



OCLC, Inc. and Subsidiaries

Consolidated Financial Statements
As of and for the Years Ended June 30, 2020 and
2019

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO
International Limited, a UK company limited by guarantee.



OCLC, Inc. and Subsidiaries

Consolidated Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

OCLC, Inc. and Subsidiaries

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Independent Auditor's Report

Board of Trustees
OCLC, Inc. and Subsidiaries
Dublin, OH

We have audited the accompanying consolidated financial statements of OCLC, Inc. and its Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of revenues, expenses, and net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OCLC, Inc. and its Subsidiaries as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Columbus, Ohio
September 21, 2020

Consolidated Financial Statements

OCLC, Inc. and Subsidiaries
Consolidated Balance Sheets

<i>June 30,</i>	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 36,509,300	\$ 18,107,400
Mutual funds	223,541,700	227,942,100
Accounts receivable, net	43,197,500	35,673,000
Prepaid expenses and other	4,736,100	7,574,700
Total Current Assets	307,984,600	289,297,200
Fixed Assets, net of depreciation	129,672,600	128,495,800
Goodwill and Other Intangibles, net of amortization	7,093,800	7,653,800
Other Assets	8,955,000	9,418,600
Total Assets	\$ 453,706,000	\$ 434,865,400
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 17,079,400	\$ 16,951,900
Lines of credit	15,000,000	10,000,000
Accounts payable	5,879,500	7,172,800
Accrued liabilities	24,140,300	20,956,900
Advance subscription payments	9,109,000	16,996,300
Unearned revenue	46,651,500	36,371,200
Total Current Liabilities	117,859,700	108,449,100
Long-term Debt, less current portion	51,062,800	40,179,800
Other Noncurrent Liabilities	20,642,000	20,623,500
Total Liabilities	189,564,500	169,252,400
Net Assets Without Restrictions	264,141,500	265,613,000
Total Liabilities and Net Assets	\$ 453,706,000	\$ 434,865,400

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries
Consolidated Statements of Revenues, Expenses, and Net Assets

<i>For the years ended June 30,</i>	2020	2019
Revenues	\$ 214,574,500	\$ 221,950,900
Operating Expenses		
Salaries, wages, and related fringe benefits	129,515,300	129,244,800
Depreciation and amortization	29,724,400	31,713,900
Library services	21,014,700	28,515,100
Selling, general, and administrative	25,202,100	28,020,600
Buildings and utilities	6,822,400	7,193,700
Total Operating Expenses	212,278,900	224,688,100
Excess (Deficit) of Revenues Over Operating Expenses	2,295,600	(2,737,200)
Other Income (Expense)		
Investment income	471,400	11,866,700
Gain on sale of QuestionPoint	-	2,602,000
Interest expense	(1,629,000)	(1,662,700)
Income taxes	(278,500)	(218,200)
Miscellaneous, net	(599,000)	(374,100)
Total Other Income (Expense)	(2,035,100)	12,213,700
Excess of Revenues Over Expenses	260,500	9,476,500
Postretirement Benefit Plan Adjustment	(1,159,400)	(4,600,200)
Foreign Currency Translation Adjustment	(206,500)	(189,000)
Change in Net Assets Without Restrictions	(1,105,400)	4,687,300
Net Assets Without Restrictions, beginning of year	265,613,000	260,925,700
Cumulative Effect Adjustment of Adopting ASC 606 (Note 1)	(366,100)	-
Adjusted Net Assets Without Restrictions, beginning of year	265,246,900	260,925,700
Net Assets Without Restrictions, end of year	\$ 264,141,500	\$ 265,613,000

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	2020	2019
Cash Flows From Operating Activities:		
Excess of revenues over expenses	\$ 260,500	\$ 9,476,500
Adjustments for noncash items:		
Depreciation and amortization	29,724,400	31,713,900
Realized loss (gain) on sale of investments	9,386,900	(5,517,800)
Unrealized gain on investments	(1,210,600)	(572,200)
Other-than-temporary declines in investments	-	2,476,300
Gain on sale of QuestionPoint	-	(2,602,000)
Loss on disposal of fixed assets	200,700	1,419,600
Changes in assets and liabilities:		
Accounts receivables	(7,886,800)	(2,270,700)
Other assets	1,784,500	(2,705,600)
Accounts payable	604,700	117,700
Accrued liabilities, unearned revenue, and other	5,765,700	269,100
Net Cash Provided By Operating Activities	38,630,000	31,804,800
Cash Flows From Investing Activities:		
Purchases of investments	(83,592,500)	(58,419,300)
Proceeds from distributions and sale of investments	79,816,600	70,303,900
Purchases of fixed assets	(7,626,300)	(8,832,800)
Capitalization of internally developed software	(24,831,600)	(21,311,900)
Proceeds from sale of QuestionPoint	-	2,000,000
Other, net	4,900	240,400
Net Cash Used In Investing Activities	(36,228,900)	(16,019,700)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	30,000,000	-
Payments on long-term debt	(18,954,700)	(19,584,700)
Proceeds from lines of credit	15,533,100	14,997,100
Payments on lines of credit	(10,533,100)	(14,997,100)
Debt issuance costs	(90,000)	-
Net Cash Provided by (Used in) Financing Activities	15,955,300	(19,584,700)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	45,500	284,900

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	2020	2019
Increase (Decrease) in Cash and Cash Equivalents	\$ 18,401,900	\$ (3,514,700)
Cash and Cash Equivalents, beginning of year	18,107,400	21,622,100
Cash and Cash Equivalents, end of year	\$ 36,509,300	\$ 18,107,400
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 1,601,200	\$ 1,723,800
Supplemental Disclosure of Non-Cash Flow Information:		
Fixed asset additions financed by accounts payable	\$ 385,500	\$ 2,004,400
Cumulative effect adjustment of adopting ASC 606 (Note 1)	\$ 366,100	\$ -
Divestitures:		
Earnout acquired	\$ -	\$ (300,000)
Liabilities transferred	-	(302,000)
Gain on sale	-	2,602,000
Cash Received	\$ -	\$ 2,000,000

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Procedures

OCLC, 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 (net assets) cannot be distributed to the members. OCLC’s net assets are without restrictions. 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 subscription 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”) which was inactive and dissolved at June 30, 2019, and OCLC EMEA B.V. and subsidiaries (“OCLC EMEA”). Operating revenues from OCLC’s wholly owned for-profit subsidiaries were \$43,934,800 and \$45,583,300 and operating expenses were \$43,496,600 and \$45,645,700 for the years ended June 30, 2020 and 2019, respectively. Intercompany transactions have been eliminated in consolidation.

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 value. Cash is primarily held in two banks and is invested into money market funds nightly.

Investments

Mutual funds are stated at fair value. Fair values for these investments are based on market quotes or as calculated by third-party administrators. Fair value changes are reported as unrealized gains and losses and recorded within the changes of net assets in fiscal year ended June 30, 2019. In the fiscal year ended June 30, 2020, ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* was adopted by the Corporation at the beginning of fiscal year 2020. The most significant impact of the standard is the requirement for OCLC to report unrealized gains and losses of the investment portfolio through investment income and expense beginning with fiscal year 2020. Realized gains and losses are calculated based on the first-in, first-out (“FIFO”) method. Realized and unrealized gains and losses and other-than-temporary declines in market value from original cost are included in investment income in other income (expense). OCLC’s investment portfolio is without restrictions.

Liquidity Management

OCLC is wholly supported by operations and does not rely on contributions. As part of OCLC’s liquidity management, the financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. In addition, OCLC invests cash in excess of daily requirements. In the event of a liquidity need (either planned or unplanned), OCLC could draw upon \$30 million of available lines of credit (as further discussed in Note 5) or liquidate some or all of its investments as set forth by OCLC’s investment policy statement. OCLC’s current investments, being mutual funds, have daily liquidity.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

OCLC's financial assets available for general expenditures within one year of the consolidated balance sheet date are all current assets less prepaid expenses and other.

Accounts Receivable

Accounts receivable consist primarily of amounts due to OCLC in relation to subscription and software revenues and are presented net of a sales allowance and an allowance for doubtful accounts. OCLC assesses the collectability of all receivables on an ongoing basis by considering its historical credit loss experience, current economic conditions, and other relevant factors. Based on this analysis, the Corporation has established a combined sales allowance and an allowance for doubtful accounts of \$3,372,500 and \$935,800 at June 30, 2020 and 2019, respectively.

Revenue Recognition

OCLC recognizes revenue when control of the promised good or services is transferred to our customer in an amount that reflects consideration expected to be entitled to in exchange for those goods or services. Unearned revenues 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 control of the promised goods or services are transferred.

Member service revenues are recognized over the time services are transferred to our customers and include services to locate, acquire, catalog, lend, circulate, and preserve library materials. OCLC recognizes revenue from these services on a ratable basis over the contract term beginning on the date our services are made available to the customer. Subscriptions generally are one year and are billed in advance. As a result, deferred revenue and accounts receivable are recorded for any amounts for which OCLC has a right to invoice but for which services have not yet been provided.

Subscription services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on a subscription basis. Revenue related to subscription services provided on a subscription basis is recognized ratably over the contract period. When subscription services require a significant level of integration and interdependency with software and the implementation is not considered distinct, all revenue is recognized over the period in which the subscription services are provided.

Software license and consulting revenues, when distinct, are recognized at the point in time software is available and services are provided. Revenue from distinct on-premise licenses is recognized at the point in time when the software is made available to the customer.

Certain revenues related to the Interlibrary Fee Management program are recorded net of associated lending costs at the point of time the items are borrowed and fulfilled.

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make certain estimates, judgements and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant estimates are related to the expected useful lives assigned to fixed assets, estimates of fair value, and postretirement benefits. Actual amounts could differ from those estimates.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Depreciation and Amortization

Depreciation and amortization is provided using the straight-line method at rates based on the estimated useful lives of the computers and telecommunication equipment (from 3 to 10 years), office furniture and equipment (from 3 to 15 years), and buildings (from 10 to 40 years).

The cost of purchased software is capitalized and amortized using the straight-line method over the estimated economic useful lives (from 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 (from 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.

Goodwill and Other Intangibles

Goodwill is the excess of the purchase price of an acquired entity over the amounts assigned to tangible and intangible assets and liabilities assumed in the business combination. The corporation accounts for purchased goodwill in accordance with Accounting Standards Codification (“ASC”) 350, “Intangibles - Goodwill and Other.” Under ASC 350, purchased goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. During fiscal years 2020 and 2019, no goodwill impairment was deemed to exist. Other intangibles, net of amortization of \$877,100 and \$1,331,900 at June 30, 2020 and 2019, respectively, consist primarily of acquired customer list assets.

The changes in the carrying amount of goodwill are as follows:

June 30, 2018	\$	6,395,400
Currency translation		(73,500)
<hr/>		
June 30, 2019		6,321,900
Currency translation		(105,200)
<hr/>		
June 30, 2020	\$	6,216,700

Hosting Arrangements

The Corporation capitalized \$1,230,000 and \$1,684,700 of implementation costs related to implementation of hosted internal-use software for the years ended June 30, 2020 and 2019, respectively. This is included in other assets on the consolidated balance sheets.

Research and Development

Research and development costs (principally salaries and related fringe benefits), approximating \$12,282,900 and \$12,649,800 for fiscal years 2020 and 2019, respectively, are expensed as incurred.

Income and Other Taxes

The Internal Revenue Service has determined that OCLC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly, no provision for income taxes is currently required for its operations. OCLC EMEA and OID (dissolved on June 30, 2019) are not exempt from federal, state, local, or foreign income taxes.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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. See Note 7.

ASC 740-10, *Income Taxes*, 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, 2020 and 2019. Based on this evaluation, OCLC determined that there was no material impact to the Corporation's consolidated financial statements as it relates to interest and penalties.

Foreign Currency Translation and Transaction

The local currency has been designated as the functional currency for operations in Australia, Canada, France, Germany, Italy, 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 net assets. Net assets includes net cumulative translation gains of \$7,670,400 and \$7,876,900 at June 30, 2020 and 2019, respectively. Foreign currency transaction (gains) losses were \$(21,500) and \$98,600 for the years ended June 30, 2020 and 2019, respectively.

Self-Insurance Programs

OCLC uses various self-insurance plans for certain 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 incurred, but not reported and paid out prior to the consolidated balance sheet dates. These estimates are based on management's assessment of outstanding claims, historical analyses, and current payment trends. Losses in excess of certain limits are insured with third-party insurance companies.

Recent Accounting Pronouncements - Adopted in the current year

Revenue Recognition:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606), which replaced most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to be entitled to receive for those goods or services.

OCLC adopted ASC Topic 606 using the modified retrospective method and the practical expedient of application only to contracts not complete as of July 1, 2019. As a result, OCLC recorded an adjustment that decreased net assets without restrictions as of July 1, 2019, by \$366,100. The adjustment reflects the cumulative effect on that date of applying our updated revenue recognition policy, under which OCLC recognized the cost of certain implementations for subscription services over a longer period of time than before adopting ASC Topic 606. Additionally, some payments to

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

customers that were classified as expenses related to the Interlibrary Fee Management program before adopting the new standard are classified as a reduction of revenues under the new policy.

The following table shows how the adoption of ASC Topic 606 impacted our consolidated statements of revenues, expenses and net assets for the year ended June 30, 2020:

	Year Ended June 30, 2020		
	Balances without Adoption of ASC 606	As Reported Under ASC 606	Effect of Adoption
Revenues	\$ 223,726,700	\$ 214,574,500	\$ (9,152,200)
Operating Expenses:			
Library Services	\$ 29,828,600	\$ 21,014,700	\$ (8,813,900)
Excess of Revenues Over Operating Expenses	\$ 2,633,900	\$ 2,295,600	\$ (338,300)

The following table shows how the adoption of ASC Topic 606 impacted our consolidated balance sheet as of June 30, 2020:

	As of June 30, 2020		
	Balances without Adoption of ASC 606	As Reported Under ASC 606	Effect of Adoption
Unearned revenue	\$ 46,313,200	\$ 46,651,500	\$ 338,300
Total Current Liabilities	\$ 117,521,400	\$ 117,859,700	\$ 338,300
Net Assets without Restrictions	\$ 264,479,800	\$ 264,141,500	\$ (338,300)

Financial Instruments:

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. The update affects the accounting for equity investments and financial liabilities, and the presentation and disclosure requirements for financial instruments. The ASU was adopted by the Corporation at the beginning of fiscal year 2020 and was applied with a cumulative-effect adjustment within Net Assets effective July 1, 2019. The most significant impact of the standard is the requirement for OCLC to report unrealized gains and losses of the investment portfolio through investment income and expense beginning with fiscal year 2020.

Postretirement Liability:

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changed where costs associated with the postretirement health care plan are located on the Consolidated Statements of Revenues, Expenses, and Net Assets. The ASU requires the service costs to remain in Operating Expenses in the same line item as other compensation costs, but all other costs related to the plan are reclassified to Other Expense in Miscellaneous, net. OCLC applied the guidance retrospectively for the presentation of Consolidated Statements of Revenues, Expenses, and Net Assets using the practical expedient of estimated information contained in Note 6. The retrospective application decreased previously reported Deficit of Revenues Over Operating Expenses for fiscal 2019 by \$26,300. As the retrospective application merely reclassified amounts

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

from operating income to non-operating expense, there was no effect on previously reported Excess of Revenues Over Expenses.

Recent Accounting Pronouncements - Pending Adoption

Leases:

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which will replace most existing lease accounting guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize the rights and obligations resulting from leases as assets and liabilities. In July 2018, the FASB issued ASU No. 2018-10, “*Codification Improvements to Topic 842, Leases*” and ASU No. 2018-11, “*Leases (Topic 842) Targeted Improvements.*” ASU 2018-11 allows for a transition method of adoption rather than the modified retrospective method.

On June 3, 2020, the FASB issued ASU 2020-05 which amends the effective dates of the Board’s standard on leasing (ASC 842) to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease (COVID-19) pandemic. Currently, OCLC would be required to adopt ASU 2016-02 beginning July 1, 2022. The Corporation is in the process of determining the method and assessing the impact of these ASUs on its consolidated financial statements.

Goodwill:

In May 2019, the FASB issued ASU No. 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)*. This ASU will extend the Private Company accounting alternatives on goodwill and certain identifiable intangible assets to Not-for-Profit entities. This ASU has an open-ended effective date and an unconditional one-time election. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

Reclassifications

Certain amounts present within the fiscal year 2019 consolidated financial statements have been reclassified to conform to the fiscal year 2020 consolidated financial statement presentation.

2. Investments

With the adoption of ASU 2016-01 beginning July 1, 2019, investments are carried at their fair values with related realized and unrealized gains and losses on the portfolio reflected in investment income. For 2019 unrealized gains and losses on the portfolio are reflected in the change in net assets and realized gains and losses are included in investment income.

OCLC invests available cash in major banks and mutual funds. 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 by custodians and are reflected on the consolidated balance sheets as cash equivalents and mutual funds.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Realized gains and losses related to investments are recorded using the FIFO method. Net unrealized gains on the portfolio totaled \$8,263,400 and \$7,052,800 at June 30, 2020 and 2019, respectively. The following schedule details investment returns for the years ended June 30, 2020 and 2019:

	2020	2019
Dividends, interest, and other income	\$ 8,647,700	\$ 8,253,000
Net realized (loss) gain on investments	(9,386,900)	5,517,800
Other-than-temporary impairment on investments	-	(2,476,300)
Net unrealized gain on investments	1,210,600	572,200
Total net investment gain	\$ 471,400	\$ 11,866,700

With the unrealized gains and losses now flowing through investment income from the adoption of ASU 2016-01, OCLC deemed an other-than-temporary impairment review unnecessary for 2020. Through 2019 OCLC reviewed its portfolio for other-than-temporary impairment each fiscal year end. The investment securities portfolio was 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.

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, 2019.

Description of Temporarily Impaired Securities	<u>2019</u>					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$24,743,200	\$(1,286,100)	\$55,352,300	\$(2,332,000)	\$80,095,500	\$ (3,618,100)
Total Temporarily Impaired Securities	\$24,743,200	\$(1,286,100)	\$55,352,300	\$(2,332,000)	\$80,095,500	\$ (3,618,100)

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Notes to Consolidated Financial Statements

At June 30, 2019, the Corporation owned the following securities that had unrealized losses: fifty-one mutual fund investments.

At June 30, 2019, impairments were generally considered other-than-temporary on those funds and investments in which OCLC had an intent to sell or did not believe specific lots would likely recover in value in the future.

3. Fixed Assets

Fixed assets at June 30, 2020 and 2019, include the following:

	2020	2019
Land and improvements	\$ 11,272,200	\$ 10,952,500
Building and improvements	92,014,000	89,094,000
Computer and telecommunications equipment	38,543,000	39,147,400
Databases	84,045,800	82,667,200
Software	181,245,900	155,879,200
Office furniture and equipment	7,430,200	6,325,900
Total	414,551,100	384,066,200
Less accumulated depreciation and amortization	284,878,500	255,570,400
Fixed assets, net	\$ 129,672,600	\$ 128,495,800

Software development costs, related to internal use software, of \$24,831,600 and \$21,311,900 were capitalized in fiscal year 2020 and 2019, respectively.

Database enhancement costs of \$1,398,100 and \$1,344,900 were capitalized in fiscal year 2020 and 2019, respectively, and were included in databases.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Operating Leases

Certain buildings and equipment are rented under operating leases. Rental expense for all leases was \$2,472,100 and \$2,921,600 for fiscal years 2020 and 2019, respectively. Future minimum lease payments under existing noncancelable lease commitments are as follows:

Years Ending June 30,

2021	\$	1,677,300
2022		770,700
2023		357,300
2024		108,300
2025		92,900
Thereafter		74,700
Total	\$	3,081,200

4. Debt

	2020	2019
Tax-exempt financing	\$ 68,283,500	\$ 57,238,100
Debt issuance costs	(141,300)	(106,400)
Subtotal	68,142,200	57,131,700
Less current maturities	(17,079,400)	(16,951,900)
Total long-term debt	\$ 51,062,800	\$ 40,179,800

Tax-Exempt Financing

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 had a balance outstanding of \$606,600 at June 30, 2019. During fiscal year 2020, the remaining balance was repaid and there was no outstanding balance at June 30, 2020. 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.

On June 19, 2013, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$24,000,000 with an effective interest rate of 1.615%. The lease is due monthly in equal principal and interest installments of \$302,400 beginning July 19, 2013 and had a balance outstanding of \$3,596,800 at June 30, 2019. During fiscal year 2020, the remaining balance was repaid and there was no outstanding balance at June 30, 2020. The

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proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On October 24, 2014, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 1.54%. The lease is due monthly in equal principal and interest installments of \$377,000 beginning November 28, 2014 and has a balance outstanding of \$5,966,200 and \$10,361,200 at June 30, 2020 and 2019, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On April 14, 2016, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 1.793%. The lease is due quarterly in equal principal and interest installments of \$1,142,500 beginning July 14, 2016 and has a balance outstanding of \$13,318,400 and \$17,601,300 at June 30, 2020 and 2019, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On March 28, 2018, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 2.86%. The lease is due quarterly in equal principal and interest installments of \$1,186,100 beginning June 28, 2018 and has a balance outstanding of \$21,001,600 and \$25,072,200 at June 30, 2020 and 2019, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On November 26, 2019, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 2.06%. The lease is due quarterly in equal principal and interest installments of \$1,153,300 beginning February 26, 2020 and has a balance outstanding of \$27,997,300 at June 30, 2020. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

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Cost and accumulated depreciation of the leased equipment included in 2020 and 2019 fixed assets are as follows:

	2020	2019
Equipment, software, and databases	\$ 156,314,800	\$ 126,314,800
Less accumulated depreciation	98,104,600	81,605,700
Capital lease assets, net	\$ 58,210,200	\$ 44,709,100

The aggregate maturities of the tax-exempt financing obligations and bank lines of credit (see Note 5) are as follows:

Years Ending June 30,

2021	\$ 32,079,400
2022	14,403,500
2023	13,191,400
2024	8,888,400
2025	7,924,100
Thereafter	6,796,700
Total	\$ 83,283,500

The Corporation is in compliance with all debt covenants.

5. Bank Lines of Credit

An unsecured revolving line of credit with a bank in the United States provided for total borrowings of up to \$15,000,000 during fiscal years 2020 and 2019. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to the London Interbank Offered Rate (LIBOR) plus 1.0% at June 30, 2020 and 2019 (total of 1.1% and 3.4% at June 30, 2020 and 2019, respectively). During fiscal year 2020, \$15,000,000 was borrowed and \$0 was repaid with \$15,000,000 outstanding at June 30, 2020. During fiscal year 2019, \$10,000,000 was repaid with no outstanding balance at June 30, 2019. The agreement expires January 31, 2021.

Effective October 1, 2017, OCLC obtained an additional unsecured revolving line of credit with a bank in the United States for \$15,000,000. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to LIBOR plus 1.0% at June 30, 2020 and 2019 (total of 1.1% and 3.4% at June 30, 2020 and 2019, respectively). During fiscal year 2020, a total of \$0 was borrowed and \$10,000,000 was repaid with no outstanding balance at June 30, 2020. During fiscal year 2019, a total of \$13,636,900 was borrowed and \$3,636,900 was repaid with \$10,000,000 outstanding at June 30, 2019. The agreement expires January 31, 2022.

On October 1, 2013, OCLC EMEA modified its secured revolving line of credit with a bank for a total of €2,250,000. The line of credit declined quarterly by €125,000 beginning April 1, 2014, through October 1, 2015. The line of credit available was €1,500,000 (\$1,682,800) and €1,500,000 (\$1,708,400) at June 30, 2020 and 2019, respectively. Under the terms of the agreement, interest

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on amounts borrowed was payable at a margin above the one-month Euribor (total of 1.8% at June 30, 2020 and 1.3% at June 30, 2019). The margin is reconsidered by the bank each year in June. During fiscal year 2020, a total of €481,100 (\$533,100) was borrowed and subsequently repaid within fiscal year 2020. During fiscal year 2019, a total of €1,192,400 (\$1,360,200) was borrowed and subsequently repaid within fiscal year 2019. There was no outstanding balance at June 30, 2020 or 2019. The bank line of credit is secured by a mortgage on real property, a pledge of business equipment, and accounts receivable of OCLC EMEA. The line of credit automatically renews each year for a one-year term unless cancelled by either party with one month notice.

The Corporation is in compliance with all lines of credit covenants.

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 permanent 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 \$6,653,400 and \$6,399,900 for fiscal years 2020 and 2019, 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 matching liabilities under the plan were \$1,690,100 and \$2,735,400 (reflected in other assets and other noncurrent liabilities) at June 30, 2020 and 2019, respectively.

Operations outside the United States, including the OCLC Canada division and OCLC EMEA, maintain or participate in separate retirement and defined contribution pension plans. Total expenses recorded under these plans were \$1,618,000 and \$1,390,100 in fiscal years 2020 and 2019, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and noncontributory postretirement life insurance coverage for domestic employees. OCLC’s 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.

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Relevant postretirement benefit information as of June 30, 2020 and 2019, is summarized as follows:

	2020	2019
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of the plan year	\$ 17,664,200	\$ 13,097,000
Service cost	595,100	653,600
Interest cost	538,900	543,000
Benefits paid, net	(1,020,600)	(660,300)
Actuarial loss	432,400	755,500
Assumption change	419,300	3,275,400
Benefit obligation at the end of the plan year	\$ 18,629,300	\$ 17,664,200
Net postretirement cost:		
Service cost	\$ 595,100	\$ 653,600
Interest cost	538,900	543,000
Net amortization	(307,700)	(569,300)
Total net postretirement cost	\$ 826,300	\$ 627,300
Amounts included in net assets:		
Unrecognized prior service cost	\$ 1,087,100	\$ 1,231,900
Unrecognized net gain	(2,249,600)	(3,553,800)
Total amounts included in net assets	\$ (1,162,500)	\$ (2,321,900)
Reconciliation of unrecognized net gain:		
Unrecognized net gain at the beginning of the year	\$ (3,553,800)	\$ (8,235,600)
Actuarial loss	432,400	755,500
Loss due to change in assumptions	419,300	3,275,400
Amortization amount	452,500	650,900
Unrecognized net gain at the end of the year	\$ (2,249,600)	\$ (3,553,800)
Benefit obligations recognized in net assets:		
Net loss	\$ 851,700	\$ 4,030,900
Amortization of prior service cost	(144,800)	(81,600)
Amortization of gain	452,500	650,900
Total recognized in net assets	\$ 1,159,400	\$ 4,600,200

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Amounts recognized on the consolidated balance sheets as of June 30, 2020 and 2019, were as follows:

	2020	2019
Accrued liabilities - current	\$ 554,000	\$ 534,000
Other noncurrent liabilities	18,075,300	17,130,200
Total amount recognized	\$ 18,629,300	\$ 17,664,200

Actuarial assumptions used in determining these amounts included a weighted-average discount rate of 2.83% and 3.60% at June 30, 2020 and 2019, respectively, and an annual increase in medical expense of 7.50%, declining to 4.5% in 2027 and thereafter.

No plan amendments were made during fiscal 2020 or 2019.

The following table presents estimated future net benefit payments for the next 10 fiscal years:

Years Ending June 30,

2021	\$	554,000
2022		555,000
2023		561,000
2024		567,000
2025		590,000
2026-2030		3,559,000

7. Income Taxes

At June 30, 2020, OCLC has a net deferred tax asset of \$3,910,000 for operating loss carryforwards (which all pertains to the foreign subsidiaries). At June 30, 2019, OCLC had a net deferred tax asset of \$3,380,000 for operating loss carryforwards (which all pertains to the foreign subsidiaries). The net deferred tax asset is fully offset by a valuation allowance due to the uncertainty of recoverability of these items. Additionally, OCLC EMEA has no deferred tax asset at June 30, 2020 and \$20,000 at June 30, 2019, relating to fixed asset depreciation and a prior German acquisition, which is recorded as a noncurrent asset in other assets. OCLC EMEA also has a deferred tax liability of \$11,000 and \$22,000 at June 30, 2020 and 2019, respectively, relating to the acquisition of HKA, which is recorded as a noncurrent liability in other noncurrent liabilities.

At June 30, 2020, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$15,303,000 (all foreign, principally in the United Kingdom and Canada). At June 30, 2019, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$13,186,000 (all foreign, principally in the United Kingdom and Canada). The Canadian carryforwards expire through fiscal year 2039.

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8. Fair Value Measurements

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 or liabilities
- 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, present OCLC’s assets and liabilities at fair value as of June 30, 2020 and 2019:

	<u>2020</u>			
	<u>Fair Value of Measurements at Reporting Date Using</u>			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 84,550,200	\$ -	\$ -	\$ 84,550,200
Equity	128,198,800	-	-	128,198,800
Alternatives	10,792,700	-	-	10,792,700
Total mutual funds	223,541,700	-	-	223,541,700
Nonqualified voluntary contributory savings plan	1,690,100	-	-	1,690,100
Total assets at fair value	\$ 225,231,800	\$ -	\$ -	\$ 225,231,800
Nonqualified voluntary contributory saving plan	\$ 1,690,100	\$ -	\$ -	\$ 1,690,100
Total liabilities at fair value	\$ 1,690,100	\$ -	\$ -	\$ 1,690,100

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	<u>2019</u>			
	<u>Fair Value of Measurements at Reporting Date Using</u>			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 92,503,700	\$ -	\$ -	\$ 92,503,700
Equity	113,162,600	-	-	113,162,700
Alternatives	22,275,800	-	-	22,275,800
Total mutual funds	227,942,100	-	-	227,942,100
Nonqualified voluntary contributory savings plan	2,735,400	-	-	2,735,400
Total assets at fair value	\$ 230,677,500	\$ -	\$ -	\$ 230,677,500
Nonqualified voluntary contributory saving plan	\$ 2,735,400	\$ -	\$ -	\$ 2,735,400
Total liabilities at fair value	\$ 2,735,400	\$ -	\$ -	\$ 2,735,400

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, net assets are not considered a financial instrument and are 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 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 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), Long-Term Debt, and Accounts Payable - The carrying amounts of these items are a reasonable estimate of their fair values.

Investments - Mutual funds are stated at fair value based upon quoted market prices or as calculated by third-party administrators.

Nonqualified voluntary contributory savings plan - Investment assets (and liabilities) recorded at fair value based upon quoted market prices or as calculated by third-party administrators. These were purchased with participants' voluntary contributions.

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The valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while OCLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of June 30, 2020 and 2019. There were no unfunded commitments for either year.

	Fair Value	<u>2020</u> Redemption Frequency	Redemption Notice Period
Mutual funds:			
Fixed income	\$ 84,550,200	Daily	1 Day
Equity - domestic	47,892,500	Daily	1 Day
Equity - global	80,306,300	Daily	1 Day
Alternatives	<u>10,792,700</u>	Daily	1 Day
	<u>\$ 223,541,700</u>		

	Fair Value	<u>2019</u> Redemption Frequency	Redemption Notice Period
Mutual funds:			
Fixed income	\$ 92,503,700	Daily	1 Day
Equity - domestic	92,207,800	Daily	1 Day
Equity - global	20,954,800	Daily	1 Day
Alternatives	<u>22,275,800</u>	Daily	1 Day
	<u>\$ 227,942,100</u>		

Investments in these categories consist of mutual funds or commingled funds that invest in domestic equities, foreign equities, domestic fixed income, or foreign fixed income securities, in some instances using alternative investment strategies.

9. Revenues and Contract Liabilities

OCLC generally provides services for customers in which it acts as a principal. Some fees may be paid before any service is rendered and accordingly, such fees are deferred until obligations pertaining to these fees are satisfied. Most contracts are short term in nature, with a contract duration of one year. Accordingly, most deferred revenue for the reporting period ended June 30, 2020, is expected to be earned within one year.

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The following table shows OCLC's revenue disaggregated according to the timing of transfer of goods or services for the year ending June 30, 2020:

Revenue recognized at a point in time	\$ 14,067,100
Revenue recognized over time	197,373,200
Revenue not subject to ASC 606	3,134,200
<hr/>	
Total Revenue	\$ 214,574,500

OCLC contract liabilities at June 30, 2020:

Deferred revenue recognized at a point in time	\$ 506,700
Deferred revenue recognized over time	46,144,800
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Total Deferred Revenue	\$ 46,651,500

10. Divestiture of QuestionPoint

On May 31, 2019, OCLC sold its QuestionPoint service to Springshare LLC for \$2,000,000 in cash and \$300,000 in a contingent earnout. OCLC was relieved of liabilities of \$302,000 in liabilities and recognized a gain of \$2,602,000.

11. Functional Expenses

The Corporation has one major program being the delivery of library services and products to the membership. The Corporation's operating expenses have been allocated between program and general and administrative expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one function. Expenditures that require allocation are allocated on either a personnel-cost or specific identification, whichever is more reasonable for the expenditure. A summary of the Corporation's functional allocation of expenses is as follows:

<i>For the year ended June 30, 2020</i>	Program	General & Administrative	Total
Operating Expenses			
Salaries, wages, and related fringe benefits	\$ 114,274,400	\$ 15,240,900	\$ 129,515,300
Depreciation and amortization	26,647,500	3,076,900	29,724,400
Library services	18,867,000	2,147,700	21,014,700
Selling, general, and administrative	22,325,800	2,876,300	25,202,100
Buildings and utilities	6,821,800	600	6,822,400
<hr/>			
Total Operating Expenses	\$ 188,936,500	\$ 23,342,400	\$ 212,278,900

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<i>For the year ended June 30, 2019</i>	Program	General & Administrative	Total
Operating Expenses			
Salaries, wages, and related fringe benefits	\$ 113,411,000	\$ 15,833,800	\$ 129,244,800
Depreciation and amortization	28,656,000	3,057,900	31,713,900
Library services	27,961,000	554,100	28,515,100
Selling, general, and administrative	22,843,300	5,177,300	28,020,600
Buildings and utilities	7,190,900	2,800	7,193,700
Total Operating Expenses	\$ 200,062,200	\$ 24,625,900	\$ 224,688,100

12. Risk and Uncertainties

Business interruptions, including any interruptions resulting from COVID-19, could significantly disrupt our operations and could have a material adverse impact on OCLC if the situation continues.

The ongoing coronavirus outbreak which began in China at the beginning of 2020 has impacted various libraries and businesses throughout the world, including travel restrictions and the extended shutdown of libraries in impacted geographic regions.

The extent to which the coronavirus impacts our operations or those of our third-party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. OCLC's workforce has not been significantly impacted by work from home mandates and has successfully transitioned to a remote working environment where necessary. Any such disruptions or losses OCLC incurs could have an adverse effect on our financial results and our ability to conduct business as expected.

In March 2020, the "Coronavirus Aid, Relief, and Economic Security (CARES) Act" was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, employee retention credits and loans available to businesses. Management continues to examine the impact that the CARES Act may have on the business.

13. 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.

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14. Subsequent Events

On July 1, 2020 OCLC acquired certain assets and assumed certain liabilities of Capira Technologies, a leader with the fastest growing mobile library app and a curbside reservation web platform, for \$1,075,700, with deferred and contingent payments that could get the total purchase price up to \$2,050,000.

The Corporation has performed an evaluation of subsequent events through September 21, 2020 which is the date the consolidated financial statements were available to be issued, noting no other events that affect the consolidated financial statements as of June 30, 2020.