>(4,096)</td>
<td>2,096</td>
<td>2,000</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>—</td>
<td>(28,054)</td>
<td>(28,054)</td>
<td>(5,653)</td>
<td>4,142</td>
<td>(29,565)</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>—</td>
<td>154,304</td>
<td>154,304</td>
<td>23,638</td>
<td>38,166</td>
<td>216,108</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$ —</td>
<td>$126,250</td>
<td>$126,250</td>
<td>$17,985</td>
<td>$42,308</td>
<td>$186,543</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
The RAND Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

with summarized financial information for the year ended September 30, 2007
(in thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>For the Year Ended September 28, 2008</th>
<th>For the Year Ended September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ (29,565)</td>
<td>$ 15,792</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>8,558</td>
<td>7,327</td>
</tr>
<tr>
<td>Loss on debt extinguishment</td>
<td>3,090</td>
<td>2,077</td>
</tr>
<tr>
<td>Net realized/unrealized losses (gains)</td>
<td>28,781</td>
<td>(15,741)</td>
</tr>
<tr>
<td>Permanently restricted contribution revenue</td>
<td>(2,142)</td>
<td>(2,164)</td>
</tr>
<tr>
<td>Change in fair value of derivative instruments</td>
<td>4,445</td>
<td>3,625</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>(82)</td>
<td>(249)</td>
</tr>
<tr>
<td>Loss on disposition of property and equipment</td>
<td>16</td>
<td>136</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in billed and unbilled costs and fees</td>
<td>(3,517)</td>
<td>3,413</td>
</tr>
<tr>
<td>Decrease in other receivables</td>
<td>1,710</td>
<td>923</td>
</tr>
<tr>
<td>Decrease in prepaid and other current assets</td>
<td>370</td>
<td>342</td>
</tr>
<tr>
<td>Increase in other long-term assets</td>
<td>(163)</td>
<td>(1,148)</td>
</tr>
<tr>
<td>Decrease in accounts payable and other liabilities</td>
<td>(3,216)</td>
<td>(6,486)</td>
</tr>
<tr>
<td>(Decrease) increase in unexpended portion of grants and contracts received</td>
<td>(5,646)</td>
<td>5,428</td>
</tr>
<tr>
<td>Increase (decrease) in accrued compensation and vacation</td>
<td>673</td>
<td>(222)</td>
</tr>
<tr>
<td>Decrease in deferred rent</td>
<td>(711)</td>
<td>(175)</td>
</tr>
<tr>
<td>(Decrease) increase in postretirement benefit liability</td>
<td>(1,405)</td>
<td>805</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>1,196</td>
<td>13,683</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(76,414)</td>
<td>(54,835)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>69,502</td>
<td>51,192</td>
</tr>
<tr>
<td>Proceeds from sales of project fund investments</td>
<td>2,495</td>
<td>2,159</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(5,791)</td>
<td>(4,892)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(10,208)</td>
<td>(6,376)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of bonds through refinancing</td>
<td>(127,105)</td>
<td>(33,241)</td>
</tr>
<tr>
<td>Proceeds from bond issuance</td>
<td>128,140</td>
<td>34,975</td>
</tr>
<tr>
<td>Payments of bond issuance costs</td>
<td>(1,499)</td>
<td>(826)</td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(1,870)</td>
<td>(1,785)</td>
</tr>
<tr>
<td>Contributions restricted for purchase of property and equipment</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Permanently restricted contributions received in cash</td>
<td>2,166</td>
<td>2,522</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(118)</td>
<td>1,695</td>
</tr>
<tr>
<td>Effect of currency exchange rate changes on cash</td>
<td>48</td>
<td>92</td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(9,082)</td>
<td>9,094</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>36,174</td>
<td>27,080</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$ 27,092</td>
<td>$ 36,174</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
1. Corporate Organization:

RAND Corporation (RAND) is a nonprofit, tax-exempt corporation performing research and analysis funded primarily by contracts, grants, and contributions. In addition, RAND conducts educational programs that provide graduate training.

The consolidated financial statements of RAND include the accounts of a controlled affiliate: RAND Europe, a charity domiciled in the United Kingdom. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:

Fiscal Year. RAND's fiscal year reporting for both financial statement and tax purposes is based on a 52- or 53-week year ending on the Sunday closest to September 30. The fiscal years include operations for a 52-week period in 2008 and a 53-week period in 2007.

Basis of Presentation. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, “Not-for-Profit Organizations.”

Net assets are classified into three categories according to donor-imposed restrictions, as follows:

Permanently restricted—Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of RAND. Generally, the donors of these assets permit RAND to use all or part of the investment return on these assets.

Temporarily restricted—Net assets whose use by RAND is subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of RAND.

Unrestricted—Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such prior-year information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RAND’s financial statements for the year ended September 30, 2007, from which the summarized financial information was derived.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

Revenue and Expense Recognition. Contract and grant revenues are recognized as the related services are performed in accordance with the terms of the contract or grant using the proportional performance method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Donor-restricted contributions that are received and either spent or deemed spent within the same fiscal year are reported as unrestricted revenue.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations or of board designations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets.

Concentrations of Risk. Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.
RAND derived 78 percent and 77 percent of its research revenues in fiscal years 2008 and 2007, respectively, from contracts, grants, and fees with agencies of the federal government.

**Cash and Cash Equivalents.** RAND considers all highly liquid instruments purchased with a maturity of three months or less, whose purpose is not restricted, to be cash equivalents.

**Property and Equipment.** Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets: 5 to 40 years for building and improvements and 3 to 20 years for equipment. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the lease. Construction in progress will be amortized over the estimated useful lives of the respective assets when they are ready for their intended use. Certain computer systems and software are internally developed. Costs associated with the application development stage are capitalized and depreciated over the useful life of the system or software. All other costs are expensed as incurred. Included in Equipment on the Consolidated Statements of Financial Position was $7,068,000 and $7,000,000 of computer systems and software at September 28, 2008, and September 30, 2007, respectively.

When assets are retired, the assets and related allowances for depreciation and amortization are eliminated and any resulting gain or loss is reflected in operations. As of September 28, 2008, and September 30, 2007, approximately $17,175,000 and $14,154,000, respectively, of fully depreciated assets were in use.

**Investments.** All investments of permanently restricted net assets and board-designated unrestricted net assets are pooled in a long-term investment fund. Income on pooled investments is allocated to the investment fund or individual special-use funds based on the average balance for each fund (see Note 9).

The percentage of board-designated funds distributed for unrestricted use was 5.0 percent and 4.5 percent in fiscal years 2008 and 2007, respectively, based on the average of the trailing twelve-quarter market values of the funds. The total distribution was $6,804,000 and $5,820,000 for fiscal years 2008 and 2007, respectively.

Gains and losses on investments and investment income are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

**Net Asset Transfers.** During fiscal year 2008, RAND transferred $5,000,000 in cash from unrestricted net assets from operations to unrestricted net assets designated for investment. Also during fiscal year 2008, RAND transferred $2,000,000 from unrestricted net assets designated for investment to permanently restricted net assets as a result of an endowment matching campaign.

A noncash transfer of $2,096,000 from designated for investment to temporarily restricted net assets was recorded as of September 28, 2008, as the decline in the market value of investments for certain funds resulted in the value of those funds being lower than the amount donated. Additional noncash transfers from unrestricted net assets designated for investment to unrestricted net assets from operations totaling $5,913,000 and $2,398,000 were required during fiscal years 2008 and 2007, respectively, due to the change in fair value of derivative instruments (see Note 7) and the adjustment to accrued postretirement benefit liability (see Note 6). All noncash transfers will be reversed in future years as the market value of the investments recovers and unrestricted net assets from operations become available.

**Building Project Fund Investments.** The net proceeds from the 2002 tax-exempt bond issuance (see Note 7) are invested in short-term AAA-rated 30-day commercial paper and/or a money market fund.

These proceeds are subject to arbitrage rebate and yield restriction rules under the Internal Revenue Code in which excess earnings on tax-exempt bond proceeds must be rebated to the federal government if the yield on the investments exceeds the effective yield on the related tax-exempt bonds. The liability, if any, is accrued on an annual basis and must be remitted to the Internal Revenue Service after the end of every fifth bond year and upon full retirement of the bonds. RAND’s liability was immaterial as of September 28, 2008, and September 30, 2007.
Bond Issuance Costs. Bond issuance costs represent expenses incurred in connection with issuing RAND’s revenue bonds (see Note 7) and are amortized over the term of the related bond issue on a straight-line basis, which approximates the effective interest method. Unamortized costs were $1,356,000 and $3,149,000 at September 28, 2008, and September 30, 2007, respectively, and are included in Other assets on the Consolidated Statements of Financial Position.

Income Tax Status. RAND is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding California provisions and has qualified for the 50 percent charitable contributions limitation. RAND has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated a “publicly supported” organization under Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

Foreign Currency Translation. The assets and liabilities of RAND Europe are translated at year-end exchange rates; transactions are translated at the average exchange rates during the year. The effects from the translation of foreign currencies in the current and prior year are cumulatively immaterial to the consolidated financial statements.

Supplemental Cash Flow Information. Cash paid for interest was $4,658,000 in fiscal year 2008 and $5,805,000 in fiscal year 2007.

New Accounting Pronouncements. Effective October 1, 2007, RAND adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty Taxes: An Interpretation of FAS 109. FIN 48 clarified the accounting for uncertainty in income taxes, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 did not have a material impact on RAND’s Consolidated Statements of Financial Position or Consolidated Statements of Activities and Changes in Net Assets.

3. Billed and Unbilled Costs and Fees:

The following table summarizes the components of billed and unbilled contract and grant costs and fees (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>$ 13,557</td>
<td>$ 10,607</td>
</tr>
<tr>
<td>Unbilled</td>
<td>15,177</td>
<td>15,509</td>
</tr>
<tr>
<td></td>
<td>28,734</td>
<td>26,116</td>
</tr>
<tr>
<td>State, local, and private sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>6,533</td>
<td>7,592</td>
</tr>
<tr>
<td>Unbilled</td>
<td>6,232</td>
<td>4,348</td>
</tr>
<tr>
<td></td>
<td>12,765</td>
<td>11,940</td>
</tr>
<tr>
<td>Allowance for bad debt</td>
<td>(427)</td>
<td>(501)</td>
</tr>
<tr>
<td></td>
<td>$ 41,072</td>
<td>$ 37,555</td>
</tr>
</tbody>
</table>

Unbilled amounts principally represent recoverable costs and accrued fees billed in the first quarter of fiscal year 2008 and fiscal year 2007, respectively.

No significant contract terminations are anticipated at present, and past contract terminations have not resulted in significant unreimbursed costs.

4. Contributions Receivable:

Unconditional promises to give were $4,824,000 and $7,109,000 at September 28, 2008, and September 30, 2007, respectively. The receivables are recorded net of the discount for future cash flows, using the risk-free rate of return appropriate for the expected term of the promise to give determined at the time the unconditional promise to give is initially recognized (5%). Receivables expected in one year or less are included in Other receivables and receivables expected after one year are included in Other assets on the Consolidated Statements of Financial Position. The carrying amount of Contributions Receivable is deemed a reasonable estimate of their fair value.
Realization of the pledges is expected in the following periods (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>$2,600</td>
<td>$4,424</td>
</tr>
<tr>
<td>Between one year and five years</td>
<td>2,393</td>
<td>2,939</td>
</tr>
<tr>
<td></td>
<td>4,993</td>
<td>7,363</td>
</tr>
<tr>
<td>Less discount</td>
<td>(169)</td>
<td>(254)</td>
</tr>
<tr>
<td></td>
<td>$4,824</td>
<td>$7,109</td>
</tr>
</tbody>
</table>

As more fully described in Note 9, contributions receivable are primarily intended for the following uses (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted</td>
<td>$4,593</td>
<td>$6,854</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>231</td>
<td>255</td>
</tr>
<tr>
<td></td>
<td>$4,824</td>
<td>$7,109</td>
</tr>
</tbody>
</table>

During the fiscal year ended September 28, 2008, RAND received payments of prior-year pledges in the amount of $3,914,000. No allowance for uncollectible pledges was deemed necessary at September 28, 2008, or September 30, 2007.

Donors have made conditional promises to give of $3,304,000 and $2,896,000 as of September 28, 2008, and September 30, 2007, respectively. These conditional pledges, which include revocable deferred gifts, are not recorded in these consolidated financial statements.

5. Long-Term Investments:

Cash and cash equivalents included in long-term investments consist of money market funds and other short-term investments and are carried at cost, which approximates fair value.

Long-term investments are presented at fair value and all related transactions are recorded on the trade date. The investments consist of cash and money market funds, domestic and foreign equity funds, bond funds, and alternative investments. Approximately 28 percent of the long-term investments consist of foreign investment holdings. Bond funds and equity funds include funds that are traded in public markets or that are available exclusively to institutional investors. For funds that are available exclusively to institutional investors, the underlying assets of the funds are traded in public markets. Alternative investments include RAND’s share of private equity funds and limited partnership arrangements for which there is no readily available market value. Alternative investments are carried at RAND’s net contribution and allocated share of undistributed profits and losses. The underlying value of the alternative investments may include assets for which the fair value is provided by the investment manager in good faith. Some of these investments have restrictions that limit RAND’s ability to withdraw funds as specified in the arrangements. RAND believes the carrying amount of these investments is a reasonable estimate of fair value. For those investments that are not traded on a ready market, the estimates of their fair value may differ from the value that would have been used had a ready market for those investments existed. The cost of securities sold is determined by the specific identification method.

As of September 28, 2008, RAND had commitments outstanding to purchase alternative investments of $12,605,000; of these commitments, approximately $3,150,000 is due within one year.

Investment income is shown net of related expenses of $441,000 and $455,000, for the fiscal years ended September 28, 2008, and September 30, 2007, respectively.
Long-term investments consist of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 5,464</td>
<td>$ 4,045</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value (cost, 2008—$65,641, and 2007—$77,031)</td>
<td>65,319</td>
<td>75,260</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value (cost, 2008—$66,162, and 2007—$52,750)</td>
<td>68,582</td>
<td>81,049</td>
</tr>
<tr>
<td>Alternative investments (cost, 2008—$38,503, and 2007—$30,696)</td>
<td>44,387</td>
<td>45,267</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 183,752</strong></td>
<td><strong>$ 205,621</strong></td>
</tr>
</tbody>
</table>

6. Postretirement Benefits Other Than Pensions:

In addition to providing certain other retirement benefits, RAND provides health care benefits to certain employees who retire having met the required age and years of service with RAND. This coverage also applies to their dependents. Retirees may elect coverage under the Preferred Provider Organization, various HMOs, or reimbursement of individually purchased Medigap policies. Medicare becomes the primary coverage for retirees when they reach age 65. Retirees and dependents share substantially in the cost of coverage. RAND retains the right, subject to existing agreements, to change or eliminate these benefits.

During 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the “Act”) was signed into law. The Act expanded Medicare to include, for the first time, coverage for prescription drugs (Medicare Part D). This new coverage was generally effective January 1, 2006. Medicare Part D subsidies are reflected with respect to RAND’s postretirement benefit liabilities.

RAND’s retiree medical program already provides prescription drug coverage for retirees over age 65 that equals or exceeds the benefit to be provided under Medicare. As long as the retirees remain in the Company medical plan rather than enrolling in the new Medicare prescription drug coverage, Medicare will share the cost of the plan with the Company and the employees. This legislation has therefore reduced RAND’s share of the obligations for future retiree medical benefits.

The following table sets forth the plan’s funded status as shown in the Consolidated Statements of Financial Position (in thousands):

<table>
<thead>
<tr>
<th>Change in benefit obligation</th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$ 20,692</td>
<td>$ 20,169</td>
</tr>
<tr>
<td>Service cost</td>
<td>701</td>
<td>664</td>
</tr>
<tr>
<td>Increase due to passage of time</td>
<td>1,319</td>
<td>1,189</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>501</td>
<td>480</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(3,046)</td>
<td>(793)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,079)</td>
<td>(1,017)</td>
</tr>
<tr>
<td><strong>Benefit obligation at end of year</strong></td>
<td>19,088</td>
<td>20,692</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in plan assets</th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>7,151</td>
<td>6,090</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(647)</td>
<td>684</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>1,026</td>
<td>914</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>501</td>
<td>480</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,079)</td>
<td>(1,017)</td>
</tr>
<tr>
<td><strong>Fair value of plan assets at end of year</strong></td>
<td>6,952</td>
<td>7,151</td>
</tr>
<tr>
<td><strong>Unfunded obligation</strong></td>
<td>$ 12,136</td>
<td>$ 13,541</td>
</tr>
</tbody>
</table>
The following table provides the relevant weighted-average assumptions used:

<table>
<thead>
<tr>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate used to determine benefit obligation</td>
<td>7.50%</td>
</tr>
<tr>
<td>Discount rate used to determine net periodic postretirement benefit cost</td>
<td>6.50%</td>
</tr>
<tr>
<td>Long-term rate of return on plan assets</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

Assumed health care cost trend rates are as follows:

<table>
<thead>
<tr>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care cost trend rate assumed for next year</td>
<td>9.50%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2015</td>
</tr>
</tbody>
</table>

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percentage point would increase by $363,000 the service cost and passage-of-time components of the fiscal year 2008 expense and increase by $2,538,000 the accumulated postretirement benefit obligation as of September 28, 2008. Decreasing the assumed health care cost trend rate by one percentage point would decrease by $294,000 the service cost and passage-of-time components of the fiscal year 2008 expense and decrease by $2,122,000 the accumulated postretirement benefit obligation as of September 28, 2008.

The net periodic postretirement benefit cost for fiscal years ended September 28, 2008, and September 30, 2007, included the following components (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost-benefits attributed to service during the period</td>
<td>$ 701</td>
<td>$ 664</td>
</tr>
<tr>
<td>Increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time</td>
<td>1,319</td>
<td>1,189</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(574)</td>
<td>(489)</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>10</td>
<td>(26)</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>$ 1,456</td>
<td>$ 1,338</td>
</tr>
</tbody>
</table>

As required annually by FAS 158, RAND recorded an adjustment to the accrued postretirement benefit liability (other than net periodic postretirement benefit cost) in Other items on the Consolidated Statements of Activities and Changes in Net Assets for the period ended September 28, 2008, a net gain of $1,834,000. The corresponding adjustment for the period ended September 30, 2007, was a net loss of $380,000.

The following benefit payments, which reflect expected future service and Medicare Part D subsidies, as appropriate, are expected to be paid (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Gross Benefit Payments</th>
<th>Medicare Part D Subsidies</th>
<th>Net Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$ 888</td>
<td>$ 51</td>
<td>$ 837</td>
</tr>
<tr>
<td>2010</td>
<td>1,003</td>
<td>65</td>
<td>938</td>
</tr>
<tr>
<td>2011</td>
<td>1,113</td>
<td>79</td>
<td>1,034</td>
</tr>
<tr>
<td>2012</td>
<td>1,188</td>
<td>94</td>
<td>1,094</td>
</tr>
<tr>
<td>2013</td>
<td>1,257</td>
<td>111</td>
<td>1,146</td>
</tr>
<tr>
<td>Next five years</td>
<td>8,067</td>
<td>1,095</td>
<td>6,972</td>
</tr>
</tbody>
</table>
Asset allocations at September 28, 2008, and September 30, 2007, by asset category are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and short term</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

RAND contributes to a Voluntary Employee Benefit Association irrevocable trust that is used to partially fund health care benefits for future retirees. In general, retiree health benefits are paid as covered expenses are incurred.

7. Borrowing Arrangements:

Revenue Bonds. In 2002, RAND issued $130,000,000 of tax-exempt revenue bonds to finance the construction of its Santa Monica headquarters facility ($32,500,000 Series 2002A fixed rate and $97,500,000 Series 2002B variable rate). During fiscal year 2007, RAND refinanced its 2002A fixed rate bonds resulting in the issuance of $34,975,000 of variable rate tax-exempt revenue bonds (Series 2007) and the defeasance of the original Series 2002A bonds. The proceeds from the Series 2007 bonds, net of issuance costs of $1,006,000, were irrevocably deposited into an escrow fund and invested in U.S. Treasury Securities in an amount sufficient to service the principal and interest payments on the Series 2002A bonds through the redemption date of April 1, 2012. Included in management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets for fiscal year 2007 is $2,077,000, recognized as a loss on the extinguishment of the Series 2002A fixed rate bonds.

In May 2008, RAND issued $34,575,000 of tax-exempt variable rate revenue bonds (Series 2008A) to refinance the Series 2007 tax-exempt variable rate revenue bonds. Costs incurred in connection with the issuance of the Series 2008A bonds of approximately $379,000 were paid by RAND. The initial rate of interest was 1.65% and annual principal payments ranging from $450,000 to $1,825,000 are due beginning April 1, 2009, and ending April 1, 2042. Included in management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets for fiscal year 2008 is $935,000, recognized as a loss on extinguishment of the Series 2007 variable rate bonds.

In June 2008, RAND issued $93,565,000 of tax-exempt variable rate revenue bonds (Series 2008B) to refinance the Series 2002B tax-exempt variable rate revenue bonds. Included in the par amount of the Series 2008B bonds was approximately $1,035,000 of costs incurred in connection with issuance. The initial rate of interest was 1.15% and annual principal payments ranging from $1,110,000 to $4,935,000 are due beginning April 1, 2009, and ending April 1, 2042. Included in management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets for fiscal year 2008 is $2,155,000, recognized as a loss on extinguishment of the Series 2002B variable rate bonds.

The Series 2008A and Series 2008B bonds contain various covenants including compliance with the following financial measures: maximum debt-to-capitalization ratio, minimum cushion ratio, and minimum debt service coverage ratio. As of September 28, 2008, RAND is in compliance with all covenants.

The payment of principal and interest on both the Series 2008A and Series 2008B bonds is secured by direct-pay letters of credit.

Interest Rate Swaps. Concurrent with the issuance of the Series 2007 variable rate bonds, RAND entered into an interest rate swap agreement with a counterparty whereby RAND agreed to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agreed to pay RAND the Series 2007 variable rate until April 1, 2012, and 67% of one-month LIBOR thereafter. Simultaneously, RAND entered into an additional interest rate swap agreement with another counterparty for $42,350,000 of its Series 2002B variable rate bonds whereby RAND agreed to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agreed to pay RAND 67% of one-month LIBOR. Both swaps remain in effect with the new Series 2008A and Series 2008B bonds, with the same terms (except the first counterparty has agreed to pay RAND the Series 2008A variable rate in place of the Series 2007 variable rate) and terminate on April 1, 2042, the maturity date of the Series 2008A.
and Series 2008B bonds. Included in Other items on the Consolidated Statements of Activities and Changes in Net Assets and in Other long-term liabilities on the Consolidated Statements of Financial Position is $4,445,000 and $3,625,000, for fiscal years 2008 and 2007, respectively, recognized as the change from fair value of these derivative instruments.

Long-term debt is as follows (in thousands):

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue</td>
<td>$ 34,575</td>
<td>$ —</td>
</tr>
<tr>
<td>Bonds, Series 2008A, issued in the original principal amount of $34,575,000,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in connection with the refunding of the Series 2007 bonds, in May 2008;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>average interest rate of 1.85% for the fiscal year ending September 28, 2008;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>annual principal payments ranging from $450,000 to $1,825,000, beginning April</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1, 2009, and ending April 1, 2042</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue</td>
<td>93,565</td>
<td>—</td>
</tr>
<tr>
<td>Bonds, Series 2008B, issued in the original principal amount of $93,565,000,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in connection with the refunding of the Series 2002B bonds, in June 2008;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>average interest rate of 1.96% for the fiscal year ending September 28, 2008;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>annual principal payments ranging from $1,110,000 to $4,935,000, beginning April</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1, 2009, and ending April 1, 2042</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue</td>
<td>—</td>
<td>34,975</td>
</tr>
<tr>
<td>Bonds, Series 2007, issued in the original principal amount of $34,975,000,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in connection with an advanced refunding of the Series 2002A bonds, in September</td>
<td>—</td>
<td>34,975</td>
</tr>
<tr>
<td>2007; average interest rate of 4.78% for the fiscal year ending September 28,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008; refunded in May 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue</td>
<td>128,140</td>
<td>128,975</td>
</tr>
<tr>
<td>Bonds, Series 2002B, issued in the original principal amount of $97,500,000,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in connection with the construction of a new facility in Santa Monica, California,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in July 2002; average interest rate of 2.8% and 3.5% for fiscal years ending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 28, 2008, and September 30, 2007, respectively; refunded in June 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less current portion</td>
<td>$ 126,580</td>
<td>$ 127,105</td>
</tr>
</tbody>
</table>

Annual bond principal payments are required in the following fiscal years (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$1,560</td>
</tr>
<tr>
<td>2010</td>
<td>1,845</td>
</tr>
<tr>
<td>2011</td>
<td>1,930</td>
</tr>
<tr>
<td>2012</td>
<td>2,005</td>
</tr>
<tr>
<td>2013</td>
<td>2,130</td>
</tr>
<tr>
<td>Thereafter</td>
<td>118,670</td>
</tr>
<tr>
<td></td>
<td>$128,140</td>
</tr>
</tbody>
</table>

Accrued interest payable relating to the bonds was $454,000 and $298,000 as of September 28, 2008, and September 30, 2007, respectively.

**Line of Credit.** RAND has an uncollateralized line of credit in the principal amount of $18,000,000 at September 28, 2008, which expires in August 2010. The line of credit contains covenants that require RAND to achieve the same financial measures as the Series 2008A and 2008B revenue bonds. There were no amounts outstanding at September 28, 2008, and September 30, 2007. Under the terms of the credit agreement, interest is payable monthly at (i) the prime rate less .75 percent, (ii) the LIBOR rate plus 1.5 percent, or (iii) the IBOR rate plus 1.5 percent as selected by RAND. No amounts were drawn on the line of credit agreement in fiscal years 2008 or 2007.

RAND’s total interest expense was $4,814,000 and $5,093,000 for the fiscal years ended September 28, 2008, and September 30, 2007, respectively.
8. Commitments and Contingencies:

Lease Commitments. Operating lease commitments, net of $6,705,000 representing subleases, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$7,765</td>
</tr>
<tr>
<td>2010</td>
<td>$8,026</td>
</tr>
<tr>
<td>2011</td>
<td>$8,639</td>
</tr>
<tr>
<td>2012</td>
<td>$8,580</td>
</tr>
<tr>
<td>2013</td>
<td>$8,446</td>
</tr>
<tr>
<td>Thereafter</td>
<td>$15,353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$56,809</strong></td>
</tr>
</tbody>
</table>

Future minimum rentals are comprised of office and equipment leases. Certain of RAND’s office leases contain rent escalation clauses and fair-market renewal options. All property leases generally require RAND to pay for utilities, insurance, taxes, and maintenance. RAND’s net rental expense was $7,358,000 and $7,440,000 for the fiscal years ended September 28, 2008, and September 30, 2007, respectively.

Other Commitments. Contract costs billed to government clients are subject to audit by the Defense Contract Audit Agency (“DCAA”). Resulting indirect cost adjustments, if any, are prorated to all contracts. Contract costs billed prior to September 30, 2007, have been audited and accepted. To date, there have been no significant cost disallowances. In the opinion of management, contract costs billed subsequent to September 30, 2007, are allowable, and any potential cost disallowance would not materially affect RAND’s consolidated financial position, results of operations, or cash flows.

RAND has certain contingent liabilities with respect to claims arising from the ordinary course of business. In the opinion of management, such contingent liabilities will not result in any loss that would materially affect RAND’s financial position, results of operations, or cash flows.

Environmental Remediation. Under the terms of an agreement with the City of Santa Monica (the “City”) for the sale of land owned by RAND, RAND was responsible for the demolition of existing buildings on the site and environmental remediation with respect to the underlying land. Under the terms of the agreement with the City, RAND must indemnify the City for claims related to the presence of hazardous materials at the site for a period until ten years after the demolition of the old buildings and completion of soil and groundwater remediation. There can be no assurance that future claims for indemnity will not have a material adverse effect on RAND’s consolidated results of operations or cash flows.

In December 2006, the City advised RAND that all demolition and remediation requirements under the terms of the agreement had been fulfilled and authorized release of the remaining funds from the escrow account. RAND received $1,058,000 in January 2007.

9. Net Assets:

Board-Designated Net Assets. Board-designated net assets are available for the following purposes (in thousands):

<table>
<thead>
<tr>
<th>Purpose</th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated for investment</td>
<td>$117,187</td>
<td>$142,893</td>
</tr>
<tr>
<td>Designated for special use:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAND Education</td>
<td>3,332</td>
<td>3,640</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>2,486</td>
<td>2,879</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>1,728</td>
<td>2,673</td>
</tr>
<tr>
<td>Other</td>
<td>1,517</td>
<td>2,219</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,063</strong></td>
<td><strong>11,411</strong></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td><strong>$126,250</strong></td>
<td><strong>$154,304</strong></td>
</tr>
</tbody>
</table>
Temporarily Restricted Net Assets. Temporarily restricted net assets are available for the following purposes (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School</td>
<td>$ 2,849</td>
<td>$ 3,697</td>
</tr>
<tr>
<td>RAND Center for Middle East Public Policy</td>
<td>2,554</td>
<td>2,720</td>
</tr>
<tr>
<td>President’s Fund</td>
<td>1,712</td>
<td>1,626</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>1,288</td>
<td>1,670</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>1,202</td>
<td>2,092</td>
</tr>
<tr>
<td>RAND Center for Asia Pacific Policy</td>
<td>1,201</td>
<td>1,118</td>
</tr>
<tr>
<td>RAND Health</td>
<td>1,181</td>
<td>1,591</td>
</tr>
<tr>
<td>RAND Center for Russia and Eurasia</td>
<td>1,077</td>
<td>1,489</td>
</tr>
<tr>
<td>Other</td>
<td>4,921</td>
<td>7,635</td>
</tr>
<tr>
<td></td>
<td>$ 17,985</td>
<td>$ 23,638</td>
</tr>
</tbody>
</table>

Permanently Restricted Net Assets. Permanently restricted assets are shown below by the purpose designated by the donor. The assets are invested in perpetuity and the income is available to support the restricted activities (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 28, 2008</th>
<th>September 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General support</td>
<td>$ 12,478</td>
<td>$ 12,427</td>
</tr>
<tr>
<td>Awards and scholarships</td>
<td>3,211</td>
<td>3,120</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>4,134</td>
<td>4,134</td>
</tr>
<tr>
<td>RAND Pardee Center for Longer Range Global Policy</td>
<td>3,670</td>
<td>3,670</td>
</tr>
<tr>
<td>RAND—general support</td>
<td>3,565</td>
<td>3,565</td>
</tr>
<tr>
<td>Tang Institute for U.S.–China Relations</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Samueli Institute Fund for Policy Studies in Integrative Medicine at RAND</td>
<td>3,000</td>
<td>—</td>
</tr>
<tr>
<td>Paul O’Neill Alcoa Professorship in Policy Analysis</td>
<td>2,479</td>
<td>2,479</td>
</tr>
<tr>
<td>Research Position Endowment</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Other</td>
<td>771</td>
<td>771</td>
</tr>
<tr>
<td></td>
<td>$ 42,308</td>
<td>$ 38,166</td>
</tr>
</tbody>
</table>

10. Employee Retirement Plans:

RAND has four defined contribution employee plans: a Qualified Retirement Plan (“QRP”), a Supplemental Retirement Annuity Plan (“SRAP”), a Nonqualified Deferred Compensation Plan (“NDCP”), and a Nonqualified Supplementary Plan (“NSP”). Most full-time, regular employees are eligible to participate in the QRP and SRAP. Certain employees are eligible to participate in the NSP and NDCP. RAND has reserved the right to terminate the plans at any time, but in such an event, the benefits already purchased by the participant and contributions already made by RAND would not be affected. The QRP and the NSP are entirely RAND-financed. RAND’s contributions to the Plans for eligible employees range from 5 percent to 14 percent of salaries, depending on the level of wages and age of the participating employee. RAND’s contributions to the QRP vest at the earlier of retirement or four years of service. Vesting begins after two years of service and increases weekly to 100 percent at the end of four years of service. The NSP and NDCP vest under various conditions specified in the plan. All contributions made by RAND are charged to operations. RAND’s contributions were $10,511,000 and $10,081,000 for the fiscal years ended September 28, 2008, and September 30, 2007, respectively. The SRAP and NDCP only require employee contributions and RAND does not contribute to these plans.
The RAND research referred to in the opening essays is listed below

Invisible Wounds of War: Psychological and Cognitive Injuries, Their Consequences, and Services to Assist Recovery, Terri Tanielian and Lisa H. Jaycox, editors, MG-720-CCF

The Maritime Dimension of International Security: Terrorism, Piracy, and Challenges for the United States, Peter Chalk, MG-697-AF

How Terrorist Groups End: Lessons for Countering al Qa'ida, Seth G. Jones, Martin C. Libicki, MG-741-1-RC

The Challenge of Nuclear-Armed Regional Adversaries, David Ochmanek, Lowell H. Schwartz, MG-671-AF

Moving Los Angeles: Short-Term Policy Options for Improving Transportation, Paul Sorensen, Martin Wachs, Endy Y. Min, Aaron Kohr, Lisa Ecola, Mark Hanson, Allison Yoh, Thomas Light, James Griffin, MG-748-JAT/METRO/MCLA

A Comparison of the Health Systems in China and India, Sai Ma, Neeraj Sood, OP-212-CAPP; and Education and the Asian Surge: A Comparison of the Education Systems in India and China, Charles A. Goldman, Krishna B. Kumar, Ying Liu, OP-218-CAPP