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Message from the Chairman and the President

Focus on Multinational Challenges
Focus on Healthy Societies
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Message from the Chairman and the President

Public policy decisions affect us all. We each have a personal stake in knowing that these decisions are made wisely. For nearly 65 years, RAND has served the policymaking process—and by extension, the public interest—by delivering evidence-based analysis to the people who shape policy and outcomes for all of us.

In 2010, our work focused on

- the policy issues that were in the headlines throughout much of the year, such as legalizing drugs, ending discrimination based on sexual orientation, health care reform, and improving corporate ethics and governance;
- the perennial challenges of disaster preparedness, public safety, military readiness, and improving student achievement; and
- impending concerns that require novel approaches and new methodologies, such as financing the health and welfare needs of an aging population and navigating the dangers of space debris.

RAND’s commitment and capacity to make a difference with its research are what attract clients, grantors, and donors to support RAND’s work. They are also what motivate people to join RAND and to stay here. Our collective staff—comprising engineers, medical doctors, lawyers, economists, physicists, mathematicians, statisticians, sociologists, anthropologists, and individuals from just about every other discipline you can name—thrives on the opportunity to offer ideas and analysis to decisionmakers at all levels of government and in the private and nonprofit sectors.

The questions they pursue, the disciplines and methods they employ, and the communities whose needs they address are in many ways different. But they draw inspiration from the same place: the opportunity to focus on facts and aim for progress.

We thank you for your support of RAND—our work, our people, and our ideas.

James A. Thomson
President and Chief Executive Officer

Paul G. Kamiński
Chairman, RAND Board of Trustees
Rebuilding Haiti

In the aftermath of the 7.0 magnitude earthquake that battered Haiti on January 12, 2010, killing 300,000 people, injuring 300,000 more, and leaving 1.3 million homeless, a team of RAND researchers set to work to identify plans for recovery that would extend beyond the initial rounds of medical and humanitarian aid. The resulting study emphasized state-building as a critical, threshold priority, arguing that Haiti will remain vulnerable to natural disasters, political turbulence, and civil unrest until it develops effective institutions. RAND researchers presented detailed findings to Haitian President René Préval, as well as to numerous Haitian and international officials. Study insights were also cited widely in global media outlets and formed the basis of multiple briefings to U.S. congressional audiences, RAND philanthropic supporters, and other public assemblages.
**Pakistan**

The rising number of terrorist plots in the United States with links to Pakistan—including the 2010 failed car bombing in New York City—has policymakers concerned about the effectiveness of existing strategies to weaken militant groups operating in and from Pakistan. A 2010 study, supported through RAND’s Investment in People and Ideas program (see page 32), examined counterinsurgency efforts in Pakistan and found that militant groups persist in the nation because Pakistani leaders continue to provide support to some groups and have not yet developed an effective counterinsurgency strategy that protects the local population. The long-term objective of developing a comprehensive counterinsurgency strategy—including addressing deficiencies in local police forces, providing aid and assistance to displaced civilians, expanding development efforts, and creating new legal structures and improved governance—must take precedence over efforts to destroy the enemy if Pakistan is to end the militant threat, the study finds.

**Afghanistan**

Public opinion polls and other data indicate that the Taliban has failed to establish significant support among Afghans. A 2010 RAND analysis concluded that leveraging traditional policing institutions in rural villages and mobilizing the population against insurgents can improve security in Afghanistan. The study also addressed concerns about whether engaging local forces will lead to more violence in the countryside, strengthen local warlords, and weaken central government forces. Another 2010 study examined NATO’s peacekeeping role in Afghanistan and concluded that failure, or even an indeterminate outcome, would cloud the alliance’s own future. The authors examine the risks, commitments, and obligations of the current mission in light of NATO’s history and with an eye toward the future, as well as the effects on the alliance’s internal dynamics. Drawing on a wide range of sources, the authors describe how NATO came to be involved; concerns and tensions that have developed over the investments and risks that member and nonmember states have in the operation; management of the expectations of nations and peoples; and the need for a coherent, comprehensive, and coordinated long-term strategy.

RAND researchers are recognized thoughtleaders on top international policy topics. A selection of 2010 commentaries published in global news outlets includes:

- **Managing Catastrophic North Korea Risks** by Bruce W. Bennett (*The Korea Herald*, January 21)
- **How Washington Can Really Help the Greens in Tehran** by Alireza Nader, Trita Parsi (*ForeignPolicy.com*, February 9)
- **Europe’s Empty Promises** by Christopher S. Chivvis (*ForeignPolicy.com*, February 24)
- **The Cost of Reuniting Korea** by Charles Wolf, Jr. (*Forbes.com*, March 15)
- **The Moscow Metro Suicide Attacks** by Lindsay Clutterbuck (*Korrespondent*, April 2)
- **Only a New “Grand Bargain” on Transatlantic Solidarity Can Meet Deepest Challenges** by Robert E. Hunter (*European Affairs* online, April 23)
- **Building on Greek-Turkish Detente** by F. Stephen Larrabee, Charles P. Ries (*Project Syndicate*, May 10)
- **Europe’s Empty Promises** by Christopher S. Chivvis (*ForeignPolicy.com*, February 24)
- **Don’t Lose Ukraine** by Taras Kuzio, F. Stephen Larrabee (*Project Syndicate*, June 25)
- **The Afghanistan Clock** by James Dobbins (*ForeignPolicy.com*, June 25)
- **A Bottom-Up Peace in Afghanistan** by Wall Ahmad Shaaker, John V. Parachini (*Providence Journal*, July 15)
- **A To-Do List for Shoring up Haiti** by James Dobbins, Laurel E. Miller (*Los Angeles Times*, August 23)
- **Your COIN Is No Good Here** by James Dobbins (*ForeignAffairs.com*, October 26)
- **Revolutionary Guards Criticize Ahmadinejad** by Alireza Nader (*PBS.org* and *USIP*, November 5)
- **A WikiLeaks Disconnect** by Dalia Dassa Kaye (*Los Angeles Times*, December 6)
Assessment and international benchmarking of health care quality has considerable potential to improve patient outcomes, and significant work is under way to develop valid cross-national quality indicators from which to draw meaningful comparisons. A 2010 RAND Europe report evaluated two measures widely used for international comparisons—avoidable mortality and cancer survival—to illustrate the potential utility of such comparisons as well as some of the pitfalls in drawing valid interpretations from the data. Access, for example, may be a key determinant of differences in outcomes between countries; thus, comparing quality across countries is only a first step to then assessing the causes underlying those differences and determining how to improve outcomes. Another 2010 RAND study compared the health of aging Americans with that of their English counterparts. Researchers found that older Americans are less healthy but live longer. According to study author Jim Smith, “It appears that, at least in terms of survival at older ages with chronic disease, the U.S. medical system may be better than the system in England.”
Why Do Americans Avoid the Flu Vaccine?

A 2010 article by RAND Health researchers on the U.S. response to the H1N1 flu experience detailed weaknesses in the nation’s ability to respond to a pandemic flu outbreak. First, the United States lacks the capacity to develop, produce, and distribute a new vaccine in time to counter a fast-moving pandemic. By the time adequate stocks of the H1N1 vaccine arrived in late 2009, the pandemic had passed its peak, public demand declined, and manufacturers were left with 70 million unused doses. In addition, any improvement in supplying the vaccine must be matched by an equally substantial increase in demand for it. Despite an unprecedented public education campaign, only about 20 percent of U.S. adults were vaccinated, and perhaps most striking, fewer than half were health care workers. Noting that 95 percent of the public funding on influenza has been devoted to biomedical topics rather than to social and behavioral science, the study calls for a renewed focus on the best ways to inform and motivate the public to get vaccinated.

Choosing a Good Doctor

Two recent collaborations by RAND and the University of Pittsburgh School of Medicine produced noteworthy findings about obtaining quality care. In the first study, which received broad media coverage in 2010, researchers determined that retail medical clinics located in pharmacies and other stores can provide care for routine illnesses at a lower cost and similar quality as offered in physician offices, urgent care centers, or emergency departments. Another study challenged the assertion that patients, when looking for a new physician, should select one who is board certified or has not made payments on malpractice claims. These criteria are not always a good predictor of which physicians will provide the highest-quality medical care, nor are a physician’s years of experience. The study underscores the need for better physician performance data and more public reporting of individual physician quality information to help consumers choose their doctors.

FOLLOWING ENACTMENT OF the Patient Protection and Affordable Care Act (2010), a RAND analysis concluded that the new law provides health insurance coverage to the largest number of Americans while keeping federal costs as low as reasonably possible. The only alternatives that would have covered more Americans at a lower cost to the federal government were all politically untenable—substantially higher penalties for those who don’t comply with mandates, lower government subsidies, and less-generous Medicaid expansion.

THE LINK BETWEEN SAFETY performance among health care providers and malpractice suits is a key concern for policymakers in the ongoing debate over health care reform. A 2010 RAND Institute for Civil Justice study is the first to demonstrate a link between improving performance on 20 well-established indicators of medical safety outcomes and fewer medical malpractice claims.
Providing Evidence Amidst Controversy: Gays in the Military

The RAND National Defense Research Institute’s 2010 study on sexual orientation and U.S. military policy, conducted at the request of the Senate Armed Services Committee and the Secretary of Defense, helped bring critical facts and evidence to the debate over repeal of the law known as “Don’t Ask, Don’t Tell” (DADT). The study, which updated a 1993 RAND analysis on the topic, examined DADT implementation; U.S. public and military opinion about allowing gay men and lesbians to serve in the military without restriction; and the scientific literature on group cohesion, sexual orientation, and related health issues. RAND researchers also examined the comparable experiences of other institutions, domestic agencies, and foreign militaries, as well as how repeal of DADT might affect unit cohesion and military readiness and effectiveness. The research concludes that there would be little impact on recruiting and retention of military personnel and on unit cohesion and performance. Many military focus group participants said that they knew gay men and lesbians who were serving and respected their contributions. Seventeen years after DADT went into effect, Congress repealed the law in December 2010.

Scan the code with your smartphone to watch study director Bernard Rostker discuss DADT on PBS NewsHour.
Manpower

ANALYSIS OF APTITUDE tests used for academic and professional selections is abundant, and similar research exists in military contexts. Prompted by concerns that the officer selection test used by the U.S. Air Force is unfair and negatively affects diversity, RAND was asked to evaluate the test’s utility. Researchers concluded that the officer qualification test is a valid predictor of important Air Force outcomes and should continue to be used, but that the officer selection system could be supplemented with additional valid performance predictors, such as personality, which may lessen the adverse impact on minority and female candidates.

A 2010 STUDY BY THE RAND National Defense Research Institute sought to answer the question, Do bonuses affect enlistment and reenlistment? Researchers ascertained that enlistment and reenlistment bonus programs are indeed important in helping the services meet their recruiting and retention objectives; that the services flexibly manage these programs by targeting bonuses to specific groups and adjusting them in a timely manner; and that such bonuses are cost-effective relative to pay as a recruiting and retention resource.

Saving the Government Money

U.S. Secretary of Defense Robert Gates announced in September 2010 a sweeping initiative to improve Department of Defense (DoD) efficiency. RAND is a long-standing source of objective evaluation of DoD program cost-effectiveness and cost-saving recommendations. A 2010 study for the U.S. Army proposed a new equipping strategy for Army field hospitals that would eliminate much of their equipment that is currently sitting in storage or never being used for training. When deployed, the hospitals would instead draw on shared sets of equipment that could more readily be kept up-to-date. The proposed strategy, which has been endorsed by the U.S. Army Surgeon General, would reduce total equipment replacement costs from just over $1 billion to approximately $740 million. Another 2010 study by RAND Project AIR FORCE identified the opportunity to save up to $300 million annually by consolidating certain maintenance functions that are now being conducted by each U.S. Air Force flying unit.

Family Matters

The wars in Iraq and Afghanistan have put the U.S. all-volunteer force to its most severe test since its inception in 1973. In response, RAND research has addressed a variety of related concerns, including the resiliency of the force, the impact on earnings of activated reservists, the changing nature of battlefield casualties, and the care that service members receive when wounded or traumatized. A multiyear study is helping to focus attention on military families and the emotional health of the children of deployed parents. Findings reveal elevated levels of anxiety symptoms and emotional distress among children with a deployed parent. The study suggests targeting support to families facing more months of deployment, and that more systematic screening could be offered to assess emotional problems within families. More resources might also be needed to support caregivers, particularly the spouses of National Guard and Reserve members who may not live near military bases where help is more readily available.
Teacher Quality and Student Achievement

Drawing upon more than 30 years of experience applying data and objective analysis to K–12 education issues, a series of RAND studies published in 2010 focused on effective teaching. In a study examining teacher performance in one of the nation’s largest urban school districts, researchers found that traditional teacher qualification standards—such as certification and experience—do not have a substantial effect on student achievement. The study suggests that other measures and reward systems might be better at identifying and cultivating teacher quality. Pay-for-performance programs are premised on the notion that rewarding teachers financially for student achievement gains can spur the teachers to be more effective in the classroom. But RAND and its collaborators at the National Center on Performance Incentives found no evidence of such an outcome in the pay-for-performance program in Nashville public schools. In Nashville, student test scores rose evenly whether or not the teachers had been paid on the basis of their students’ performance. Although it evaluates just one pay-for-performance design, the Nashville study underscores the importance of putting all accountability and incentive systems to the test.
Back to School for Veterans

The Post-9/11 GI Bill, which took effect in August 2009, significantly increased the higher education benefits available to eligible veterans, offering the most generous benefits since the original GI Bill of 1944. Concerned that the new benefits be used to their fullest, the American Council on Education (ACE) asked RAND to work with veterans and eligible dependents, as well as higher education administrators, to better understand their experiences with the new law. Study findings are providing colleges and universities with the information they need to better serve veterans and help them take full advantage of the new GI Bill.

Improving After-School Programs

The likelihood of youth exposure to drug use and other criminal behavior increases dramatically in the hours after school ends. RAND research has shown that the availability of quality after-school activities can reduce participation in and victimization as a result of illicit activities, and can boost academic performance. In findings published in 2010, RAND researchers found that stronger after-school programs result from citywide coordination of assets and resources, solid support and leadership from their mayors, and the use of rich data systems to assess and deliver programs.
Aging Workforce

As U.S. baby boomers near retirement, concern for America’s economic growth and the solvency of the Social Security Trust Funds is high. A trio of RAND studies published in 2010 assesses the demographic, economic, cognitive, and health care implications of the aging boomers and finds cause for some optimism as well as concern. First, researchers observed that older American workers are retiring at later ages than ever before and will likely continue to do so in the future. This trend of continuing employment will help ease the downward pull on economic growth and the financial strain on Social Security and Medicare that retirement would otherwise entail. Delayed retirement could also be good news for the cognitive capacities of aging baby boomers. Cross-national data from 13 developed countries show a causal link between the timing of retirement and cognition: Later retirement helps maintain cognitive function.

Yet, despite these positive signs, the small percentage of middle-aged Americans aged 50 to 64 who report the need for help in daily personal care activities, such as getting into or out of bed or getting around inside the home, has risen significantly over the past decade as boomers have entered this age bracket. This trend is in sharp contrast to the disability decline found among Americans aged 65 and over. The reason for the setback among boomers is not clear, but it poses challenges for future health spending, demand for health care and other support workers, and prospects for continued labor force participation.
Improving Financial Literacy

The Financial Literacy Center (FLC) is a Social Security Administration–funded consortium of RAND, Dartmouth College, and the Wharton School of the University of Pennsylvania that is developing and testing innovative programs to improve financial literacy and financial decisionmaking. FLC focuses particularly on low-income and minority workers, the most vulnerable populations during an economic downturn. In 2010, FLC shared findings from early research projects at its first annual conference in Washington, D.C. The topics included how much Americans know about social security, what influences new hires to save for retirement, and whether social security statements received by Americans during their working lives improve their knowledge of retirement benefits. FLC also briefed a congressional audience on the value of financial entertainment as an educational tool, and demonstrated new FLC-funded video games targeted at low-income adults.

Numeracy Skills Predict Family Wealth

Within a family, the skills needed to make successful investment choices are among the most cognitively demanding, especially as individuals get older and assume greater control of decisions about their wealth, pensions, and health care. A RAND paper published in 2010 was one of the first to examine who makes these financial decisions for a household, how that selection is influenced by a couple’s personal attributes, and the relative cognitive abilities of both spouses. Researchers found that a simple test that checks a person’s numeracy skills was a good predictor of who would be a better family financial decisionmaker and that couples who score well on the test accumulate more wealth by middle age than couples who score poorly. Moreover, when families choose the less-numerate spouse to be the primary financial decisionmaker, total household wealth is lower.

In the Boardroom: Compliance and Ethics

The collapse of financial markets in late 2008 has invited renewed questions about the governance, compliance, and ethics practices of firms throughout the world. In May 2010, RAND convened a symposium on the perspective and role of corporate boards of directors in overseeing ethics and compliance matters within their organizations. Participants included thoughtleaders from the ranks of public company directors at major corporations; ethics and compliance officers; and stakeholders from the nonprofit sector, academia, and government. Discussions focused on the challenges that directors face in this rapidly evolving role; on the responsibility of boards to oversee corporate cultures that foster integrity and compliance with the law; and on steps that business leaders and policymakers might take to better encourage and empower directors to strengthen compliance mechanisms and ethical leadership within firms.
Marijuana Legalization

For more than two decades, RAND has conducted leading-edge analyses on drug policy issues, from substance abuse among school children to global drug trafficking. A pair of 2010 studies by the RAND Drug Policy Research Center helped bring facts and evidence to the contentious debate in California over legalizing the production and distribution of marijuana. The findings demonstrated that the price of marijuana would drop dramatically after legalization and that the potential for generating significant public revenue from taxing marijuana was far more speculative than was being reported. Moreover, researchers showed that legalizing marijuana in California would not dramatically reduce the drug revenues of Mexican drug cartels, debunking the often-cited, yet unsubstantiated claim that marijuana accounts for 60 percent of Mexican cartels’ gross drug export revenues. Supported by RAND’s Investment in People and Ideas program, the research was widely recognized by all sides of the contentious ballot effort as providing definitive facts upon which debate could be had.

Scan the code with your smartphone to hear Beau Kilmer, codirector of the RAND Drug Policy Research Center, discuss findings from the 2010 report Altered State.
**Officer Recruitment and Retention**

The RAND Center on Quality Policing helps law enforcement agencies across the United States identify the most cost-effective and results-oriented practices, make better operational decisions, and consistently perform at their best. A trio of studies released in 2010 identified a threefold challenge in contemporary recruiting and retention: attrition resulting from budget crises and baby-boomer retirements, shifting generational patterns (toward drug use, obesity, and debt) that restrict the flow of applicants, and an expanding scope of duties (community policing, counterterrorism, information-sharing, and immigration enforcement) that require more officers with a greater breadth of skills. While there is little police agencies can do to limit the demand for officers, the studies offer promising strategies for increasing the supply.

**The Cost of Crime**

Existing high-quality research on the costs of crime and the effectiveness of police demonstrates that public investment in police can generate substantial social returns. A 2010 study by the RAND Center on Quality Policing, *Hidden in Plain Sight: What Cost-of-Crime Research Can Tell Us About Investing in Police*, shows how this research—which is often buried in journals targeted to academic rather than policymaking audiences—can be used to better understand the returns on investments in police. As part of this research stream, RAND developed an innovative online cost-of-crime calculator into which users can input city-specific variables to determine how an increase or decrease in police personnel will affect crime costs. Users can also edit costs-per-crime and crimes-per-year fields to calculate the value of police in other cities. The tool includes an inflation calculator to adjust cost-of-crime figures for specific years. Access the calculator on RAND’s website at cqp.rand.org/cost-of-crime

**Security, at What Cost?**

Can governments improve security for all without infringing individual liberties? A recent RAND Europe study sought to better understand how much liberty and privacy individuals are willing to surrender in return for security benefits in three situations: applying for a passport, traveling by rail, and attending a major public event such as the opening ceremony of the Olympics. Findings demonstrate that users of security infrastructure are willing to forgo some liberty and privacy, and even pay extra for certain security benefits, but with caveats. In some cases, governments would need to subsidize people to accept intrusions on their privacy.

The study can help policymakers identify where security measures conflict with user preferences and evaluate ways to strike a better balance in security infrastructure and processes without undermining effectiveness.
The Deepwater Horizon Oil Spill

Following the April 2010 oil spill in the Gulf of Mexico—the largest spill in U.S. history—RAND contributed expertise on a range of issues. A team of researchers provided input to a presidentially commissioned report on long-term recovery plans, with a focus on governance and funding options for revitalizing the economy, coastal restoration, and public health response. Senior economist Lloyd Dixon and the RAND Institute for Civil Justice conducted analyses on failures in the insurance market along the Gulf Coast and proposed options for how to fix them. Admiral Thad Allen joined RAND as a senior fellow in October 2010, having just completed his service as the presidentially appointed National Incident Commander for the unified response to the Deepwater Horizon oil spill. In presentations to policy audiences both in the Gulf region and in Washington, D.C., Allen discussed critical disaster preparedness and response issues.
Transportation Challenges, Green Ambitions

A series of RAND studies explored options for the United States to develop a more sustainable source of highway funding and reduce traffic congestion by transitioning from reliance on motor fuel taxes to a system that would charge drivers based on vehicle-miles of travel (VMT). Relying on fuel taxes to maintain and improve the nation’s vital road network in an era of growing concern about fuel efficiency and greenhouse gas emissions creates an untenable contradiction between public policy goals—policies aimed at reducing gasoline consumption to address environmental or energy concerns would directly undermine the goal of raising transportation revenue through fuel taxes. Study authors lay out the argument for an end to fuel taxes and other such programs that discourage government pursuit of energy efficiency over the long term for fear of losing transportation revenue in the short term.

Paying the Price for Dirty Air

A RAND study published in 2010 showed that California’s dirty air caused more than $193 million in hospital-based medical care from 2005 to 2007 as people sought help for problems such as asthma and pneumonia that are triggered by elevated pollution levels. Researchers estimate that exposure to excessive levels of ozone and particulate pollution caused nearly 30,000 emergency room visits and hospital admissions over the study period. Public insurance programs were responsible for most of the costs, with Medicare and Medi-Cal covering more than two-thirds of the expenses. Previous studies have documented California’s failure to meet federal clean air standards, especially in the Los Angeles basin and the San Joaquin Valley. The RAND study was the first to quantify the medical cost and show how California’s dirty air is driving up the price of both government and private insurance.

Scan the code with your smartphone to use RAND’s California Air Pollution Mapping Tool to explore by congressional district the number of adverse health events that clean air would have prevented and the resulting savings.

Confronting Space Debris

A 2010 RAND study looked at the growing threat to satellites posed by the hundreds of thousands of pieces of orbital debris in Earth’s orbit. How have communities outside the aerospace industry approached their “orbital debris-like” risks? What lessons can be learned from these cases before proceeding with debris mitigation or remediation measures? Findings are drawn from other problems identified to have similar threat profiles including acid rain, the U.S. commercial airline industry, asbestos, and the 2010 Deepwater Horizon incident.

“Limiting climate change requires a revolution in the way the global economy generates and consumes energy. It is becoming increasingly clear that the current diplomatic approach—as evidenced by the results of [2009’s] Copenhagen Climate Conference and the follow-on talks completed in Bonn—should be redesigned to meet this immense political, technical, and social challenge.”

Robert J. Lempert, director of the Frederick S. Pardee Center for Longer Range Global Policy and the Future Human Condition, argues for redesigning the international approach to climate change in a Huffington Post commentary on July 1, 2010.

Scan the code with your smartphone to use RAND’s California Air Pollution Mapping Tool to explore by congressional district the number of adverse health events that clean air would have prevented and the resulting savings.
“Terrorist attempts are not evidence of our failure to protect the nation from terrorism, nor should they be cause for feigned outrage and divisive finger-pointing. They provide opportunities to learn lessons and improve defense,” according to Brian Michael Jenkins, senior adviser to the president of RAND, in May 2010 testimony on deterring homegrown terrorism delivered before the Committee on Homeland Security in the House of Representatives. Also in 2010, Jenkins published Would-Be Warriors: Incidents of Jihadist Terrorist Radicalization in the United States Since September 11, 2001, in which he concludes that while radicalization and recruitment to jihadist terrorism are cause for continuing concern, the current threat must be kept in perspective. The volume of domestic terrorist activity was much greater in the 1970s than it is today and effective police work and lack of local Muslim support for terrorist activity is working to limit the danger posed by homegrown jihadists in America.
Deradicalizing Extremists

In recent years, several Middle Eastern, Southeast Asian, and European countries have implemented measures to prevent vulnerable individuals from radicalizing and to rehabilitate those who have already embraced extremism. A 2010 RAND study explored the strengths and limitations of these programs. Authors concluded that successful programs require extensive efforts that include affective, pragmatic, and ideological components, as well as considerable aftercare. Effective programs, the study found, are culturally specific, making it difficult to export best practices from one region to another. Noting that most programs focus on reforming less committed radicals, the authors recommend that governments should target the more devoted militants for rehabilitation. Although it is extremely difficult to induce these individuals to renounce extremism, deradicalizing them will yield greater results as the most committed activists have more influence on the rank and file.

The Changing Role of Law Enforcement

In research supported by the U.S. Department of Justice, RAND researchers conducted case studies of five urban areas to determine how local law enforcement duties and practice have changed since September 11, 2001. One critical change is the evolution of “fusion centers,” which now take an all-crimes, all-hazards approach to intelligence collection, information-sharing, and analysis. The focus on counterterrorism and homeland security has promoted the use of technology that provides a means to identify the nexus between different types of criminal activity and potential terrorist-related activity, and the centers have helped formalize information exchange among law enforcement agencies.
Our People

People are the key to RAND’s success. Diversity among our staff promotes creativity, deepens understanding of the practical effects of policy, and ensures multiple viewpoints and perspectives.

Approximately 1,700 people work at RAND from 1 of 11 office locations around the world. Our staff is diverse in work experience and academic training; political and ideological outlook; and race, gender, and ethnicity.

Tackling complex policy issues requires multiple disciplines and experiences. RAND researchers hold advanced degrees in political science and international relations; economics; behavioral science; medicine; engineering; law and business; math, operations research, and statistics; policy analysis; life sciences; social sciences; arts and letters; physical sciences; and computer sciences.

With more than 50 nationalities represented by RAND staff, many of our people are multilingual. Languages spoken include Spanish, French, Chinese, Arabic, Russian, German, Korean, and Japanese.

RAND’s focus is global: Our staff are committed to helping people and societies throughout the world be safer, healthier, and more prosperous.
Global Reach

RAND opened a new office in Abu Dhabi, United Arab Emirates. The office is collocated with the Centre of Excellence for Applied Research and Training (CERT) and was created under the patronage of His Excellency Sheikh Nahayan Mabarak Al Nahayan, minister of higher education and scientific research, chairman of CERT, and chancellor of the Higher Colleges of Technology.

RAND was selected as one of the Best Places to Work in Los Angeles for 2010 by the Los Angeles Business Journal and the Best Companies Group.

Marking its 10th year of operations in 2010, RAND’s Pittsburgh office received the 2010 Good Government Award from the League of Women Voters of Greater Pittsburgh for contributions to improving government.

Artur L. Kellermann, one of the nation’s leading public health and emergency medicine researchers, was named the new head of RAND Health in November 2010 (effective January 2011). He succeeded Robert Brook, who stepped down after 19 years in the leadership position, to return to full-time research. Kellermann joined RAND in 2009 after being appointed to the Paul O’Neill Alcoa Professorship in Policy Analysis. Previously, Kellermann served as a professor of emergency medicine at Emory University and as the medical school’s first associate dean for health policy.

Jack Riley, an 11-year RAND veteran and alumnus of the Pardee RAND Graduate School, was appointed vice president and director of the RAND National Security Research Division. During his career at RAND, Riley has worked on U.S. and international security issues, including assessments of security institutions in Palestine, Liberia, Afghanistan, and Mexico; cost-effectiveness analyses of security measures in settings such as airports and passenger rail facilities; and a multiyear evaluation of police–community relations in Cincinnati.

Desirée van Welsum joined as a research leader on RAND Europe’s Innovation and Technology team. She is an expert in the analysis of the economic impact of information and communication technologies, innovation, intellectual assets, skills, and international trade and investment. Previously, van Welsum worked with the United Nations Conference on Trade and Development, the World Bank Institute, and the Organisation for Economic Co-operation and Development.

Johanna Zmud was named director of the RAND Transportation, Space, and Technology program in December 2010 (effective January 2011). Zmud has 25 years of experience measuring and analyzing travel behavior. She has international credentials in travel behavior survey science and national credentials in passenger travel and road pricing, freight and commodity flows, transportation data programs, and the intersection of transportation and information/communication technologies.
Enriching the Debate

For RAND, the scholarly objectives of expanding knowledge, illuminating issues, and developing new ideas are but a first step in our mission to help improve policy and decisionmaking through research and analysis. We are equally focused on communicating our findings broadly to enrich the quality of public debate and help decisionmakers make sound choices.

Konstantin Kosachev (pictured), chairman of the Russian Federation’s State Duma International Affairs Committee, traveled to RAND to participate in a dialogue organized by the RAND Center for Russia and Eurasia (CRE) focused on the next phase in U.S.–Russian relations. CRE director Andrew Weiss moderated the discussion, which was followed by media interviews.

Senior behavioral scientist Rebecca Collins led a discussion on how popular media is shaping boys’ and girls’ beliefs about sex and gender and sexual behavior. Collins was joined at the event by Madeline Di Nonno, executive director for the Geena Davis Institute on Gender in Media. RAND Health Board of Advisors member Suzanne Nora Johnson introduced the discussion.
Each year, RAND experts make hundreds of presentations to decisionmakers and thought leaders on issues of local, national, and global concern. A sample of 2010 presentations includes

- Green Buildings, Green Jobs
- Tackling Corruption in Afghanistan
- Mumbai Rising? India and the Global Economy
- Rebuilding Haiti
- Improving Public Services Through Performance-Based Accountability Systems
- Global Health: Building Capacity to Fight Infectious Disease
- The Impact of Deployment on Military Children
- Tipping the Scale: Policy Approaches Toward Healthy Living and Tackling the Obesity Epidemic
- Executive Compensation Regulation: Challenges and Opportunities
- U.S. Transportation System Funding
- Retail Clinics and the Efficient Delivery of Health Care
- Impact of Air Pollution on Hospital Spending in California

In March 2010, RAND hosted the Fourth Annual Conference of the International Society for the Study of Drug Policy (ISSDP), the first ISSDP Annual Conference held outside of Europe. Among dozens of leading voices in drug policy featured were Antonio Maria Costa, executive director of the United Nations Office of Drugs and Crime, and Keith Humphreys, senior policy advisor in the U.S. Office of National Drug Control Policy. Beau Kilmer, codirector of the RAND Drug Policy Research Center, led a conversation on the unintended consequences of drug policy.

Hans Pung, vice president of RAND Europe, addressed the 9th Congress on European Security and Defence.
A RAND Visiting Voices seminar supported by the RAND-Qatar Policy Institute featured Tim Sebastian, award-winning broadcaster and chair of the critically acclaimed television program The Doha Debates. Senior political scientist Dalia Dassa Kaye moderated the conversation, which addressed a variety of topics, including free speech in the Arab and Islamic worlds, the development of a new generation of leaders in the region, and opportunities and prospects for political reform. The Doha Debates is considered a leading forum for public discussion in the Arab world.

Rand briefings conducted for lawmakers and their staff on Capitol Hill in Washington, D.C., are available in streaming video on www.rand.org or as an audio podcast.

Madame Thandiwe Banda, the First Lady of the Republic of Zambia (center), visited RAND to meet with Executive Vice President Michael Rich (pictured), RAND researchers, and concerned philanthropists to discuss policy approaches for improving maternal and child health, primary education, and HIV prevention in Zambia.
In 2010, RAND findings and recommendations were published in more than 700 policy reports, journal articles, and research briefs and referenced in more than 4,000 media reports by influential publishing and broadcast outlets around the world.

Published three times a year, RAND’s policy magazine, RAND Review, helps thoughtleaders from around the world stay ahead of the curve on the issues that matter most. The Spring 2010 cover story looked at Israel’s energy challenges and RAND’s work to explore opportunities for greater resiliency and sustainability.

RAND research is available for free download from www.rand.org. More than 4 million documents were downloaded in 2010.
Versatility, imagination, energy, and intellect. These are the traits of great policy leaders and of all who enter the Pardee RAND Graduate School (PRGS), the policy analysis doctoral program based at RAND’s headquarters campus in Santa Monica. PRGS’s role is to build a new generation of policy leaders who can lead and create change locally and around the world. Leaders who can be the answer to the most vexing challenges of our time.

The entering cohort of students in 2010 comprised 21 individuals diverse in academic and professional background, knowledgeable about a broad range of areas, and passionate about policy. Roughly two-thirds of the cohort already hold an advanced degree. They come to PRGS from an impressive array of organizations and academic institutions including the National Economic Council of Israel, the Boeing Company, the U.S. Mission to NATO, the New York Department of Health and Mental Hygiene, the Harvard Kennedy School, the Center for Strategic and International Studies, the U.S. Air Force, the Institute for National Security and Counterterrorism, Beth Israel Medical Center, Planned Parenthood, and the Aerospace Systems Design Laboratory at Georgia Tech.

Founded in 1970 as one of eight graduate programs in public policy created to train future leaders in the public and private sectors in policy analysis, PRGS is the only such program based at a public policy research organization and the only one specializing exclusively in the doctorate degree. The five-year program is designed to produce an elite class of policy leaders whose careers will be distinguished by the caliber of their thoughts, reason, and actions. With 110 students, PRGS is the largest doctoral program in policy analysis.
PRGS 40th Anniversary

In 2010, PRGS observed its 40th anniversary. A celebration weekend—filled with events both festive and scholarly—culminated with a commencement address by Admiral Mike Mullen, chairman of the Joint Chiefs of Staff.

The commemoration brought together alumni, faculty, current students, and friends and supporters of the school and began with two timely policy discussions featuring experienced policymakers and leading thinkers. Be the Answer: The Role of Analysis in Policymaking was moderated by Dean Susan L. Marquis, and featured a conversation among Albert Carnesale, chancellor emeritus of UCLA; Ann McLaughlin Korologos, RAND trustee and former U.S. Secretary of Labor; and Admiral Mullen.

Be the Answer: A Case Study in Health Care Quality was moderated by assistant dean Jeffrey Wasserman, and featured PRGS alumnus Elizabeth A. McGlynn, former distinguished chair in health quality at RAND; Pedro José Greer, Jr., a member of the PRGS Board of Governors and recent recipient of the Presidential Medal of Freedom; PRGS fellow Sean O’Neill; and PRGS alumnus Neeraj Sood of the Leonard D. Schaeffer Center for Health Policy and Economics at the University of Southern California.

The next day, 33 doctoral degrees and 30 master’s degrees were awarded during commencement ceremonies. Carnesale, Korologos, and Mullen received honorary degrees, and Mullen delivered the commencement address, speaking about how PRGS graduates’ analysis can make a real-world impact on global security during today’s times of great change.

Members of the class of 2010 have accepted impressive posts in government, major research organizations, and the private sector. Among the organizations where PRGS graduates will be working to be the answer: the United Nations, the World Bank, the U.S. Air Force, the Republic of Korea Air Force, Bulgaria’s Ministry of Finance, the Centers for Disease Control and Prevention and the Centers for Medicare and Medicaid Services; private-sector firms such as Abt Associates, Amgen, Inc., and Ipsos; and prestigious educational institutions such as Harvard Graduate School of Education, University of British Columbia, University of California, Berkeley, University of California, Los Angeles, Defense Acquisition University, and Zirve University in Turkey.

The education you have earned here has positioned you to lead the changes of the future. We need leaders with strength of character, broad perspective, and sharp insight. Simply put, we need you.

“To really help us ... analysis must be timely, nonpartisan, adaptive, and objective, all in keeping with our volatile security environment, our unpredictable world, and its broad range of actors and cultures.”

—Admiral Mike Mullen, commencement address
Collaborations

**African First Ladies.** This year, PRGS created the African First Ladies Fellowship Program, which, in partnership with Women’s Campaign International, aims to strengthen the capacity of Africa’s first ladies and their offices to address health and social problems across Africa. The program helps first ladies and their staffs develop skills for managing an effective first lady’s office and learn practical policy analysis techniques. Over a two-year period, PRGS fellows will work with first ladies to develop and implement a plan addressing one of their nation’s top challenges, such as maternal and child health, women’s issues, or education.

Participants at a program workshop held in 2010 included chiefs of staff and other advisers to first ladies from Angola, Burkina Faso, Kenya, Lesotho, Mozambique, Namibia, Sierra Leone, Tanzania, and Zambia. Other workshop participants included Jocelyn Frye, deputy assistant to President Obama for domestic policy and director of policy and projects for first lady Michelle Obama; Melanne Verveer, U.S. ambassador-at-large for global women’s issues; Anita McBride, chief of staff to first lady Laura Bush from 2005 to 2009; and Marjorie Margolies, president and founder of Women’s Campaign International. PRGS faculty, as well as collaborators from American University, provided instruction and follow-on mentoring.

**PRGS–Southwestern Law School Joint Certificate Programs.** PRGS, in conjunction with Southwestern Law School, has launched two public policy certificate programs to provide law students and public policy Ph.D. students the opportunity to complement their degree programs with a unique understanding of the interplay between the law and public policy. Qualified students at PRGS can take courses at Southwestern, leading to a Certificate in Legal Studies, and qualified students at Southwestern can take courses in public policy at PRGS, leading to a Certificate in Public Policy. No other policy Ph.D. program offers students this opportunity to bridge the gap between policy and legal education.

PRGS graduates become the rare leaders who can shape effective solutions from the messy realities of our times because they aspire for a better, smarter, and more humane policy environment. One in which decisions are made not for political expedience or partisan gain, but because they are rational and informed; based on facts, analysis, and best practices; and guided by a vision of what could be.”

— James A. Thomson, President and Chief Executive Officer, RAND Corporation
The Washington Experience. Recognizing the importance of learning opportunities outside of the classroom, PRGS introduced The Washington Experience in 2010, an experiential learning program that provides students a firsthand understanding of the federal policymaking environment and culture through extended exposure to, and interaction with, members of the government and related organizations in Washington, D.C. In addition, the program helps introduce our Santa Monica–based students to RAND’s Washington office research staff, fostering their ability to collaborate remotely upon returning to California.

Four students were selected to participate in five-month assignments. These students took a special course on the federal budget taught by RAND researcher and PRGS alum Kathi Webb; contributed research support to a range of projects for federal clients; participated in an extensive orientation session on Congress; and hosted several guest speakers from federal agencies.

Gifts to RAND’s Investment in People and Ideas program support The Washington Experience.

Capacity-Building in Qatar. PRGS is partnering with the RAND-Qatar Policy Institute (RQPI) to conduct the Policy Analysis Capacity-Building Seminar for Qatar’s Supreme Council for Family Affairs (SCFA). Recent legislation has provided SCFA with a new mission: to create a national strategy for family affairs that will help Qatar achieve its National Vision 2030, which focuses on economic, environmental, human, and social development.

The Capacity-Building Seminar, taught in Doha by PRGS faculty members, aims to provide senior SCFA staff with tools that will lead to improved decisionmaking and resource allocation. The program acquaints participants with key principles of policy analysis, program evaluation, research design, and quantitative methods.
Scholarships

Scholarships are an essential part of the support we provide our students. We aspire to one day provide full scholarships for all of our students and to help reduce debt buildup among our graduates to facilitate public service careers. Thanks to continued support from past and present members of the PRGS Board of Governors, we offered full or partial scholarships to nearly three-quarters of the entering cohort in 2010.

Dean’s Leadership Circle
Created in 2010 by Dean Susan Marquis, the Circle provides an opportunity for special engagement with PRGS to those who have demonstrated commitment and support to PRGS’s ideals. Circle members include donors, alumni, former members of the Board of Governors, current and former RAND trustees, and other supporters.

Dean’s Dinners
At Dean’s Dinners, friends and supporters of PRGS come together in an informal atmosphere with students and faculty who are working on issues at the forefront of policy debates. The dinners, often hosted by a member of the Board of Governors, have been held in private homes and other distinctive settings in Los Angeles, New York, and Miami, and have spanned a range of topics from health care reform and K–12 education challenges to Afghanistan and climate change.
Also in 2010, PRGS passed the halfway mark in our efforts to raise $1,000,000 in support of the Jeremy R. Azrael Memorial Endowed Scholarship. The Azrael Scholarship will provide a full scholarship annually to a PRGS fellow from a former Soviet state. Jeremy Azrael was a trailblazing figure in U.S.–Soviet and U.S.–Russian relations whose career at RAND spanned more than three decades. The endowed scholarship campaign in his name was begun in 2009 upon Azrael’s passing.

Dissertation Support

Donor-supported dissertation awards are vital to PRGS fellows. The generosity of PRGS board members and other friends of PRGS enabled us to award almost $400,000 in dissertation support in 2010.

PRGS is fortunate to have one fully endowed dissertation fund, The Anne and James Rothenberg Dissertation Awards. In addition, we have a renewable commitment from John Cazier to annually support dissertations related to sustainability; a grant from Frederick S. Pardee to support multination regional analysis; and a multiyear gift from Eugene Rosenfeld as part of a larger program on Asian Economic Development. In 2010, we received additional support from the JL Foundation, Charles Wolf, Ellen Palevsky, Harold Brown, the Los Angeles Police Academy Magnet Schools Program, and the Susan Way-Smith Memorial Fund.

PRGS students also compete for a variety of dissertation grants made available by external organizations.

In 2010, RAND Project AIR FORCE (PAF) recognized four PRGS fellows as part of its annual PAF-PRGS Fellowship Program: Kenneth Grosselin, Eric Jesse, Deborah Lai, and Jordan Ostwald. PAF fellowship awards support research related to U.S. national security and which informs processes or decisionmaking in the U.S. Air Force.

Longtime PRGS supporters Eugene and Maxine Rosenfeld are deeply concerned about the future of developing economies in Asia. The Rosenfelds recognized a unique talent in PRGS faculty member Krishna Kumar (above)—who has studied a range of topics from entrepreneurship and human capital accumulation to the Indian and Chinese education systems. Through the Rosenfeld Program in Asian Economic Development—a generous multiyear commitment to provide funding for dissertation research and to support Kumar’s research and mentorship of fellows interested in international development issues and policies—the Rosenfelds are helping PRGS and RAND improve the lives of those in developing countries through research and analysis.

Generous gifts to PRGS in 2010 helped support an impressively diverse array of dissertation topics including:

- Community Health Clinics, Chronic Illness, and Disparity of Health
- Determinants of Agricultural Productivity in China and India
- Does Local Control of Schools Enhance Learning? An Investigation of New York City’s Empowerment Schools
- Ensuring the Vitality of Symphony Orchestras
- The Equity Implications of Mileage-Based Highway User Charges
- Evaluating the Los Angeles Police Academy Magnet Schools Program
- How to Sustain Social Security Systems and Maintain Standards of Living in Aging Societies
- Long-Term Care for the Elderly: What Can We Learn from International Experience?
- Nuclear Power Generation: A Sustainable Option for Reducing Greenhouse Gas Emissions in Russia
- Private Saving Decisions and the Role of Public- and Private-Sector Policies in Financial Decisionmaking
- Understanding China’s Actions in the South China Sea
- What’s on the Menu? Exploring the Restaurant Industry’s Role in Obesity
At a time when creative, crosscutting solutions to complex challenges are needed most—yet resources for generating innovative ideas are increasingly hard to come by—our philanthropic supporters enable RAND to continue to take on the biggest questions, apply the long view, and attract and engage the most talented individuals to be a part of that effort.

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

- develop new, innovative ideas for addressing critical, but often underappreciated policy areas; and
- attract top intellectual talent from around the world and support their efforts to address complex matters for the public good.

Philanthropy at RAND

Philanthropic support is vital to RAND and the Pardee RAND Graduate School and has made possible some of our most visionary work. Scan the code to explore more research supported by RAND's Investment in People and Ideas program.
Supporting Talent

RAND uses philanthropy to support distinguished chairs for outstanding researchers recognized as world-class among peers. Distinguished chairs—listed below—conduct innovative research, outreach, and mentoring of junior policy analysts.

European Security
Steve Larrabee

Health Care Services
Robert H. Brook

International Economics
Charles Wolf, Jr.

Labor Markets and Demographic Studies
James P. Smith

Paul O’Neill Alcoa Chair in Policy Analysis
Arthur Kellermann

PNC Chair in Policy Analysis
Dan McCaffrey

Policy Analysis
Susan L. Marquis

Samueli Institute Chair in Policy for Integrative Medicine
Ian Coulter

Also made possible by philanthropic support, RAND President’s Awards provide outstanding staff with time to pursue exploratory research and career development activities (see page 38 for a list of this year’s recipients).

RAND corporate fellows are individuals who have completed distinguished government or other policy analysis service and, as a result of philanthropic support, are available to devote a portion of their time to RAND research activities. Our newest corporate fellow, Admiral Thad Allen, joined RAND in October 2010.

Inspiring Ideas

Philanthropic contributions, combined with earnings from RAND’s endowment, make possible RAND’s Investment in People and Ideas program, which is used to support innovative research on issues crucial to the policy debate but that reach beyond the boundaries of traditional client funding. The following are just three of the dozens of projects funded by this program in 2010:

Managing Spent Nuclear Fuel: Strategy Alternatives and Policy Implications
Building Security in the Persian Gulf
The Role of Faith-Based Organizations in HIV Prevention and Care in Central America

RAND corporate fellow Admiral Thad Allen discusses disaster preparedness and response issues at a RAND Gulf States Policy Institute event in New Orleans. Just prior to joining RAND, Allen had served as the presidentially appointed National Incident Commander for the unified response to the Deepwater Horizon oil spill.
Setting Politics Aside

Following the U.S. mid-term elections in November, RAND hosted Politics Aside—a three-day retreat that brought together policymakers, opinion leaders, philanthropists, and RAND’s leading thinkers for a nonpartisan examination of pressing policy challenges.

The event featured dozens of renowned and accomplished policymakers and experts from across the political spectrum. Participation in the weekend was limited to promote candor and intimate discussion. The agenda included panel sessions and seminars at RAND’s headquarters campus in Santa Monica, dinner discussions in distinctive homes throughout Los Angeles (see page 37), a reception and dialogue at Sony Pictures Entertainment, and an exclusive screening of the education documentary Waiting for “Superman” at Creative Artists Agency.

Proceeds from Politics Aside support RAND’s Investment in People and Ideas program, our vehicle for funding research inquiries into critical but often underappreciated policy areas and attracting the world’s top talent to focus on these challenges.

THE AGENDA

Today’s Polarized Politics: Is Ideology Getting in the Way of What Works?
Beyond the Map: The Post-Geographic World Order
The New Public Square: A Changing Media’s Role in Informing Policy
Policy Perspectives from the Frontlines of Afghanistan
Taking the Lead on Climate Challenges
America’s Public Education System in Crisis
Managing the Unexpected: Catastrophe Preparation, Response, and Rebuilding
The Real Cost of Crime
A Nuclear Iran: Implications for Israel and the Region
Pay for Performance: Is Executive Compensation Reform Working?
Democracy Promotion and U.S. Foreign Policy
America’s Economic Future: Making the Tough Calls
Has Nation-Building Become a Dirty Word?
Mexico and the United States: Ties That Bind, Issues That Divide
al Qaeda: The Tenacious Adversary
Women and Leadership: Are We There Yet?
Health Care: Doing Better Than “Do No Harm”
California at the Leading Edge: Precipice or Opportunity?
Admiral Thad Allen (left), a senior fellow at RAND, engages participants at the opening night reception.

(Clockwise, from left) RAND trustee Bonnie Hill joined the board in 2010 and attended Politics Aside with her husband, Walter; RAND political scientist Seth Jones leads an engaging discussion on Afghanistan, where he spent much of 2010; Jonathan Alter, senior editor of Newsweek, in a panel discussion on education reform; RAND’s Lindsey Kozberg, vice president for external affairs, and Jim Thomson, president and CEO, address political polarization and its effect on public policy; RAND trustee and Politics Aside cochair Ann McLaughlin Korologos.

Politics Aside is a biennial event. The first Politics Aside was held following the 2008 presidential election.
RAND is grateful to the Politics Aside 2010 Event Committee and dinner hosts for their generous donations of time, talent, and support.

POLITICS ASIDE EVENT COMMITTEE

Cochairs
Ann McLaughlin
Korologos
Michael Lynton
Sharon and Sharyar Baradaran *
Sheri and Les Biller *
Brad D. Brian
Skip Brittenham and Heather Thomas
Marcia and Frank Carlucci
Janet Crown and Steve Robinson *
Arnie and Judy Fishman *
Arthur N. Greenberg *
Jay Greer
Mary Ann and Kip Hagopian *
Ellis Jones
Pat Kandel
Marilyn and Jeffrey Katzenberg
Gregory Keever *
Betsy and Bud Knapp *
Ann McLaughlin Korologos and Tom Korologos
Joanne and Roger Kozberg
Janine and Peter Lowy
Lili Lynton and Michael Ryan
Michael and Jamie Lynton
James and Cheryl Miller
Jane and Ron Olson
Paul M. Pohl
Lee and Lawrence J. Ramer
Antony P. Ressler
Richard and Alison Ressler *
Donald and Susan Rice *
Laura and Tom Rockwell *
Sharon and Jim Rohr
Maxine and Gene Rosenfeld *
Tom Rothman and Jessica Harper
Daniel I. Schlessinger
Anne and Robert Simonds *
Darlene and Jim Thomson
Andrea and John Van de Kamp

* dinner hosts

(Top right) Los Angeles City Council president Eric Garcetti moderates the opening night discussion; (above) John Van de Kamp, a member of the RAND Infrastructure, Safety, and Environment Advisory Board, with former White House Chief of Staff Joshua Bolten.

Brad Brian, chair of the RAND Institute for Civil Justice Board of Overseers, poses a question during a Q&A segment.
Conversations begun during daytime seminars and panel discussions continued over dinner in private homes in Bel Air, Beverly Hills, Brentwood, Century City, Holmby Hills, Malibu, and Westwood.
President’s Awards

President’s Awards recognize individuals whose work exemplifies RAND’s two core values of quality and objectivity and who have also recently 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 RAND’s research environment. Made possible by the generosity of donors, the awards provide staff with research time and support to pursue activities related to career development or exploratory research. 2010 award winners are

Kurt Card, legislative analyst, for his skill in helping RAND anticipate the information needs of members of Congress and key committee and personal staff and meeting those needs with research and expertise from RAND’s national security programs and centers.

Christine Eibner, economist, for her intellectual contributions to the development of the COMPARE initiative, a multidimensional analytical resource for evaluating health policy reforms; her effectiveness in using COMPARE’s analytical tools to evaluate specific reform proposals; and her ability to convey the findings to diverse external audiences.

Beau Kilmer, policy researcher, codirector of the RAND Drug Policy Research Center, and member of the Pardee RAND Graduate School (PRGS) faculty, for his creativity and initiative in conceiving, performing, and disseminating analyses of marijuana legalization in California, which shaped and informed the public debate.

Lara Schmidt, senior statistician, associate director of the Force Modernization and Employment Program in RAND Project AIR FORCE, and member of the PRGS faculty, for her innovative research on issues related to Air Force operations and space assets and her extensive efforts to build the nation’s capabilities in the field of defense statistics.

Michael Vazquez, Santa Monica facilities operations manager, for the technical knowledge, problem-solving ability, strategic thinking, and interpersonal skills that he has brought to ensuring the functional utility and resource efficiency of RAND’s Santa Monica office.

Michael Lostumbo, senior defense research analyst and associate director of the International Security and Defense Policy Center in the RAND National Security Research Division, for his growing body of research on Asian security issues and his outstanding management of research on long-range strike capabilities for the Office of the Secretary of Defense.

Jeffrey Wasserman, senior policy researcher, coleader of the COMPARE initiative, and assistant dean for academic programs at PRGS, for his extensive analytical contributions to the U.S. National Health Security Strategy, the intellectual leadership he has provided to RAND’s public health research agenda, and his effectiveness in his many roles at PRGS.

Henry Willis, senior policy researcher, associate director of the Homeland Security and Defense Center (part of the RAND National Security Research Division and RAND Infrastructure, Safety, and Environment), and member of the PRGS faculty, for his creative research on risk analysis and management in many public policy domains, his growing international reputation, and his extensive mentoring of PRGS fellows.
Investing in People and Ideas

RAND’s Investment in People and Ideas program combines philanthropic funds from individuals, foundations, and private-sector firms with earnings from RAND’s endowment and operations to support research on issues that reach beyond the scope of traditional client sponsorship.

RAND gratefully acknowledges gifts made by the following donors during calendar year 2010. These donors are members of the RAND Policy Circle and receive opportunities throughout the year to engage with RAND’s leading experts on timely policy issues—through private events, conference calls, and other activities.

$500,000 +
The Global Markets Institute at Goldman Sachs
Johnson & Johnson
Anne and James F. Rothenberg

$100,000–$499,999
Anonymous
Allstate Foundation
Allstate Insurance Company
Chartis Insurance
ExxonMobil Corporation
GlaxoSmithKline
The Martin Foundation
Pfizer, Inc
The PNC Foundation
Maxine and Eugene S. Rosenfeld State Farm Insurance

$50,000–$99,999
American Association for Justice
Amgen
Annenberg Foundation
The Harold and Colene Brown Family Foundation
John M. Cazier
The Chubb Corporation
Mary Kay and James D. Farley
 Farmers Insurance Group/Zurich U.S.

$25,000–$49,999
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC
Marcia and Frank C. Carlucci
Chey Tae-won
Coalition for Litigation Justice, Inc.
COPIC Medical Foundation Company
Michael Critelli
The Crown Family
The Doctors Company
Jacques E. and Carine Dubois
Thomas Epley and Linnae Anderson
Fannie Mae
Michael W. Ferro, Jr.
Judy and Arnie Fishman
The Funari Family Foundation
A. Frederick Gerstell
Greater Kansas City Community Foundation & Affiliated Trusts
Gerald Greenwald
Ellen Hancock
Ann and Steve Hinchliffe
Benny T. Hu
Suzanne Nora Johnson
Juridica Investments Ltd.
Spencer H. Kim
Joseph and Miri Konowiecki
Ann and Tom Korologos
Kraft Foods, Inc.
Steven Lazarus
William R. Loomis, Jr.
James B. Lovelace
Dana G. Mead
Santiago Morales
Peter Norton
Occidental Petroleum Corporation
Ralph M. Parsons Foundation
Paul M. Pohl

$10,000–$24,999
Anonymous
Robert J. Abernethy
Academic Exchange
S. Ward Atterbury
Ambassador and Mrs. Frank E. Baxter

Enzo Viscusi, ENI
The Walt Disney Company
David I. J. Wang
Roberta Weintraub and Ira Krisinsky
Suzanne and Bob Wright
Zenith Insurance Company

William J. Recker
Paul N. Roth, Shulte Roth & Zabel LLP
John J. Rydzewski
Leonard D. Schaeffer
Hasan Shirazi
Victoria and Ronald Simms, The Simms/Mann Family Foundation
Lucille Ellis Simon Foundation
David Singer
Douglas J. Smith
Joseph P. and Carol Z. Sullivan
Swiss Reinsurance Company
Suzanne S. and Michael E. Tennenbaum

$5,000–$9,999
The Hauser Foundation
Hewlett-Packard Company
Susan and Tod Hullin
JL Foundation
Karen L. Katen
Bud and Betsy Knapp
Maiden Re
Bonnie McEIlveen-Hunter
Merck & Co., Inc.
Michael G. Mills
Munich Re
Paul H. and Nancy J. O’Neill
PNC Financial Services
Donald B. and Susan F. Rice
James E. and Sharon C. Rohr
The SahandDaywi Foundation
Sony Pictures Entertainment
Wal-Mart Stores, Inc.
Theresa and Charles Wolf, Jr.
Lawrence Zicklin

$2,500–$4,999
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$1,000–$2,499
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$500–$999
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$250–$499
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$100–$249
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$50–$99
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$25–$49
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$10–$24
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$5–$9
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$1–$4
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
Neal Baer
Daniel M. Bradbury
Brad D. Brian
Reza Bundy
Burford Group LLC

$0.50–$1
Ahmanson Foundation
Alcoa Inc.
Richard A. Abdoo
Ahnanson Foundation
Alcoa Inc.
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- Her Highness Sheikha Mozah Bint Nasser Al Missned (Cochair Emeritus)
  Chairperson, Qatar Foundation
- Odeh F. Aburdene
  President, OAI Advisors
- His Excellency Dr. Hamad Abdulaziz Al-Kawari
  Minister of Culture, Arts, and Heritage, State of Qatar
- Sheikh Hamad Bin Faisal Bin Thani Al-Thani
  Chairman, Al Khalij Commercial Bank
- Karen Elliott House
  Former Publisher, The Wall Street Journal; Former Senior Vice President, Dow Jones and Company, Inc.
- Rashid Al Naimi
  Former Publisher for Administration, Qatar Foundation
- Bruce Nardulli
  Director, RAND-Qatar Policy Institute

**EX OFFICIO**

**INDEPENDENT MEMBER**

**Vacant**

**AS OF DECEMBER 2010**
Clients and Grantors

U.S. Government
- Administrative Office of the U.S. Courts
- Department of Agriculture
  - U.S. Forest Service
- Department of Commerce
  - National Institute of Standards and Technology
- National Oceanic and Atmospheric Administration
- Department of Defense
  - Defense Logistics Agency
  - Department of the Air Force
- Department of the Army
  - Medical Research Acquisition Activity
- Department of the Navy
  - Marine Corps
- Joint Staff
- National Defense University
- Office of the Secretary of Defense
  - Assistant Secretary of Defense for Networks and Information Integration
- Deputy Secretary of Defense
  - Office of the Director, Cost Assessment and Program Evaluation
- Under Secretary of Defense for Acquisition, Technology, and Logistics
- Defense Advanced Research Projects Agency
- Under Secretary of Defense for Personnel and Readiness
- Under Secretary of Defense for Policy
- Unified Combatant Commands
- Department of Education
  - Institute of Education Sciences
- Department of Energy
  - National Renewable Energy Laboratory
- Department of Health and Human Services
  - Administration for Children and Families
  - Office of Planning, Research, and Evaluation
- 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
  - Eunice Kennedy Shriver National Institute of Child Health and Human Development
- National Cancer Institute
- National Heart, Lung, and Blood Institute
- National Institute on Aging
- National Institute on Alcohol Abuse and Alcoholism
- National Institute of Allergy and Infectious Diseases
- National Institute of Diabetes and Digestive and Kidney Diseases
- National Institute on Drug Abuse
- National Institute of Environmental Health Sciences
- National Institute of Mental Health
- National Institute on Minority Health and Health Disparities
- National Institute of Nursing Research
- Office of the National Coordinator for Health Information Technology
- Department of Homeland Security
  - U.S. Coast Guard
- Department of Justice
  - Federal Bureau of Investigation
- National Institute of Justice
  - Office of Justice Programs
- Department of Labor
- Department of the Treasury
- Department of Veterans Affairs
  - Sepulveda VA Medical Center
- Environmental Protection Agency
- Federal Communications Commission
- Federal Reserve Bank of Boston
- Federal Reserve Bank of New York
- Intelligence Community
- Medicare Payment Advisory Commission
- National Aeronautics and Space Administration
- National Science Foundation
- Social Security Administration
- U.S.–China Economic and Security Review Commission

Non-U.S. Governments, Agencies, and Ministries
- Commonwealth of Australia
  - Transport Data Centre
- European Agency for Safety and Health at Work
- European Commission
  - Directorate-General for Health & Consumers
  - Directorate-General for Information Society and Media
  - Directorate-General for Justice, Freedom, and Security
  - Directorate-General for Research & Innovation
- France
  - Agence Française de Développement
- Instituto de Nutrición de Centro América y Panamá (INCAP)
- Iraq
- Kurdistan Regional Government
- Israel
  - Israel Ministry of Foreign Affairs
- Republic of Singapore
  - Institute of Mental Health
- Ministry of Defence
- State of Qatar
  - Qatar National Food Security Programme
  - Supreme Council for Family Affairs
  - Supreme Council of Health
  - Supreme Education Council
- United Arab Emirates
  - Court of the Crown Prince, Abu Dhabi
  - Environment Agency–Abu Dhabi
- Health Authority of Abu Dhabi
- United Kingdom
  - Department of Health
  - Department for Transport

Government Office for Science
- Home Office
- Local Better Regulation Office
- Ministry of Defence
- Ministry of Justice

International Organizations
- World Bank

U.S. State and Local Governments
- State of California
  - California Earthquake Authority
  - California Energy Commission
  - Commission on Health and Safety and Workers’ Compensation
  - Department of Corrections and Rehabilitation
  - Department of Water Resources
  - Metropolitan Water District of Southern California
- California Municipal Agencies
  - Los Angeles County
  - Los Angeles County Probation Department
- City of Cincinnati
- Commonwealth of Massachusetts
- Commonwealth of Pennsylvania
- Pittsburgh Public Schools
  - The Pittsburgh Promise
- District of Columbia
  - Department of Mental Health
- State of Hawaii
  - The Research Corporation of the University of Hawaii
- State of Louisiana
  - Department of Natural Resources
  - Office of Coastal Protection and Restoration
- New York City
  - Department of Education

Colleges and Universities
- Boston University
- Carnegie Mellon University
- Columbia University
- Medical Center
Dartmouth College
The George Washington University Medical Center
Georgetown University
Harvard University
Infectious Diseases Institute–Makerere University
The Johns Hopkins University
National University of Singapore
Qatar University
Temple University
Tilburg University, CentERdata
Tulane University
University of Arizona
University of Arizona, Tuscon
University of Arkansas
University of California
University of California, Berkeley
University of California, Los Angeles
University of California, San Diego
University of Cambridge
University of Florida
The University of Georgia
University of Michigan
University of North Carolina, Chapel Hill
University of North Texas
University of Pennsylvania
University of Pittsburgh
University of Rochester
University of Southern California
University of Texas at Dallas
Vanderbilt University

Foundations
Aetna Foundation
The Lance Armstrong Foundation
Buffett Early Childhood Fund
The California Endowment
California HealthCare Foundation
Carnegie Corporation of New York
The Commonwealth Fund
Communities Foundation of Texas
The Ford Foundation
Bill and Melinda Gates Foundation
Graham Boeckh Foundation
The John A. Hartford Foundation
The Health Foundation
The William and Flora Hewlett Foundation
Humanity United
Japan Foundation
The Robert Wood Johnson Foundation
Dirk and Charlene Kabcenell Foundation
Ewing Marion Kauffman Foundation
Lila Wallace–Reader's Digest Fund
MacArthur Foundation
New York City Police Foundation
New York State Health Foundation
The David and Lucile Packard Foundation
The Pew Charitable Trusts
Qatar Foundation
Quantum Foundation
The Rockefeller Foundation
Rosenberg Foundation
Sandler Foundation
The Stanton Foundation
United Health Foundation
Wallace Foundation
Welcome Trust

Industry
Ameren, Inc.
Aspen Environmental Group
Brown and Caldwell
Cambridge Systematics, Inc.
Camp, Dresser and McKee
CIGNA Healthcare
Ethicon Endo-Surgery Inc.
GlaxoSmithKline
Guardians of Honor, LLC
Health Services Advisory Group
ICF International
IMPAQ International
James Bell Associates
Joint Commission International
KRA Corporation
Mathematica Policy Research
MWH Americas
Optimer Pharmaceuticals
NeuroComp Systems, Inc.
Ortho-McNeil Janssen Scientific Affairs, LLC
Philips International B.V.
Pfizer Inc
PowerTrain
Resource Systems Group, Inc.
Risk Management Solutions
RSI Inc.
STERIS Corporation
UnitedHealthcare Services Inc.
Vanguard Health Systems

Professional Associations
American Medical Association
Kidney Disease Program of Glendale
Mehlman Vogel Castagnetti Inc.
The Real Estate Roundtable

Other Nonprofit Organizations
Altarum Institute
American Council on Education
American Red Cross
Arkansas Tobacco Settlement Commission
Association of Public Health Laboratories
Beaver Valley Intermediate Unit
Blue Cross and Blue Shield Association
Brookings Institution
Children's Hospital Boston
Children's National Medical Center
Community Care Behavioral Health Organization
Consumer Healthcare Products Association
Council for Aid to Education
Dana-Farber Cancer Institute
ECRI Institute
Educational Testing Service
Eisenhower Medical Center
Filene Research Institute
Foundation for Informed Medical Decision Making
The Fund for Public Schools
HelpMeSee Inc.
Institute for Healthcare Improvement
Integrated Healthcare Associates
Jet Propulsion Laboratory
Los Alamos National Laboratory
Massachusetts General Hospital
Merck Childhood Asthma Network, Inc.
Missouri Foundation for Health
The MITRE Corporation
National Academy of Sciences
National Bureau of Economic Research
National Military Family Association
National Quality Forum
New England Medical Center Hospitals
New Leaders for New Schools
Pacific Business Group on Health
Plastic Surgery Educational Foundation
Primary Care Coalition of Montgomery County
Public Health Foundation Enterprises
Public Policy Institute of California
Samueli Institute
Seattle Children's Research Institute
SRI International
Stockholm Environment Institute
UPMC for You
Financial Report

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 26, 2010, 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 27, 2009 consolidated financial statements, and in our report dated January 29, 2010, 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.

January 27, 2011

PricewaterhouseCoopers LLP, 350 South Grand Avenue, Los Angeles, CA 90071
T: (213) 396 6000, F: (813) 937 4444, www.pwc.com/us
### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

with summarized financial information for the year ended September 27, 2009

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 32,063</td>
<td>$ 29,501</td>
</tr>
<tr>
<td>Receivables, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed and unbilled costs and fees</td>
<td>45,260</td>
<td>41,200</td>
</tr>
<tr>
<td>Other receivables</td>
<td>3,018</td>
<td>3,153</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>4,417</td>
<td>3,953</td>
</tr>
<tr>
<td>Total current assets</td>
<td>84,758</td>
<td>77,807</td>
</tr>
<tr>
<td>Property and equipment</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>109,755</td>
<td>108,702</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>15,521</td>
<td>15,279</td>
</tr>
<tr>
<td>Equipment</td>
<td>54,949</td>
<td>51,600</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>4,189</td>
<td>3,249</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>(63,069)</td>
<td>(54,776)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>122,679</td>
<td>125,388</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>184,910</td>
<td>174,516</td>
</tr>
<tr>
<td>Building project fund investments</td>
<td>—</td>
<td>1,114</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,355</td>
<td>5,382</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 395,702</td>
<td>$ 384,207</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND NET ASSETS** |                    |                    |
| Current liabilities           |                    |                    |
| Accounts payable and other liabilities | $ 18,418          | $ 17,682          |
| Unexpended portion of grants and contracts received | 12,540          | 12,192          |
| Accrued compensation and vacation | 16,378             | 15,833             |
| Current portion of long-term debt | 1,930              | 1,845              |
| Total current liabilities     | 49,266             | 47,552             |
| Deferred rent                 | 9,109              | 10,509             |
| Accrued postretirement benefit liability | 17,031          | 16,211          |
| Other long-term liabilities   | 19,091             | 14,256             |
| Long-term debt, less current portion | 122,805         | 124,735         |
| Total liabilities             | 217,302            | 213,263            |

| Net assets                    |                    |                    |
| Unrestricted                  |                    |                    |
| Operations                    | —                  | —                  |
| Designated for investment     | 112,030            | 104,901            |
| Designated for special use    | 3,694              | 3,486              |
| Total unrestricted            | 115,724            | 108,387            |
| Temporarily restricted        | 19,505             | 18,873             |
| Permanently restricted        | 43,171             | 43,684             |
| Total net assets              | 178,400            | 170,944            |
| Total liabilities and net assets | $ 395,702          | $ 384,207          |

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

with summarized financial information for the year ended September 27, 2009
(in thousands)

<table>
<thead>
<tr>
<th>operations</th>
<th>designated</th>
<th>total harvested</th>
<th>temporarily harvested</th>
<th>permanently harvested</th>
<th>total</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>for the years ended September 26, 2010</td>
<td>September 27, 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REVENUE, GAINS, AND OTHER SUPPORT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>contracts and grants</td>
<td>$246,531</td>
<td>$246,531</td>
<td>$246,531</td>
<td></td>
<td>$246,531</td>
<td>$230,622</td>
</tr>
<tr>
<td>fees</td>
<td>10,335</td>
<td>10,335</td>
<td>10,335</td>
<td></td>
<td>10,335</td>
<td>10,159</td>
</tr>
<tr>
<td>investment income, net</td>
<td></td>
<td>2,260</td>
<td>2,260</td>
<td>1,030</td>
<td>1,030</td>
<td>3,290</td>
</tr>
<tr>
<td>net realized gains on investments</td>
<td></td>
<td>898</td>
<td>898</td>
<td>159</td>
<td>1,057</td>
<td>2,445</td>
</tr>
<tr>
<td>net unrealized gains (losses) on investments</td>
<td></td>
<td>9,620</td>
<td>9,620</td>
<td>3,844</td>
<td>3,844</td>
<td>13,464</td>
</tr>
<tr>
<td>contributions</td>
<td>5,703</td>
<td>5,703</td>
<td>5,703</td>
<td>2,282</td>
<td>2,282</td>
<td>8,243</td>
</tr>
<tr>
<td>transfer of designated net assets to operations (note 2)</td>
<td>6,089</td>
<td>(6,089)</td>
<td>(6,089)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net assets released from restrictions</td>
<td>5,485</td>
<td>5,485</td>
<td>5,485</td>
<td>(5,485)</td>
<td>(5,485)</td>
<td></td>
</tr>
<tr>
<td>total revenues, gains, and other support</td>
<td>274,143</td>
<td>6,689</td>
<td>280,832</td>
<td>1,830</td>
<td>258</td>
<td>282,920</td>
</tr>
<tr>
<td>EXPENSES AND LOSSES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>research</td>
<td>202,748</td>
<td>202,748</td>
<td>202,748</td>
<td></td>
<td></td>
<td>202,748</td>
</tr>
<tr>
<td>management and general</td>
<td>66,719</td>
<td>66,719</td>
<td>66,719</td>
<td>771</td>
<td>771</td>
<td>67,490</td>
</tr>
<tr>
<td>total expenses</td>
<td>269,467</td>
<td>6,666</td>
<td>269,467</td>
<td>1,830</td>
<td>258</td>
<td>270,238</td>
</tr>
<tr>
<td>change in net assets before other items</td>
<td>4,676</td>
<td>6,689</td>
<td>11,365</td>
<td>1,830</td>
<td>(513)</td>
<td>12,682</td>
</tr>
<tr>
<td>other items:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>change in fair value of derivative instruments</td>
<td>(4,866)</td>
<td>(4,866)</td>
<td>(4,866)</td>
<td></td>
<td></td>
<td>(4,866)</td>
</tr>
<tr>
<td>adjustment to accrued postretirement benefit liability (other than net periodic postretirement benefit cost) (note 7)</td>
<td>(360)</td>
<td>(360)</td>
<td>(360)</td>
<td></td>
<td></td>
<td>(360)</td>
</tr>
<tr>
<td>net asset transfers (note 2)</td>
<td>550</td>
<td>648</td>
<td>1,198</td>
<td>(1,198)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>change in net assets</td>
<td></td>
<td>7,337</td>
<td>7,337</td>
<td>632</td>
<td>(513)</td>
<td>7,456</td>
</tr>
<tr>
<td>net assets at end of year</td>
<td>$</td>
<td>$115,724</td>
<td>$115,724</td>
<td>$19,505</td>
<td>$43,171</td>
<td>$178,400</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 27, 2009  
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended September 26, 2010</th>
<th>For the Year Ended September 27, 2009</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>$ 7,456</td>
<td>$(15,599)</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>8,628</td>
<td>8,548</td>
</tr>
<tr>
<td>Net realized/unrealized (gains) losses</td>
<td>(14,521)</td>
<td>3,147</td>
</tr>
<tr>
<td>Permanently restricted contribution revenue</td>
<td>(258)</td>
<td>(1,376)</td>
</tr>
<tr>
<td>Change in fair value of derivative instruments</td>
<td>4,866</td>
<td>6,186</td>
</tr>
<tr>
<td>Foreign exchange loss (gain)</td>
<td>84</td>
<td>(4)</td>
</tr>
<tr>
<td>Loss on disposition of property and equipment</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in billed and unbilled costs and fees</td>
<td>(4,060)</td>
<td>(128)</td>
</tr>
<tr>
<td>Decrease in other receivables</td>
<td>141</td>
<td>157</td>
</tr>
<tr>
<td>(Increase) decrease in prepaid and other current assets</td>
<td>(464)</td>
<td>11</td>
</tr>
<tr>
<td>Decrease in other long-term assets</td>
<td>1,987</td>
<td>543</td>
</tr>
<tr>
<td>Increase in accounts payable and other liabilities</td>
<td>705</td>
<td>102</td>
</tr>
<tr>
<td>Increase (decrease) in unexpended portion of grants and contracts received</td>
<td>348</td>
<td>(2,314)</td>
</tr>
<tr>
<td>Increase in accrued compensation and vacation</td>
<td>545</td>
<td>808</td>
</tr>
<tr>
<td>Decrease in deferred rent</td>
<td>(1,400)</td>
<td>(1,556)</td>
</tr>
<tr>
<td>Increase in postretirement benefit liability</td>
<td>820</td>
<td>4,075</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>4,881</td>
<td>2,600</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(24,964)</td>
<td>(54,048)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>30,204</td>
<td>60,128</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(5,881)</td>
<td>(5,421)</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(641)</td>
<td>659</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(1,845)</td>
<td>(1,560)</td>
</tr>
<tr>
<td>Permanently restricted contributions received in cash</td>
<td>258</td>
<td>691</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(1,587)</td>
<td>(869)</td>
</tr>
<tr>
<td>Effect of currency exchange rate changes on cash</td>
<td>(91)</td>
<td>19</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>2,562</td>
<td>2,409</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>29,501</td>
<td>27,092</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$32,063</td>
<td>$29,501</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
NOTES TO 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 is based on a 52- or 53-week year ending on the Sunday closest to September 30. Fiscal years 2010 and 2009 were based on a 52-week period.

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.

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.
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.

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 27, 2009, 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. Revenues from contracts and grants, including fees, are recognized as the related services are performed in accordance with the terms of the contract or grant. Such revenues are reported as increases to unrestricted net assets from operations.

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 spent within the same fiscal year are reported as increases to unrestricted net assets from operations.

Board-approved transfers from the unrestricted portion of RAND’s Long-Term Investment Fund (the LTIF) to be used for operations are reported as decreases to board-designated unrestricted net assets and increases to unrestricted net assets from operations.

Board-approved transfers from the restricted portion of the LTIF to be used for operations plus contributions received in prior years and spent in the current year are reported as decreases to temporarily restricted net assets and increases to unrestricted net assets from operations.

Expenses (research expenses as well as management and general expenses) are generally reported as decreases in unrestricted net assets from operations.

Change in Net Assets from Operations (Before Other Items). Change in net assets from operations (before other items) for fiscal year 2010 was $4,676,000. This represents revenue less expenses from operations (as described above) and is comprised of the following: revenue from contracts and grants (including fees), plus contributions spent in the current fiscal year, plus all board-approved transfers for operations, less all research and management and general expenses.

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 83 percent and 80 percent of its research revenues in fiscal years 2010 and 2009, respectively, from contracts, grants, and fees with agencies of the federal government.

Cash and Cash Equivalents. RAND considers all highly liquid financial instruments purchased with an original maturity of three months or less, and 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 buildings 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 $9,245,000 and $8,649,000 of computer systems and software as of September 26, 2010, and September 27, 2009, 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 26, 2010, and September 27, 2009, approximately $24,393,000 and $19,789,000, respectively, of fully depreciated assets were in use.

Investments. All investments of permanently restricted net assets, board-designated unrestricted net assets, and certain temporarily restricted net assets are pooled in the LTIF. Income on the LTIF is allocated to individual funds based on the average balance for each fund.

The percentage of board-designated funds distributed for unrestricted use was approximately 4.5 and 5.0 percent in fiscal years 2010 and 2009 based on the average of the trailing 12-quarter market values of the funds. The total net distribution was $6,089,000 and $7,180,000 for fiscal years 2010 and 2009, respectively.

Gains and losses on investments and investment income are reported as increases or decreases in unrestricted net assets and temporarily restricted net assets, unless otherwise stipulated by the donor.

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 U.S. 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 $3,060,000 in fiscal year 2010 and $3,299,000 in fiscal year 2009.

Net Asset Transfers. Noncash transfers from unrestricted net assets designated for investment to unrestricted net assets from operations totaling $550,000 and $4,014,000 were required during fiscal years 2010 and 2009, respectively, due primarily to the change in fair value of derivative instruments (see Note 8) and the adjustment to accrued postretirement benefit liability (see Note 7).

An additional noncash transfer of $2,096,000 from unrestricted net assets designated for investment to temporarily restricted net assets was recorded during fiscal year 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. Current and prior year noncash net asset transfers are reversed as unrestricted net assets from operations become available and as the market value of the investments recovers. During fiscal years 2010 and 2009, $1,198,000 and $182,000 of temporarily restricted net assets were transferred back to unrestricted net assets designated for investment due to market value recovery of the investments.

Reclassifications. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These include a reclassification of fee revenue to contracts and grants revenue. These reclassifications had no effect on net assets.

Subsequent Events. Subsequent events have been evaluated through January 27, 2011, the date the financial statements were issued.

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 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>$ 11,363</td>
<td>$ 13,894</td>
</tr>
<tr>
<td>Unbilled</td>
<td>20,598</td>
<td>13,296</td>
</tr>
<tr>
<td></td>
<td>31,961</td>
<td>27,190</td>
</tr>
<tr>
<td>State, local, and private sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>7,259</td>
<td>6,874</td>
</tr>
<tr>
<td>Unbilled</td>
<td>6,292</td>
<td>7,388</td>
</tr>
<tr>
<td></td>
<td>13,551</td>
<td>14,262</td>
</tr>
<tr>
<td>Allowance for bad debt</td>
<td>(252)</td>
<td>(252)</td>
</tr>
<tr>
<td></td>
<td>$ 45,260</td>
<td>$ 41,200</td>
</tr>
</tbody>
</table>

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Unbilled amounts principally represent recoverable costs and accrued fees billed in the first quarter of fiscal year 2011 and fiscal year 2010, 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 $2,644,000 and $4,691,000 at September 26, 2010, and September 27, 2009, respectively. The receivables are recorded net of the discount for future cash flows, and allowance for bad debt using the credit-adjusted 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. 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 the receivables 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 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>$ 2,587</td>
<td>$ 2,832</td>
</tr>
<tr>
<td>Between one year and five years</td>
<td>248</td>
<td>2,180</td>
</tr>
<tr>
<td>Less discount</td>
<td>(16)</td>
<td>(146)</td>
</tr>
<tr>
<td>Allowance for bad debt</td>
<td>(175)</td>
<td>(175)</td>
</tr>
<tr>
<td></td>
<td>$ 2,644</td>
<td>$ 4,691</td>
</tr>
</tbody>
</table>

As more fully described in Note 11, contributions receivable are primarily intended for the following uses (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted</td>
<td>$ 2,525</td>
<td>$ 3,767</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>119</td>
<td>924</td>
</tr>
<tr>
<td></td>
<td>$ 2,644</td>
<td>$ 4,691</td>
</tr>
</tbody>
</table>

During the fiscal year ended September 26, 2010, RAND received payments of prior year pledges in the amount of $1,307,000.

Donors have made conditional promises to give of $2,700,000 and $2,933,000 as of September 26, 2010, and September 27, 2009, 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 cash in bank and money market funds and are carried at 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 32 percent of the long-term investments consist of foreign investment holdings.

As of September 26, 2010, RAND had commitments outstanding to purchase alternative investments of $15,839,000; of these commitments, approximately $4,400,000 is due within one year.

Investment income is shown net of related expenses of $358,000 and $321,000, for the fiscal years ended September 26, 2010, and September 27, 2009, respectively.

Long-term investments consist of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 2,193</td>
<td>$ 2,648</td>
</tr>
<tr>
<td>Shares of fixed income funds, at fair value (cost, 2010—$56,759, and 2009—$60,946)</td>
<td>59,957</td>
<td>61,102</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value (cost, 2010—$69,749, and 2009—$68,162)</td>
<td>73,493</td>
<td>65,351</td>
</tr>
<tr>
<td></td>
<td>$ 184,910</td>
<td>$ 174,516</td>
</tr>
</tbody>
</table>
6. Fair Value Measurements:

The authoritative accounting guidance for fair value measurement clarifies the definition of fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands the required disclosures about the use of fair value measurements.

Under the guidance, fair value is defined as the price that would be received to sell an asset (or paid to transfer a liability), or the “exit price.” The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into levels:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other inputs that are observable or whose significant value drivers are observable.

Level 3 – Significant inputs are supported by little or no market activity and are thus unobservable.

As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. RAND's assessment of the significance of particular inputs to the fair value measurement requires judgment and may affect the selection of the hierarchy level and the valuation itself. RAND’s own creditworthiness has been considered in the fair value measurements contained herein.

Long-Term Investments – RAND's portfolio of long-term investments consists of cash/money market funds, fixed income funds, equity funds, and alternative investments. Quoted market prices are used to determine fair value for fixed income funds and equity funds when available. All such funds are considered Level 1. Certain equity funds are not actively traded but the underlying investments have inputs that are observable. Such funds are considered Level 2. Alternative investments include RAND's share of private equity funds and limited partnership arrangements, which are not actively traded. Identical or similar instruments are difficult to identify as underlying investment components may not be publicly available. Some of these investments have restrictions that limit RAND’s ability to withdraw funds as specified in the arrangements. Fair value measurement for alternative investments considers all available information for each investment fund, including its annual audited financial statements, known activity subsequent to its financial statement date, and valuation information from the fund manager. All alternative investments are considered Level 3.

Derivative Financial Instruments – RAND uses two interest rate swaps to fix the interest rate on its 2008A and 2008B variable rate bonds. Dealer quotes, based on cash flow models discounted at relevant market interest rates, are used to determine the fair value of the swaps, both of which are considered Level 2.

RAND’s assets and liabilities measured and reported in the financial statements at fair value on a recurring basis as of September 26, 2010, were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Balance as of September 26, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash/Money Market Funds</td>
<td>$2,193</td>
<td>($</td>
<td>($</td>
<td>$2,193</td>
</tr>
<tr>
<td>Equity and Fixed Income Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Funds – U.S.</td>
<td>13,424</td>
<td>22,771</td>
<td>$</td>
<td>36,195</td>
</tr>
<tr>
<td>Equity Funds – Non-U.S.</td>
<td>16,584</td>
<td>15,873</td>
<td>$</td>
<td>32,457</td>
</tr>
<tr>
<td>Equity Fund – Global</td>
<td>4,841</td>
<td></td>
<td></td>
<td>4,841</td>
</tr>
<tr>
<td>Fixed Income Funds – U.S.</td>
<td>24,893</td>
<td></td>
<td></td>
<td>24,893</td>
</tr>
<tr>
<td>Fixed Income Funds – Intermediate Term</td>
<td>18,310</td>
<td>$</td>
<td></td>
<td>18,310</td>
</tr>
<tr>
<td>Fixed Income Funds – Multisector</td>
<td>10,168</td>
<td>$</td>
<td></td>
<td>10,168</td>
</tr>
<tr>
<td>Fixed Income Funds – Global</td>
<td>6,586</td>
<td></td>
<td></td>
<td>6,586</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td></td>
<td></td>
<td>5,615</td>
<td>5,615</td>
</tr>
<tr>
<td>Real Assets</td>
<td></td>
<td></td>
<td>1,890</td>
<td>1,890</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td></td>
<td>34,199</td>
<td>34,199</td>
<td></td>
</tr>
<tr>
<td>Distressed Assets</td>
<td></td>
<td>2,632</td>
<td>2,632</td>
<td></td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td></td>
<td>4,931</td>
<td>4,931</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$96,999</td>
<td>$38,644</td>
<td>$49,267</td>
<td>$184,910</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>$</td>
<td>$19,091</td>
<td>$</td>
<td>$19,091</td>
</tr>
</tbody>
</table>
Changes in Level 3 assets measured at fair value on a recurring basis for the fiscal year ended September 26, 2010, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Beginning Balance</th>
<th>Realized and Unrealized Gains (Losses)</th>
<th>Purchases and Sales</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity</td>
<td>3,984</td>
<td>182</td>
<td>1,449</td>
<td>5,615</td>
</tr>
<tr>
<td>Real Assets</td>
<td>795</td>
<td>(145)</td>
<td>1,240</td>
<td>1,890</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>34,092</td>
<td>3,241</td>
<td>(3,134)</td>
<td>34,199</td>
</tr>
<tr>
<td>Distressed Assets</td>
<td>2,111</td>
<td>521</td>
<td>—</td>
<td>2,632</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>4,433</td>
<td>498</td>
<td>—</td>
<td>4,931</td>
</tr>
<tr>
<td>Total</td>
<td>45,415</td>
<td>4,297</td>
<td>(445)</td>
<td>49,267</td>
</tr>
</tbody>
</table>

RAND uses the Net Asset Value (NAV) or its equivalent to determine the fair value of all the underlying investments that (i) do not have a readily determinable fair value and (ii) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company (Levels 2 and 3, as previously discussed). The following table lists these investments by major category (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Strategy</th>
<th>NAV</th>
<th>Remaining Life</th>
<th>Unfunded Investment Commitments</th>
<th>Timing to Draw Down Commitments</th>
<th>Terms and Conditions to Redeem Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity</td>
<td>Venture, buyout and special situations, in U.S. and International</td>
<td>5,615</td>
<td>1 to 10 years</td>
<td>9,049</td>
<td>1 to 9 years</td>
<td>Interest in the fund can be sold only with the consent of the fund manager.</td>
</tr>
<tr>
<td>Real Assets</td>
<td>Real estate and natural resources, in U.S. and International</td>
<td>1,890</td>
<td>12 to 13 years</td>
<td>6,790</td>
<td>4 to 7 years</td>
<td>Interest in the fund can be sold only with the consent of the fund manager.</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>Replicates the Russell 3,000 equity index</td>
<td>22,771</td>
<td>N/A</td>
<td>—</td>
<td>N/A</td>
<td>Daily redemption permitted</td>
</tr>
<tr>
<td>International Equity</td>
<td>Value- and growth-oriented non-U.S. equities</td>
<td>15,873</td>
<td>N/A</td>
<td>—</td>
<td>N/A</td>
<td>Monthly redemption permitted</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>Global multi-strategy funds that employ various and multiple techniques (e.g., fixed income arbitrage, structured credit, event-driven, distressed investments)</td>
<td>34,199</td>
<td>N/A</td>
<td>—</td>
<td>N/A</td>
<td>39%* have lock up provisions, 61%* have side pocket arrangements but liquid accounts can be redeemed quarterly to annually.</td>
</tr>
<tr>
<td>Distressed Assets</td>
<td>Corporate high-yield and distressed debt, mortgage-backed securities, capital structure arbitrage</td>
<td>2,632</td>
<td>N/A</td>
<td>—</td>
<td>N/A</td>
<td>After an initial one-year lock up period, redemptions from the liquid account are permitted each December 31 with 180 days advance notice.</td>
</tr>
<tr>
<td>Long-Short Equity</td>
<td>Global long-short equity hedge fund</td>
<td>4,931</td>
<td>N/A</td>
<td>—</td>
<td>N/A</td>
<td>Redemptions permitted after 5-year initial lock up with subsequent rolling 5 year lock up with 60 days advance notice. Redemptions outside lock up periods are allowed, subject to redemption fees and account adjustments.</td>
</tr>
</tbody>
</table>

$ 87,911 $ 15,839

*Reflects fair value of investments based on NAV.
7. 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.

RAND’s retiree medical program includes prescription drug coverage for retirees over age 65 that equals or exceeds the benefit provided by 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. RAND’s share of the obligations for future retiree medical benefits is reduced due to this subsidy from Medicare.

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 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$23,912</td>
<td>$19,088</td>
</tr>
<tr>
<td>Service cost</td>
<td>974</td>
<td>634</td>
</tr>
<tr>
<td>Increase due to passage of time</td>
<td>1,292</td>
<td>1,400</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>537</td>
<td>523</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>547</td>
<td>3,446</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,084)</td>
<td>(1,179)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>26,178</td>
<td>23,912</td>
</tr>
</tbody>
</table>

Change in plan assets

<table>
<thead>
<tr>
<th>Change in plan assets</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>7,701</td>
<td>6,952</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>697</td>
<td>231</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>1,296</td>
<td>1,174</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>537</td>
<td>523</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,084)</td>
<td>(1,179)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>9,147</td>
<td>7,701</td>
</tr>
<tr>
<td>Unfunded obligation</td>
<td>$17,031</td>
<td>$16,211</td>
</tr>
</tbody>
</table>

The following table provides the relevant weighted-average assumptions used:

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate used to determine benefit obligation</td>
<td>5.00%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Discount rate used to determine net periodic postretirement benefit cost</td>
<td>5.50%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Long-term rate of return on plan assets</td>
<td>7.50%</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

Assumed health care cost trend rates are as follows:

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care cost trend rate assumed for next year</td>
<td>8.50%</td>
<td>9.50%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2017</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 $445,000 the service cost and passage-of-time components of the fiscal year 2010 expense and increase by $4,003,000 the accumulated postretirement benefit obligation as of September 26, 2010. Decreasing the assumed health care cost trend rate by one percentage point
would decrease by $355,000 the service cost and passage-of-time components of the fiscal year 2010 expense and decrease by $3,299,000 the accumulated postretirement benefit obligation as of September 26, 2010.

The net periodic postretirement benefit cost for fiscal years ended September 26, 2010, and September 27, 2009, included the following components (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost-benefits attributed to service during the period</td>
<td>$974</td>
<td>$634</td>
</tr>
<tr>
<td>Increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time</td>
<td>1,292</td>
<td>1,400</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(585)</td>
<td>(561)</td>
</tr>
<tr>
<td>Recognition of prior service cost and net gain/loss on amortization</td>
<td>75</td>
<td>2</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>$1,756</td>
<td>$1,475</td>
</tr>
</tbody>
</table>

As required annually by the authoritative accounting guidance, 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 26, 2010, a net loss of $360,000. The corresponding adjustment for the period ended September 27, 2009, was a net loss of $3,774,000. Both adjustments were driven primarily by the change to the associated discount rates.

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>Gross Benefit Payments</th>
<th>Medicare Part D Subsidies</th>
<th>Net Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$912</td>
<td>$57</td>
</tr>
<tr>
<td>2012</td>
<td>1,009</td>
<td>70</td>
</tr>
<tr>
<td>2013</td>
<td>1,096</td>
<td>85</td>
</tr>
<tr>
<td>2014</td>
<td>1,202</td>
<td>98</td>
</tr>
<tr>
<td>2015</td>
<td>1,264</td>
<td>112</td>
</tr>
<tr>
<td>Next five years</td>
<td>7,926</td>
<td>774</td>
</tr>
</tbody>
</table>

Asset allocations of plan assets at September 26, 2010, and September 27, 2009, by asset category are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and short term</td>
<td>8.7%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value</td>
<td>31.0</td>
<td>32.2</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value</td>
<td>32.0</td>
<td>34.8</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>28.3</td>
<td>19.5</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>100.0%</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.

8. **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.

In 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 from April 1, 2009 to April 1, 2042.
Also in 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 from April 1, 2009 to April 1, 2042.

The Series 2008A and Series 2008B bonds contain various covenants including compliance with the following financial measures: maximum debt-to-capitalization ratio, and either a minimum debt service coverage ratio or a minimum liquidity level. RAND is in compliance with all covenants as of September 26, 2010.

The payment of principal and interest on both the Series 2008A and Series 2008B bonds is collateralized 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 $4,866,000 and $6,186,000, for fiscal years 2010 and 2009, respectively, recognized as the change in fair value of these derivative instruments.

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

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2008A</td>
<td>$34,575,000</td>
<td>$34,125,000</td>
</tr>
<tr>
<td>Average interest rate</td>
<td>0.23%</td>
<td>0.66%</td>
</tr>
<tr>
<td>Annual principal payments</td>
<td>$450,000 to $1,825,000, beginning April 1, 2009, and ending April 1, 2042</td>
<td></td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2008B</td>
<td>$93,565,000</td>
<td>$92,455,000</td>
</tr>
<tr>
<td>Average interest rate</td>
<td>0.20%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Annual principal payments</td>
<td>$1,110,000 to $4,866,002, beginning April 1, 2009, and ending April 1, 2042</td>
<td></td>
</tr>
<tr>
<td>Less current portion</td>
<td>(1,930)</td>
<td>(1,845)</td>
</tr>
<tr>
<td>Total</td>
<td>$122,805</td>
<td>$124,735</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>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>2014</td>
<td>2,215</td>
</tr>
<tr>
<td>2015</td>
<td>2,305</td>
</tr>
<tr>
<td>Thereafter</td>
<td>114,150</td>
</tr>
<tr>
<td>Total</td>
<td>$124,735</td>
</tr>
</tbody>
</table>

Accrued interest payable relating to the bonds was $255,000 and $256,000 as of September 26, 2010, and September 27, 2009, respectively. RAND’s total interest expense was $3,061,000 and $3,109,000 for the fiscal years ended September 26, 2010, and September 27, 2009, respectively. The fair value of RAND’s revenue bonds approximates par value as all of RAND’s revenue bonds are variable rate bonds.

**Line of Credit.** RAND has an uncollateralized line of credit in the principal amount of $18,000,000 at September 26, 2010, which expires in August 2012. 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 26, 2010, and September 27, 2009. 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 2010 or 2009.
9. Commitments and Contingencies:

Lease Commitments. Operating lease commitments, net of $8,369,000 representing subleases, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$7,840</td>
</tr>
<tr>
<td>2012</td>
<td>7,293</td>
</tr>
<tr>
<td>2013</td>
<td>7,286</td>
</tr>
<tr>
<td>2014</td>
<td>7,252</td>
</tr>
<tr>
<td>2015</td>
<td>5,187</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,265</td>
</tr>
<tr>
<td>Total</td>
<td>$36,123</td>
</tr>
</tbody>
</table>

Future minimum rentals are comprised of office 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 $8,168,000 and $7,967,000 for the fiscal years ended September 26, 2010, and September 27, 2009, 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 27, 2009, 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 27, 2009, 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 Statements of Activities or of Cash Flows.

10. Endowment:

RAND’s endowment consists of approximately 30 individual funds established for a variety of purposes. It has both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, RAND classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted—all investment earnings and temporarily restricted gifts—is classified as temporarily restricted until those amounts are appropriated for expenditure by RAND in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The following table summarizes the components of the endowment by net asset class as of September 26, 2010:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-restricted funds</td>
<td>$</td>
<td>$10,760</td>
<td>$43,074</td>
<td>$53,834</td>
</tr>
<tr>
<td>Board-designated funds</td>
<td>131,076</td>
<td>—</td>
<td>—</td>
<td>131,076</td>
</tr>
<tr>
<td>End of year</td>
<td>$131,076</td>
<td>$10,760</td>
<td>$43,074</td>
<td>$184,910</td>
</tr>
</tbody>
</table>
The following table summarizes the activity in the endowment during fiscal year 2010:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$122,682</td>
<td>$9,018</td>
<td>$42,816</td>
<td>$174,516</td>
</tr>
<tr>
<td>Investment return</td>
<td>12,816</td>
<td>5,268</td>
<td>—</td>
<td>18,084</td>
</tr>
<tr>
<td>Contributions</td>
<td>—</td>
<td>—</td>
<td>258</td>
<td>258</td>
</tr>
<tr>
<td>Appropriations</td>
<td>(5,620)</td>
<td>(2,328)</td>
<td>—</td>
<td>(7,948)</td>
</tr>
<tr>
<td>Other changes—net asset transfer</td>
<td>1,198</td>
<td>(1,198)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>End of year</td>
<td>$131,076</td>
<td>$10,760</td>
<td>$43,074</td>
<td>$184,910</td>
</tr>
</tbody>
</table>

**Investment and Spending Policies.** RAND’s investment and spending policies are in compliance with UPMIFA. In accordance with UPMIFA, RAND considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the mission of RAND, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, the investment policies of the organization, and RAND’s other resources.

Per RAND’s investment policy, endowment assets are invested in a manner that is intended to produce results that exceed the Employment Cost Index plus 5.5%. RAND relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). RAND targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Per RAND’s spending policy, a percentage of its endowment fund’s average fair value over the prior 12 quarters through June 30 is appropriated for distribution each year. In establishing this policy, RAND considered the long-term expected return on its endowment. Accordingly, over the long term, RAND expects the current spending policy to allow its endowment to grow at a rate equal to or in excess of inflation.

**Funds with Deficiencies.** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RAND to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $715,000 and $1,913,000 as of September 26, 2010, and September 27, 2009, respectively (see also Note 2, Net Asset Transfers). These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

**11. Net Assets:**

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

<table>
<thead>
<tr>
<th></th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated for investment</td>
<td>$112,030</td>
<td>$104,901</td>
</tr>
<tr>
<td>Designated for special use:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAND Education</td>
<td>3,462</td>
<td>3,235</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>232</td>
<td>251</td>
</tr>
<tr>
<td></td>
<td>3,694</td>
<td>3,486</td>
</tr>
<tr>
<td></td>
<td>$115,724</td>
<td>$108,387</td>
</tr>
</tbody>
</table>
Temporarily Restricted Net Assets. Temporarily restricted net assets (both within and outside of the endowment and including net asset transfers) are available for the following purposes (in thousands):

<table>
<thead>
<tr>
<th>Purpose</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Security Research and Training</td>
<td>$3,615</td>
<td>$3,181</td>
</tr>
<tr>
<td>Pardee RAND Graduate School</td>
<td>2,241</td>
<td>2,506</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>2,027</td>
<td>1,811</td>
</tr>
<tr>
<td>RAND General</td>
<td>1,554</td>
<td>1,071</td>
</tr>
<tr>
<td>President’s Fund</td>
<td>1,263</td>
<td>1,616</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>1,062</td>
<td>1,043</td>
</tr>
<tr>
<td>RAND Center for Middle East Public Policy</td>
<td>1,028</td>
<td>1,262</td>
</tr>
<tr>
<td>RAND Health</td>
<td>916</td>
<td>921</td>
</tr>
<tr>
<td>Other</td>
<td>5,799</td>
<td>5,462</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19,505</strong></td>
<td><strong>$18,873</strong></td>
</tr>
</tbody>
</table>

Permanently Restricted Net Assets. Permanently restricted assets (including pledges) 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>Purpose</th>
<th>September 26, 2010</th>
<th>September 27, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General support</td>
<td>$12,585</td>
<td>$12,585</td>
</tr>
<tr>
<td>Awards and scholarships</td>
<td>3,646</td>
<td>3,435</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>3,000</td>
</tr>
<tr>
<td>Samueli Institute Fund for Policy Studies in Integrative Medicine at RAND</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Paul O’Neill Alcoa Professorship in Policy Analysis</td>
<td>2,500</td>
<td>2,479</td>
</tr>
<tr>
<td>Research Position Endowment</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Korea Chair</td>
<td>300</td>
<td>1,045</td>
</tr>
<tr>
<td>Other</td>
<td>771</td>
<td>771</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,171</strong></td>
<td><strong>$43,684</strong></td>
</tr>
</tbody>
</table>

12. 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 $10,807,000 and $10,751,000 for the fiscal years ended September 26, 2010, and September 27, 2009, respectively. The SRAP and NDCP only require employee contributions and RAND does not contribute to these plans.
Multinational Challenges

Building a More Resilient Haitian State, Keith Crane, James Dobbins, Laurel E. Miller, Charles P. Ries, Christopher S. Chivvis, Marla C. Haims, Marco Overhaus, Heather L. Schwartz, and Elizabeth Wilke, RAND Corporation, 2010

Countering Insurgency in Pakistan, Seth G. Jones and C. Christine Fair, RAND Corporation, 2010

Afghanistan’s Local War: Building Local Defense Forces, Seth G. Jones and Arturo Munoz, RAND Corporation, 2010

Racing NATO: Testing the Limits of the Alliance in Afghanistan, Andrew R. Hoehn and Sarah Harting, RAND Corporation, 2010

Healthy Societies


Understanding the Public Health Implications of Prisoner Reentry in California: Phase I Report, Lois M. Davis, Nancy Nicosia, Adrian Overton, Lisa Miyashiro, Kathryn Pitkin Derose, Terry Fain, Susan Turner, Paul Steinberg, and Eugene Williams, RAND Corporation, 2009

Forces and Resources


The Air Force Officer Qualifying Test: Validity, Fairness, and Bias, Chaitra M. Hardison, Carra S. Sims, and Eunice C. Wong, RAND Corporation, 2010


Saving the Government Money: Examples from RAND’s Federally Funded Research and Development Centers, RAND Corporation, 2010


“Associations Between Physician Characteristics and Quality of Care,” Rachel O. Reid, Mark William Friedberg, John L. Adams, Elizabeth A. McGlynn, and Ateev Mehrotra, Archives of Internal Medicine, Vol. 170, No. 16, September 13, 2010, pp. 1442–1449


Education

Designing Effective Pay-for-Performance in K–12 Education, Laura S. Hamilton, RAND Corporation, 2009


To find out more about the 2010 research or activities highlighted on pages 4–19, see the following—available unless otherwise noted, at www.rand.org
The RAND Corporation at a Glance

Mission
To help improve policy and decisionmaking through research and analysis

Core Values
Quality and objectivity

Research Areas
Children and Families
Education and the Arts
Energy and Environment
Health and Health Care
Infrastructure and Transportation
International Affairs
Law and Business
National Security
Population and Aging
Public Safety
Science and Technology
Terrorism and Homeland Security

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