



ANNUAL 2010

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Poised to enter a second century of innovation.

from the dean

Friends,

I am pleased to share with you the 2010 Annual Report for Harvard Business School. As you will see in the pages that follow, it was a better than anticipated year for the School. This resulted partly from belt-tightening efforts that trimmed our expenses substantially from the previous fiscal year, and partly from outstanding results in our Executive Education and Publishing groups, which managed strong contributions even in the face of significant industry-wide challenges. More than anything, though, this was the result of incredible foresight and leadership by the School's ninth dean, Jay Light, who completed his tenure on June 30th.

We all owe Jay a tremendous debt of gratitude for his stewardship of the School. He navigated a path for HBS that protected key priorities, from student fellowships to faculty research, while investing strategically in areas such as MBA Career & Professional Development. He rallied everyone in the community—staff, faculty, students, and alumni—to think and work creatively. And he pushed forward on important efforts such as our global initiative. As a result, I was able to step into the deanship confident not just in the School's financial

stability, but its overall strength. Jay was a remarkable leader during difficult times.

This year's report has taken on a slightly different format. The School's financials remain comprehensive and our Chief Financial Officer, Rick Melnick, provides insight into our economic model at a high level and expenses and revenues at a more detailed level. In the section in between, you'll find an effort to bring meaningful data to life about our key activities, including our educational programs, Harvard Business Publishing,

and the work of the faculty, as well as important ongoing work in the areas of sustainability, community engagement, and entrepreneurship, among others.

In each of these areas, 2010 brought with it new developments both large and small. In the MBA Program, for example, in addition to the January Term offerings you'll read about in the pages that follow, we welcomed our first cohort of 2+2 students to campus over the summer for an introduction to HBS and to each other. This is a remarkable group of individ-



uals who were admitted to the MBA Program while finishing their undergraduate degrees; they will work for two years and then join us full-time. We also launched a new loan program for our international students—a crucial component of ensuring that we always are able to attract the best students to our campus, regardless of their need or country of origin—replacing a comparable program that was withdrawn during the economic crisis.

In our Doctoral Programs, we continued to increase the number of students we admit, as well as the support we provide to them, thanks to the generous gift of Hansjoerg Wyss. Even in a difficult job market the placements of our graduates remain strong, and in 2010 six went on to teaching positions at top-tier schools.

Executive Education demonstrated that its post-recession trajectory is firmly positive, with growth in both applications and enrollments and a rise in the number of program weeks. An important area of focus during 2010 was global programs—specifically, programs in China and Europe, with the former capitalizing on the new classroom space in the Harvard Center Shanghai. During the coming year we will add programs in India and Latin America to the portfolio, and our hope is to reach a steady state where at least a few dozen pro-

grams are offered in strategic regions around the world. We will, of course, maintain our commitment to our on-campus portfolio, and next year you'll hear more about plans for Tata Hall, a new state-of-the-art facility encompassing participant living space, classrooms, and administrative offices that we anticipate will be completed in 2013.

Harvard Business Publishing has held steady in a landscape where its peers are struggling. Following significant upgrades to its technology platform, work to expand its global reach, and investments in its core products—including *Harvard Business Review*, the case collection, and Harvard ManageMentor—it is solidly positioned to meet future challenges.

Perhaps less visible, but still exciting, have been advancements in our efforts around sustainability. We launched an initiative on business and the environment to bring together faculty, students, staff, and alumni doing work in this increasingly important arena. And as part of the University's efforts to reduce greenhouse gas emissions 30 percent from 2006 levels by 2016, we installed a 5,200-square-foot "green roof" on Shad Hall, and introduced a "Green Corps" of MBA students who promote sustainable living through peer-to-peer education.

This is but a small flavor of the entrepreneurial activity you'll encounter on the HBS campus on any given day or week. As I begin my tenure as Dean, I am excited by the work we are doing and the opportunities ahead of us, and eager to move forward on the priorities—innovation in our educational programs, intellectual ambition, international engagement, inclusion, and integration with Harvard—we have identified. We truly stand poised to enter a glorious second century of innovation for the School.

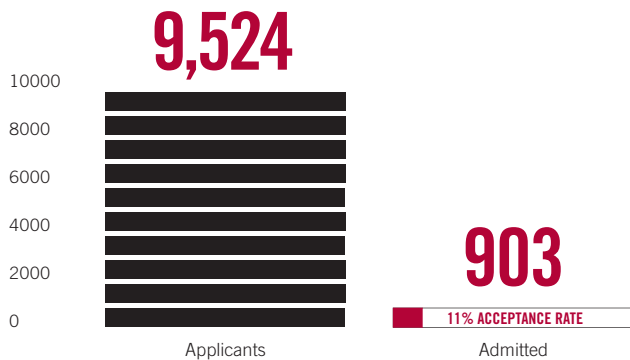
Regards,

Nitin Nohria
Dean of the Faculty

MBA

EDUCATING FUTURE LEADERS for a diverse world begins with recruiting MBA students who bring different experiences, interests, and ambitions to HBS.

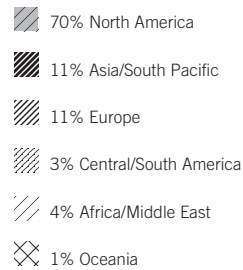
APPLICATIONS, FY10 (CLASS OF 2012)



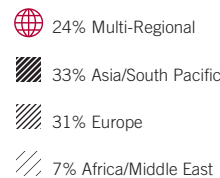
STUDENT DEMOGRAPHICS



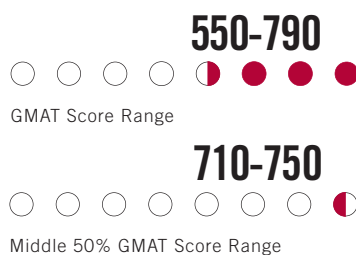
CITIZENSHIP



CASE FOCUS, FIRST-YEAR GLOBAL CASES



TEST SCORES



UNDERGRADUATE INSTITUTIONS REPRESENTED



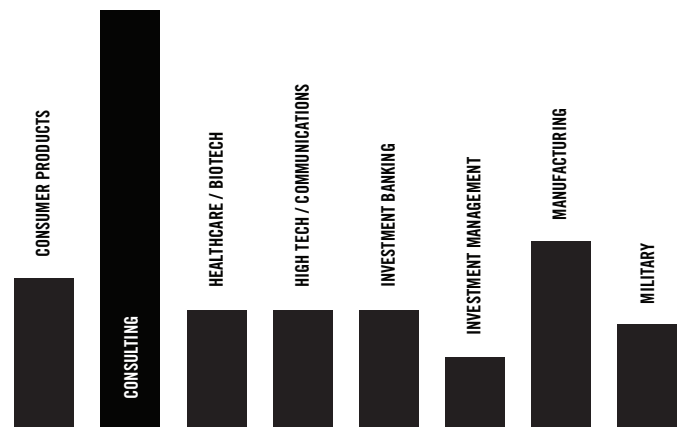
MOST FREQUENTLY REPORTED YEARS OF WORK EXPERIENCE

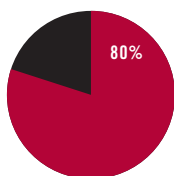
4

AVERAGE GPA

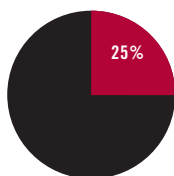
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PRE-MBA INDUSTRIES REPRESENTED

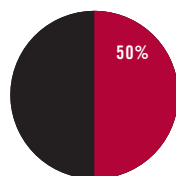




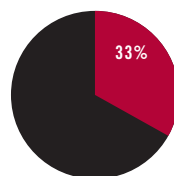
Students who live on campus



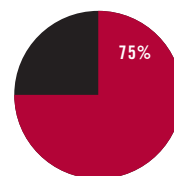
Students who participated in an immersion program



MBA graduates who become entrepreneurs by 15th reunion



International cases discussed



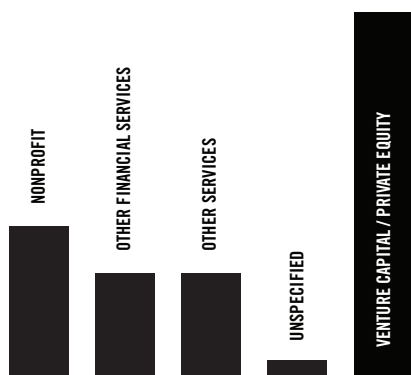
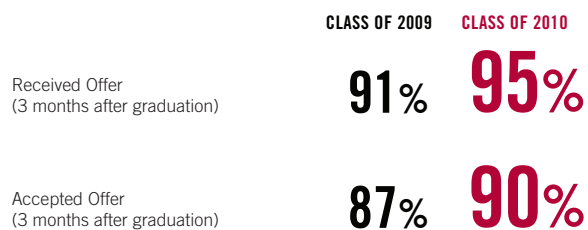
Students who receive some form of financial assistance



UNDERGRADUATE MAJORS



JOB OFFERS



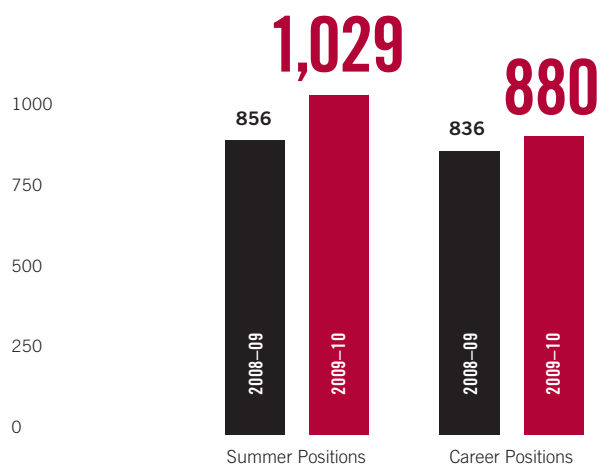
HBS PARTNERS



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JOB POSTINGS



In FY10, HBS identified new opportunities for learning experiences that complement and enhance the MBA curriculum.

HBS INAUGURATES JANUARY TERM

MBA Program faculty and students took advantage of the new January Term to experiment and innovate, pursuing options made possible by the longer break between the fall and winter terms resulting from the University's move to a common academic calendar in the 2009–2010 academic year.

During the first January Term, the School piloted or expanded a variety of programs, each designed to enhance the learning that takes place in HBS classrooms. The “J-Term” is expected to grow and evolve over time, offering students opportunities for small-group, in-depth, and cross-School activities.

Intensive faculty-led seminars

More than 300 MBA students enrolled in 11 faculty-led seminars in areas such as leadership, global trends, and health-care. One seminar, *Integrating Business and Design for Sustainable Development*, was a joint effort of HBS and the Harvard Graduate School of Design and was taught by HBS faculty members Amy Edmondson and Robert Eccles.

Expanded IXPs

The Immersion Experience Program, a staple of winter break since 2007, expanded in 2010 to encompass more than 400 MBA students participating in eight faculty-led IXPs in Asia, the Middle East, Central America, South America, and Africa, together with U.S.-based programs in Boston, New Orleans, and Silicon Valley.

Independent studies

Students were free to choose from less structured options, including field studies, career coaching, and student-led Career Treks in North America, Europe, and Asia.

EVOLVING IXPs

In 2010, Immersion Experience Programs (IXPs) took place for the first time in South America and sub-Saharan Africa.

Peru IXP

Is the natural resource curse inevitable in developing nations? This was the central question professor Diego Comin posed to the 49 MBA students on the Peru IXP. The students met with local entrepreneurs, created a business plan for tourism at an historic site, explored developing a world market for undervalued agricultural products, and pondered the sustainability of a resort hotel's business model. They also conducted a field study, surveying small business owners with local students in the city of Cuzco.

Rwanda IXP

Led by professor Louis Wells, 35 students devoted one of their two weeks in Rwanda to consulting projects with local organizations, with the goal of providing concrete solutions to management problems. Small teams worked with a variety of NGOs, small businesses, and a government agency with common interests in social enterprise and business development. A high point of the program was a wide-ranging two-hour discussion with Rwandan President Paul Kagame.

SAMPLE RWANDAN CLIENTS & PROJECTS:

Indego Africa

Developed marketing plans for this cooperative, which empowers women to rise out of poverty by selling their own crafts.

Karisimbi Business Partners

Helped the organization's client Manu-metal, a local furniture manufacturer, align its operations with its new business strategy.

Millennium Promise

Worked on a Millennium-funded cassava processing plant for a farmers' cooperative; implemented feed-mix trials to help chicken farmers apply the most cost-effective approaches to raising marketable poultry.

The Doctoral Programs at HBS train students who will be responsible for the next generation of business knowledge.

DOCTORAL PROGRAMS

2010 WYSS AWARDS for Excellence in Doctoral Research, named in honor of Hansjoerg Wyss (MBA '65)

Prithwiraj Choudhury
DBA, Strategy

Dissertation:
"Innovation in Emerging Markets"

Now on the faculty of the Wharton School, University of Pennsylvania

Emilie Feldman
DBA, Strategy

Dissertation:
"Essays on Corporate Strategy 1) Selling your Heritage: Legacy Divestitures and the Hidden Costs of Corporate Renewal, 2) The Talent at the Table: Business Expertise and Share Ownership in Fortune 500 Boardrooms, 3) When Do Analysts Add Value: Evidence from Corporate Spinoffs"

Now on the faculty of the Wharton School, University of Pennsylvania

Colin Fisher
Ph.D., Organizational Behavior

Dissertation:
"The Timing and Type of Team Coaching Interventions"

Now on the faculty of the School of Management, Boston University

George Serafeim
DBA, Accounting and Management

Dissertation:
"Essays on Fair Value Reporting 1) Consequences and Institutional Determinants of Unregulated Corporate Financial State-ments: Evidence from Embedded Value Reporting, 2) Information Risk and Fair Values: An Examination of Equity Betas and Bid-Ask Spreads, 3) Did Fair Valuation Depress Equity Values During the 2008 Financial Crisis?"

Now on the faculty of Harvard Business School

2010 MARTIN AWARDS for Excellence in Business Economics, established by Roger Martin (MBA '81) in memory of his mentor, HBS professor John Lintner

Sergey Chernenko
Ph.D., Business Economics

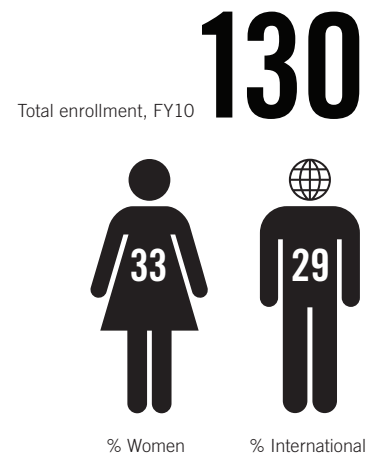
Dissertation:
"Capital Market Imperfections and Corporate Finance"

Now on the faculty of Fisher College of Business, The Ohio State University

Itay Fainmesser
Ph.D., Business Economics

Dissertation:
"Essays on Networks and Markets 1) Community Structure and Market Outcomes: Towards a Theory of Repeated Games in Networks, 2) Effective Word-Of-Mouth: Reputation Networks and Market Structure, 3) Social Networks and Unraveling in Labor Markets"

Now on the faculty of Brown University



DOCTORAL STUDENTS COMMEND FACULTY MENTORS

For the third year DBA and Ph.D. candidates recognized one senior and one junior faculty member who fostered their professional and personal development with the Doctoral Awards for Excellence in Mentoring.

The senior faculty award went to **Amy Edmondson** and the junior faculty award to **Belén Villalonga**.



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to visit www.hbs.edu/doctoral

social responsibility

AS AN INSTITUTION, HBS recognizes its responsibility to the larger communities it is a part. Similarly, the students, faculty, and staff on the HBS campus seek make a positive difference within the School and far beyond.



SUPPORT FOR THE NEIGHBORHOOD

As an important presence in its immediate neighborhood of Allston and the city of Boston as a whole, the School devotes time, funds, and in-kind services to the support of local public and nonprofit organizations.

A flagship program is the HBS Leadership Fellows, which gives organizations the benefit of the full-time services of recent MBA graduates for a year while subsidizing their salaries. Since the program's inception in 2002, 25 of the 88 worldwide Leadership Fellows have worked in Boston-based operations, with especially strong representation in the City of Boston Mayor's Office. In fiscal 2010 alone, the School provided 11 scholarships for Executive Education programs to staff members from the City of Boston, Boston Public Schools, and a variety of not-for-profit organizations. HBS faculty devote untold hours to speaking engagements, pro bono consulting, and participation on local nonprofit boards.



Local Organizations Receiving Donations, FY10 (partial)

Allston-Brighton Little League
Allston-Brighton Youth Hockey
Boston Firefighters' Burn Foundation
Charles River Conservancy
Inner-City Scholarship Fund
Joseph M. Smith Community Health Center
MATCH Charter Public School
New England Center for Homeless Veterans
Oak Square YMCA
Presentation School Project
Soldiers Field Park Children's Center
Tenacity
Veronica B. Smith Multi-Service Senior Center
Vocational Advancement Center
West End House Boys & Girls Club

402

MBA students participated in volunteer club activities

\$119,000

Executive Education scholarships for local nonprofits

of which
ways to

Maya Babu

A graduate of the joint MD/MBA program, Babu plans to practice neurosurgery while working to shape government health policy. She participated in research at Massachusetts General Hospital, working with a team of neurosurgeons exploring whether socioeconomic status has an impact on the nature of trauma patient care. At HBS, Babu created a business plan for a social venture devoted to connecting mentors with at-risk high-school students.

Sean Cameron

Cameron was elected Education Representative, or Ed Rep, for his first-year section, and during his second year, he chaired the Education Committee, helping the new first-year Ed Reps succeed in their roles. Cameron served as copresident of the HBS Investment Club and as a finance and economics tutor to first-year MBA students. He spent the 2010 January Term in the Philippines on a research project directed at enhancing rural electrification.

Richard Chung & Philip Wong

In 2009, Chung piloted a version of the Global Impact Experience program, or GIX, in which three teams of students consulted for the U.S. Agency for International Development on projects relating to business development in the Philippines, Morocco, and Jordan. Wong joined Chung in leading the planning and management of the GIX program during its second year, when it was integrated into the School's 2010 January Term offerings.

8

EIGHT MBA STUDENTS RECEIVED THE SCHOOL'S PRESTIGIOUS DEAN'S AWARD. This annual award, established in 1997, celebrates a specific kind of achievement—contributing to the well-being of HBS and the larger community through exceptional leadership and service.

John Coleman

Coleman took on leadership roles while a joint degree candidate at HBS and Harvard Kennedy School. In the HBS Senate, he led the Community Impact Fund, which provides financial support for student-led initiatives that have direct and tangible impact outside the School, and he also served as the HBS representative to the Harvard Graduate Council. As an HBS Social Enterprise Summer Fellow, Coleman worked at a Boston-based housing nonprofit.

Andrew Klaber

While earning degrees in Harvard's joint JD/MBA program, Klaber was copresident of the Harvard JD/MBA Association. He was a guiding force in creating the School's MBA Oath, a voluntary pledge created by students with the ultimate goal of improving leadership throughout the business community. Klaber continued to serve as president of Orphans Against AIDS, an all-volunteer organization he founded while an undergraduate.

Whitney Petersmeyer

Petersmeyer was elected to the Leadership and Values Committee during her first year at HBS and chaired it during her second. She twice participated in the service-based New Orleans IXP. During the summer after her first year, she worked as a research analyst at Teach For America. Petersmeyer was subsequently named an HBS Leadership Fellow, a position that has enabled her to return to this organization for a year after graduation.

Robert Daly Jr.

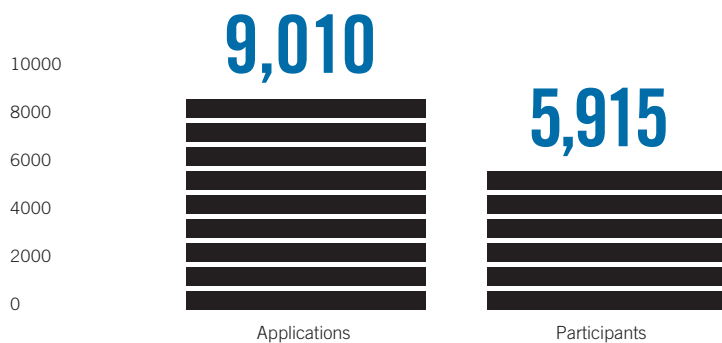
While at HBS, Daly, a graduate of the joint MD/MBA program, put his education and talents to use helping disenfranchised communities gain quality medical care. He worked extensively with the Humsafar Trust, a nonprofit in Mumbai, India, dedicated to the needs of sexual minorities. Daly developed a five-year strategic plan that resulted in a dramatic increase in the trust's efficiency and effectiveness and created tools to track the results.



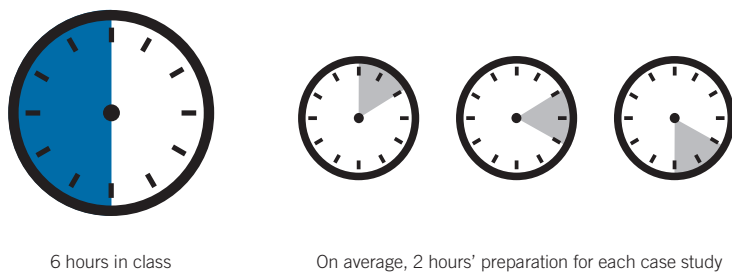
EXECUTIVE ED

PREPARING EXECUTIVES FROM ALL OVER THE WORLD for new levels of leadership in their careers and within their organizations.

OPEN ENROLLMENT PROGRAMS



DAILY TIME ALLOCATION



COURSES TAUGHT BY FULL-TIME FACULTY

100%

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PARTICIPANT DEMOGRAPHICS



SOCIAL MEDIA FANS & FOLLOWERS

30,000+

HBS MOBILE NEXUS

The Educational Technology Group (ETG) partners with Executive Education to innovate in the delivery of program content and related information. Building on the HBS Learning Nexus, a portal developed for the comprehensive leadership programs, ETG created the HBS Mobile Nexus to bring the same material to participants' smartphones and tablet devices. The application is designed to help participants get the most from their HBS experience and to deliver content in the way they want to receive it.

UCATION

MANAGING HEALTHCARE DELIVERY (MHCD) was developed for teams of senior managers—clinicians and administrators—who are on the front lines of decision-making. Inaugurated in 2009–2010, MHCD focuses on issues of strategy, leadership, finance, and operations to help these individuals develop the skills they will need to drive change in their organizations. MHCD is offered in three one-week modules over nine months, reflecting the professional demands of participants. The schedule allows them to use the time between sessions to engage in activities and projects in their own environments—one reason that teams of managers from individual institutions are encouraged to apply.

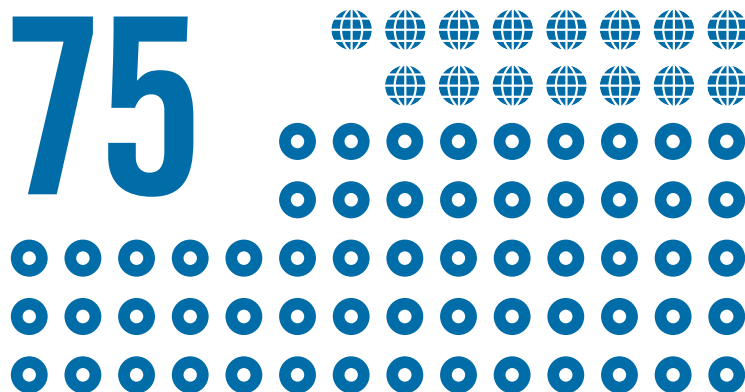


“We want to equip up-and-coming clinicians and administrators from around the world with the knowledge, tools, and scenarios they’ll need to design and improve healthcare delivery systems within their institutions.”

Professor Richard Bohmer, MD, faculty chair, MHCD

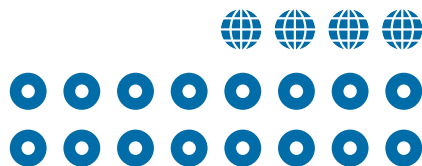
OPEN ENROLLMENT PROGRAMS

75



CUSTOM PROGRAMS

20



PROGRAM LENGTHS

2 days to 9 weeks

CLASS SIZE

40–80

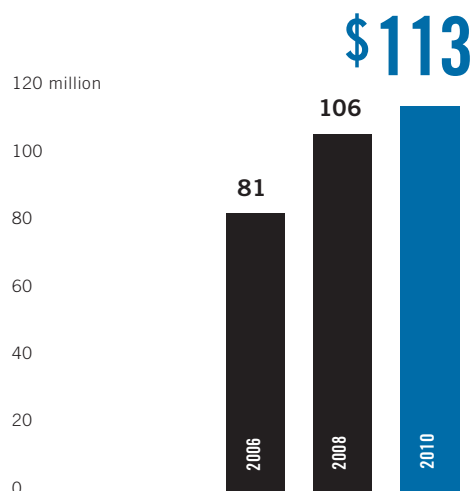
PARTICIPANTS SPONSORED BY EMPLOYERS

88%

CUSTOM PROGRAM PARTICIPANTS

2,755

REVENUE





BOOKS published in FY10



1



2

FACULTY & RESEARCH

The breadth and impact of research is evident in the awards won

AWARDS FOR leadership, publications, teaching, contributions to academic fields and society at large—and even for a TV documentary—are among the accomplishments of faculty members in 2009–2010.

Awards received include:

Global Award for Entrepreneurship

Josh Lerner received the 2010 Global Award for Entrepreneurship Research, widely regarded as the world's most prestigious prize in the field. In naming Lerner, the award committee cited him for synthesizing the fields of finance and entrepreneurship, and for his research in the areas of venture capital, venture capital-backed entrepreneurship, and entrepreneurial innovation. The committee also noted the impact of Lerner's insights on public-policy measures that benefit society by creating new jobs, products, and services.

Kauffman Junior Faculty Fellowships in Entrepreneurship Research

William Kerr and **Ramana Nanda** each won a Kauffman Junior Faculty Fellowship. The Ewing Marion Kauffman Foundation, which supports entrepreneurship, presents the awards annually to tenured or tenure-track junior faculty members whose research is recognized for its potential to make significant contributions to the field.

Kerr, whose research focuses on entrepreneurship and innovation, works in areas including the role of immigrant scientists and entrepreneurs in U.S. technology development and commercializa-

tion, agglomeration and entrepreneurship, and entrepreneurial finance and angel investments.

Nanda's research investigates the effect of the financial sector on innovation and entrepreneurship in the economy. He studies the role of financial intermediaries in the founding and growth of new ventures in a region, and how government policy toward the financial sector influences innovation, entrepreneurship, and productivity growth.

McKinsey Awards for Best Articles in *Harvard Business Review*

Gary Pisano, **Willy Shih**, and **Clayton Christensen** were honored with 2009 McKinsey Awards for the best articles published in *Harvard Business Review*. The annual awards are made by *HBR* and the consulting firm McKinsey & Company.

Pisano and Shih took first-place honors for "Restoring American Competitiveness," in which they argue that U.S. companies were mistaken to outsource manufacturing based on the belief that it holds no competitive advantage.

Christensen and his coauthors, Jeffrey Dyer of Brigham Young University and Hal Gregersen of INSEAD, won the second-place award for "The Innovator's DNA."

EIGHT NEW MEMBERS were named to the tenure-track faculty in FY10:

1 Douglas Fearing

*Assistant Professor
Technology & Operations Management*

Fearing studies techniques for evaluating and improving the performance of complex systems. Working primarily in the airline industry, Fearing has developed models and metrics to mitigate airport and airspace congestion. He earned his Ph.D. from the Massachusetts Institute of Technology.

2 Francesca Gino

*Associate Professor
Negotiation, Organizations & Markets*

Gino's research focuses on judgment and decision-making, ethics, social influence, and creativity; and on the consequences of lapses in these areas for individual, group, and organizational outcomes. She holds a Ph.D. from the Sant'Anna School of Advanced Studies in Pisa, Italy, and was a postdoctoral fellow at HBS. Before returning to join the faculty, she taught at the University of North Carolina at Chapel Hill's Kenan-Flagler Business School and at the Tepper School of Business, Carnegie Mellon University.

3 Shon Hiatt

*Assistant Professor
Organizational Behavior*

In his research, Hiatt investigates how social structure influences the adoption of novel techniques and organizational processes—and ultimately the development of new ventures—in contexts ranging from the U.S. biodiesel industry to entrepreneurship in developing economies. He received his Ph.D. from Cornell University.



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...and the interests of newly appointed tenure-track faculty.

4 Vineet Kumar

*Assistant Professor
Marketing*

Kumar focuses on the interface of marketing and technology, particularly on social network media. He analyzes consumers' interpersonal behavior in the social network environment and its implications for developing new marketing strategies. Kumar earned his Ph.D. from the Tepper School of Business, Carnegie Mellon University.

5 Lakshmi Ramarajan

*Assistant Professor
Organizational Behavior*

Ramarajan's research examines the management and consequences of identities—such as those of race, nationality, gender, or religion—in organizations, with particular attention to ways people can work productively across social divides. She received her Ph.D. from the Wharton School of the University of Pennsylvania and was a postdoctoral fellow at HBS from 2008 to 2010.

6 George Serafeim

*Assistant Professor
Accounting & Management*

Serafeim studies international capital markets with a focus on valuation, the information environment, and intermediaries while also pursuing a more recent interest in the social, environmental, and governance performance of firms. He earned his DBA from HBS.

7 Magnus Thor Torfason

*Assistant Professor
Entrepreneurial Management*

Torfason's research interests center on how behavior is influenced by the social structures of individuals and organizations. In one of his primary research areas, he uses data from a large online video game to explore how social networks and group identities jointly affect adherence to informal societal rules and norms of behavior. Torfason received his doctorate from Columbia Business School.

8 Gwen Yu

*Assistant Professor
Accounting & Management*

In her research, Yu examines the ways in which accounting information affects various real economic outcomes—in particular, how accounting standards and corporate disclosures influence the capital allocation decisions of both managers and external investors. She earned her Ph.D. from the University of Michigan.

MULTIMEDIA BRINGS CASES TO LIFE

MBA students and Executive Education participants are accustomed to consuming information in multimedia formats, which can be the best way to teach and learn certain kinds of material. HBS faculty members have been collaborating with the School's Educational Technology Group to develop multimedia case studies. This latest innovation in the case method is far more than a video supplement or an online tool—rather, the primary learning is contained within the

video elements themselves. Faculty report that multimedia cases provide students with deeper insights so that they more quickly reach a high level of analysis and dialogue in the classroom.

Paperless cases

Some of the newest multimedia cases are not accompanied by a paper case, although they do have a printable section containing exhibits and on-screen text. According to professor Michael Tushman, author of the paperless case on the athletic apparel company lululemon, "Students actually see the culture, see the energy, see the personality through the multimedia technology. For that kind of case, 'lululemon' is a real breakthrough."

A SAMPLER

Leadership, Culture, and Transition at lululemon

Michael Tushman

Enterprise Risk Management at Hydro One

Anette Mikes

An Entrepreneur's Journey: Simi Nwogugu

John Davis
(with Research Associate Shirley Spence)

Burt's Bees: Balancing Growth and Sustainability

Christopher Marquis



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entrepreneurship

ACROSS THE SCHOOL, INSIDE AND OUTSIDE THE CLASSROOM, there is great interest entrepreneurship. For MBA students, the focal point is the annual Business which spawns not only innovative plans but successful enterprises.

In fiscal 2010, a record number of teams and MBA students participated in the 14th iteration of the contest, which awards \$25,000 in cash, together with in-kind services, to each of the winners, one for the business venture track and one for the social venture track.

A new track: alumni

This year HBS extended entrepreneurial competition with the Alumni New Venture Contest, designed to support promising young organizations founded or cofounded by the School's graduates. Seven HBS Alumni Club regions around the world selected seven finalists from more than 70 teams. Three HBS faculty members mentored the teams and led educational sessions during the finals, held on campus in tandem with the student contest. A panel of alumni entrepreneurs and venture capitalists judged the alumni contest.

The interest in the alumni contest is a reflection of the career paths of the School's graduates. Approximately half of all alumni have become entrepreneurs within 15 years of graduation, and half of these have started two or more businesses. According to a recent HBS survey, more post-MBA entrepreneurs said that their current position represented their ultimate career goal than alumni as a whole.

FACULTY & RESEARCH

1,231

Cases published by Arthur Rock Center for Entrepreneurship faculty in the last 10 years

102

Books published by Rock Center faculty in the last 10 years

384

Articles published by Rock Center faculty in the last 10 years

5

ENTREPRENEURS-IN-RESIDENCE



in
Plan Contest,

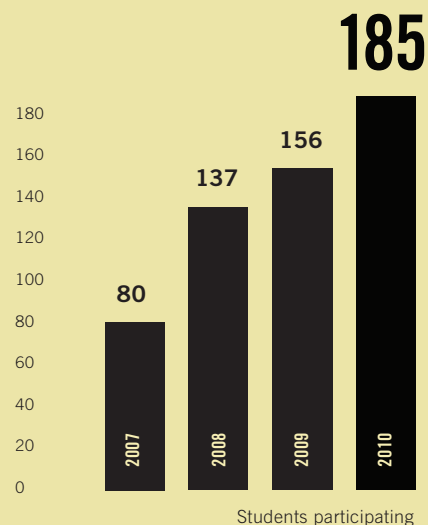
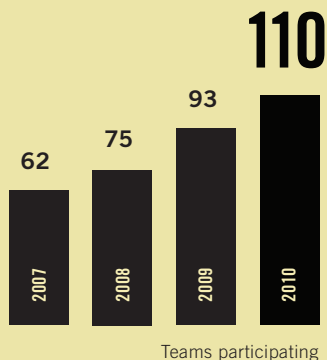
70+

Teams entered in Alumni New Venture Contest

7

Alumni clubs sponsoring teams in Alumni New Venture Contest

STUDENT BUSINESS PLAN CONTEST



contest winners

Alumni New Venture Contest

Krishna Mahesh (MBA '05) took top honors and the \$25,000 cash prize at the inaugural Alumni New Venture Contest. Mahesh, representing the HBS Club of India, is the founder and CEO of Sundaram Medical Devices. Based in the southern city of Chennai, the company aims to apply the high engineering, quality, and cost-control standards of the Indian automotive industry to the development and manufacture of a low-cost but high-tech medical bed that benefits both patients and caregivers. With an estimated shortage of more than 3 million medical beds in India, Sundaram will address the needs of an extremely underserved market.

MBA business venture track

OsComp Systems, which is commercializing a revolutionary gas-compressor technology developed in conjunction with MIT that drives natural gas into pipelines at a lower cost with greater efficiency.

Team:

Shantanu Agarwal (MBA '10)
and MIT Sloan School students Pedro Tomas Santos and Emmanuel Magani

MBA social venture track

Urban Water Partners, which will lease filters to water vendors in Dar es Salaam, Tanzania, to markedly improve access to clean drinking water for the city's 3 million residents.

Team:

Porter Jones, MD (MBA '11)
Ajay Kori (MBA '11)
Aaron Matto (MBA '11)
and University of Utah medical students Jason Young and Justin Iwasaki

26 ELECTIVE COURSES

taught by over 30 different professors

The MBA Elective Curriculum includes a wide range of entrepreneurially oriented courses. In 2009–10, the most subscribed included:

Building & Sustaining a Successful Enterprise

The Coming of Managerial Capitalism: The United States

Entrepreneurial Finance

Entrepreneurial Management in a Turnaround Environment

Founders' Dilemmas

Real Property

Venture Capital and Private Equity

MBA CURRICULUM

AVERAGE NUMBER OF ENTREPRENEURSHIP ELECTIVES
TAKEN (PER MBA STUDENT)

...**2.5**

ALUMNI

THE MBA FELLOWSHIP PROGRAM is supported entirely by gifts from alumni, corporations, and friends of the School. Today, the fellowship program comprises more than 400 individual funds that enable HBS to maintain its need-blind admission policy and admit the best and brightest students regardless of financial need. Thanks to the generosity of these donors, together with those who contributed to the Dean's Fund, growth in the fellowship program has outpaced annual tuition increases and has helped reduce the debt of graduating MBAs.

TOTAL FY10 MBA NEED-BASED FELLOWSHIPS

\$21 m

STUDENTS RECEIVING FELLOWSHIPS (CLASSES OF 2010 & 2011)

889

out of a total enrollment of 1,864

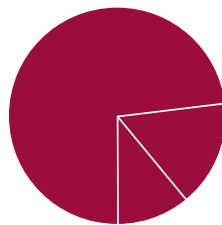
AVERAGE FELLOWSHIP

\$24,000

AVERAGE TUITION

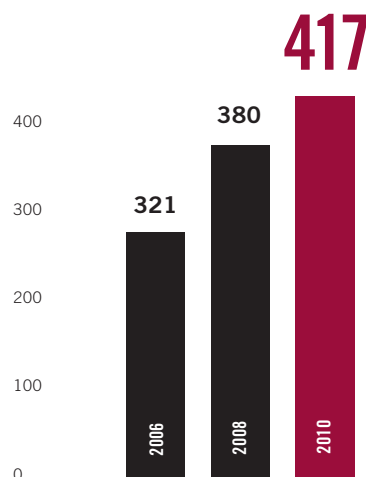
\$45,000

SOURCES OF SUPPORT



73% Endowed Funds
16% Current Use Funds
11% Dean's Fund

NUMBER OF FELLOWSHIP FUNDS



ALUMNI ATTENDING REUNIONS

3,095

ALUMNI VOLUNTEERS

4,000 +

1,000 +

Fundraisers

500 +

Advisory board members

1,000 +

Class & section secretaries

1,000 +

Club volunteers

500 +

Reunion volunteers

THE 2010 ALUMNI ACHIEVEMENT AWARDS represent the School's highest honor, recognizing individuals who, throughout their careers, have contributed significantly to their companies and communities while upholding the highest standards and values in everything they do.

Susan Decker (MBA '86)
Former President, Yahoo! Inc.

Becoming a dedicated entrepreneur after a career as a financial analyst, Decker led Yahoo!'s global business operations and spent the 2009–2010 year as an HBS Entrepreneur-in-Residence.

"When it comes to technology, we all have the same core desires to do things smarter, faster, and simpler, and to stay connected to each other. Entrepreneurs who find better ways to address these needs will add value through new companies and services."

James Dimon (MBA '82)
Chairman & CEO, JPMorgan Chase & Co.

Earlier in his career, Dimon was a top executive at Salomon Smith Barney and the Travelers Group, helped create Citigroup, and rescued Bank One.

"There were many fundamental causes and contributors to the recent financial crisis. Some practices will be different forever, and that's a good thing."

Allan Gray (MBA '65)
Chairman, Orbis Investment Management, Ltd.

Before launching the international investment firm Orbis—now with about \$20 billion in assets under management—with his son William (MBA '93), Gray built a highly successful asset management firm in his native South Africa.

"We've put more and more emphasis on companies' intrinsic value—including intellectual capital and brilliant management—not just price-to-book and price-to-earnings ratios."

James Lovell (AMP 62, 1971)
President, Lovell Communications
Former Astronaut, Apollo 13

As commander of Apollo 13, Lovell oversaw the mission's safe return to Earth. After retiring from NASA, Lovell entered business in the telecommunications and transportation industries. He now serves on several space-related boards, advocates for the U.S. space program, and is a sought-after speaker.

"If you aren't motivated by the business you're in, you're in the wrong business."

Marvin Traub (MBA '49)
President, Marvin Traub Associates, Inc.
Former CEO & President, Bloomingdale's

During his 41-year career at Bloomingdale's, more than half at its helm, Traub expanded the legendary store nationally and then globally, launched some of the world's most popular designers, and mentored new generations of leaders of stores and brands.

"Brands and stores are now global. While the Internet has changed everything, good stores remain distinguished by creativity and a willingness to change."



scan this code to
visit www.alumni.hbs.edu

ALUMNI

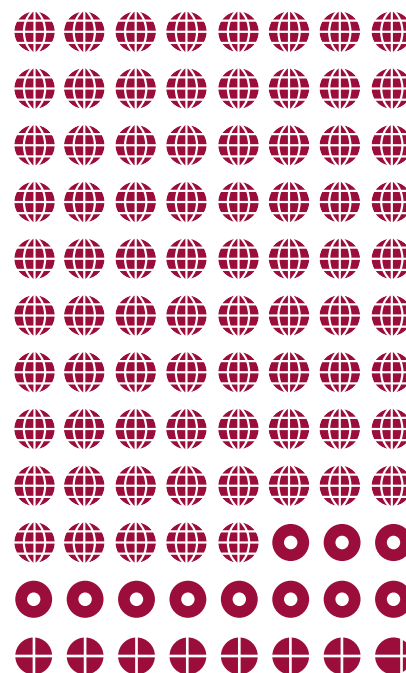
71,000
in 161 countries

ALUMNI CLUBS

96

clubs and associations in 42 countries

-  Geographically based alumni clubs
-  Affinity-based alumni clubs and associations
-  Affiliated Harvard Alumni clubs



sustainability

THROUGHOUT ITS OPERATIONS, HBS is focused on the environment and sustainability. Notable innovations, continuous improvement, and recognition from beyond to the depth of this commitment.

MEASURING PROGRESS IN 2010

HBS tracks its progress toward sustainability across four broad areas—energy conservation, waste management, gaining LEED Gold certification for facilities, and the Green Living Program, which encompasses sustainability-oriented behavioral changes among members of the community. Through this process, the School is meeting and often exceeding the ambitious conservation goals that Harvard President Drew Gilpin Faust has set for the entire University.

A particular highlight for fiscal 2010 was LEED certifications from the U.S. Green Building Council. HBS follows LEED guidelines for all new construction and major renovations. During the year, the School received its first off-site Gold certification for the construction of the Harvard Center Shanghai, and it surpassed the Gold standard with Platinum certification for the renovation of McCulloch Hall, a student residence.



Campus recycling rate, meeting the University-wide goal for 2012



A pilot project was initiated to eliminate the use of bottled water in the Executive Education Advanced Management Program

HBS Receives City of Boston Green Business Award

The School's Operations Department was honored by Boston Mayor Thomas M. Menino with a 2010 City of Boston Green Business Award, primarily in recognition of the multiple green technologies in use at Shad Hall. Mayor Menino cited HBS and the other recipients by saluting their efforts as "an outstanding example of the leadership necessary to advance Boston's sustainability goals and continue to grow our green economy." This was the second accolade of the year for the HBS Operations Department, which also received a Harvard University Green Carpet Award for its chilled water plant's greenhouse gas reduction.

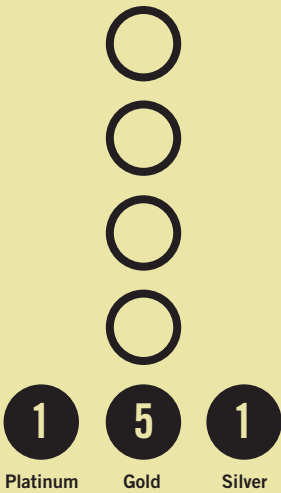
bility.
the School testify

34%

Reduction in greenhouse gas emissions against the 2006 baseline, exceeding the University-wide goal of a 30% reduction by 2016

21%

Reduction in energy consumption against the 2006 baseline, bringing usage down to 2000 levels despite an increase of more than 200,000 square feet of new space and more than 6 renovations between 2000 and 2005



LEED Certification Totals

Certification pending for the Class of 1959 Chapel and in process for Shad Hall

100+

Energy conservation projects in place



SHAD’S GREEN ROOF

When Shad Hall, the School’s fitness and recreation facility, needed a new roof, HBS made the decision to go green by installing its first living rooftop. In the fall of 2009, a garden of more than 9,000 hardy perennials was planted atop Shad, covering 5,200 square feet. The green roof has four layers: an impermeable membrane, insulation, a water retention and drainage system, and a shale-based planting medium that will not blow away or compact over time. The new plantings will spread to cover the entire garden area by the summer of 2011.

Long-term environmental benefits

A living roof like Shad’s has long-term benefits that counter-balance its high construction costs. A green roof can reduce a building’s average daily energy demand by about 15 percent; it absorbs and retains an estimated 75 percent of annual rainfall, reducing storm-water runoff; and it can last twice as long as a conventional roof surface. Shad’s green roof covers about a quarter of the building’s total flat roof surface. The remainder, which is not suitable for planting, is topped by sheets of white polyvinyl chloride to reflect sunlight and reduce cooling costs. Additionally, photovoltaic panels are installed on a portion of the roof.

Inside Shad

The green roof crowns a series of other conservation measures inside Shad, including a cogeneration plant in the basement whose waste heat is used to supply hot water for after-workout showers. Based on all these measures, HBS is applying for LEED certification for Shad.

The HBS community is now creating renewable energy during indoor cycling classes at Shad. The stationary bikes were recently fitted with special equipment that sends the energy created through exercise to the electrical power grid and motivates pedalers by displaying the wattage they have created. A typical group-cycling class with about 20 bikes has the potential to produce up to 3.6 megawatts a year—enough to light 72 homes for a month while also reducing carbon emissions by more than 5,000 pounds.

Harvard Business Publishing has made strategic investments to extend the School's reach to business leaders, companies, and educators.

HB PUBLISHING

Publishing has aligned its flagship *Harvard Business Review* and its Higher Education and Corporate Learning groups to provide customers with a broad platform for learning.

HARVARD BUSINESS REVIEW REDESIGNED

In July 2009, the HBR Group was formed from three teams working on the magazine in its print and online versions, on other interactive content for subscribers at hbr.org, and on Harvard Business Press. Within six months, the revamped print magazine was on the newsstands, and the Web site was launched. These changes were led by publisher Joshua Macht and editor-in-chief Adi Ignatius, both veterans of *TIME* magazine.

The *Review* maintains the quality and rigor of the articles while adding more timely content and providing improved navigation through the magazine. Now the *Review* offers readers short articles, columns, and recurring features together with its traditional long-form pieces. On hbr.org, new interactive features enable subscribers to comment on articles and engage with others at the HBR Answer Exchange. In addition, the site gives HBS faculty a prominent venue for sharing their thought leadership in their own dedicated blog.

NEW HARVARD MANAGEMENTOR LAUNCHED

Version 11 of Harvard ManageMentor, the Corporate Learning Group's online learning and support reference, has expanded its core topics and features a media-rich online environment and robust analytics. The new Harvard ManageMentor, launched at the end of the fiscal year, not only delivers instant advice to individual managers, but is designed to support learning across an enterprise. The product can be configured to focus on an organization's key priorities, and it enables companies to integrate it into collaborative learning experiences. These changes were informed by the market and by the way work is done today.

GREATER CUSTOMIZATION FOR EDUCATORS, LOWER COST FOR STUDENTS

While business educators worldwide have long used cases and other intellectual content from HBS, their ability to design courses increased greatly with the launch of the new Educators Web site by the Higher Education Group. Once educators select their course materials, the group aggregates them, offering the resulting "coursepacks" to students at a significant reduction from standard pricing. The selection is both broad and deep, including HBS cases, *Review* articles, and Harvard Business Press books, together with group-generated products: online simulations and courses, Brief Cases, and e-products of various kinds.



scan this code to visit hbr.org

5-YEAR SUMMARY

FOR THE FISCAL YEAR ENDED JUNE 30,

Financial Data (in millions)	2010	2009	2008	2007	2006
Revenues	\$ 467	\$ 472	\$ 451	\$ 405	\$ 368
Expenses	415	438	423	375	345
Cash from Operations	52	34	28	30	23
Capital Investments	14	19	40	20	49
Building Debt Outstanding	112	119	121	108	108
Unrestricted Reserves	99	96	79	65	60
Endowment	2,311	2,117	2,971	2,821	2,340
Total Assets	\$ 3,087	\$ 2,826	\$ 3,684	\$ 3,500	\$ 3,018

MBA Program

Applications	9,524	9,093	8,661	7,438	6,716
Percent Admitted	11%	12%	12%	14%	15%
Yield	89%	89%	91%	89%	91%
Enrollment	1,864	1,809	1,796	1,806	1,822
Tuition	\$ 46,150	\$ 43,800	\$ 41,900	\$ 39,600	\$ 37,500
Average Fellowship Aid per Student	\$ 23,989	\$ 24,393	\$ 21,591	\$ 17,605	\$ 15,647

Doctoral Programs

Applications	931	798	595	694	611
Percent Admitted	4%	4%	6%	5%	5%
Yield	69%	69%	81%	57%	64%
Enrollment	130	120	105	103	101

Executive Education

Enrollment	8,670	8,291	9,345	9,281	8,239
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Faculty

Faculty Positions (full-time equivalents)	218	228	219	206	215
Teaching Materials	538	608	647	602	606
Research Articles	155	146	152	145	130
Books	29	20	24	24	31

Staff

Staff Positions (full-time equivalents)	1,087	1,187	1,146	1,109	1,077
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Publishing

Cases Sold	9,668,000	8,334,000	8,240,000	7,785,000	7,428,000
Harvard Business Press Books Sold	1,692,000	1,478,000	2,025,000	1,882,000	1,409,000
HBR Circulation	236,000	237,000	246,000	248,000	243,000
HBR Reprints Sold	2,946,000	2,863,000	3,123,000	3,061,000	3,112,000

from the chief financial officer

The Dow Jones Industrial Average had fallen to the mid-6000s in the spring of 2009 when we were preparing the School’s financial plan for fiscal 2010. We had implemented two rounds of budget cuts after the 2008 market collapse, but in parts of the School’s Publishing and Executive Education businesses, revenues were still declining faster than expenses. The Harvard endowment was heading toward a year of negative returns, and the outlook for alumni giving was becoming increasingly uncertain.

Anticipating an extended period of revenue constraints, we launched an aggressive effort to reduce the School’s cost structure even further. The HBS community responded well to the challenge. Reflecting three rounds of restructuring and our forecast for subdued top-line results, our budget for fiscal 2010 projected revenue and expense levels 10 percent and 9 percent lower, respectively, than we had budgeted for fiscal 2009.

Although the nation’s recovery from the recession proved to be slow and uneven, the School’s fiscal 2010 financial performance was stronger than we had expected—particularly in the second half of the year. Executive Education and Harvard Business Publishing (HBP) produced solid top-line results and stronger margin contributions to operating income. Unrestricted current use giving to HBS

returned to prerecession levels, and endowment income came in 3 percent higher than anticipated. Consequently, total revenues for fiscal 2010 exceeded the budget by nearly 8 percent, decreasing only 1 percent from actual revenues for the prior fiscal year.

Meanwhile, HBS faculty and staff reined in spending even more aggressively than planned, and total expenses for fiscal 2010 came in 1 percent under budget, 4 percent below fiscal 2009 actual expenses, and as planned, \$40 million, or 9 percent,

on long-planned strategic innovations in the MBA curriculum, coinciding with the launch of the University-wide academic calendar and the School’s first official January Term. The School’s Immersion Experience Program added faculty-led student trips to several new locations. HBS also introduced Intensive Seminars with 11 on-campus offerings, as well as a range of independent opportunities in the field.

Helping current MBA students and recent graduates navigate the chal-

Fellowship Spending (in millions)	MBA	Total*
FY 10	\$ 25	\$ 35
FY09	25	33
FY08	21	26
FY07	17	22
FY06	15	19

* includes Doctoral Programs and Executive Education

lower than initially budgeted for fiscal 2009. As a result, HBS continued to generate positive cash from operations in fiscal 2010. This cash flow enabled the School to add modestly to unrestricted reserves by year-end.

Investing in MBA Education

Budget constraints did not deter HBS from moving forward in fiscal 2010

lenging employment market was a key priority for fiscal 2010. HBS added resources for individual career coaching and exploration, and increased spending for corporate outreach and student travel fellowships to facilitate off-site interviewing and research. In addition, the School expanded MBA student loan repayment programs designed to ease the

debt burdens that would otherwise prevent graduates from embarking on careers in social enterprise and other lower-paying fields. Aided by these career services initiatives and increased corporate hiring activity in the second half of fiscal 2010, the percentage of HBS students receiving and accepting job offers three months after graduation increased from the prior fiscal year.

The School is committed to making MBA education at HBS affordable for the broadest possible range of applicants by consistently increasing financial aid for students. This has the effect of reducing the level of net MBA student income—defined as tuition and fees minus the School’s MBA fellowship expense—available to support MBA program delivery and innovation.

Although total fellowship expense, which rose by \$2 million, or 6 percent, from the prior year, was the only line item in the budget protected from cuts in fiscal 2010, net student income increased by \$7 million, or 12 percent. The rise in net student income was primarily driven by a long-planned increase in MBA student enrollment. MBA enrollments and fellowship expenses are expected

trends in faculty recruiting and departures. Fiscal 2010 was no exception, as the total number of faculty full-time equivalent (FTE) positions declined to 218, from 228 in fiscal 2009, reflecting planned and unplanned departures, mainly among visiting faculty and senior lecturers. HBS remains committed to attracting and nurturing world-class faculty talent. Recruiting new tenure-track faculty will be one of the School’s top strategic priorities for fiscal 2011.

Embracing the School’s cost-reduction goal, HBS faculty intensified their focus on efficiency and scaled back their use of research resources for the second consecutive year in fiscal 2010. Investing in the faculty’s research and knowledge creation has long been a strategic goal for the School, and remains so today. Consequently, returning to a prerecession level of spending in this area is a key budget priority for fiscal 2011.

Generating Income for Operations

Although HBP’s fiscal 2010 contribution margin was stronger than anticipated, cyclical and secular trends combined to make the School’s 2009 and 2010 fiscal years profoundly difficult for the global publishing industry. Like all its industry peers, for

The downturn necessitated that HBP undertake comprehensive restructuring and expense reduction initiatives in fiscal 2009. HBP entered fiscal 2010 with a cost structure appropriate for a lower revenue base than actually materialized. A smaller publishing organization pulled together and produced outstanding results while spending fewer dollars. Buoyed by a rebound in demand in the second half of the year, sales of HBP’s eLearning products and Harvard Business School cases were up from fiscal 2009, nearly offsetting declines in circulation and advertising revenues at *Harvard Business Review*, while Harvard Business Press and reprint sales were essentially flat. Cumulatively, fiscal 2010 publishing revenue totaled \$135 million, coming in \$7 million above budget and only 1 percent lower than in fiscal 2009.

In Executive Education, our revenue forecast for fiscal 2010 was conservative in light of uncertainties about the recession and the potential impact of the H1N1 virus on corporate travel. These concerns proved to be unfounded, as total Executive Education revenue for the year grew by \$5.6 million, or nearly 6 percent, from fiscal 2009—exceeding the School’s budget by 14 percent.

Investment in Research (in millions)

FY 10	\$ 92
FY09	97
FY08	102
FY07	92
FY06	84

Publishing Revenue (in millions)

FY 10	\$ 135
FY09	137
FY08	139
FY07	128
FY06	119

Executive Education Revenue (in millions)

FY 10	\$ 113
FY09	107
FY08	106
FY07	91
FY06	81

to return to normal in fiscal 2011, which should restore the School’s long-term trend toward diminishing reliance on net student income as a source of operational funding.

Supporting Faculty Research

The size and composition of the HBS faculty changes from year to year as the School’s teaching and research strategies evolve, and in line with

some time HBP has been striving to make an evolutionary leap to the Internet by refining its business model. With its customers and content continuing their migration to digital platforms, HBP had to make a significant, multi-year investment in its web-based technology. And as the competitive landscape in general strengthened, HBP over the past two years looked for ways to enhance its leadership and staff.

Executive Education launched an intensive effort in fiscal 2010 to grow enrollment and tuition revenue in short, focused programs, introducing several courses stemming from the faculty’s current research, running extra sessions of high-demand programs, and scheduling programs to maximize capacity utilization. Consequently, revenue from open enrollment programs maintained its record

of consistent growth, rising 5 percent from fiscal 2009. As in the prior year, the economy had more of an impact on custom programs. After peaking and then declining in the two prior fiscal years, custom program revenue recovered modestly in fiscal 2010, driven by rebounding enrollments in the second half.

While total enrollment grew 5 percent, Executive Education expenses for fiscal 2010 were up by a modest 2 percent from the prior fiscal year. The bulk of the revenue increase therefore fell to the bottom line, and Executive Education's margin contribution returned to a level reached prior to the recession.

In addition to making direct expenditures related to the growth in enrollment, the School continued to invest in off-campus Executive Education programs and facilities—particularly in India and China. These efforts were highlighted by the opening of the School's Harvard Center Shanghai through a partnership with the Harvard China Fund. Despite the challenges associated with building in downtown Shanghai, our facilities group did an excellent job creating a presentation space equipped with case-method teaching technology that is essentially identical to the ones in Boston.

Despite the economic uncertainty, the community of HBS alumni and friends continued their tradition of generosity in fiscal 2010. The dollar value of new gifts and pledges received during the year increased to the second-highest annual total in the School's history. Revenue from unrestricted current use gifts—a critical source of innovation funding for the School—grew by \$1 million, or 8 percent, from fiscal 2009.

Based on the University's projections, the HBS budget for fiscal 2010 assumed a year-over-year decline in the endowment distribution of \$15 million, or 13 percent. The actual decline was lower at \$12 million, mainly reflecting the School's efforts to maximize the availability of restricted endowment

funds. Overall, income derived from gifts to HBS, including distribution from the endowment and unrestricted current use gifts, declined 9 percent in fiscal 2010, but exceeded the School's forecast by 3 percent.

After nearly a year of belt-tightening, HBS entered fiscal 2010 with a total expense budget \$40 million lower than initially planned for fiscal 2009. Approximately one-third of these savings related to administrative staff reductions, as the School's administrative workforce decreased by approximately 100 full-time positions, or 8 percent. A large number of contract staff positions were also eliminated. Given the scope of these reductions, adjusting the School's organization and operations to a leaner environment remained a key management priority throughout the year. Efficiency improvements were also implemented in areas ranging from food service to building maintenance to environmental sustainability.

Midway through 2010, business activity at HBP and Executive Education had increased to the point where it was clearly time to reassess the School's staffing. Several positions in sales and marketing, corporate relations, and operations at HBP and Executive Education were restored as a result of this review. The opening of the Harvard facility in China also required some hiring for Executive Education programs. Looking forward, the bar for approval of additional staff positions at HBS will remain both extremely high and focused on areas related to revenue growth and strategic support for the School's academic mission.

HBS began fiscal 2010 with an unrestricted reserves balance of \$96 million, remained solidly cash flow positive and, after transferring \$50 million to reserves held in the endowment, concluded the year with an additional \$3 million in unrestricted reserves. The School uses its reserves to fund strategic education and research initiatives and, when needed, to finance construction and renewal

of buildings and infrastructure on campus. The capital budgeting process at HBS is highly disciplined and focused well into the future. In line with the School's long-term plan, capital spending was modest in fiscal 2010—as in the prior fiscal year and, at \$14 million, lower than in any year since fiscal 1987.

The most significant project in fiscal 2010 was construction of the Harvard Center Shanghai. Most of the additional capital spending focused on campus renewal and environmental sustainability projects. The impor-

Capital Investment (in millions)	
FY 10	\$ 14
FY09	19
FY08	40
FY07	20
FY06	49

tance of continual investment in the integrity of the campus was underlined during the year when a fire occurred at the McCulloch Hall student residence. Fortunately, the School had invested \$4 million in life safety improvements at McCulloch in fiscal 2009. Although the building was heavily damaged by the fire, there were no personal injuries.

Planning for Future Innovation

The School's financial plan for fiscal 2011 reflects uncertainty in the economy, as well as headwinds specific to three of our four largest sources of income. HBP outperformed our expectations overall in fiscal 2010, but it is unclear how the publishing revenue mix will evolve over the next year or two, given the challenging market environment and forecasts for a slow economic recovery. While HBP's top line is budgeted to stay essentially level in fiscal 2011, we expect that publishing expenses will grow as fixed and variable costs catch up to the revenue level achieved in fiscal 2010. As a result, HBP's operating margin contribution is likely to be

somewhat constrained in the year ahead. Executive Education produced solid results this year, but constraints related to facilities and the faculty could negatively affect the School's competitive position in the near term.

Income from gifts and the endowment cannot be counted on to fill the void. Although unrestricted current use giving increased in fiscal 2010, the future growth trajectory is clouded by the uncertain state of the economy. We have greater visibility into future endowment income, and the picture is not positive. HBS was informed by the University more than a year ago that the School's fiscal 2011 endowment distribution will decline 4 percent year-over-year, reflecting the drop in the value of the endowment in fiscal 2009.

In light of these challenges, our fiscal 2011 financial plan forecasts that total revenues will be flat year-over-year. Nonetheless, the School's pursuit of strategic initiatives will remain as energetic as ever. Total expenses for fiscal 2011 are budgeted to rise by \$39 million, or 9 percent, from fiscal 2010. A key priority for this additional spending is to support significant growth in the faculty's research activity around the world. Next year's budget also anticipates initial spending for long-term I.T. projects aimed at upgrading the School's MBA course delivery and student information systems, as well as rising employee benefits expense. In addition, we are planning to further increase the School's investments in MBA curriculum innovation and fellowship support for students.

Under Dean Nohria's leadership, HBS is developing a bold set of strategic plans for the next few years, and initial funding for these initiatives is planned for fiscal 2011 as well. The innovations that emerge may lead over time to greater emphasis on field-based and collaborative learning in the MBA program. This could significantly affect both the MBA program operating model and, over a period of time, our long-term capital plan.

The School's budget for fiscal 2011 also provides HBP and Executive Education with the additional resources they need to continue navigating their dynamic, highly competitive markets while fulfilling their core roles at HBS. These roles are twofold: first, to leverage the faculty's research to influence the practice of management on a larger scale; and second, to contribute margins that provide the School with revenue for operations. HBP will continue to invest in new eLearning products and in platform technology that better positions the School to serve customers online. Direct and indirect expenses for Executive Education are also expected to rise in line with the growing importance of global programs and higher enrollment.

The School's capital investments for fiscal 2011 are budgeted to grow 57 percent year-over-year to \$22 million. Executive Education's need for updated space will drive a significant share of this spending. The University has approved the School's plan to invest \$100 million to construct Tata Hall, a new Executive Education academic and residence hall, for which philanthropic entities of India's Tata Group have pledged \$50 million—the largest gift from an international donor in the history of the School. As well, HBS will make a \$15 million investment in the new Harvard Innovation Lab to nurture game-changing ideas from across the Harvard community. The lab is scheduled to open in fall 2011 in a building adjacent to the HBS campus that formerly housed public broadcasting's WGBH.

HBS begins fiscal 2011 well-prepared to take on big challenges. The School's reserves balance provides the funds necessary to support ambitious campus renewal and construction initiatives. Our revenue forecast and expense budget are, we believe, appropriately conservative for an uncertain economy. We remain committed to thoughtful stewardship of the School's resources in the year ahead.



Richard P. Melnick, MBA 1992
Chief Financial Officer

01 OCT 2010

STATEMENT OF ACTIVITY & CASH FLOWS*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2010	2009	2008
MBA Tuition & Fees	\$ 92	\$ 84	\$ 82
Executive Education Tuition	113	107	106
Publishing	135	137	139
Endowment Distribution	101	113	94
Unrestricted Current Use Gifts	13	12	14
Housing, Rents, & Other	11	13	9
Interest Income	2	6	7
Total Revenues	\$ 467	\$ 472	\$ 451
Expenses			
Salaries & Benefits	\$ 203	\$ 212	\$ 206
Publishing & Printing	51	52	53
Space & Occupancy	41	42	42
Supplies & Equipment	9	12	11
Professional Services	22	31	29
Fellowships	35	33	26
University Assessments	15	13	12
Debt Service	7	6	7
Other Expenses	32	37	37
Total Expenses	\$ 415	\$ 438	\$ 423
Cash from Operations	\$ 52	\$ 34	\$ 28
Use of Endowment Gifts or Appreciation	13	11	41
Cash Before Capital Activities	\$ 65	\$ 45	\$ 69
Capital Expenses	\$ (14)	\$ (19)	\$ (40)
Use of Gifts for Capital Projects	3	0	5
Net Capital Expenses	\$ (11)	\$ (19)	\$ (35)
New Borrowings	\$ 0	\$ 3	\$ 22
Debt Principal Payments	(7)	(5)	(9)
Other Activity	(44)	(7)	(33)
Net Debt & Other	\$ (51)	\$ (9)	\$ (20)
Change in Unrestricted Reserves	\$ 3	\$ 17	\$ 14
Beginning Balance, Unrestricted Reserves	\$ 96	\$ 79	\$ 65
Ending Balance, Unrestricted Reserves	\$ 99	\$ 96	\$ 79

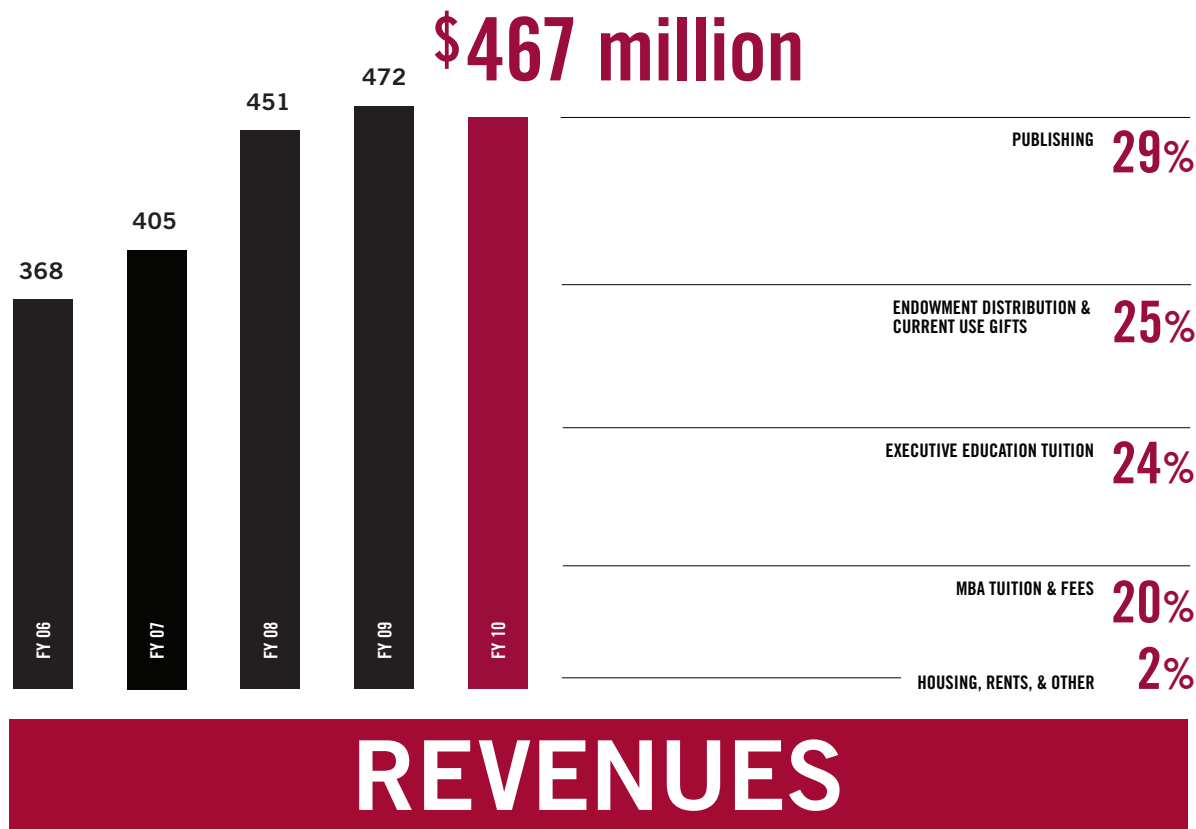
CONSOLIDATED BALANCE SHEET

FOR THE FISCAL YEAR ENDED JUNE 30,

Assets (in millions)	2010	2009	2008
Cash	\$ 10	\$ 8	\$ 14
Unrestricted Reserves	99	96	79
Receivables, Loans, & Other Assets	235	161	176
Invested Funds:			
Endowment Investments	2,154	1,971	2,804
Current Fund Investments	35	33	27
Interest in Trusts Held by Others	122	113	140
Facilities, Net of Accumulated Depreciation	432	444	444
Total Assets	\$ 3,087	\$ 2,826	\$ 3,684
Liabilities			
Deposits, Advances, & Other	\$ 45	\$ 37	\$ 38
Deferred Revenue	59	52	63
Other Debt Owed to University	26	26	29
Building Debt	112	119	121
Total Liabilities	\$ 242	\$ 234	\$ 251
Composition of Net Assets			
Unrestricted Reserves	\$ 99	\$ 96	\$ 79
Undistributed Income & Other	8	5	18
Pledge Balances	97	39	33
Student Loan Funds	10	10	10
Investment in Facilities	320	325	322
Endowment & Other Invested Funds	2,311	2,117	2,971
Total Assets Net of Liabilities	\$ 2,845	\$ 2,592	\$ 3,433

* The Statement of Activity & Cash Flows presents a managerial view of Harvard Business School operations focused primarily on cash available for use. It is not intended to present the financial results in accordance with generally accepted accounting principles (GAAP). A presentation in accordance with GAAP would report higher operating revenues for gifts and endowment distribution and would include depreciation expense, yielding income from operations of \$46 million in fiscal 2010. Cash flows, however, would be equivalent under GAAP.

supplemental financial information



Harvard Business School funds its operations with a mix of revenue sources that is unique among Harvard University schools and in higher education. Two of the School's business units—Harvard Business Publishing (HBP) and Executive Education—typically generate more than 50 percent of total annual revenues, making HBS less reliant on its endowment than other schools.

HBP and Executive Education not only contribute income for operations but also enable the School to influence the practice of management on a

larger scale. Faculty research at HBS is funded primarily by the School, not by outside sponsors such as government agencies, foundations, and corporations. Unimpeded by the constraints associated with external funding, HBS faculty are free to pursue the research opportunities they believe have the greatest potential to create new knowledge.

The School globally disseminates the intellectual capital produced by the faculty through Executive Education programs and HBP's portfolio of magazines, books, cases, and

eLearning products. Completing the self-sustaining cycle, margin contributions from HBP and Executive Education serve as the primary sources of funding for the faculty's research.

Revenues generated by HBP and Executive Education are sensitive to long-term trends in the economy and the capital markets. The School's endowment distribution revenues follow a similar pattern. In fiscal years such as 2010, however, short-term dynamics can affect each of these sources of income in different ways.

Reflecting investment losses in the prior year, the School's fiscal 2010 endowment distribution revenue fell by \$12 million from fiscal 2009. The recessionary slowdown in customer demand for some publishing products reduced HBP's revenue by \$2 million. Interest income and revenue in the Housing, Rents, & Other category also fell, decreasing by approximately \$6 million on a combined basis.

These declines, however, were nearly offset by better-than-expected performance in other areas. Executive Education and MBA tuition and fees revenues rose by a combined \$14 million, reflecting higher enrollments and increases in tuition and fees. In addition, revenue from unrestricted current use gifts grew by \$1 million. As a result, total revenues declined by only \$5 million to \$467 million, or 1 percent, in a challenging year, demonstrating how diversity at the top line adds strength, consistency, and predictability to the School's business model.

MBA Tuition and Fees

Tuition and fees revenue from the School's core academic program grew to \$92 million in fiscal 2010, from \$84 million in fiscal 2009. This increase reflected a rise in total MBA enrollment of 55 students, or 3 percent, from the prior year. The School continues to set tuition at levels that recover rising program delivery costs and investments designed to enrich the HBS educational experience.

First-year MBA tuition in fiscal 2010 was \$46,150—near the midpoint among the seven comparable schools tracked by the School—compared with \$43,800 last year. MBA tuition and fees amounted to 20 percent of the School's total revenues in fiscal 2010, compared with 18 percent a year earlier.

Executive Education

Fiscal 2010 was a strong year for Executive Education as tuition revenue grew nearly 6 percent to \$113 million, from \$107 million in fiscal 2009.

This represented 24 percent of the School's total revenue, compared with 23 percent last year. Total applications to open enrollment and custom programs were roughly flat from the prior year at nearly 11,800. But total Executive Education enrollment increased by nearly 400, or 5 percent, to approximately 8,700, after falling by more than 1,100 in fiscal 2009.

Harvard Business Publishing

Total HBP revenue decreased by \$2 million, or 1 percent, in fiscal 2010 to \$135 million, from \$137 million last year. The publishing operation generated 29 percent of the School's total revenue, the same percentage as in fiscal 2009. Growth in sales of eLearning products nearly offset declines in advertising and circulation revenue at *Harvard Business Review* (HBR). Reflecting continued stability in the academic market, sales of Harvard Business Press books and HBS cases and teaching materials were flat with the prior year.

Gifts and Endowment

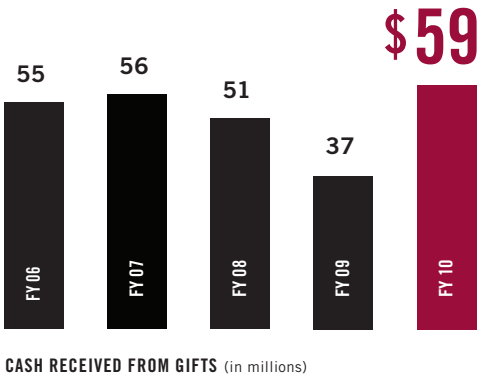
Revenue from gifts to HBS—in the form of endowment distributions and unrestricted current use giving—totaled \$114 million in fiscal 2010,

and represented 25 percent of total revenue—a smaller percentage than at most other Harvard schools. The University's Faculty of Arts and Sciences, for example, relied on endowment distributions and current-use gifts to support 58 percent of its operating budget for fiscal 2010.

Nonetheless, income from gifts is crucial to the School's business model, and fiscal 2010 was a strong year for fundraising at HBS. Generous supporters gave \$130 million in new gifts and pledges—the second highest annual total in the history of the School. Total cash received from gifts grew 60 percent to \$59 million, from \$37 million in fiscal 2009. This included new endowment gifts and gifts for capital projects, and payments on prior years' pledges, as well as restricted and unrestricted current use giving.

Although unrestricted current use gifts have represented only about 3 percent of total revenue for the past two years, they provide crucial funding for new initiatives and remain a key fundraising priority for the School. Revenue from unrestricted current use gifts rebounded in fiscal 2010, rising 8 percent to \$13 million after falling 14 percent to \$12 million

Gifts Received (in millions)	FY 10	FY 09
Endowment	\$ 33	\$ 18
Restricted Current Use	13	7
Unrestricted Current Use	13	12
Total	59	37



during the market collapse in fiscal 2009.

HBS received gifts and pledges of all types from more than 12,900 donors during the year, including MBA, Doctoral, and Executive Education alumni, as well as other friends of the School. More than 27 percent of the School's MBA alumni gave to HBS in fiscal 2010, compared with 24 percent in fiscal 2009.

The School's endowment distribution revenue fell by \$12 million, or 11 percent, from last year to \$101 million. This decline reflected the University's decision to reduce the percentage of investment returns made available for operations in light of the drop in the endowment's market value in fiscal 2009. The actual decline in the School's fiscal 2010 endowment distribution was \$3 million less than initially budgeted, however, due to diligent efforts to minimize unspent fund balances during the year. Endowment distribution represented approximately 22 percent of the School's total revenue in fiscal 2010, compared with 24 percent in fiscal 2009.

After the fiscal 2010 distribution, the School's endowment and current use funds totaled \$2.3 billion at year-end, up by \$194 million, or 9 percent,

from \$2.1 billion at June 30, 2009. The increase in the market value of the endowment for fiscal 2010 reflects \$33 million in endowment gifts received by HBS during the year—up from \$18 million in fiscal 2009—as well as net appreciation in endowment principal of \$161 million after subtracting the annual distribution and decapitalizations.

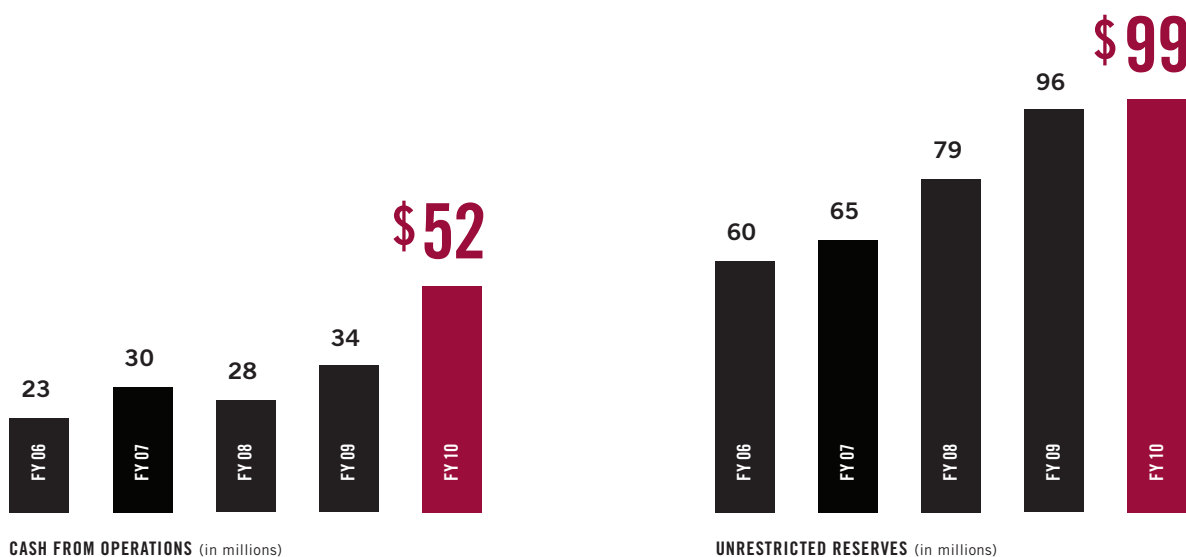
Like other Harvard University schools, HBS raises its own endowment and current use funds. The School independently budgets the use of endowment distributions to support operations according to the terms of each gift. The HBS endowment, along with those of the other Harvard schools, is managed by Harvard Management Company (HMC), a subsidiary governed and wholly owned by the University. The absolute return on the University's pooled investments, including the endowment, was +11.0 percent in fiscal 2010, net of all expenses and fees, compared with -27.3 percent for fiscal 2009.

The HBS endowment comprises more than 1,000 discrete funds established over the years by individual donors, corporations, and reunion classes. Although most endowment gifts are made in perpetuity, allowing little or no access to principal, some allow

access to principal to provide the School flexibility in achieving the purposes for which they were designated. In addition, the School occasionally draws on capital appreciation associated with prior-year gifts. Funds from these decapitalizations are used to support key initiatives in keeping with donor intentions.

Harvard determines the amount that can be prudently be drawn from the endowment to spend in any given year. The payout rate reflects past endowment performance and HMC's projections of future investment return, consistent with the goal of providing the Harvard schools with a reliable stream of operating income over the long term. In the years before the 2008 financial crisis, the University's long-term target was to distribute between 5 and 5.5 percent of the endowment's year-end market value annually. This distribution included an assessment of 0.5 percent of the market value to cover a portion of University central administration costs.

Given the unprecedented drop in the value of the endowment in fiscal 2009, the University decided to temporarily exceed the range of 5–5.5 percent in order to continue providing the Harvard schools with sufficient income for operations. This in-



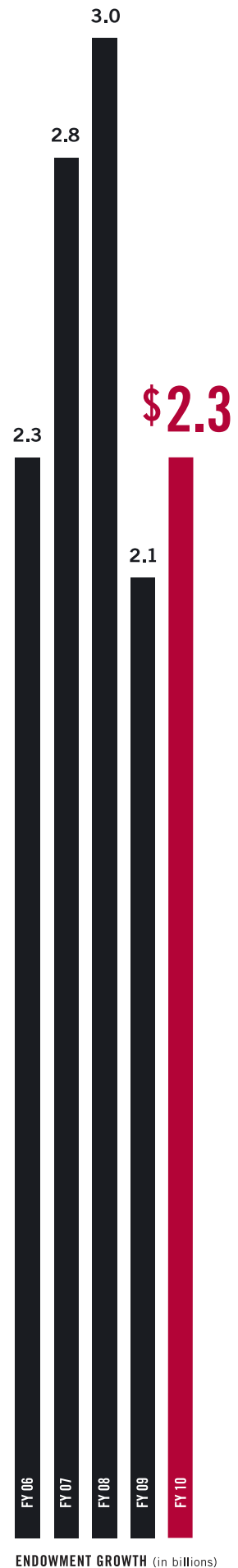
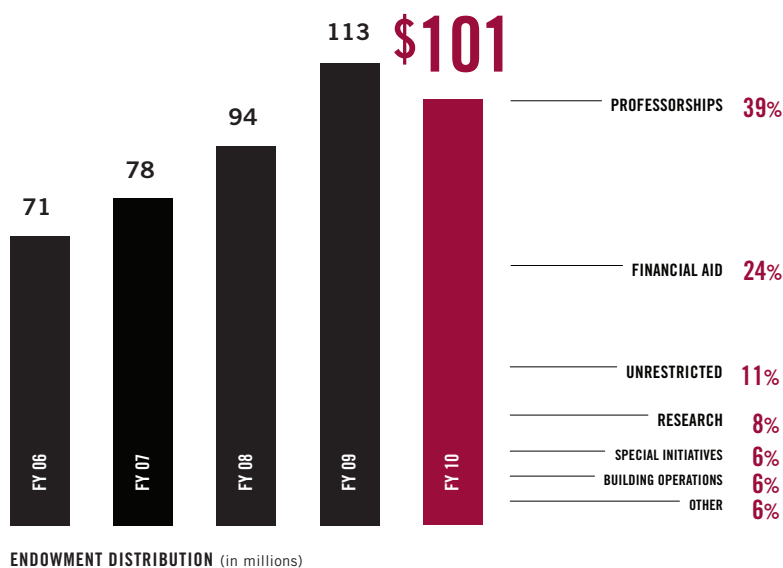
creased the spending percentage for fiscal 2010 to 6.1 percent. In an effort to return closer to the long-term target, midway through fiscal 2010 the University decided to reduce the endowment distribution for the upcoming 2011 fiscal year. As a result, although the endowment's fiscal 2010 return totaled +11.0 percent, the School's endowment distribution for fiscal 2011 is budgeted to decline from the prior year by \$4 million, or 4 percent.

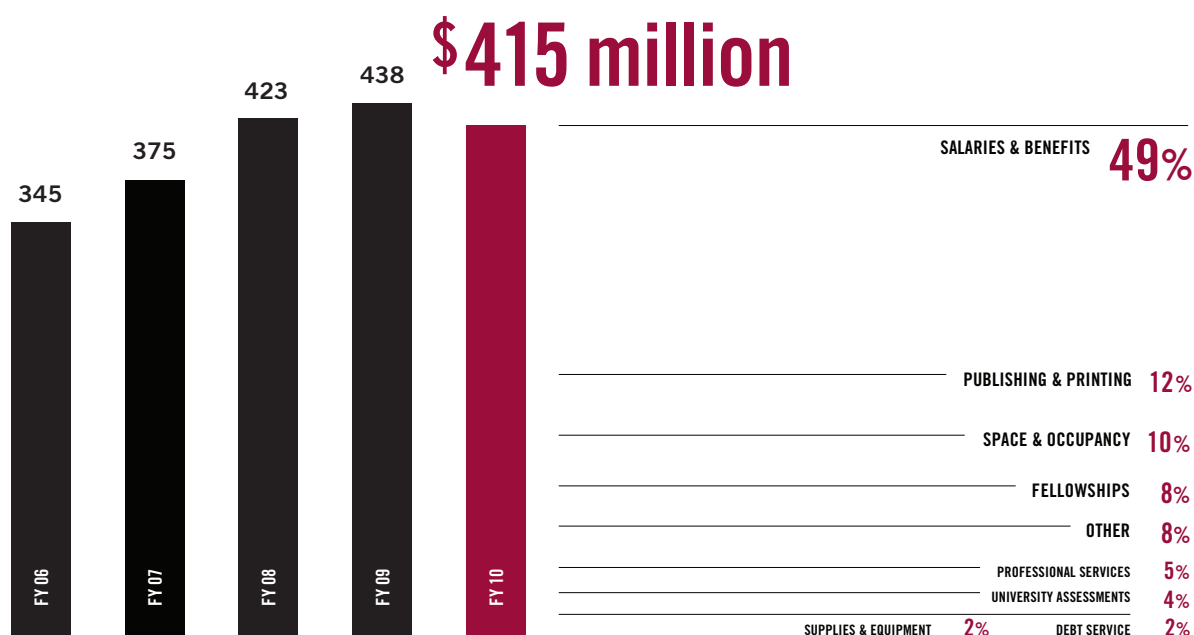
Other Revenues

Revenue in the Housing, Rents, & Other category declined by \$2 million, or 15 percent, in fiscal 2010 to \$11 million. This marked a return to normal revenue levels following a strong fiscal 2009 driven by fees related to the Global Business Summit hosted by HBS in fall 2008. The School's interest income also fell in fiscal 2010, dropping by \$4 million, or 67 percent, to \$2 million due to lower interest rates.

Endowment Returns	Harvard Endowment	TUCS*
FY10	11.0%	13.3%
FY09	-27.3	-18.2
FY08	8.6	-4.4
FY07	23.0	17.7
FY06	16.7	10.8
FY05	19.2	10.5
FY04	21.1	16.2
FY03	12.5	4.0
FY02	-0.5	-5.9
FY01	-2.7	-5.7
5-Year Growth	4.7%	3.1%
10-Year Growth	7.0%	3.4%

* Trust Universe Comparison Service





EXPENSES

In anticipation of declining revenues, the School's expense budget for fiscal 2010 was \$18 million lower than actual spending for fiscal 2009, and \$40 million lower than initially budgeted for that year. Driven by the aggressive efforts of HBS faculty and staff to cut costs wherever possible, the School's actual spending came in \$5 million under budget in fiscal 2010. Total operating expenses for fiscal 2010 decreased by \$23 million, or 5 percent, to \$415 million, from \$438 million in fiscal 2009.

HBS designed the fiscal 2010 ex-

pense budget to align the School's cost structure with an environment of revenue constraints, while protecting key priorities—academic programs, faculty research, and strategic initiatives—to the greatest extent possible. For the purpose of managing the School's expenses, the functional areas that support these priorities cut across several line items in the School's Statement of Activity & Cash Flows.

Faculty research expense includes a significant portion of faculty salaries and benefits, as well as direct costs

for research support staff and travel. Also included in the cost of faculty research are allocated expenses for the School's network of global research centers, as well as library resources, campus facilities, technology, and administration. When viewed in this way, the School's total investment in faculty research for fiscal 2010 was \$92 million, compared with \$97 million in fiscal 2009, driven in part by the 4 percent reduction in the size of the faculty.

As another example, expenses charged to HBP and Executive Edu-

cation include direct costs for staff compensation, specialized outside professional services in areas such as I.T. and marketing, and residence expenses for executive program participants. The School's calculation of margin contributions to operations from these revenue-generating business units reflects these expenses.

Salaries & Benefits

The largest item in the School's expense budget, salaries and benefits expense, fell by \$9 million in fiscal 2010, or 4 percent, to \$203 million, from \$212 million in fiscal 2009. The key reason for the decline was a year-over-year reduction in the number of faculty and staff positions across the School, which offset growth in benefits expense and costs related to faculty retirements. The total number of faculty, as measured in full-time equivalents (FTEs), can rise or fall in any given year as a result of retirements, departures, and fluctuations in recruiting activity. As one of the cost-reduction measures initiated in fiscal 2009, the School cut back on the number of one-year appointments for fiscal 2010. Recruiting fewer visiting faculty and senior lecturers, combined with normal faculty retirements and departures, reduced the size of the faculty by 10 FTEs from fiscal 2009 to 218.

The School's restructuring initiatives also resulted in a significant year-over-year decline in total administrative FTEs. In addition to eliminating a large number of contract staff positions, through a combination of normal attrition, voluntary early retirements, and layoffs effective at the beginning of fiscal 2010, HBS reduced the size of its administrative FTE budget by 100 positions, or 8 percent, to 1,087, from 1,187 in fiscal 2009.

Fellowships

The prospect of entering the workforce with high levels of debt can deter strong MBA candidates from applying to HBS and restrict their career choices upon graduation. Con-

sequently, one of the School's key strategic priorities is to assist students in reducing their debt at graduation by ensuring that fellowship support, or financial aid, keeps pace with MBA tuition and fees. Over the past five fiscal years, the average two-year MBA fellowship award has grown from \$27,700 for the HBS Class of 2006 to \$45,700 for the Class of 2011.

Funding for fellowships comes primarily from restricted endowment giving by HBS alumni and friends. Although endowment distribution revenue declined from the prior year in fiscal 2010, the School identified MBA and doctoral financial aid as the only expense item that would not be affected by budget cuts. The School relied on other sources of funding to offset the decline in restricted endowment funding and support continued growth in fellowship spending during the year.

The School is also committed to expanding its investment in doctoral education. The number of doctoral candidates grew to 130 in fiscal 2010, from 120 in the prior fiscal year. Spending for doctoral fellowships, stipends, and research support increased commensurately. HBS also provides financial aid to a limited number of Executive Education participants to support the School's social mission. Funds for these fellowships are drawn from Executive Education operating revenues as well as gifts for this purpose. Financial aid for participants in the new focused program, Managing Healthcare Delivery, resulted in a year-over-year increase in Executive Education fellowship spending in fiscal 2010.

HBS treats spending for fellowships as an expense line item on the School's Statement of Activity and Cash Flows. The School's total financial aid spending for fiscal 2010, including fellowships for doctoral candidates and Executive Education participants, as well as MBA students, increased by \$2 million, or 6 percent, from fiscal 2009, to \$35 million.

I.T. Investment (in millions)

FY 10	\$ 40
FY09	55
FY08	46
FY07	37
FY06	28

Publishing & Printing

Publishing and printing expense includes HBP production costs as well as a small amount of spending to produce the School's other printed materials and publications. Although HBP continued its program of strategic investment in digital infrastructure and content in fiscal 2010, the unit's cost-cutting initiatives drove overall spending down for the second consecutive fiscal year. As a result, the School's total publishing and printing expenses declined by \$1 million from fiscal 2009 to \$51 million.

Space & Occupancy

The HBS campus includes 33 buildings encompassing more than 1.5 million square feet of occupied space. Space and occupancy expense includes costs related to maintaining and operating the School's buildings and associated campus infrastructure. In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy.

Also included in space and occupancy are expenses related to dining facilities and other campus services, as well as costs associated with leased space that houses HBP's operations. In addition, residence expenses for executive program participants—equivalent to cost of goods sold in Executive Education—are reported under this category. The School's fiscal 2010 expense reduction initiatives included cuts in campus-wide dining costs and the postponement of numerous small facilities projects. As a result, the School's total space and occupancy expenses decreased by \$1 million from fiscal 2009 to \$41 million.

Professional Services & Other Expenses

The School's fiscal 2010 restructuring and cost-cutting initiatives significantly reduced spending from fiscal 2009 in several other areas of the budget. Driven primarily by the elimination of contractor positions, professional services expenses declined by \$9 million, or 29 percent, to \$22 million. Expenses related to supplies and equipment fell by \$3 million, or 25 percent, and spending in the Other Expenses category decreased by \$5 million, or 14 percent, to \$32 million.

University Assessments

University assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. In fiscal 2010, the School's expenses in this area rose by \$2 million, or 15 percent, from the prior fiscal year to \$15 million. This marked the second consecutive year of increased University assessments, reflecting the decline in endowment income available to support the University's central administrative functions. Because University assessments are primarily calculated as a percent of the School's total expenses on a two-year lagged basis and total spending has declined during this period, expense for these assessments is budgeted to remain flat in fiscal 2011.

Debt Service

HBS has long been cautious in using debt, and with a building debt-to-asset ratio of 4.0 percent, the School's balance sheet remained modestly leveraged at year-end fiscal 2010. The University functions as a banker for HBS, as well as the other Harvard schools, allowing the School to borrow on a triple-A-rated tax-exempt basis. The School's building debt decreased by \$7 million to \$112 million in fiscal 2010, as there were no new borrowings and \$7 million of principal repayments. Other university debt—mainly consisting of repayment obligations to the University for mortgage loans made by the School as a faculty recruiting incentive—was flat with fiscal 2009 at \$26 million.

The School's debt service expense, which consists of interest payments to the University on this debt, increased in fiscal 2010 by \$1 million, or 17 percent, to \$7 million. As in fiscal 2009, debt service expenses were mainly associated with borrowings to finance campus expansion earlier in this decade. The interest portion of the School's debt service amounted to less than 2 percent of total operating expenses in fiscal 2010.

Cash Before Capital Expenses

HBS invests in capital projects and covers the related debt service primarily by using cash from operations. Cash from operations is largely a function of the margins generated by HBP and Executive Education and returns on the HBS endowment, offset by total expense levels reflecting the School's operational priorities. HBS also uses prior years' endowment gifts or appreciation, available to be spent pursuant to donor specifications, to fund capital investments and related debt service.

Although these sources of funding are sensitive to short-term economic and market trends, the School develops academic programs, adds faculty, manages its research activity, and invests in its revenue-generating businesses and campus infrastructure on a long-term basis. HBS also invests in unforeseen strategic opportunities as they arise. As a result, the School's cash from operations can fluctuate widely from year to year.

HBS began fiscal 2010 braced for a year of declining revenues with an expense budget substantially lower than initially planned for fiscal 2009. Driven by strong Executive Education and HBP results in the second half of the year, as well as actual expenses that came in under budget, actual revenues for fiscal 2010 exceeded the School's forecast by \$33 million.

Consequently, cash from operations increased from fiscal 2009 by \$18 million, or 53 percent, to \$52 million. In addition, use of cash from prior years' endowment gifts or appreciation contributed \$13 million to the School's cash flow in fiscal 2010, compared with \$11 million in fiscal 2009. As a result, cash before capital activities grew in fiscal 2010 by \$20 million, or 44 percent, to \$65 million, from \$45 million in fiscal 2009.

Net Capital Expenses

Consistent with the School’s campus planning processes, the last phase of significant campus investment at HBS concluded several years ago. Capital spending has generally declined since then. The School’s total capital expenses of \$11 million for fiscal 2010, net of gifts used for capital projects, compared with \$19 million for the prior year, and marked the probable low point for the foreseeable future. In the absence of any large capital construction or expansion projects in fiscal 2010, the School’s capital investments continued to focus on protecting the long-term value of the physical plant through the renewal and maintenance of buildings, campus infrastructure, and I.T. systems.

Building Debt Outstanding (in millions)	
FY 10	\$ 112
FY09	119
FY08	121
FY07	108
FY06	108

Net Debt & Other Expenses

In addition to gifts and internally generated cash, as well as unrestricted reserves, the School finances major capital projects with debt financed through the University, using leverage strategically as a means of optimizing its capital structure. HBS borrows only on qualified capital projects, carefully considering the interest rate environment, expectations for the performance of the Harvard endowment, and the availability of University debt.

The School’s new borrowings, which have generally declined for the past several years as capital spending has decreased, dropped to zero in fiscal 2010. At the same time, debt principal payments increased to \$7 million, from \$5 million in fiscal 2009. Other non-reserve activity increased significantly in fiscal 2010, primarily due to the transfer of \$50 million to the School’s endowment reserve in the summer of 2009.

This reserve was established several years ago with the goal of realizing long-term investment returns. As a result of this transfer, plus investment returns for the year, HBS concluded fiscal 2010 with an endowment reserve balance of \$149 million, up from \$85 million a year earlier. Together with the School’s debt principal payments in fiscal 2010, the transfer to the endowment reserve resulted in a \$51 million decline in the Net Debt & Other category for the year.

**Ending Balance/
Unrestricted Reserves**

HBS relies on unrestricted reserves to finance major campus expansion projects and capitalize on unforeseen strategic opportunities, along with a mix of internally generated cash, gifts, and debt. Because more than 50 percent of revenues come from business units that are highly sensitive to the economy, maintaining a strong unrestricted reserves balance is integral to financial planning at HBS and to the School’s ability to execute its mission over the long term. Fueled primarily by strong cash from operations in fiscal 2010, which more than offset funds transferred to the endowment reserve, the School’s year-end reserves balance grew by \$3 million to \$99 million.

This document is intended to provide insight into the way Harvard Business School manages its resources and plans strategically for its future. Further information about the School can be found at www.hbs.edu.

This report can be viewed or downloaded at www.hbs.edu/annualreport.

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We welcome questions and comments from our readers. Please direct correspondence to Richard Melnick, Chief Financial Officer: rmelnick@hbs.edu or to the Office of the Dean: officedean@hbs.edu.

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