OCLC Online Computer Library Center, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2011 and 2010, and
Independent Auditors' Report

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010:	
Balance Sheets	2
Statements of Revenues, Expenses, and Corporate Equity	3
Statements of Cash Flows	4–5
Notes to Financial Statements	6–22

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
OCLC Online Computer Library Center, Inc.:

We have audited the accompanying consolidated balance sheets of OCLC Online Computer Library Center, Inc. and its subsidiaries (collectively, the "Corporation") as of June 30, 2011 and 2010, and the related consolidated statements of revenues, expenses, and corporate equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 1, 2011

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,983,200	$ 19,746,000
Short-term investments	10,555,300	17,060,000
Mutual funds	26,555,700	11,941,400
Government securities	16,942,800	26,729,700
Corporate notes and bonds	15,767,800	19,485,800
Equity securities	112,734,600	88,514,700
Hedge fund	11,761,700	10,797,400
Receivables — net	32,700,700	34,379,500
Prepaid expenses and other	8,831,900	10,531,200
Total current assets	259,833,700	239,185,700
FIXED ASSETS — At cost — less accumulated depreciation and amortization	118,043,200	115,271,800
OTHER ASSETS	7,810,900	8,430,100
TOTAL	$385,687,800	$362,887,600
LIABILITIES AND CORPORATE EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	$ 10,822,600	$ 8,654,700
Accounts payable	4,389,800	4,370,500
Accrued liabilities	19,434,600	19,638,200
Advance subscription payments	23,037,600	17,231,200
Unearned revenue	35,589,300	36,502,500
Total current liabilities	93,273,900	86,397,100
LONG-TERM DEBT AND CAPITAL LEASES — Less current portion	38,006,500	49,563,700
OTHER NONCURRENT LIABILITIES	14,745,100	17,339,100
CORPORATE EQUITY	239,662,300	209,587,700
TOTAL	$385,687,800	$362,887,600

See notes to consolidated financial statements.

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CORPORATE EQUITY FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES	$ 205,618,900	$ 228,095,100
OPERATING EXPENSES:		
Salaries, wages, and related fringe benefits	115,727,100	120,121,000
Selling, general, and administrative	35,480,100	35,953,600
Library services	27,318,300	45,248,000
Depreciation and amortization	22,594,500	27,661,500
Building and utilities	8,393,000	8,670,800
Total operating expenses	209,513,000	237,654,900
DEFICIT OF REVENUES OVER OPERATING EXPENSES	(3,894,100)	(9,559,800)
OTHER INCOME (EXPENSE):		
Investment income	17,774,400	14,586,400
Interest expense	(2,229,000)	(2,635,100)
Income taxes	(534,900)	(1,261,100)
Gain on sale of product lines		22,488,900
Miscellaneous — net	(24,500)	(221,400)
Total other income	14,986,000	32,957,700
EXCESS OF REVENUES OVER EXPENSES	11,091,900	23,397,900
NET CHANGE IN UNREALIZED GAIN ON INVESTMENTS	13,991,700	8,387,000
POSTRETIREMENT BENEFIT PLAN ADJUSTMENT	3,757,800	1,402,800
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	1,233,200	(710,000)
INCREASE IN CORPORATE EQUITY	30,074,600	32,477,700
CORPORATE EQUITY — Beginning of year	209,587,700	177,110,000
CORPORATE EQUITY — End of year	$ 239,662,300	$ 209,587,700

See notes to consolidated financial statements.

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 11,091,900	$ 23,397,900
Adjustments for non-cash items:		
Depreciation and amortization	22,594,500	27,661,500
Gain on sale of product lines		(22,488,900)
Realized gain on sale of investments	(12,867,000)	(11,263,200)
Other-than-temporary declines in investments	455,500	1,686,000
Loss (gain) on convertible debt	(370,800)	140,700
Loss on disposal of fixed assets	236,800	1,166,800
Changes in assets and liabilities:		
Decrease in receivables	1,701,700	6,478,100
Decrease (increase) in other assets	2,139,100	(372,200)
Increase (decrease) in accounts payable	47,500	(1,104,400)
Increase (decrease) in accrued liabilities, unearned revenue, and other	5,303,000	(3,281,500)
Net cash provided by operating activities	30,332,200	22,020,800
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital leases	(10,101,200)	(34,126,800)
Proceeds from long-term debt and capital leases		30,000,000
Proceeds from line of credit	1,292,200	1,879,300
Payments on line of credit	(1,292,200)	(1,879,300)
Debt issuance costs		(169,400)
Net cash used in financing activities	(10,101,200)	(4,296,200)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(126,797,300)	(149,745,800)
Proceeds from sale of investments	134,250,400	130,385,600
Purchases of fixed assets	(8,160,200)	(9,514,100)
Capitalization of internal use software	(8,591,700)	(7,679,500)
Proceeds from sale of product lines		9,342,400
Acquisition of BOND	(5,915,400)	
Other — net	(1,792,000)	1,764,700
Net cash used in investing activities	(17,006,200)	(25,446,700)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,012,400	(935,300)

(Continued)

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 4,237,200	$ (8,657,400)
CASH AND CASH EQUIVALENTS — Beginning of year	19,746,000	28,403,400
CASH AND CASH EQUIVALENTS — End of year	$ 23,983,200	$ 19,746,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 2,274,400	$ 2,833,000
Fixed asset additions financed by accounts payable	$ 680,500	$ 708,700
Property acquired by capital lease	$ 44,600	$ 136,200
ACQUISITION OF BOND:		
Fair value of assets acquired	$ 6,959,500	
Liabilities assumed	(1,044,100)	
CASH PAID	$ 5,915,400	
SALE OF PRODUCT LINES:		
Assets disposed — net		$ 5,316,100
Liabilities transferred		(18,462,600)
Gain on sale		22,488,900
CASH RECEIVED		$ 9,342,400

See notes to consolidated financial statements. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

OCLC Online Computer Library Center, Inc. (OCLC or the "Corporation") is a nonprofit corporation organized to establish, maintain, and operate an international computerized network of bibliographic cataloging services for libraries and to promote the evolution of library use. The accumulated excess of revenues over expenses (corporate equity) cannot be distributed to the members. OCLC's corporate equity is unrestricted. In the event of dissolution, the Board of Trustees is to adopt a plan for distribution of remaining assets that is consistent with the purpose of OCLC. OCLC generally provides services to its members on a contract basis. The significant accounting policies of OCLC and its subsidiaries are set forth below:

Principles of Consolidation — The consolidated financial statements include the accounts of OCLC and its wholly owned for-profit subsidiaries, OCLC Information Distribution, Inc. (OID), DiMeMa, Inc., and OCLC EMEA B.V. and subsidiaries. Operating revenues for OCLC's wholly owned for-profit subsidiaries were $38,270,400 and $40,104,900 and expenses were $36,611,400 and $39,706,800 for the years ended June 30, 2011 and 2010, respectively. Intercompany transactions have been eliminated in consolidation. See Notes 7, 8, and 9, regarding the sale of Preservation Resources, the sale of NetLibrary, and the acquisition of B.O.N.D. GmbH & Co. KG, respectively.

Cash and Cash Equivalents — All highly liquid debt investments with an original maturity of three months or less at the time of purchase are considered cash equivalents and are stated at cost, which approximates market. Cash is primarily held in two banks and is invested into money market funds nightly.

Investments — Short-term investments, mutual funds, government securities, corporate notes and bonds, and equity securities are stated at fair value. Fair values for these investments are based on market quotes. Hedge fund consists of an investment in a "fund of funds" which is also stated at fair value. Fair value for this investment is based upon a combination of inputs ranging from market quotes to management estimates. Fair value changes are reported as unrealized gains and losses and recorded within the changes of corporate equity. Realized gains and losses are calculated based on the specific identification method. Realized gains and losses and other-than-temporary declines in market value from original cost are included in investment income in other income (expense).

Revenue Recognition — Member service revenues are recognized at the time services are provided and include services to locate, acquire, catalog, lend, and preserve library materials. Software license and consulting revenues are recognized at the time software is shipped and services are provided, or according to contract terms in the case of customized installations and system maintenance billings. Certain revenues to acquire access to reference content on behalf of libraries are recorded net of associated database acquisition costs. Unearned revenue and advance subscription payments represent monies advanced to OCLC by members, participating libraries, and certain independent regional service providers in the United States and are recognized as revenues when the service is provided. Transaction based member participation credits (2011 — $13,345,600; 2010 — $7,677,100) are issued to libraries for services provided to OCLC for the benefit of the cooperative and are recorded as an expense rather than a reduction of revenue.

Use of Estimates — The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires, in certain instances, the use of estimates. Actual results could differ from these estimates.

Depreciation and Amortization — Depreciation is provided using straight-line and accelerated methods at rates based on the estimated useful lives of the equipment and improvements (3 to 20 years) and buildings (30 to 40 years). Costs incurred and premiums received in connection with the issuance of revenue bonds are amortized and accreted, respectively, using the effective interest method over the terms of the respective bonds.

Software and Goodwill — The cost of purchased software is capitalized and amortized using the straight-line method over the estimated economic useful lives (3 to 15 years). OCLC capitalizes the costs associated with purchased databases, enhancements, and certain internal use software costs once certain criteria are met. These costs are amortized using the straight-line method (3 to 15 years). At each consolidated balance sheet date, management compares the carrying value of capitalized software to the net realizable value of the software, and the carrying value in excess of future discounted cash flows is expensed currently.

Effective July 1, 2010, OCLC adopted the Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions, an Amendment to Accounting Standard Topic 958, Not-for-Profit Entities*. The amendment in this update is effective prospectively for fiscal years beginning after December 15, 2009. As a result of implementing this standard, OCLC is required to test goodwill for impairment annually instead of expensing amortization. Net book value of goodwill was $2,644,500 and $2,579,100 at June 30, 2011 and 2010, respectively. At June 30, 2011, no goodwill impairment was deemed to exist and changes in net book value between the years exist solely due to foreign currency fluctuations.

Research and Development — Research and development costs (principally salaries and related fringe benefits), approximating $21,414,000 and $20,996,000 for fiscal years 2011 and 2010, respectively, are charged to operations as incurred.

Income and Other Taxes — OCLC is tax exempt in the United States of America under the appropriate sections of the Internal Revenue Code and various sections of state and local tax statutes, and, accordingly, no provision for federal, state, or local income taxes is currently required for its operations. OCLC EMEA B.V., OID, and DiMeMa, Inc., are not exempt from federal, state, local, or foreign income taxes.

The asset and liability method is used for financial accounting and reporting of income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which differences are expected to affect taxable income. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Accounting Standards Codification (ASC) 740-10, *Income Taxes*. ASC 740-10 addresses the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more-likely-than-not" for recognition of tax positions taken or expected to be taken in a tax return. ASC 740-10 also provides related guidance on measurement, classification, interest and penalties, and disclosure. OCLC evaluated its tax positions at June 30, 2011 and 2010, in accordance with ASC 740-10. Based on this evaluation, OCLC determined that there was no material impact to the Corporation's consolidated financial statements as a result of the adoption of ASC 740-10.

Foreign Currency Translation — The local currency has been designated as the functional currency for operations in Australia, Canada, France, Germany, the Netherlands, Switzerland, and United Kingdom. Income and expense items are translated at the average monthly rate of exchange. Assets and liabilities are translated at the rate of exchange on the consolidated balance sheet dates with the resultant translation gains or losses included as a separate component of corporate equity. Corporate equity includes net cumulative translation gains of $9,653,600 and $8,420,400 at June 30, 2011 and 2010, respectively.

Self-Insurance Programs — OCLC uses various self-insurance plans for certain of its medical insurance programs in the United States of America. The associated liability has been recorded in the consolidated financial statements based on information currently available as to the estimated ultimate cost for incidents prior to the consolidated balance sheet dates. Losses in excess of certain limits are insured with third-party insurance companies.

2. INVESTMENTS

In accordance with ASU 958, *Not-For-Profit Entities*, debt and equity investments are carried at their fair values with related unrealized gains and losses on the portfolio reflected in the change in net equity. Realized gains and losses are included in investment income.

OCLC invests available cash in major banks, short-term bond fund investments, mutual funds, federal, state, and local government obligations and investment grade debt, a hedge fund, and equity securities. Market risk is reduced by investing funds in maturities that match anticipated short- and long-term cash needs and by investing in diversified industries and markets, both domestic and international. All investments are held in safekeeping by trustees and are reflected in the consolidated balance sheets as cash equivalents, short-term investments, mutual funds, government securities, corporate notes and bonds, hedge fund, and equity securities.

Realized gains and losses related to investments are recorded using the specific identification method. Net unrealized gains on the portfolio totaled $23,348,600 and $9,356,900 at June 30, 2011 and 2010, respectively. The following schedule details investment returns for the years ended June 30, 2011 and 2010:

	2011	**2010**
Dividends and interest income	$ 4,992,100	$ 5,149,900
Net realized gains	12,867,000	11,263,200
Other-than-temporary impairment	(455,500)	(1,686,000)
Gain (loss) from equity contracts	370,800	(140,700)
Investment income	17,774,400	14,586,400
Net change in unrealized gain on investments	13,991,700	8,387,000
Total net investment return	$ 31,766,100	$ 22,973,400

OCLC reviews its portfolio for other-than-temporary impairment each fiscal year end. The investment securities portfolio is generally evaluated for other-than-temporary impairment with consideration given to: 1) the length of time and extent to which the fair value has been less than cost, 2) the financial condition and near-term prospects of the issue, and 3) the intent and ability to retain a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Debt securities held by OCLC are recorded in accordance with the provisions of ASC 320, *Investments — Debt and Equity Securities*. For those debt securities for which the fair value of the security is less than its amortized cost and OCLC does not intend to sell such security and it is not more likely than not that it will be required to sell such security prior to the recovery of its amortized cost basis less any credit losses, ASC 320 requires that the credit component of the other-than-temporary impairment losses be recognized in investment income (loss) while the noncredit component is recognized in corporate equity.

The following table of temporarily impaired securities shows the gross unrealized losses and fair value, aggregated by investment category and length of time those securities have been in a continuous unrealized loss position, at June 30, 2011 and 2010:

2011

Description of Temporarily Impaired Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Government securities	$ 749,300	$ (53,100)	$119,600	$(17,600)	$ 868,900	$ (70,700)
Corporate notes and bonds	1,356,600	(24,000)			1,356,600	(24,000)
Total debt securities	2,105,900	(77,100)	119,600	(17,600)	2,225,500	(94,700)
Preferred stock	524,000	(11,800)			524,000	(11,800)
Common stock	24,298,900	(2,226,200)	123,500	(8,500)	24,422,400	(2,234,700)
Total equity securities	24,822,900	(2,238,000)	123,500	(8,500)	24,946,400	(2,246,500)
Mutual fund	1,856,300	(62,200)			1,856,300	(62,200)
Total temporarily impaired securities	$28,785,100	$ (2,377,300)	$243,100	$(26,100)	$29,028,200	$(2,403,400)

2010

Description of Temporarily Impaired Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Government securities	$ 1,376,500	$ (2,700)	$ 31,700	$ (8,300)	$ 1,408,200	$ (11,000)
Corporate notes and bonds	1,515,100	(56,600)	91,600	(14,800)	1,606,700	(71,400)
Total debt securities	2,891,600	(59,300)	123,300	(23,100)	3,014,900	(82,400)
Common stock	38,309,800	(5,539,100)	56,500	(5,700)	38,366,300	(5,544,800)
Total temporarily impaired securities	$41,201,400	$ (5,598,400)	$179,800	$(28,800)	$41,381,200	$(5,627,200)

At June 30, 2011, the Corporation owned the following securities that had unrealized losses: 10 government securities, 34 corporate notes and bonds, 13 preferred stocks, 513 common stocks, and 8 mutual funds. At June 30, 2010, the Corporation owned the following securities that had unrealized losses: 8 government securities, 37 corporate notes and bonds, and 852 common stocks.

The other-than-temporary impairment losses for the years ended June 30, 2011 and 2010, are as follows:

	2011	2010
Equity securities	$ (443,100)	$ (1,654,000)
Corporate notes and bonds	(12,400)	(32,100)
Total	$ (455,500)	$ (1,686,100)

The following summarizes the general rationale, by investment type, for the recognition of impairments as either unrealized losses or other-than-temporary impairments at June 30, 2011 and 2010:

Equity Securities — Impairments were generally considered other-than-temporary on those securities that had been in a continual loss position for over one year, or for those securities which have deterioration of value in excess of any anticipated recovery in the near-term. Impairments were considered temporary for those securities that OCLC has the ability and intent to hold for a reasonable period of time sufficient for an anticipated recovery of fair value.

Corporate Notes and Bonds — Impairments were generally considered other-than-temporary for those securities, which either had a history of missed contractual payments or for those issuers where their long-term prospects — as evidenced by credit ratings for the issue in question and other financial and nonfinancial factors — indicate that the company may not recover its amortized cost basis. Impairments were considered temporary for those securities of investment grade (Standard & Poor's rated triple B or better) which have exhibited the ability to meet all contractual payments and which OCLC has the ability and intent to hold the investments for a period of time, which may be to maturity, to recover its amortized cost basis. Such impairments are primarily attributable to interest rate changes.

Government Securities — All impairments were considered temporary for OCLC's investments in government securities, which are backed by the full faith of the U.S. Government. For those instruments subject to prepayment of principal, expected cash flow analysis was performed, indicating either no credit loss or insignificant credit losses.

Hedge Fund — None of OCLC's holdings in the fund was impaired as of June 30, 2011 and 2010.

Mutual Funds — All impairments were considered temporary given that both the duration and extent of the impairments were not significant considering OCLC's ability and intent to hold those investments for a reasonable period of time sufficient for an anticipated recovery of fair value.

Short-Term Investments — None of OCLC's short-term bond investment holdings were impaired as of June 30, 2011 and 2010.

The following table presents the roll-forward of the balance of credit-related impairment losses on debt securities held at June 30, 2011 and 2010:

	2011	**2010**
Balance — beginning of period	$ (181,600)	$ (321,800)
Additions for credit component for which other-than-temporary impairment loss was not previously recognized	(12,400)	(32,100)
Reductions for securities sold during the period	38,800	172,300
Balance — end of period	$ (155,200)	$ (181,600)

OCLC holds various convertible bond instruments as part of its diversified investment portfolio strategy to support long-term growth opportunities, debt retirement, and security for advanced subscription payment and unearned revenue of OCLC. These instruments feature derivative options that allow for the conversion of the bonds into equity of the issuer at terms specific to each individual instrument. The derivatives are not designated by OCLC as hedging instruments. The derivatives are included in OCLC's corporate notes and bonds balance at their fair values of $1,915,100 and $826,400 as of June 30, 2011 and 2010, respectively. Their fair values are a function of the price of the underlying stock conversion price, interest rates, volatility of the underlying stock, and the time to expiration. Gains or losses arising from the change in fair value of these derivatives are reflected in investment income (loss) and were $370,800 and ($140,700) for the years ended June 30, 2011 and 2010, respectively.

3. FIXED ASSETS

Fixed assets at June 30, 2011 and 2010, include the following:

	2011	2010
Land and improvements	$ 12,421,500	$ 11,833,300
Buildings and improvements	71,043,200	68,995,000
Computer and telecommunications equipment	26,543,200	25,081,100
Databases	78,242,000	73,797,600
Intangibles including software	101,343,100	85,668,000
Goodwill	21,882,400	20,022,400
Office furniture and equipment	20,802,600	20,982,400
Total	332,278,000	306,379,800
Less accumulated depreciation and amortization	214,234,800	191,108,000
Fixed assets — net	$ 118,043,200	$ 115,271,800

Software development costs, related to internal use software, of $8,591,700 and $7,679,500 were capitalized in 2011 and 2010, respectively.

As of July 1, 2009, OCLC elected to change its method of estimating the capitalized value of the WorldCat database from a methodology based upon cataloging credits paid to libraries for contributed records to capitalization of identifiable internal costs of enhancing the WorldCat database through OCLC’s batchload process. This change was enacted to bring OCLC’s accounting practices in line with its evolving business strategy, which leans heavily on the batchload process to build the database more efficiently and quickly as OCLC moves away from separately identifiable cataloging credits towards an all-encompassing subscription pricing model. The effect of this change in estimate was an increase in expense in fiscal year 2010 of approximately $1,687,000. Database enhancement costs of $2,140,400 and $1,925,900 were capitalized in fiscal year 2011 and 2010, respectively, and included in databases.

Operating Leases — Certain buildings and equipment are rented under operating leases. Rental expense, net of subleases, for all leases was $3,568,000 and $2,845,100 for fiscal years 2011 and 2010, respectively. Included in the fiscal year 2011 expense was $732,800 for the closure expense of two domestic regional offices, which ceased operations by June 30, 2011. Future minimum lease payments under existing noncancelable lease commitments are as follows:

Fiscal Years Ending June 30	
2012	$2,610,100
2013	1,888,800
2014	1,609,700
2015	1,135,200
2016	809,000
Thereafter	1,863,900
Total	$9,916,700

4. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital leases at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Revenue bonds	$ 8,570,000	$10,960,000
Other long-term debt	2,719,000	4,372,100
Capital leases	37,540,100	42,886,300
Subtotal	48,829,100	58,218,400
Less current maturities	(10,822,600)	(8,654,700)
Total	$ 38,006,500	$49,563,700

In April 2003, OCLC issued $25,000,000 of Franklin County Revenue Bonds ("2003 bonds"). The proceeds were used to refund the remaining portion of the 1993 Franklin County Revenue Bonds, and to improve real property, acquire office systems, software, computers and other equipment, and bibliographic and other databases. The bonds were issued at a premium of $1,223,000, which is being accreted over the life of the bonds using the effective interest method.

Revenue Bonds — At June 30, 2011 and 2010, revenue bonds outstanding are as follows:

	2011	2010
Serial bonds — 2003 bonds, 5.00%, maturing annually through April 15, 2013	$5,115,000	$ 7,505,000
Term bonds — 2003 bonds, 5.25%, maturing April 15, 2018	3,455,000	3,455,000
Total revenue bonds outstanding	$8,570,000	$10,960,000

Bond fund deposits for the 2003 serial bonds sufficient to cover the next principal payment are made annually to the trustee. Annual sinking fund deposits for redemption of the principal balance of the 2003 term bonds commence April 15, 2014, in amounts ranging from $620,000 in 2014 to $765,000 in 2018. Interest on the 2003 bonds is payable semi-annually to the trustee. The 2003 bonds are callable at par beginning April 15, 2013.

All bond issues are unsecured. The indenture agreement and its supplements restrict, among other things, the issuance of additional debt and the granting of security interests.

Other Long-Term Debt — On October 10, 2005, OCLC EMEA B.V. entered into a bank loan for the purposes of financing the purchase of Fretwell-Downing Group Ltd. and subsidiaries. The 4,000,000 Euro loan had an effective interest rate equal to 1.5% above the three-month Euribor rate (total of 3.010% at June 30, 2009). Effective October 1, 2009, the effective interest rate was increased to 2% above the three-month Euribor rate (total of 2.634% at June 30, 2010). The loan was due quarterly in equal principal installments of 200,000 Euros (plus interest) starting January 1, 2006, and continuing through October 1, 2010, and had a balance outstanding of 400,000 Euros ($489,200) at June 30, 2010, and was paid off in October 2010. The bank loan was secured by three million Euros of corporate bond investment held by OCLC EMEA B.V.

On July 2, 2007, OCLC EMEA B.V. entered into a bank loan for the purpose of financing the purchase of outstanding shares from its minority shareholder. The 6,000,000 Euro loan had an effective interest rate equal to 0.9% above the three-month Euribor rate. Effective July 1, 2009, the effective interest rate increased to 1.2% above the three-month Euribor rate (total of 1.834% at June 30, 2010). Effective July 1, 2010, the effective interest rate increased to 1.85% above the three-month Euribor rate (total of 3.099% at June 30, 2011). The loan is due quarterly in equal principal installments of 75,000 Euros (plus interest) starting October 1, 2007, and continuing through July 1, 2014, with a final payment reduced to 1,875,000 Euros after OCLC EMEA B.V. made an additional payment of 2,000,000 Euros at June 30, 2010, and an additional payment of 1,000,000 Euros at June 30, 2011. The loan has a balance outstanding of 1,875,000 Euros ($2,719,000) and 3,175,000 Euros ($3,882,800) at June 30, 2011 and 2010, respectively. The loan is secured by a mortgage of 8,000,000 Euros on a building, certain computers, equipment, furniture and fixtures, and accounts receivable of OCLC EMEA B.V. See Note 13 for subsequent payoff of this loan in July 2011.

Capitalized Leases — OCLC leases office and computer equipment and autos with an option to purchase the equipment at a nominal cost at the termination of the lease. The outstanding balance was $192,100 and $210,700 at June 30, 2011 and 2010, respectively.

On June 14, 2004, the Corporation entered into a seven-year tax-exempt lease agreement through Franklin County, Ohio, for $14,000,000 with an effective interest rate equal to the LIBOR plus 1.75%, multiplied by 0.65 (total of 1.35% at June 30, 2009). The lease was due monthly in equal principal installments of $233,300 (plus interest) starting July 2006 and had a balance outstanding of $5,600,000 at June 30, 2009, and was paid off in June 2010.

On May 23, 2008, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for $20,000,000 with an effective interest rate of 3.22%. The lease is due quarterly in equal principal and interest installments of $800,700 beginning August 23, 2008, and has a balance outstanding of $11,974,900 and $14,736,100 at June 30, 2011 and 2010, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, and bibliographic and other information databases.

On August 10, 2009, the Corporation entered into a ten-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for $30,000,000 with an effective interest rate of 4.0773%. The lease is due monthly in equal principal and interest installments of $304,800 beginning September 10, 2009, and has a balance outstanding of $25,373,100 and $27,939,500 at June 30, 2011 and 2010, respectively. The proceeds were used to refund the remaining portion of the 1998 Franklin County Revenue bonds and to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, and bibliographic and other information databases.

Cost and accumulated depreciation of the leased equipment included in 2011 and 2010 fixed assets are as follows:

	2011	2010
Equipment, software, and databases	$33,504,600	$33,280,500
Less accumulated depreciation	18,578,800	12,076,100
Capitalized leased assets — net	$14,925,800	$21,204,400

The aggregate maturities of the revenue bonds, other long-term debt, and the capital lease obligations are as follows:

Fiscal Years Ending June 30	
2012	$10,822,600
2013	8,399,900
2014	5,981,000
2015	6,174,800
2016	3,145,800
2017 and later	14,305,000
Total	$48,829,100

5. BANK LINE OF CREDIT

An unsecured revolving line of credit with a bank in the U.S. provided for total borrowings of up to $6,000,000 during fiscal years 2011 and 2010. Under the terms of the agreement, interest on amounts borrowed is payable at the bank's prime rate of interest. During fiscal years 2011 and 2010, no borrowings were made under such line of credit. The agreement expires December 31, 2011.

On October 10, 2005, OCLC EMEA B.V. obtained a secured revolving line of credit with a bank providing for total borrowings up to 3,000,000 Euros during fiscal year 2006. The line of credit declined quarterly by 125,000 Euros beginning January 1, 2006, decreasing to a balance of 500,000 Euros at October 2010. The line of credit available was 750,000 Euros ($917,200) at June 30, 2010. Under the terms of the agreement, interest on the amount borrowed is payable at an effective interest rate equal to 1.9% above the three-month Euribor rate at June 30, 2010 (total of 2.534%).

On July 2, 2007, in conjunction with obtaining financing to repurchase the outstanding shares from its minority shareholder, OCLC EMEA B.V. increased its secured revolving line of credit with a bank providing for an additional 2,000,000 Euros. This additional line of credit declines quarterly by

100,000 Euros beginning October 1, 2007 through July 1, 2012. The line of credit available was 900,000 Euros ($1,100,600) at June 30, 2010. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to 1.9% above the three-month Euribor rate at June 30, 2010 (total of 2.534%).

On May 19, 2011, OCLC EMEA B.V. modified its secured revolving line of credit with a bank for a total of 3,000,000 Euros. The new line of credit declines quarterly by 125,000 Euros beginning April 1, 2012 through January 1, 2015. The line of credit available was 3,000,000 Euros ($4,350,300) at June 30, 2011. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to 1.7% above the three-month Euribor rate at June 30, 2011 (total of 2.949%).

During fiscal year 2011, a total of 946,800 Euros ($1,292,200) were borrowed and subsequently repaid during 2011. During fiscal year 2010, a total of 1,351,200 Euros ($1,879,300) were borrowed and subsequently repaid during 2010.

6. EMPLOYEE BENEFIT PLANS

A noncontributory, defined contribution retirement plan covers all OCLC employees in the United States ("domestic") who have completed two years of service. Voluntary contributory, defined contribution employee savings plans cover all full-time domestic OCLC employees. In 2003, OCLC established a 457(b) nonqualified voluntary contributory, defined contribution savings plan for key domestic employees with no defined waiting period. The cost of these plans (included in salaries, wages, and related fringe benefits) was $5,592,300 and $5,668,000 for fiscal years 2011 and 2010, respectively.

In 1998, OCLC established a nonqualified voluntary contributory savings plan for key domestic employees and Board of Trustee members. OCLC holds investment assets, recorded at fair value, purchased with the participants' voluntary contributions. Due to a change in U.S. federal tax regulations, the plan was frozen effective May 1, 2002. The assets and liabilities under the plan were $3,270,100 and $3,387,100 (reflected in other assets and other noncurrent liabilities) at June 30, 2011 and 2010, respectively.

Operations outside the United States, including the OCLC Canada division and OCLC EMEA B.V., maintain or participate in separate retirement and defined contribution pension plans. Total expenses recorded under these plans were $1,231,600 and $1,106,400 in fiscal years 2011 and 2010, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and noncontributory postretirement life insurance coverage for U.S. employees. OCLC's U.S. employees meeting certain age and service requirements at the time of their retirement are eligible to participate. OCLC recognizes the cost of postretirement medical and life benefits as the employees render service. These benefits are funded by OCLC when incurred.

Relevant postretirement benefit information as of June 30, 2011 and 2010, is summarized as follows:

	2011	2010
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of the plan year	$ 12,860,400	$ 13,149,000
Service cost	779,000	918,400
Interest cost	714,100	800,100
Benefits paid	(91,300)	(154,400)
Actuarial gain	(125,800)	(3,054,200)
Assumption change	(4,251,800)	1,201,500
Benefit obligation at the end of the plan year	$ 9,884,600	$ 12,860,400
Net postretirement benefit cost:		
Service cost	$ 779,000	$ 918,400
Interest cost	714,100	800,100
Net amortization	(619,900)	(449,900)
Total	$ 873,200	$ 1,268,600
Amounts included in equity:		
Unrecognized prior service cost	$ (896,800)	$ (1,015,900)
Unrecognized net gain	(10,140,300)	(6,263,400)
Total	$ (11,037,100)	$ (7,279,300)
Reconciliation of unrecognized net gain:		
Unrecognized net gain at the beginning of the year	$ (6,263,400)	$ (4,741,500)
Actuarial gain	(125,800)	(3,054,200)
Liability (gain) loss due to change in assumptions	(4,251,800)	1,201,500
Amortization amount	500,700	330,800
Unrecognized net gain at the end of the year	$ (10,140,300)	$ (6,263,400)

	2011	2010
Benefit obligations recognized in equity:		
Net gain	$ (4,377,600)	$ (1,852,700)
Amortization of prior service cost	119,100	119,100
Amortization of gain	500,700	330,800
Total recognized in equity	$ (3,757,800)	$ (1,402,800)

Amounts recognized on the consolidated balance sheet:

	2011	2010
Accrued liabilities (current)	$ 140,000	$ 310,000
Other noncurrent liabilities	9,744,600	12,550,400
Total amount recognized	$9,884,600	$12,860,400

Actuarial assumptions used in determining these amounts included adjusting election rates down 15%, a weighted-average discount rate of 5.80% and 5.60% at June 30, 2011 and 2010, respectively, and an annual increase in medical expense of 8.75%, declining to 5.50% (6.25% at June 30, 2010), in 2018 and thereafter.

The following table summarizes the amounts in equity expected to be amortized and recognized as a component of net periodic benefit cost in 2012:

Net gain	$ (994,000)
Prior service credit	(119,000)
Total	$(1,113,000)

The following table presents estimated future benefit payments for the next ten fiscal years:

Fiscal Years Ending June 30	
2012	$ 140,000
2013	202,000
2014	255,000
2015	326,000
2016	392,000
2017–2021	3,102,000

An agreement with a former officer provides for certain benefit payments to the employee and spouse, which commenced upon retirement. After the officer's death, payments continue for the surviving spouse. At June 30, 2011 and 2010, OCLC has a liability accrued of $1,117,600 and $1,148,800, respectively, for the present value of the estimated future payments under this agreement.

7. SALE OF PRESERVATION SERVICE CENTER

Effective August 1, 2009, OCLC sold the assets of its Preservation Service Center operation to Backstage Library Works, Inc. for $100,000 cash, a $313,500 promissory note (paid in full on October 1, 2009), and a royalty of up to $1,750,000. The royalty agreement has a seven-year term and requires 4% of revenues above $300,000 per year, payable quarterly. The first $1,000,000 of royalty is secured by personal guarantee and a life insurance policy. The royalties above $1,000,000 will be recognized as payments are received. The building in Bethlehem, Pennsylvania, was purchased by Backstage Library Works, Inc. on November 2, 2009, for $1,400,000. OCLC recognized a total gain on the sale of $822,400 including the discounted guaranteed royalty receivable of $717,100. Royalties received for the years ended June 30, 2011 and 2010, were $202,200 and $124,300, respectively.

8. SALE OF NETLIBRARY

On March 17, 2010, OCLC sold the assets of the NetLibrary Division (including the NetLibrary platform, operations, and infrastructure in Boulder, Colorado) and the rights to license a select number of vendor-owned databases previously sold on the OCLC FirstSearch service to EBSCO Publishing for $7,867,200 and assumption of related liabilities. The transition services agreement between OCLC and EBSCO Publishing ($230,000 annually for an initial term of three years) ensures that all NetLibrary eBooks have been placed in a dark archive at OCLC and OCLC will continue to make OCLC MARC records available for download by the relevant library for NetLibrary eBooks as well as providing library holdings synchronization. OCLC recognized a gain on the sale of $21,666,500.

9. ACQUISITION OF BOND

Effective April 15, 2011, OCLC EMEA B.V. acquired certain assets and related liabilities of B.O.N.D. GmbH & Co. KG ("BOND"), a German software development organization specializing in library management systems for 4,100,000 Euros ($5,915,400). The agreement allows for additional consideration of up to a maximum of 1,500,000 Euros that may be paid if BOND achieves predefined revenue targets during fiscal year 2012. The fair value of the contingency is deemed to be zero at June 30, 2011. The purchase was accounted for by the acquisition method of accounting. Assets acquired, primarily software of 4,823,600 Euros ($6,959,500) and liabilities assumed, primarily contract performance liabilities of 723,600 Euros ($1,044,100) were based on their fair values at the date of acquisition. BOND's operations subsequent to the date of the sale are included in the consolidated financial statements for the year ended June 30, 2011, and its revenues for the two and a half months ended June 30, 2011, were $283,000. The pro-forma consolidated results for fiscal year 2011, assuming the purchase price had been made at the beginning of the fiscal year, would not have been materially different from reported results.

10. INCOME TAXES

OCLC has a net deferred tax asset of $4,200,000 for operating loss carryforwards ($3,900,000 domestic and $300,000 foreign). The net deferred tax asset is fully offset by a valuation allowance due to the uncertainty of recoverability of these items. OCLC EMEA B.V. also has a deferred tax asset of $175,400 and $17,900 at June 30, 2011 and 2010, respectively, relating to the fixed asset depreciation and the BOND acquisition, which is recorded as a non-current asset in other assets.

At June 30, 2011, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately $12,758,100 ($11,759,100 domestic and $999,000 foreign, principally in the Netherlands). The domestic carryforwards expire through fiscal year 2031.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 825, *Financial Instruments*, requires fair value disclosures about substantially all balance sheet financial instruments. Certain assets and liabilities, the most significant being fixed assets, do not meet the statement's definition of financial instruments and are excluded from this disclosure. Similarly, corporate equity is not considered a financial instrument and is also excluded from this disclosure. Many of the assets and liabilities subject to the disclosure requirements are not actively traded, requiring fair values to be estimated by management. These estimations necessarily involve the use of judgment about a variety of factors, including but not limited to, materiality, relevancy of market prices of comparable instruments, and appropriate discount rates. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table summarizes financial instruments at fair value that differ from carrying amounts as of June 30, 2011 and 2010:

	2011		2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Liabilities — long-term debt	$ 11,289,000	$ 11,737,300	$ 15,332,100	$ 16,018,200

The following methods and assumptions were used to estimate the fair value of each material class of financial instruments:

Cash and Cash Equivalents, Receivables, Accrued and Other Liabilities (Excluding Postretirement Benefit Obligations and Deferred Compensation), and Accounts Payable — The carrying amounts of these items are a reasonable estimate of their fair values.

Long-Term Debt — Fair values for these instruments have been calculated with pricing models using current rate assumptions for debt with similar yields and maturities. Other long-term debt has variable rates and carrying amounts approximate fair value.

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value by providing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1 inputs") and the lowest priority to unobservable inputs ("Level 3 inputs"). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 — Quoted prices in active markets for identical assets

Level 2 — Other significant inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 — Significant unobservable inputs (which may include OCLC's own assumptions in determining the fair value of investments)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, OCLC's assets at fair value as of June 30, 2011 and 2010:

	Assets at Fair Value 2011			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Equity securities:				
Large Cap Value	$ 29,481,500	$ -	$ -	$ 29,481,500
Core Capital	16,314,700			16,314,700
Large Cap Growth	25,408,400			25,408,400
International Value	14,035,400			14,035,400
Emerging Markets	10,191,400			10,191,400
REIT	12,893,400			12,893,400
Convertible preferred	2,950,200			2,950,200
Other	1,459,600			1,459,600
Total equity securities	112,734,600	-	-	112,734,600
Short-term investments — fixed income funds	10,555,300			10,555,300
Mutual funds:				
Fixed income	20,722,500			20,722,500
Commodities	5,450,900			5,450,900
Specialty ETF	382,300			382,300
Total mutual funds	26,555,700	-	-	26,555,700
Debt securities:				
U.S. Treasury/U.S. Government		16,891,800		16,891,800
Corporate		11,642,800	1,915,100	13,557,900
CMO		1,937,800		1,937,800
Collateralized debt		272,100		272,100
U.S. States		51,000		51,000
Total debt securities	-	30,795,500	1,915,100	32,710,600
Multi-strategy hedge fund		11,761,700		11,761,700
Total assets at fair value	$ 149,845,600	$ 42,557,200	$ 1,915,100	$ 194,317,900

	Assets at Fair Value 2010			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Equity securities:				
Large Cap Value	$ 22,257,300	$ -	$ -	$ 22,257,300
Core Capital	17,287,400			17,287,400
Large Cap Growth	13,276,600			13,276,600
International Value	12,486,400			12,486,400
Emerging Markets	11,182,800			11,182,800
REIT	9,384,000			9,384,000
Convertible preferred	1,676,600			1,676,600
Other	963,600			963,600
Total equity securities	88,514,700	-	-	88,514,700
Short-term investments — fixed income funds	17,060,000			17,060,000
Mutual funds:				
Fixed income	11,813,100			11,813,100
Specialty ETF	128,300			128,300
Total mutual funds	11,941,400	-	-	11,941,400
Debt securities:				
U.S. Treasury/U.S. Government		28,561,400		28,561,400
Corporate		15,860,800	826,400	16,687,200
CMO		554,400		554,400
Collateralized debt		362,700		362,700
U.S. States		49,800		49,800
Total debt securities	-	45,389,100	826,400	46,215,500
Multi-strategy hedge fund		10,797,400		10,797,400
Total assets at fair value	$ 117,516,100	$ 56,186,500	$ 826,400	$ 174,529,000

Corporate bonds and notes classified as Level 3 fair value measurements represent the amount of the conversion option derivatives associated with OCLC's convertible bond holdings.

OCLC adopted the provisions of ASU No. 2009-12 to ASC 820 for its hedge fund investment in fiscal year 2010. This update allows investors holding investments that do not have readily determinable fair values as defined in the ASC to use the net asset value per share of the investment as the fair value without further adjustment provided that the investee meets certain criteria defined in the ASC. The adoption of ASU No. 2009-12 does not result in a change in valuation from previous methods used by OCLC to value its investment, but does result in the transfer of the fair value measurement hierarchy classification from Level 3 to Level 2.

OCLC's hedge fund investment is in a single multi-strategy hedge fund. Redemptions of this investment can be made quarterly with a 90-day notice period, and redemptions are potentially limited if total redemptions by all investors exceed the redemption limit set for each tender offer by the investee. In the event of this occurrence, redemptions would be based upon the investee's pro rata portion of the interest tendered. As of June 30, 2011, OCLC has no unfunded commitments related to this investment.

The reconciliation of OCLC's Level 3 assets for the year ended June 30, 2011 and 2010, are as follows:

	Hedge Fund	Corporate Bonds and Notes
Balance — June 30, 2009	$ 9,793,600	$ -
Realized loss included in investment income		(140,700)
Unrealized gain included in corporate equity	1,003,800	
Purchases, sales, issuances and settlements (net)		967,100
Transfer to Level 2 assets	(10,797,400)	
Balance — June 30, 2010	-	826,400
Realized gain included in investment income		370,800
Purchases, sales, issuances and settlements (net)		717,900
Balance — June 30, 2011	$ -	$ 1,915,100

12. CONTINGENCIES

The Corporation is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's consolidated financial statements.

On July 28, 2010, a complaint was filed in the U.S. District Court of Northern California alleging federal and state antitrust violations and unfair competition against OCLC. The complaint was subsequently transferred to the U.S. District Court, Southern District of Ohio. OCLC's General Counsel, working with trial counsel, is responding to this action by SkyRiver Technology Solutions, LLC and Innovative Interfaces, Inc. following procedures and timetables dictated by the court. At this time, there have been no contingencies recorded or changes made to OCLC's mission or business practices.

13. SUBSEQUENT EVENT

The Corporation has evaluated events occurring between the end of its most recent fiscal year and September 1, 2011, the date the consolidated financial statements were issued.

On July 1, 2011, OCLC EMEA BV paid off the remaining amount of the bank loan of 1,875,000 Euros ($2,719,000).

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