

***OCLC Online Computer Library Center,
Incorporated and Subsidiaries***

*Consolidated Financial Statements for the Years Ended June 30, 2001 and 2000
and Independent Auditors' Report*

Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611

Tel: (614) 221-1000
Fax: (614) 229-4647
www.us.deloitte.com

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of OCLC Online Computer Library Center, Incorporated and its subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of revenues, expenses and corporate equity and of cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and its subsidiaries at June 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



August 31, 2001

**Deloitte
Touche
Tohmatsu**

**OCLC ONLINE COMPUTER LIBRARY CENTER,
INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND 2000**

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,631,800	\$ 46,280,200
Short-term investments		5,890,100
Government securities	16,309,300	
Corporate notes and bonds	15,470,400	
Equity securities	64,856,200	51,426,200
Receivables - net	31,039,300	26,904,000
Prepaid expenses and other	<u>6,935,200</u>	<u>4,977,500</u>
Total current assets	151,242,200	135,478,000
FIXED ASSETS - At cost, less accumulated depreciation and amortization	86,079,500	72,077,100
OTHER ASSETS:		
Bond trust accounts	7,261,400	18,087,800
Investment in Pica B.V.		5,316,200
Other	<u>6,807,500</u>	<u>5,877,200</u>
Total other assets	<u>14,068,900</u>	<u>29,281,200</u>
TOTAL	<u><u>\$ 251,390,600</u></u>	<u><u>\$ 236,836,300</u></u>
LIABILITIES AND CORPORATE EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	\$ 4,107,900	\$ 3,308,300
Accounts payable	7,024,800	3,144,800
Accrued liabilities	11,556,600	8,145,000
Advance subscription payments	8,526,200	7,583,200
Unearned revenue	<u>26,985,600</u>	<u>22,529,000</u>
Total current liabilities	58,201,100	44,710,300
LONG-TERM DEBT AND CAPITAL LEASES - Less current portion	49,425,000	53,511,300
OTHER NONCURRENT LIABILITIES	14,180,400	12,685,200
MINORITY INTEREST	5,538,000	
CORPORATE EQUITY	<u>124,046,100</u>	<u>125,929,500</u>
TOTAL	<u><u>\$ 251,390,600</u></u>	<u><u>\$ 236,836,300</u></u>

See notes to consolidated financial statements.

**OCLC ONLINE COMPUTER LIBRARY CENTER,
INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF REVENUES,
EXPENSES AND CORPORATE EQUITY
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	2001	2000
REVENUES	\$165,310,600	\$152,953,200
MEMBER PARTICIPATION CREDITS	<u>(5,526,500)</u>	<u>(5,145,500)</u>
NET REVENUES	<u>159,784,100</u>	<u>147,807,700</u>
OPERATING EXPENSES:		
Salaries, wages and related fringe benefits	77,700,400	69,484,300
Telecommunications and computer support	32,351,600	32,343,200
Selling, general and administrative	29,805,700	24,689,000
Depreciation and amortization	12,675,100	13,142,600
Building and utilities	<u>4,380,300</u>	<u>4,191,900</u>
Total operating expenses	<u>156,913,100</u>	<u>143,851,000</u>
EXCESS OF NET REVENUES OVER OPERATING EXPENSES	<u>2,871,000</u>	<u>3,956,700</u>
OTHER INCOME (EXPENSE):		
Investment income	4,960,100	3,859,600
Interest expense	(2,866,400)	(3,039,400)
Equity in earnings of Pica B.V.	95,800	154,100
Minority interest in excess of revenues over expenses of Pica B.V.	(110,800)	
Miscellaneous - net	<u>(97,400)</u>	<u>(66,200)</u>
Total other income	<u>1,981,300</u>	<u>908,100</u>
EXCESS OF REVENUES OVER EXPENSES	4,852,300	4,864,800
NET UNREALIZED LOSS ON INVESTMENTS AND BOND TRUST ACCOUNTS	(6,117,800)	(1,121,700)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>(617,900)</u>	<u>(131,300)</u>
INCREASE (DECREASE) IN NET EQUITY	(1,883,400)	3,611,800
CORPORATE EQUITY - Beginning of year	<u>125,929,500</u>	<u>122,317,700</u>
CORPORATE EQUITY - End of year	<u>\$124,046,100</u>	<u>\$125,929,500</u>

See notes to consolidated financial statements.

**OCLC ONLINE COMPUTER LIBRARY CENTER,
INCORPORATED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

	2001	2000
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 4,852,300	\$ 4,864,800
Adjustments for non-cash items:		
Depreciation and amortization	12,675,100	13,142,600
Minority interest in earnings of Pica B.V.	110,800	
Realized loss (gain) on sale of investments	(538,000)	768,800
Loss (gain) on sale of fixed assets	(68,200)	157,700
Equity in earnings on investment in Pica B.V.	(95,800)	(154,100)
Changes in assets and liabilities:		
Increase in receivables	(3,470,500)	(4,409,100)
Increase in other current assets	(1,690,200)	(585,900)
Increase (decrease) in accounts payable	1,283,900	(811,700)
Increase in accrued liabilities and other	<u>6,729,400</u>	<u>5,677,100</u>
Cash provided by operating activities	<u>19,788,800</u>	<u>18,650,200</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Payments on revenue bonds and other long-term debt	(3,286,700)	(3,525,300)
Decrease in bond trust accounts - net	<u>10,826,400</u>	<u>2,289,800</u>
Cash provided by (used in) financing activities	<u>7,539,700</u>	<u>(1,235,500)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of investments	(137,694,400)	(61,500,200)
Proceeds from sale of investments	92,760,700	93,134,500
Purchases of fixed assets	(12,512,800)	(7,610,300)
Purchase of equity interest in Pica B.V.		(5,358,000)
Acquisition of Pica B.V. (excluding acquired cash of \$4,264,300)	927,600	
Other - net	<u>(235,200)</u>	<u>(461,200)</u>
Cash provided by (used in) investing activities	<u>(56,754,100)</u>	<u>18,204,800</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(222,800)</u>	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,648,400)	35,619,500
CASH AND CASH EQUIVALENTS, Beginning of year	<u>46,280,200</u>	<u>10,660,700</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 16,631,800</u>	<u>\$ 46,280,200</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 2,914,400</u>	<u>\$ 3,083,400</u>
Fixed asset additions financed by accounts payable	<u>\$ 3,215,700</u>	<u>\$ 1,075,600</u>
Unrealized loss on investments and bond trust accounts	<u>\$ (6,117,800)</u>	<u>\$ (1,121,700)</u>
Acquisition of Pica B.V.:		
Fair value of assets acquired	\$ 17,593,700	
Liabilities assumed	(3,620,300)	
Minority interest	(5,642,100)	
Less equity interest already owned	<u>(4,994,600)</u>	
Cash paid	<u>\$ 3,336,700</u>	

OCLC ONLINE COMPUTER LIBRARY CENTER, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

OCLC Online Computer Library Center, Incorporated (“OCLC”) is a non-profit 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 Educational Services, Inc. (“OESI”), and OCLC Information Distribution, Inc. (formerly OID, Inc. (“OID”)) as well as its majority-owned subsidiary, Pica B.V. Operating revenues and expenses of OCLC’s wholly-owned for-profit subsidiaries are immaterial. Intercompany transactions have been eliminated in consolidation. See Note 8 regarding the acquisition of Pica B.V. Until October 2000, the equity method of accounting was used to account for OCLC’s 35% owned affiliate, Pica B.V.

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 one bank.

Investments - Short-term investments consist of bankers’ acceptances, commercial paper and short-term government notes, and are stated at cost, which approximates market. Government securities, corporate notes and bonds and equity securities are stated at fair value. Fair values are based on market quotes.

Revenue Recognition - Member service revenues are recognized at the time services are provided, and include member system service revenues, terminal and telecommunication revenues, and miscellaneous member service revenues. 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.

Minority Interest - Minority interest represents the 40% of Pica B. V. owned by Pica Foundation (see Note 8).

Use of Estimates - The preparation of these 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 in connection with the issuance of Franklin County Revenue Bonds are amortized using the effective interest method over the terms of the respective bonds. Goodwill is amortized using the straight-line method over five years.

Software - 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 and enhancements which are amortized using the straight-line method (3 to 15 years). At each 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.

Research and Development - Research and development costs (principally salaries and related fringe benefits), approximating \$14,875,300 and \$12,402,100 for fiscal 2001 and 2000 are charged to operations as incurred.

Income and Other Taxes - OCLC is tax exempt 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. Pica B.V., OID and OESI 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.

Foreign Currency Translation - Branch offices, foreign subsidiary and equity interests are based in Canada, United Kingdom, and the Netherlands. The local currency has been designated as the functional currency for such operations. 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 balance sheet date with the resultant translation gains or losses included as a separate component of corporate equity. Corporate equity includes net cumulative translation losses of \$951,600 and \$333,800 at June 30, 2001 and 2000, respectively.

2. INVESTMENTS

In accordance with Statement of Financial Accounting Standards No. 124 "Accounting for Certain Investments Held by Not-For-Profit Organizations," debt and equity investments are carried at their fair value 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, federal, state, and local government obligations and investment grade debt 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 a trustee and are reflected in the balance sheets as short-term investments, government securities, corporate notes and bonds, and equity securities. At June 30, 2000, approximately \$30,000,000 of investment assets were included in cash equivalents pending reinvestment by newly appointed investment managers.

In fiscal year 2001, OCLC adopted the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," to establish accounting and reporting requirements for derivative instruments. This standard had no impact on OCLC's results of operation and financial position.

Realized gains and losses related to investments are recorded using the specific identification method. Unrealized gains on the portfolio totaled \$4,759,500 and \$10,847,600 at June 30, 2001 and 2000, respectively. The following schedule details investment returns for the years ended June 30:

	2001	2000
Dividends and interest income	\$ 4,422,100	\$ 4,628,400
Net realized gains (losses)	<u>538,000</u>	<u>(768,800)</u>
Investment income	4,960,100	3,859,600
Net unrealized losses on investments	<u>(6,117,800)</u>	<u>(1,151,400)</u>
 Total net investment return	 <u><u>\$ (1,157,700)</u></u>	 <u><u>\$ 2,708,200</u></u>

3. FIXED ASSETS

Fixed assets include the following:

	June 30	
	2001	2000
Land and improvements	\$ 10,229,900	\$ 10,044,900
Buildings and improvements	54,722,600	48,636,400
Computer and telecommunications equipment	28,076,400	33,993,000
Intangibles including software, databases and goodwill	51,709,100	36,775,900
Office furniture and equipment	<u>18,288,100</u>	<u>16,764,700</u>
Total	163,026,100	146,214,900
Less accumulated depreciation and amortization	<u>76,946,600</u>	<u>74,137,800</u>
 Fixed assets - net	 <u><u>\$ 86,079,500</u></u>	 <u><u>\$ 72,077,100</u></u>

Software development costs, related to internal use software, of \$933,100 and \$100,200 were capitalized in 2001 and 2000, respectively.

Operating Leases - Certain buildings and equipment are rented under operating leases. Rental expense for all leases was \$825,300 and \$864,600 for fiscal years 2001 and 2000, respectively. Future minimum lease payments under existing non-cancelable lease commitments are as follows:

2002	\$ 600,400
2003	352,800
2004	218,700
2005	172,500
2006	164,900
Thereafter	<u>508,300</u>
 Total	 <u><u>\$2,017,600</u></u>

Capitalized Leases - OCLC leases computer equipment with an option to purchase the equipment at a nominal cost at the termination of the lease. Cost and accumulated depreciation of the leased equipment included in fixed assets are as follows:

	2001	2000
Computer equipment	\$4,062,900	\$6,378,000
Less accumulated depreciation	<u>2,622,000</u>	<u>3,369,300</u>
 Capitalized leased assets - net	 <u><u>\$1,440,900</u></u>	 <u><u>\$3,008,700</u></u>

Future minimum lease payments for assets under capital leases at June 30, 2001 are as follows.

Fiscal year ended June 30, 2002	\$ 940,100
Less amount representing interest	<u>12,200</u>
 Present value of net minimum lease payments	 <u><u>\$ 927,900</u></u>

4. LONG-TERM DEBT

In December 1998, OCLC issued \$32,515,000 of Franklin County Revenue Bonds ("1998 bonds"). The proceeds were used to advance refund and defease a portion of the 1991 Franklin County Revenue Bonds ("1991 bonds"), and to improve real property, acquire office systems, software, computers and other equipment, and bibliographic and other databases. The total 1991 bonds refunded were \$6,675,000. At June 30, 2001 and 2000, undisbursed proceeds of the 1998 bonds and accumulated interest income of \$7,259,100 and \$18,055,100, respectively, are included in bond trust accounts on the accompanying balance sheets and will be released by the trustee as qualifying purchases are made. Additional funds are held in the trust accounts under the terms of the Master Trust Indenture.

Revenue Bonds - Revenue bonds outstanding are as follows:

	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
Serial bonds:		
1991 bonds, 6.80%, maturing and paid in full on July 15, 2001	\$ 1,080,000	\$ 2,095,000
1993 bonds, 5.75% to 5.90%, maturing annually through April 15, 2004	3,635,000	4,720,000
1998 bonds, 3.90% to 4.70%, maturing annually through October 1, 2012	<u>20,310,000</u>	<u>20,440,000</u>
Total serial bonds	<u>25,025,000</u>	<u>27,255,000</u>
Term bonds:		
1993 bonds, 6.00%, maturing April 15, 2009 and April 15, 2013	15,605,000	15,605,000
1998 bonds, 5.00% and 5.20%, maturing October 1, 2016 and October 1, 2020	<u>11,975,000</u>	<u>11,975,000</u>
Total term bonds	<u>27,580,000</u>	<u>27,580,000</u>
 Total revenue bonds outstanding	 <u>\$52,605,000</u>	 <u>\$54,835,000</u>

Bond fund deposits for the 1991 serial bonds sufficient to cover the next principal payment are made to the trustee annually. Interest on the 1991 bonds is payable semi-annually to the trustee.

Bond fund deposits for the 1993 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 1993 term bonds commence on April 15, 2005, in amounts ranging from \$1,360,000 in 2005 to \$2,165,000 in 2013. The 1993 term bonds are callable at par beginning in fiscal 2003. Interest on the 1993 bonds is payable semi-annually to the trustee.

Bond fund deposits for the 1998 serial bonds sufficient to cover the next principal payment will be made annually to the trustee. Annual sinking fund deposits for redemption of the principal balance of the 1998 term bonds commence October 1, 2013, in amounts ranging from \$1,375,000 in 2013 to \$1,575,000 in 2020. Interest on the 1998 bonds is payable semi-annually to the trustee. The 1998 bonds are callable at 101% of par if redeemed between October 2008 and September 2009, and at par beginning October 2009.

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.

The aggregate maturities of the revenue bonds are as follows:

Fiscal Year Ending June 30:	
2002	\$ 3,180,000
2003	3,400,000
2004	3,580,000
2005	2,395,000
2006	2,500,000
2007 and later	<u>37,550,000</u>
Total	<u>\$52,605,000</u>

5. BANK LINE OF CREDIT

Unsecured revolving lines of credit with a bank provided for total borrowings of up to \$6,000,000 during fiscal years 2001 and 2000. Under the terms of the agreements, interest on amounts borrowed is payable at the bank's prime rate of interest. The lines of credit expire in December 2001. During fiscal 2001 and 2000 no borrowings were made under such lines of credit.

6. EMPLOYEE BENEFIT PLANS

A noncontributory, defined contribution pension plan covers all domestic OCLC employees who have completed two years of service, and a voluntary contributory, defined contribution employee savings plan covers all full-time domestic OCLC employees who have completed ninety days of service. The cost of these plans (included in salaries, wages, and related fringe benefits) was \$3,755,700 and \$3,385,600 for fiscal 2001 and 2000, respectively.

In 1998, OCLC established a non-qualified voluntary contributory savings plan for key domestic employees and Board of Trustee members. OCLC purchases and holds (reflected in Other Assets) investment assets, recorded at fair value, equal to the participants' voluntary contributions. The liability under the plan was \$3,667,600 and \$3,220,600 (reflected in Other Noncurrent Liabilities) at June 30, 2001 and 2000, respectively.

Foreign operations, including Pica B.V., maintain or participate in separate retirement and defined contribution pension plans. Total contributions recorded under these plans were \$439,600 and \$107,800 in fiscal year 2001 and 2000, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and non-contributory postretirement life insurance coverage for domestic employees. OCLC domestic 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.

As of June 30, 2001 and 2000, relevant postretirement benefit information is summarized as follows:

	2001	2000
Accumulated postretirement benefit obligation:		
Retired participants	\$ 1,338,900	\$ 1,309,000
Fully eligible active plan participants	1,283,300	699,000
Other active plan participants	<u>6,690,500</u>	<u>4,797,000</u>
Postretirement benefit obligation	9,312,700	6,805,000
Unrecognized net gain (loss) from actuarial experience different than that assumed and changes in assumptions	(353,000)	900,000
Unrecognized prior service cost	<u>(59,100)</u>	<u> </u>
Accrued postretirement benefit obligation (reflected in Other Noncurrent Liabilities)	<u>\$8,900,600</u>	<u>\$7,705,000</u>
Net postretirement benefit cost:		
Service cost	\$ 701,500	\$ 770,000
Interest cost	547,100	470,000
Net amortization	<u>(13,800)</u>	<u> </u>
Total	<u>\$1,234,800</u>	<u>\$1,240,000</u>
Contributions and benefits paid under the plan:		
OCLC contribution	\$ 39,200	\$ 24,300
Participant contributions	<u>44,100</u>	<u>35,100</u>
Total benefits paid	<u>\$ 83,300</u>	<u>\$ 59,400</u>

Actuarial assumptions used in determining these amounts included a weighted average discount rate of 7.25% and 8% at June 30, 2001 and 2000, an annual increase in medical expense of 7.43% and 8.3%, respectively, declining to 6% in 2018 and thereafter, and a 6% annual increase in dental expense declining to 4% in 2019.

Agreements with certain former officers provide for certain benefit payments which commenced upon retirement. At June 30, 2001 and 2000, OCLC has a liability accrued of \$1,503,600 and \$1,660,100, respectively, for the present value of the estimated future payments under these agreements.

7. PAIS MERGER

Effective January 1, 2000, OCLC entered into an Agreement and Plan of Merger with PAIS, Public Affairs Information Service, Inc. (a non-profit organization publishing the PAIS International database) with OCLC as the surviving corporation. The merger was accounted for by the purchase method. Fair value of the PAIS net assets acquired totaled \$727,800, which exceeded the liabilities assumed by \$90,100. This amount is recorded in other assets and is being amortized on a straight-line basis over 5 years. Under the agreement, PAIS continues to operate from their offices in New York City. The effect of this transaction is not significant in relation to OCLC's consolidated financial statements taken as a whole. PAIS's operations subsequent to the date of the merger are included in the consolidated financial statements for the year ended June 30, 2000, and its revenues for the six months ended June 30, 2000, were \$636,700. Accordingly, twelve months of revenues are included for the year ended June 30, 2001. The pro-forma consolidated results for fiscal year 2000, assuming the merger had been made at the beginning of the fiscal year, would not be materially different from reported results.

8. ACQUISITION OF PICA B.V.

Effective December 23, 1999, OCLC and Stichting Pica (Pica Foundation) (a tax-exempt foundation based in Leiden, the Netherlands, providing online cataloging, interlibrary loans, local library systems, reference and end-user services to libraries in the Netherlands, France and Germany) established a jointly-owned taxable organization, Pica B.V. The Pica Foundation transferred its operating assets and related liabilities to Pica B.V. OCLC purchased an initial 35% interest in Pica B.V. for \$5,358,000. OCLC accounted for its initial investment in Pica B.V. under the equity method.

On September 29, 2000, OCLC purchased, under the terms of the purchase agreement, an additional 25% of Pica B.V. for \$3,336,700, increasing OCLC's ownership to 60%. OCLC accounted for the majority ownership of Pica B.V. under the purchase method of accounting; accordingly, the results of Pica B.V.'s operations have been consolidated with those of OCLC for the period from October 1, 2000 to June 30, 2001. The purchase price, including the initial investment, was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition with a minority interest of \$5,642,100. Pica B.V.'s revenues for the nine months ended June 30, 2001 were \$5,684,600. The pro-forma consolidated results for the fiscal year 2001, assuming the acquisition had been made at the beginning of the fiscal year, would not be materially different from reported results.

9. INCOME TAXES

OCLC has a net deferred tax asset of \$14,300,000 for operating loss carryforwards (\$12,400,000 domestic and \$1,900,000 foreign). The net deferred tax asset is fully offset by a valuation allowance due to the uncertainty of recoverability of these items.

At June 30, 2001, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$42,100,000 (\$36,600,000 domestic and \$5,500,000 foreign, principally the United Kingdom). The domestic carryforwards expire through the fiscal year 2021.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of 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, 2001 and 2000 but it is not intended to, and does not, represent the Corporation's underlying value nor is it indicative of the amounts that could be realized in a current market exchange of these instruments:

	2001		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Liabilities:				
Long-term debt	\$52,605,000	\$52,842,700	\$54,835,000	\$53,065,800

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

Cash and Cash Equivalents, Investments, Receivables, Bond Trust Accounts, 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 value.

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.

11. 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.

* * * * *