



**IOWA DESIGNATED INVESTOR, INC.**

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

# IOWA DESIGNATED INVESTOR, INC.

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KPMG LLP  
2500 Ruan Center  
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## Independent Auditors' Report

The Shareholders  
Iowa Designated Investor, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Iowa Designated Investor, Inc. (the Company), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, shareholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Des Moines, Iowa  
August 22, 2014

**IOWA DESIGNATED INVESTOR, INC.**

Balance Sheets

December 31, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 500,561	500,648
Investment in Iowa Fund of Funds, Fund A, LLLP	19,778,939	23,504,676
Interest rate cap	254,647	141,909
Total assets	\$ <u>20,534,147</u>	<u>24,147,233</u>
<b>Liabilities and Shareholders' Deficit</b>		
Liabilities:		
Accounts payable	\$ 1,564	22,759
Income taxes payable	253,300	—
Interest payable	507,549	52,521
Line of credit with third party bank	13,513,069	27,604,249
Subordinated note to the State of Iowa	17,109,270	6,393,070
Total liabilities	<u>31,384,752</u>	<u>34,072,599</u>
Shareholders' deficit:		
Common stock, \$1 par value. Authorized, 5,000 shares; issued and outstanding, 300 shares	300	300
Accumulated deficit	<u>(10,850,905)</u>	<u>(9,925,666)</u>
Total shareholders' deficit	<u>(10,850,605)</u>	<u>(9,925,366)</u>
Total liabilities and shareholders' deficit	\$ <u>20,534,147</u>	<u>24,147,233</u>

See accompanying notes to financial statements.

**IOWA DESIGNATED INVESTOR, INC.**

Statements of Operations

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Income:		
Equity in income of investment in Iowa Fund of Funds, Fund A, LLLP	\$ 954,914	1,735,510
Gain on interest rate cap	112,738	—
Interest income	632	997
Total income	<u>1,068,284</u>	<u>1,736,507</u>
Expenses:		
Interest expense	1,367,346	1,331,262
Legal expenses	59,636	887,478
Loss on interest rate cap	—	160,591
General and administrative expenses	152,308	93,994
Total expenses	<u>1,579,290</u>	<u>2,473,325</u>
Net loss before income taxes	(511,006)	(736,818)
Income tax expense	414,233	1,767
Net loss	<u>\$ (925,239)</u>	<u>(738,585)</u>

See accompanying notes to financial statements.

**IOWA DESIGNATED INVESTOR, INC.**

Statements of Shareholders' Deficit

Years ended December 31, 2013 and 2012

	<u>Common stock</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance, December 31, 2011	\$ 300	(9,187,081)	(9,186,781)
Net loss	—	(738,585)	(738,585)
Balance, December 31, 2012	300	(9,925,666)	(9,925,366)
Net loss	—	(925,239)	(925,239)
Balance, December 31, 2013	\$ <u>300</u>	<u>(10,850,905)</u>	<u>(10,850,605)</u>

See accompanying notes to financial statements.

**IOWA DESIGNATED INVESTOR, INC.**

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Net loss	\$ (925,239)	(738,585)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of loan origination fees	—	6,667
Equity in income of investment	(954,914)	(1,735,510)
Non-cash investment income	15,932	—
Change in:		
Accounts payable	(21,195)	22,275
Income taxes payable	253,300	—
Interest payable	455,028	(86,156)
Interest rate cap	(112,738)	160,591
Net cash used in operating activities	(1,289,826)	(2,370,718)
Cash flows from investing activities:		
Investment in Iowa Fund of Funds, Fund A, LLLP	(1,131,625)	(2,621,513)
Distributions received from investee	5,796,344	3,938,465
Net cash from investing activities	4,664,719	1,316,952
Cash flows from financing activities:		
Borrowings on line of credit	—	4,580,916
Borrowings on subordinated note with State of Iowa	10,716,200	6,393,070
Repayments on line of credit	(14,091,180)	(9,618,186)
Purchase of interest rate cap	—	(302,500)
Net cash (used in) from financing activities	(3,374,980)	1,053,300
Net change in cash and cash equivalents	(87)	(466)
Cash and cash equivalents:		
Beginning of year	500,648	501,114
End of year	\$ 500,561	500,648
Supplemental cash flow information:		
Cash paid for interest	\$ 912,318	1,417,418
Cash paid for income taxes	\$ 145,001	—
Non-cash distributions received from investee	\$ 15,932	—

See accompanying notes to financial statements.

# IOWA DESIGNATED INVESTOR, INC.

## Notes to Financial Statements

December 31, 2013 and 2012

### (1) Basis of Presentation

Iowa Designated Investor, Inc. (the Company) was organized under the Delaware General Corporation Law. The Company, which began operations on June 24, 2005, was formed for the purpose of making equity investments in and being a Preferred Limited Partner of Iowa Fund of Funds, Fund A, LLLP (the Fund). The Company, upon making a commitment to invest in the Fund, received tax credit certificates from the Iowa Capital Investment Board (ICIB), an agency of the State of Iowa, that assures its receipt of a Scheduled Return (note 6).

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The Company prepares its financial statements on the accrual basis of accounting, which recognizes revenue as earned and expenses when incurred, rather than when cash is actually received or disbursed.

#### (b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### (c) Cash Equivalents

Cash equivalents include highly liquid securities, investments in interest-bearing money market deposits, and short-term debt securities with maturities of three months or less when purchased.

#### (d) Investment in Iowa Fund of Funds, Fund A, LLLP

The Company has a capital commitment obligation, subject to its ability to obtain financing, to the Fund for an amount equal to \$40,000,000 for the years ended December 31, 2013 and 2012, in exchange for an economic interest in the Fund described in note 4. The Company does not control or have significant influence over the Fund. However, the Company's officers do exercise significant influence over the Fund through their control of Cimarron Capital Associates I, LLC (Cimarron), which is employed by the general partner of the Fund as the Fund's manager. The investment is included in the balance sheets at the Company's ratable share of the underlying net assets of the Fund. Equity in income (loss) of investment represents the Company's share of the Fund's income (losses) as provided for under the terms of the Limited Partnership Agreement of the Fund dated June 9, 2005 and amended August 8, 2012 (the Partnership Agreement).

#### (e) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

## IOWA DESIGNATED INVESTOR, INC.

### Notes to Financial Statements

December 31, 2013 and 2012

The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company files income tax returns in the U.S. federal jurisdiction and multiple state jurisdictions. Major state jurisdictions include Iowa, California, Illinois, Minnesota, Missouri, Nebraska, New Jersey, and Wisconsin. The Company is currently not under income tax examination by the Internal Revenue Service or any state. For federal and state tax purposes, the Company's 2010 through 2013 tax years remain open for examination by the tax authorities due to the statute of limitations. The Company had no unrecognized tax benefits as of December 31, 2013 and 2012.

*(f) Risks and Uncertainties*

The Company's ability to recover its investment in the Fund is dependent upon a number of factors, including the ability of the individual portfolio funds of the Fund to generate and distribute cash flow to the Fund, their ability to execute investment exit strategies in accordance with their individual objectives, the economic and industry conditions in the geographical areas in which the portfolio partnerships operate, and other factors that may affect national securities markets.

*(g) Subsequent Events*

The Company has evaluated subsequent events from the balance sheet date through August 22, 2014, the date at which the financial statements were available to be issued, and determined there are no items requiring recognition or disclosure in the financial statements.

**(3) Iowa Fund of Funds, Fund A, LLLP: Partnership Profits, Losses, and Cash Distributions**

The Fund has four partners: the Company (the Preferred Limited Partner); Cimarron; Iowa Fund of Funds, L.C. (the Revolving Fund); and Iowa Capital Investment Corporation (the General Partner).

The Partnership Agreement, as amended on August 8, 2012 provides that amounts received by the Fund from a Portfolio Fund (including proceeds realized by the Fund from a sale of property distributed by a Portfolio Fund) net of expenses and reserves (collectively considered to be net cash flow), generally shall be distributed first to Cimarron as the Fund's Manager to defray any income tax liabilities arising from its ownership of an interest in the Fund (determined pursuant to the Partnership Agreement), and thereafter among the Partners as follows:

- First, to the Preferred Limited Partner to be applied solely to obligations under the Preferred Limited Partner's loan agreements, including the obligation to reimburse the State for verified tax credit, interest and expense;
- Second, to Cimarron, until Cimarron has received the distributions it would have received under the Partnership Agreement but for the August 8, 2012 amendments equal to a 7.5% "carried interest" on the Fund's profits and net losses from interests in portfolio investments (as determined under the Partnership Agreement) and an additional amount based on the amount and time period of the deferral calculated at a rate of 12% per annum; and
- Thereafter, to the partners based upon the provisions of the Partnership Agreement as in effect prior to the August 8, 2012 amendments.

## IOWA DESIGNATED INVESTOR, INC.

### Notes to Financial Statements

December 31, 2013 and 2012

2013 revisions to Iowa Code 15E.61 et seq., including new Section 15E.72, (the 2013 Legislation) revised the above to provide that amounts payable to the Revolving Fund (Special Limited Partner) under the Partnership Agreement shall instead be paid to the general fund of the State of Iowa.

Prior to the August 8, 2012 amendments and 2013 Legislation, the Partnership Agreement provided that all amounts received by the Fund from a Portfolio Fund (including proceeds realized by the Fund from a sale of property distributed by a Portfolio Fund) net of expenses and reserves (collectively considered to be net cash flow), generally shall be distributed first to Cimarron as the Fund's Manager to defray any income tax liabilities arising from its ownership of an interest in the Fund (determined pursuant to the Partnership Agreement), and thereafter among the Partners as follows:

- First, to the Preferred Limited Partners, in proportion to their Unpaid Distribution Preferences (as defined in the Partnership Agreement) in respect of the particular portfolio investment which includes compounding at a Minimum Rate (as calculated from time to time per the Partnership Agreement) until the Preferred Limited Partners have received distributions equal to their Distribution Preference (as defined in the Partnership Agreement) with respect to such portfolio investment;
- Second, to Cimarron, until Cimarron has received distributions equal to 7.5% "carried interest" on the Fund's profits and net losses from interests in portfolio investments (as determined under the Partnership Agreement);
- Third, to the Preferred Limited Partners, in proportion to their respective Aggregated Unpaid Distribution Preferences (as defined in the Partnership Agreement) which includes compounding at a Minimum Rate (as calculated from time to time per the Partnership Agreement) until the Preferred Limited Partners have received distributions equal to the sum of their Distribution Preferences with respect to all portfolio investments;
- Fourth, to the Preferred Limited Partners, in proportion to their respective unpaid Scheduled Return until each Preferred Limited Partner has received distributions equal to their Scheduled Return;
- Fifth, 100% to the Special Limited Partner (who is owned by ICIC) until the cumulative distributions to the Special Limited Partner equals the product of 10 multiplied by the cumulative distributions previously made to Cimarron as "carried interest" above;
- Thereafter, 99% to the Special Limited Partner and 1% to Cimarron.

For the years ended December 31, 2013 and 2012, net cash flow was distributed to the Preferred Limited Partner. Distributions of \$5,812,276 and \$3,938,465 were received from the Fund during the years ended December 31, 2013 and 2012, respectively. Distributions included \$15,932 of pass-through tax withholding for the year ended December 31, 2013.

## IOWA DESIGNATED INVESTOR, INC.

### Notes to Financial Statements

December 31, 2013 and 2012

#### (4) Investment in Iowa Fund of Funds, Fund A, LLLP

A summary of the financial information for the Fund, which the Company does not control, but over which the Company's officers have significant influence through their control of Cimarron, which is employed by the General Partner of the Fund as the Fund's manager, as of December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 50	2,952
Investment in portfolio funds	18,943,111	22,675,605
Other assets	847,039	847,039
Total assets	<u>\$ 19,790,200</u>	<u>23,525,596</u>
Liabilities and partners' equity:		
Accounts payable	\$ 11,261	20,920
Partners' equity	19,778,939	23,504,676
Total liabilities and partners' equity	<u>\$ 19,790,200</u>	<u>23,525,596</u>
Income	\$ 1,342,783	2,639,718
Expenses	(387,869)	(904,208)
Net income	<u>\$ 954,914</u>	<u>1,735,510</u>

#### (5) Line of Credit

The Company entered into a revolving credit agreement on February 1, 2008. The agreement provided for not more than \$30,000,000 outstanding at any point in time and expired on February 1, 2011. In February 2011, the Company increased its commitment, subject to its ability to obtain financing, to the Fund by \$10 million, resulting in a total commitment of \$40 million. Subsequently on February 23, 2011, the Company entered into two line of credit agreements with two banks (Regions and Bank of Oklahoma) for a total of \$40,000,000, with a maturity date of February 22, 2012 (original loan). Borrowings on the lines were limited based on a combination of the floating interest rate, ongoing operating costs, the volume and pace at which capital is called by the Fund's individual portfolio funds and the size of, and rate paid on, a compensating balance. The line could be refinanced or restructured without penalty prior to maturity.

On February 22, 2012, the Company's line of credit was extended to April 22, 2012. The line of credit was not paid at maturity.

On August 8, 2012, the Company and the banks agreed to modify the February 23, 2011 loan agreement (modified loan agreement). The modified loan agreement provides for an up to \$40 million line of credit to March 30, 2018. If there have been (i) no event of default, (ii) the Company executes and delivers an interest rate cap, and (iii) the modified loan is less than \$10 million as of that date, then the line will be automatically extended to March 30, 2020. The new loan agreement waived the Company's default with respect to non-payment of the previous line of credit at the maturity date.

Interest on the original and modified loans is payable quarterly in arrears. Interest is calculated at a variable rate equal to the lesser of (1) the maximum effective rate of interest which the banks are permitted to contract for and charge under applicable law or (2) the LIBOR rate plus 3.55%. The interest rate at December 31, 2013 and 2012 was 3.74% and 3.80%, respectively. The Company had borrowings

## IOWA DESIGNATED INVESTOR, INC.

### Notes to Financial Statements

December 31, 2013 and 2012

outstanding under the credit agreement of \$13,513,069 and \$27,604,249 at December 31, 2013 and 2012, respectively.

The Company has pledged all of its equity interest now owned, or hereafter acquired, in the Fund as collateral. The Fund has also guaranteed the modified loan agreement, and in the event of default by the Company, all outstanding principal and interest will be payable by the Fund. In addition, the loan agreement is collateralized by tax credit certificates (note 6).

Concurrently with the modified loan agreement, the Company entered into a subordinated note with the State of Iowa (the State). Under this facility, the Company will reimburse the State for, and pay to the State, the full cost for the amount of any existing or future tax credits verified and sold or otherwise used by any taxpayer in collateral support of the new loan. Any amounts owed under this agreement accrue interest daily at an initial annual rate of 5%, subject to annual adjustment by the State of Iowa. The interest rate at December 31, 2013 and 2012 was 5%. As collateral for this agreement, the Company has pledged its partnership interest in the Fund and all distributions, dividends, and rights to payment from the Fund. The Fund has also guaranteed the subordinate note in the event of default by the Company. The Company had borrowings outstanding with the State of \$17,109,270 and \$6,393,070 at December 31, 2013 and 2012, respectively.

#### **(6) Tax Credit Certificates**

Contingent tax credit certificates are issued by the ICIB, under authority granted by the Fund's enabling statute and rules (Iowa Code 15E.61 and Iowa Administrative Code, Section 123, Chapter 4.1). Tax credit certificates are issued based upon a commitment by the Company to invest in the Iowa Fund of Funds, Fund A, LLLP. Each contingent tax credit certificate contains on its face a maximum value along with maturity dates and a calculation formula for its "Scheduled Return." Generally, Scheduled Return is defined as the sum of all of the Company's expenses and liabilities—including principal and accumulated interest—related to the Company's investment in the Fund.

The Company borrows under a revolving credit agreement (note 5) to fund its investments in the Fund. The original loan was secured by the collateral assignment of contingent tax credit certificates issued to the Company in the amount of \$57 million as of December 31, 2011. After modification of the original loans, the contingent tax credit certificates were reissued to Regions Bank.

To redeem the tax credit certificates, the contingent certificates are presented to the ICIB for issuance of a verified tax credit certificate. As of December 31, 2013, ICIB has issued to Regions a verified tax credit certificate of \$25 million and a contingent tax credit certificate of \$31 million.

The verified tax credit certificates may be used by any holder against current or future liabilities for payment of Iowa income, premium, or franchise taxes and are freely transferable. Tax credit certificates may be sold in amounts up to \$20 million in any one Iowa fiscal year (July 1 through June 30). Tax credit certificates may not be carried back against past liabilities but they may be carried forward up to seven years.

After February 1, 2018, but on or before February 15, 2018, the ICIB shall verify an amount of tax credits equal to the lesser of (i) the aggregate amount of all interest accrued on the modified loan since February 23, 2011 plus the amount of capital invested in the Fund's investments subsequent to August 8, 2012, (ii) 1.43 multiplied by the then-existing commitment, or (iii) the face amount of the contingent tax credit certificates on August 12, 2012.

# IOWA DESIGNATED INVESTOR, INC.

## Notes to Financial Statements

December 31, 2013 and 2012

### (7) Interest Rate Cap

Concurrently with the new loan agreement, the Company executed an interest rate cap on an amortizing notional amount of \$25 million. The cap had an effective date of August 8, 2012 and will mature on March 23, 2018. The counterparty in the cap transaction is the payer on one-month LIBOR at a cap strike rate of 2.0%. The cap is recorded by the Company on the balance sheets at fair value with changes in the fair value being reflected in the statements of operations. As of December 31, 2013, the cap had a fair value of \$254,647 and resulted in a gain of \$112,738 for the year ended December 31, 2013 recorded in the statements of operations. As of December 31, 2012, the cap had a fair value of \$141,909 and resulted in a loss of \$160,591 for the year ended December 31, 2012 recorded in the statements of operations.

The valuation of the interest rate cap is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair value of interest rate option is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the cap. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of Accounting Standard Codification 820, *Fair Value Measurement*, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the interest rate cap utilizes Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate cap and has determined that the credit valuation adjustment is not significant to the overall valuation of the cap. As a result, the Company has determined that the interest rate cap in its entirety is classified in Level 2 of the fair value hierarchy.

### (8) Income Taxes

Deferred income taxes as of December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Deferred income tax assets	\$ 3,336,501	4,008,551
Valuation allowance	<u>(3,336,501)</u>	<u>(4,008,551)</u>
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

Temporary differences giving rise to deferred taxes at December 31, 2013 and 2012 include primarily net operating loss carryforwards and basis differences in partnership investments.

## IOWA DESIGNATED INVESTOR, INC.

### Notes to Financial Statements

December 31, 2013 and 2012

The components of income tax expense for the year ended December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Current	\$ 414,233	1,767
Deferred	(672,050)	267,060
Valuation allowance	672,050	(267,060)
Total	<u>\$ 414,233</u>	<u>1,767</u>

Deferred income tax assets are calculated based on an assumed effective tax rate of 34% for federal income tax and various rates applicable to individual states.

In the years ended December 31, 2012 and prior, the Company, in consultation with tax experts, recorded no income tax expense based on its assessment of its tax liability considering the jurisdictions it filed in and applicable net operating loss carryforwards. During the year ended December 31, 2013, the Company, in consultation with tax experts, determined to file in various state jurisdictions, resulting in an income tax expense of \$414,233 for the year ended December 31, 2013. This amount comprises \$216,709 from taxable years prior to the year ended December 31, 2013 and \$197,524 from the year ended December 31, 2013.

The Company incurred \$35,576 in interest and penalties for the year ended December 31, 2013 which were recorded with general and administrative expenses.

As of December 31, 2013 and 2012, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$12.4 million and \$13.9 million, respectively, and state income tax purposes of approximately \$5.9 million and \$5.9 million, respectively. The carryforwards will begin to expire in 2025 if not used.

Realization of the Company's net deferred tax assets is dependent upon the Company generating sufficient taxable income in future years in the appropriate tax jurisdictions to obtain a benefit from the reversal of deductible temporary differences and from tax loss carryforwards.

The Company has concluded that, based on expected future results and the future reversals of existing taxable temporary differences, it is not more likely than not that certain deferred tax assets will be used in the next twelve months or the near term. Accordingly, a valuation allowance has been established for these tax benefits.