

OCLC Online Computer Library Center, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2009 and 2008, 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, 2009 AND 2008:	
Balance Sheets	2
Statements of Revenues, Expenses, and Corporate Equity	3
Statements of Cash Flows	4-5
Notes to Financial Statements	6-21

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, 2009 and 2008, 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, 2009 and 2008, 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 9, 2009

**OCLC ONLINE COMPUTER LIBRARY CENTER, INC.
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2008**

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,403,400	\$ 30,222,600
Mutual funds	9,645,900	
Government securities	20,519,000	24,211,900
Corporate notes and bonds	19,955,800	32,785,600
Equity securities	78,059,700	106,098,800
Hedge fund	9,793,600	8,922,300
Receivables — net	40,544,100	50,002,200
Prepaid expenses and other	<u>13,566,200</u>	<u>12,200,300</u>
Total current assets	220,487,700	264,443,700
FIXED ASSETS — At cost — less accumulated depreciation and amortization	132,318,800	134,988,500
OTHER ASSETS	<u>7,088,600</u>	<u>14,739,000</u>
TOTAL	<u>\$ 359,895,100</u>	<u>\$ 414,171,200</u>
LIABILITIES AND CORPORATE EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	\$ 10,605,800	\$ 13,634,300
Accounts payable	5,810,600	7,908,500
Accrued liabilities	19,622,800	21,834,000
Advance subscription payments	14,625,400	11,725,000
Unearned revenue	<u>61,815,800</u>	<u>63,068,100</u>
Total current liabilities	112,480,400	118,169,900
LONG-TERM DEBT AND CAPITAL LEASES — Less current portion	52,283,900	64,019,600
OTHER NONCURRENT LIABILITIES	18,020,800	20,185,100
CORPORATE EQUITY	<u>177,110,000</u>	<u>211,796,600</u>
TOTAL	<u>\$ 359,895,100</u>	<u>\$ 414,171,200</u>

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, 2009 AND 2008**

	2009	2008
REVENUES	<u>\$ 240,450,800</u>	<u>\$ 246,415,700</u>
OPERATING EXPENSES:		
Salaries, wages, and related fringe benefits	119,107,300	115,672,600
Telecommunications and computer support	46,198,700	46,305,100
Selling, general, and administrative	35,837,700	43,720,000
Depreciation and amortization	26,666,400	27,758,800
Building and utilities	<u>8,795,700</u>	<u>9,005,300</u>
Total operating expenses	<u>236,605,800</u>	<u>242,461,800</u>
EXCESS OF REVENUES OVER OPERATING EXPENSES	<u>3,845,000</u>	<u>3,953,900</u>
OTHER INCOME (EXPENSE):		
Investment income (loss)	(31,920,500)	11,069,100
Interest expense	(2,965,400)	(3,263,200)
Income taxes	(48,800)	(217,600)
Minority interest in loss of majority owned subsidiaries		(17,600)
Miscellaneous — net	<u>(119,000)</u>	<u>170,400</u>
Total other income (expense)	<u>(35,053,700)</u>	<u>7,741,100</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(31,208,700)	11,695,000
NET CHANGE IN UNREALIZED LOSS ON INVESTMENTS	(457,400)	(14,913,700)
CHANGE IN VALUE OF INTEREST RATE SWAP AGREEMENT	3,200	(14,300)
POSTRETIREMENT BENEFIT PLAN ADJUSTMENT	(2,360,000)	3,463,200
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>(663,700)</u>	<u>5,145,500</u>
INCREASE (DECREASE) IN CORPORATE EQUITY	(34,686,600)	5,375,700
CORPORATE EQUITY — Beginning of year	<u>211,796,600</u>	<u>206,420,900</u>
CORPORATE EQUITY — End of year	<u>\$ 177,110,000</u>	<u>\$ 211,796,600</u>

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, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficit) of revenues over expenses	\$ (31,208,700)	\$ 11,695,000
Adjustments for non-cash items:		
Depreciation and amortization	26,666,400	27,758,800
Minority interest in loss of majority owned subsidiaries		17,600
Realized loss (gain) on sale of investments	28,162,000	(6,074,000)
Other than temporary declines in investments	8,998,800	
Gain on sale of Strata		(216,000)
Loss on disposal of fixed assets	2,164,600	1,436,800
Changes in assets and liabilities:		
Decrease (increase) in receivables	10,054,100	(7,957,900)
Increase in other assets	(1,086,000)	(738,000)
Increase (decrease) in accounts payable	(2,349,800)	490,700
Decrease in accrued liabilities, unearned revenue, and other	<u>(1,375,400)</u>	<u>(5,743,500)</u>
Net cash provided by operating activities	<u>40,026,000</u>	<u>20,669,500</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital leases	(11,338,100)	(10,761,000)
Proceeds from long-term debt and capital leases		28,830,200
Proceeds from line of credit	4,764,900	5,136,500
Payments on line of credit	(6,592,400)	(3,040,500)
Acquisition of minority interests		(13,903,100)
Decrease (increase) in trustee held funds — net	2,987,800	(2,984,900)
Debt issuance costs		<u>(85,000)</u>
Net cash provided by (used in) financing activities	<u>(10,177,800)</u>	<u>3,192,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(139,479,500)	(124,132,000)
Proceeds from sale of investments	136,000,300	120,545,600
Purchases of fixed assets	(16,107,900)	(13,717,200)
Capitalization of internal use software	(9,797,800)	(6,878,100)
Acquisition of EZproxy		(600,000)
Proceeds from sale of Strata (excluding cash sold of \$18,900)		312,200
Acquisition of Amlib, Ltd.	(2,477,800)	
Other — net	<u>743,200</u>	<u>(2,447,800)</u>
Net cash used in investing activities	<u>(31,119,500)</u>	<u>(26,917,300)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(547,900)</u>	<u>1,257,300</u>

(Continued)

**OCLC ONLINE COMPUTER LIBRARY CENTER, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (1,819,200)	\$ (1,798,300)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>30,222,600</u>	<u>32,020,900</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 28,403,400</u>	<u>\$ 30,222,600</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 3,188,900</u>	<u>\$ 3,068,300</u>
Fixed asset additions financed by accounts payable	<u>\$ 1,044,400</u>	<u>\$ 836,300</u>
Property acquired by capital lease	<u>\$ 35,800</u>	<u>\$ 166,000</u>
ACQUISITIONS:		
Fair value of assets acquired	\$ 2,664,700	\$ 600,000
Liabilities assumed	(407,300)	(395,400)
Excess of cost over fair value of assets acquired	<u>220,400</u>	<u>395,400</u>
CASH PAID	<u>\$ 2,477,800</u>	<u>\$ 600,000</u>
SALES:		
Assets disposed		\$ 407,300
Liabilities transferred		(292,200)
Gain on sale		<u>216,000</u>
CASH RECEIVED		<u>\$ 331,100</u>
See notes to consolidated financial statements.		(Concluded)

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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. (formerly OCLC PICA Group B.V.) and subsidiaries. Effective July 1, 2007, OCLC EMEA B.V. repurchased the outstanding shares from its minority shareholder, Stichting Pica, effectively becoming a wholly-owned subsidiary of OCLC. Operating revenues for OCLC’s wholly-owned for-profit subsidiaries were \$38,730,900 and \$41,096,000 and expenses were \$40,552,000 and \$44,387,300, for the years ended June 30, 2009 and 2008, respectively. Intercompany transactions have been eliminated in consolidation. See Notes 7, 8, and 9, regarding the acquisition of EZproxy, the sale of Strata Preservation N.V. and the acquisition of Amlib Pty. Ltd., 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 three banks and is invested into money market funds nightly.

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 (loss) 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. Effective July 1, 2008, OCLC changed its estimate of the useful life of an eBook and as a result, changed the period of revenue recognition of both the annual access revenue and the prepaid access revenue for eBook sales. The revenue recognized over eight years was decreased to six years to better reflect the estimated period during which these eBooks are utilized based

on historical data. This change had the effect of increasing revenue for fiscal year 2009 by \$2,588,000. Unearned revenue and advance subscription payments represent monies advanced to OCLC by members, participating libraries, and certain independent regional service providers in the U.S. and are recognized as revenues when the service is provided. Transaction based member participation credits (2009 — \$6,981,000; 2008 — \$8,142,600) 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.

Minority Interest — Effective July 1, 2007, OCLC EMEA B.V. repurchased the outstanding shares from its minority shareholder, Stichting Pica for 10,272,000 Euros (\$13,903,100), effectively becoming a wholly-owned subsidiary of OCLC. Effective January 1, 2008, OCLC EMEA B.V. sold its shares of Strata Preservation N.V for 225,000 Euros (\$331,100) to KMM Groep.

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 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. Goodwill, which represents the excess of purchase price over the fair value of assets acquired, is amortized using the straight-line method (1 to 15 years). Net book value of goodwill was \$7,177,400 and \$11,073,100 at June 30, 2009 and 2008, respectively. During fiscal year 2008, OCLC EMEA B.V. recorded a 1,060,200 Euros (\$1,652,500) non-cash goodwill impairment charge related to its subsidiary, OCLC Ltd.

Research and Development — Research and development costs (principally salaries and related fringe benefits), approximating \$28,139,100 and \$27,562,700 for fiscal years 2009 and 2008, 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.

In June 2006 FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB statement No. 109* (“FIN 48”). FIN 48 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. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. OCLC evaluated its tax positions at June 30, 2009 and 2008, in accordance with FIN 48. Based on this evaluation, OCLC determined that there was no material impact to the Corporation’s financial statements as a result of the adoption of FIN 48.

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 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 \$9,130,400 and \$9,794,100 at June 30, 2009 and 2008, 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 financial statements based on information currently available as to the estimated ultimate cost for incidents prior to the balance sheet dates. Losses in excess of certain limits are insured with third-party insurance companies.

2. INVESTMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) Statement 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, 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, 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 \$969,800 and \$1,427,200 at June 30, 2009 and 2008, respectively. The following schedule details investment returns for the years ended June 30, 2009 and 2008:

	2009	2008
Dividends and interest income	\$ 5,240,300	\$ 4,995,100
Net realized gains (loss)	(28,162,000)	6,074,000
Other-than-temporary impairment	<u>(8,998,800)</u>	<u> </u>
Investment income (loss)	(31,920,500)	11,069,100
Net change in unrealized loss on investments	<u>(457,400)</u>	<u>(14,913,700)</u>
Total net investment return	<u><u>\$ (32,377,900)</u></u>	<u><u>\$ (3,844,600)</u></u>

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.

OCLC adopted the provisions of FASB Staff Position No. FAS 115-2 and 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments* (“FSP FAS 115-2 and FAS 124-2”) for the year ended June 30, 2009, which was applied to existing and new debt securities held by OCLC as of June 30, 2009. 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, FSP FAS 115-2 and FAS 124-2 required 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, 2009 and 2008:

Description of Temporarily Impaired Securities	2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government securities	\$ 2,093,000	\$ (28,400)	\$ -	\$ -	\$ 2,093,000	\$ (28,400)
Corporate notes and bonds	1,949,400	(189,300)	2,483,000	(316,900)	4,432,400	(506,200)
Total debt securities	4,042,400	(217,700)	2,483,000	(316,900)	6,525,400	(534,600)
Preferred stock	126,600	(4,700)			126,600	(4,700)
Common stock	30,437,500	(6,783,400)			30,437,500	(6,783,400)
Total equity securities	30,564,100	(6,788,100)	-	-	30,564,100	(6,788,100)
Mutual fund	212,200	(16,700)			212,200	(16,700)
Total temporarily impaired securities	\$34,818,700	\$(7,022,500)	\$ 2,483,000	\$ (316,900)	\$37,301,700	\$ (7,339,400)

Description of Temporarily Impaired Securities	2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government securities	\$ 3,767,700	\$ (78,300)	\$ 3,616,200	\$ (151,000)	\$ 7,383,900	\$ (229,300)
Corporate notes and bonds	7,533,900	(320,200)	9,658,200	(520,000)	17,192,100	(840,200)
Total debt securities	11,301,600	(398,500)	13,274,400	(671,000)	24,576,000	(1,069,500)
Common stock	36,167,400	(7,919,300)	11,024,700	(4,522,100)	47,192,100	(12,441,400)
Hedge fund	8,922,300	(77,700)			8,922,300	(77,700)
Total temporarily impaired securities	\$56,391,300	\$(8,395,500)	\$24,299,100	\$(5,193,100)	\$80,690,400	\$(13,588,600)

OCLC reviews its portfolio for impairment and has reached the conclusion, in consultation with OCLC's investment advisors, that these impairments are temporary due to the current market conditions and interest rates. The government securities are backed by the full faith of the U.S. government and the corporate notes and bonds are investment grade (Standard & Poor rated triple B or better) and OCLC knows of no individual holdings that are permanently impaired or have fallen below investment grade.

At June 30, 2009, the Corporation owned the following securities that had unrealized losses: 14 government securities, 151 corporate notes and bonds, 789 common stocks, 2 preferred stocks, and 2 mutual funds. At June 30, 2008, the Corporation owned the following securities that had unrealized losses: 41 government securities, 361 corporate notes and bonds, 1,075 common stocks, and 1 hedge fund.

The following table summarizes other-than-temporary impairment losses for the year ended June 30, 2009:

	2009			
	Equity Securities	Corporate Notes and Bonds	Hedge Fund	Total
Total other-than-temporary impairment loss	\$(6,796,900)	\$(321,800)	\$(1,880,100)	\$(8,998,800)

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, 2009:

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 non-financial factors — indicate that the company may not recover its amortized cost basis. Impairments were considered temporary for those securities of investment grade (Standard and Poor 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 maturity, to recover its amortized cost basis. Such impairments are primarily attributable to interest rate changes.

Hedge Fund — Impairment was considered other-than-temporary for one position of OCLC's total holding in the fund that has been materially impaired for a period over one year. Based on performance trends of the fund, OCLC feels that near-term recovery of the fair value is not assured.

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 insignificant credit losses.

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.

The following table presents a roll-forward of the balance of credit-related impairment losses on debt securities held at June 30, 2009:

	Year Ended June 30, 2009
Balance — beginning of period	\$ -
Additions for credit component for which other-than-temporary impairment loss was not previously recognized	<u>(321,800)</u>
Balance — end of period	<u>\$ (321,800)</u>

3. FIXED ASSETS

Fixed assets at June 30, 2009 and 2008, include the following:

	2009	2008
Land and improvements	\$ 11,998,500	\$ 11,969,500
Buildings and improvements	70,190,500	69,609,400
Computer and telecommunications equipment	35,739,200	40,144,800
Databases	75,453,800	73,056,200
Intangibles including software	85,924,000	75,656,100
Goodwill	22,525,400	25,160,700
Office furniture and equipment	<u>23,897,700</u>	<u>22,669,500</u>
Total	325,729,100	318,266,200
Less accumulated depreciation and amortization	<u>193,410,300</u>	<u>183,277,700</u>
Fixed assets — net	<u>\$ 132,318,800</u>	<u>\$ 134,988,500</u>

Software development costs, related to internal use software, of \$9,797,800 and \$6,878,100 were capitalized in 2009 and 2008, respectively. Cataloging credits of \$3,758,600 and \$3,584,300 were capitalized in 2009 and 2008, 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 \$3,229,200 and \$3,324,800 for fiscal years 2009 and 2008, respectively. Future minimum lease payments under existing noncancelable lease commitments are as follows:

Fiscal Years Ended June 30	
2010	\$ 2,383,800
2011	1,992,000
2012	1,451,300
2013	881,800
2014	785,600
Thereafter	<u>1,254,400</u>
	<u>\$ 8,748,900</u>

4. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital leases at June 30, 2009 and 2008, consisted of the following:

	2009	2008
Revenue bonds	\$ 30,280,000	\$ 33,600,000
Other long-term debt	9,364,600	14,336,200
Capital leases	<u>23,245,100</u>	<u>29,717,700</u>
	62,889,700	77,653,900
Less current maturities	<u>(10,605,800)</u>	<u>(13,634,300)</u>
Total	<u>\$ 52,283,900</u>	<u>\$ 64,019,600</u>

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.

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.

Revenue Bonds — At June 30, 2009 and 2008, revenue bonds outstanding are as follows:

	2009	2008
Serial bonds:		
1998 bonds, 4.50% to 4.70%, maturing annually through October 1, 2012	\$ 5,075,000	\$ 6,225,000
2003 bonds, 5.00%, maturing annually through April 15, 2013	<u>9,775,000</u>	<u>11,945,000</u>
Total serial bonds	<u>14,850,000</u>	<u>18,170,000</u>
Term bonds:		
1998 bonds, 5.00% and 5.20%, maturing October 1, 2016 and October 1, 2020	11,975,000	11,975,000
2003 bonds, 5.25%, maturing April 15, 2018	<u>3,455,000</u>	<u>3,455,000</u>
Total term bonds	<u>15,430,000</u>	<u>15,430,000</u>
Total revenue bonds outstanding	<u>\$ 30,280,000</u>	<u>\$ 33,600,000</u>

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. See refunding at Note 13.

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 May 2, 2005, Strata Preservation N.V. entered into a subordinated loan with its minority shareholder, Koninklijke Bibliotheek, for 240,000 Euros (\$324,900 outstanding at June 30, 2007) with interest (rate of 7%) payable annually. Prior to the January 1, 2008 sale of Strata Preservation N.V., the shareholders agreed to contribute the outstanding balance to capital.

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 (FDI). The 4,000,000 Euro loan has an effective interest rate equal to 1.5% above the 3 month Euribor rate (total of 3.010% and 6.227% at June 30, 2009 and 2008, respectively). The loan is due quarterly in equal principal installments of 200,000 Euros (plus interest) starting January 1, 2006, and continuing through October 1, 2010, and has a balance outstanding of 1,200,000 Euros (\$1,683,502) and 2,000,000 Euros (\$3,148,600) at June 30, 2009 and 2008, respectively. The bank loan is secured by three million Euros of Corporate Bonds. Concurrently, OCLC EMEA B.V. entered into a derivative financial instrument to cap the variable interest rate of the loan to a fixed rate of 5%. The maturity, payment dates, and other fundamental terms match those of the loan. The derivative does not qualify for hedge accounting and, therefore, changes in fair value are reported in income. The derivative had a total positive fair value of 66 Euro (\$100) and 51,100 Euro (\$80,500) at June 30, 2009 and 2008, respectively.

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 has an effective interest rate equal to 0.9% above the 3 month Euribor rate (total of 2.410% and 5.627% at June 30, 2009 and 2008, respectively). Effective July 1, 2009, the effective interest rate will increase to 1.2% above the 3 month Euribor rate. 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 of 3,900,000 Euros. The loan has a balance outstanding of 5,475,000 Euros (\$7,681,000) and 5,775,000 Euros (\$9,091,600) at June 30, 2009 and 2008, respectively. The loan is secured by a mortgage of 8,000,000 Euros on a building, certain computers, equipment, and furniture and fixtures and accounts receivable of OCLC EMEA B.V.

Both OCLC EMEA B.V. loans with the bank require a solvency rate of 22.5% at July 1, 2009 which was not met. The bank has provided a waiver for this covenant for the fiscal year ended June 30, 2009.

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 \$235,000 and \$365,300 at June 30, 2009 and 2008, respectively.

On October 26, 2001, the Corporation entered into a seven-year tax-exempt lease agreement through Franklin County, Ohio, for \$16,000,000 with an effective interest rate of 4.11%. The lease was due monthly in equal principal installments of \$190,500 (plus interest) and was paid off in November 2008. The balance outstanding was \$952,400 in June 30, 2008.

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 Rate plus 1.75%, multiplied by 0.65 (total of 1.35% and 2.74% at June 30, 2009 and 2008, respectively). The lease is due monthly in equal principal installments of \$233,300 (plus interest) starting July 2006 and has a balance outstanding of \$5,600,000 and \$8,400,000 at June 30, 2009 and 2008, respectively. Interest only was due July 1, 2004 to July 1, 2006. 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 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 \$17,410,100 and \$20,000,000 at June 30, 2009 and 2008, 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. At June 30, 2008, undisbursed proceeds were \$2,983,600 and are included in other assets on the accompanying consolidated balance sheets and were released by the trustee as qualifying purchases were made. At June 30, 2009, all proceeds were disbursed.

Cost and accumulated depreciation of the leased equipment included in 2009 and 2008 fixed assets were as follows:

	2009	2008
Equipment, software, and databases	\$ 34,995,000	\$ 51,169,600
Less accumulated depreciation	<u>14,619,700</u>	<u>19,976,000</u>
Capitalized leased assets — net	<u>\$ 20,375,300</u>	<u>\$ 31,193,600</u>

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

Fiscal Years Ended June 30	
2010	\$ 10,605,800
2011	10,251,600
2012	7,112,200
2013	7,313,200
2014	3,461,100
2015 and later	<u>24,145,800</u>
Total	<u>\$ 62,889,700</u>

5. BANK LINE OF CREDIT

An unsecured revolving line of credit with a bank provided for total borrowings of up to \$6,000,000 during fiscal years 2009 and 2008. Under the terms of the agreement, interest on amounts borrowed is payable at the bank's prime rate of interest. During fiscal years 2009 and 2008, no borrowings were made under such line of credit. The agreement expires December 31, 2009.

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 declines 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 1,250,000 Euros (\$1,753,600) and 1,750,000 Euros (\$2,755,000) at June 30, 2009 and 2008, respectively. Under the terms of the agreement, interest on amount borrowed is payable at an effective interest rate equal to 1.5% above the 3 month Euribor rate at June 30, 2009 and 1.4% above the 3 month Euribor rate at June 30, 2008 (total of 3.010% and 6.127% at June 30, 2009 and 2008, respectively).

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 1,300,000 Euros (\$1,823,800) and 1,700,000 Euros (\$2,676,300) at June 30, 2009 and 2008, respectively. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to 1.5% above the 3 month Euribor rate at June 30, 2009 and 1.4% above the 3 month Euribor rate at June 30, 2008 (total of 3.010% and 6.127% at June 30, 2009 and 2008, respectively).

During fiscal 2009, a total of 3,471,500 Euros (\$4,764,900) were borrowed and subsequently repaid during 2009. During fiscal 2008, a total of 3,490,200 Euros (\$5,136,500) were borrowed and 1,331,400 Euros (\$2,096,000) remained unpaid at June 30, 2008, and included in current portion of long-term debt and capital leases on the balance sheets.

6. EMPLOYEE BENEFIT PLANS

A noncontributory, defined contribution retirement plan covers all OCLC employees in the United States of America ("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 \$5,710,400 and \$5,287,400 for fiscal years 2009 and 2008, respectively.

In 1998, OCLC established a nonqualified voluntary contributory savings plan for key domestic employees and Board of Trustee members. OCLC purchases and holds investment assets, recorded at fair value, equal to the participants' voluntary contributions. Due to a change in United States of America federal tax regulations, the plan was frozen effective May 1, 2002. In 2003, OCLC established a 457(f) nonqualified deferred compensation plan for key domestic employees. The assets and liabilities under these plans were both \$3,335,500 and \$7,741,100 (reflected in other assets and other noncurrent liabilities) at June 30, 2009 and 2008, respectively.

Operations outside the United States of America, 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 \$1,051,300 and \$1,091,400 in fiscal years 2009 and 2008, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and noncontributory postretirement life insurance coverage for United States of America employees. OCLC's United States of America 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, 2009 and 2008, is summarized as follows:

	2009	2008
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of the plan year	\$ 10,342,000	\$ 12,658,800
Service cost	572,100	811,500
Interest cost	690,200	783,100
Plan amendments		(1,281,400)
Benefits paid	(139,800)	(121,700)
Actuarial loss (gain)	25,800	(405,100)
Assumption change	<u>1,658,700</u>	<u>(2,103,200)</u>
Benefit obligation at the end of the plan year	<u>\$ 13,149,000</u>	<u>\$ 10,342,000</u>
Net postretirement benefit cost:		
Service cost	\$ 572,100	\$ 811,500
Interest cost	690,200	783,100
Net amortization	<u>(675,500)</u>	<u>(326,500)</u>
Total	<u>\$ 586,800</u>	<u>\$ 1,268,100</u>
Amounts included in equity:		
Unrecognized prior service cost	\$ (1,135,000)	\$ (1,254,100)
Unrecognized net gain	<u>(4,741,500)</u>	<u>(6,982,400)</u>
Total	<u>\$ (5,876,500)</u>	<u>\$ (8,236,500)</u>
Reconciliation of unrecognized net gain:		
Unrecognized net gain at the beginning of the year	\$ (6,982,400)	\$ (4,805,200)
Actuarial loss (gain)	25,800	(405,100)
Liability loss (gain) due to change in assumptions	1,658,700	(2,103,200)
Amortization amount	<u>556,400</u>	<u>331,100</u>
Unrecognized net gain at the end of the year	<u>\$ (4,741,500)</u>	<u>\$ (6,982,400)</u>
Benefit obligations recognized in equity:		
Net loss (gain)	\$ 1,684,500	\$ (2,508,400)
Prior service credit		(1,281,400)
Amortization of prior service cost	119,100	(4,500)
Amortization of gain	<u>556,400</u>	<u>331,100</u>
Total recognized in equity	<u>\$ 2,360,000</u>	<u>\$ (3,463,200)</u>
Contributions and benefits paid under the plan:		
Benefits paid by OCLC	\$ 139,800	\$ 121,700
Participant contributions	<u>263,100</u>	<u>258,100</u>
Total benefits paid	<u>\$ 402,900</u>	<u>\$ 379,800</u>

Amounts recognized on the balance sheet:

	2009	2008
Accrued liabilities (current)	\$ 279,000	\$ 233,000
Other noncurrent liabilities	<u>12,870,000</u>	<u>10,109,000</u>
Net amount recognized	<u>\$ 13,149,000</u>	<u>\$ 10,342,000</u>

Actuarial assumptions used in determining these amounts included a weighted-average discount rate of 6.15% and 6.75% at June 30, 2009 and 2008, respectively, and an annual increase in medical and dental expense of 8.75%, declining to 6.25%, in 2015 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 2010:

Net gain	\$ (149,000)
Prior service credit	<u>(119,000)</u>
Total	<u>\$ (268,000)</u>

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

Fiscal Years Ended June 30	
2010	\$ 279,000
2011	311,000
2012	375,000
2013	434,000
2014	485,000
2015–2019	3,770,000

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, 2009 and 2008, OCLC has a liability accrued of \$1,124,700 and \$1,423,700, respectively, for the present value of the estimated future payments under this agreement.

7. SALE OF STRATA

Effective January 1, 2008, OCLC EMEA B.V. and the minority shareholder, Koninklijke Bibliotheek, the National Library of the Netherlands, sold all their shares in Strata Preservation N.V. to KMM Groep for a total of 375,000 Euros. OCLC EMEA B.V. received its 60% share of the purchase price, 225,000 Euros (\$331,100). A gain of \$216,000 was recognized on the sale.

8. ACQUISITION OF EZPROXY

Effective January 11, 2008, OCLC acquired certain assets and related liabilities of Useful Utilities, LLC, ("EZproxy") the owner of the EZproxy software for \$600,000. EZproxy provides libraries a solution for authenticating remote user access to licensed databases. The purchase was accounted for by the purchase method of accounting. Assets acquired of \$600,000 and liabilities assumed of \$395,400 were based on

their fair market values at the date of acquisition. Goodwill, representing the excess of cost over fair value of assets acquired, of \$395,400 was recorded and is included in fixed assets. EZproxy's operations subsequent to the date of the sale are included in the consolidated financial statements for the year ended June 30, 2008, and its revenues for the six months ended June 30, 2008, were \$5,100. The pro-forma consolidated results for the fiscal year 2008, assuming the purchase had been made at the beginning of the fiscal year, would not have been materially different from reported results.

9. ACQUISITION OF AMLIB

Effective July 1, 2008, OCLC EMEA B.V. acquired certain assets and related liabilities of Amlib Pty. Ltd., ("Amlib") the Australian software development organization specializing in library management solutions for 2,600,000 Australian dollars (\$2,477,800). The purchase was accounted for by the purchase method of accounting. Assets acquired of 2,796,200 Australian dollars (\$2,664,700) and liabilities assumed of 427,500 Australian dollars (\$407,300) were based on their fair market values at the date of acquisition. Goodwill, representing the excess of cost over fair value of assets acquired, of 231,300 Australian dollars (\$220,400) was recorded and is included in fixed assets. Amlib's operations subsequent to the date of the sale are included in the consolidated financial statements for the year ended June 30, 2009, and its revenues for the twelve months ended June 30, 2009, were \$1,183,800.

10. INCOME TAXES

OCLC has a net deferred tax asset of \$10,300,000 for operating loss carryforwards (\$9,500,000 domestic and \$800,000 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 \$13,500 and \$117,500 at June 30, 2009 and 2008, respectively, relating to the fixed asset depreciation which is recorded as a non-current asset in other assets.

At June 30, 2009, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$30,233,300 (\$27,811,900 domestic and \$2,421,400 foreign, principally in the Netherlands). The domestic carryforwards expire through the fiscal year 2029.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 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, 2009 and 2008:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Liabilities:				
Long-term debt	\$39,644,600	\$40,232,000	\$47,936,200	\$48,812,900
Interest rate swap			3,200	3,200

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 value.

Long-Term Debt and Interest Rate Swap — 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.

Effective July 1, 2008, OCLC adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 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 SFAS 157 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 table sets forth by level, within the fair value hierarchy, OCLC's assets at fair value as of June 30, 2009:

	Assets at Fair Value as of June 30, 2009			Total
	Quoted Prices in Active markets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
Government securities, corporate bonds and notes	\$ -	\$40,474,800	\$ -	\$ 40,474,800
Equity securities and mutual funds	87,705,600			87,705,600
Hedge fund			9,793,600	9,793,600
Total assets at fair value	<u>\$87,705,600</u>	<u>\$40,474,800</u>	<u>\$9,793,600</u>	<u>\$ 137,974,000</u>

The fair value of the Hedge Fund is based upon the net asset value reported by the investment administrator. The administrator utilizes various inputs, including unobservable inputs, to determine the investment value. An active market does not exist for this investment, however, all sales of/subscriptions to the fund are made at the reported net asset value. OCLC has reviewed the net asset value and has determined that it appears to represent fair value under FAS 157.

The table below is a reconciliation of OCLC's Level 3 assets for the year ended June 30, 2009:

	Hedge Fund
Balance — June 30, 2008	\$ 8,922,300
Realized loss included in investment income	(1,802,500)
Unrealized gain included in corporate equity	73,800
Purchases, sales, issuances and settlements (net)	<u>2,600,000</u>
Balance — June 30, 2009	<u>\$ 9,793,600</u>

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.

13. SUBSEQUENT EVENTS

The Corporation has evaluated events occurring between the end of our most recent fiscal year and September 9, 2009, the date the financial statements were issued.

Effective August 1, 2009, OCLC sold the assets of its Preservation Service Center operation to Backstage Library Works, Inc. for \$100,000 cash, \$313,500 promissory note (10% interest, one year balloon, and principal and interest due monthly), 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. OCLC will lease the building in Bethlehem, Pennsylvania, over 7 years or until the building is purchased for \$1,400,000. The Corporation anticipates any gain or loss will not be material to the consolidated financial condition of OCLC.

Effective 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. 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. The total 1998 bonds refunded were \$17,050,000 with a call premium of \$170,500.

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