



TEXAS

The Real Estate Center at Texas A&M noted in their November Summary that “Texas expansion continued as the energy sector advanced, and Gulf Coast reconstruction efforts stimulated the state economy. Oil prices hit a two-year high amid decreased inventories and robust global demand, driving Texas crude oil production up 5 percent. The statewide unemployment rate fell to a record low 3.8 percent and should decline further as initial unemployment insurance claims reached their lowest in more than 30 years. Despite expanding payrolls and historically low unemployment, wages remained stagnant. However, increased oil prices could boost energy-related employment, which typically pay higher wages. Potential headwinds to the Texas economy include energy price volatility and trade uncertainty, especially with Mexico.”

AUSTIN

“Economic growth in Austin was robust in November. The Austin Business-Cycle Index accelerated as jobs remained strong and the unemployment rate held at a very low level. Employment and survey data suggest Austin’s manufacturing sector grew strongly in 2017.” – January 2018 – Austin Economic Indicators

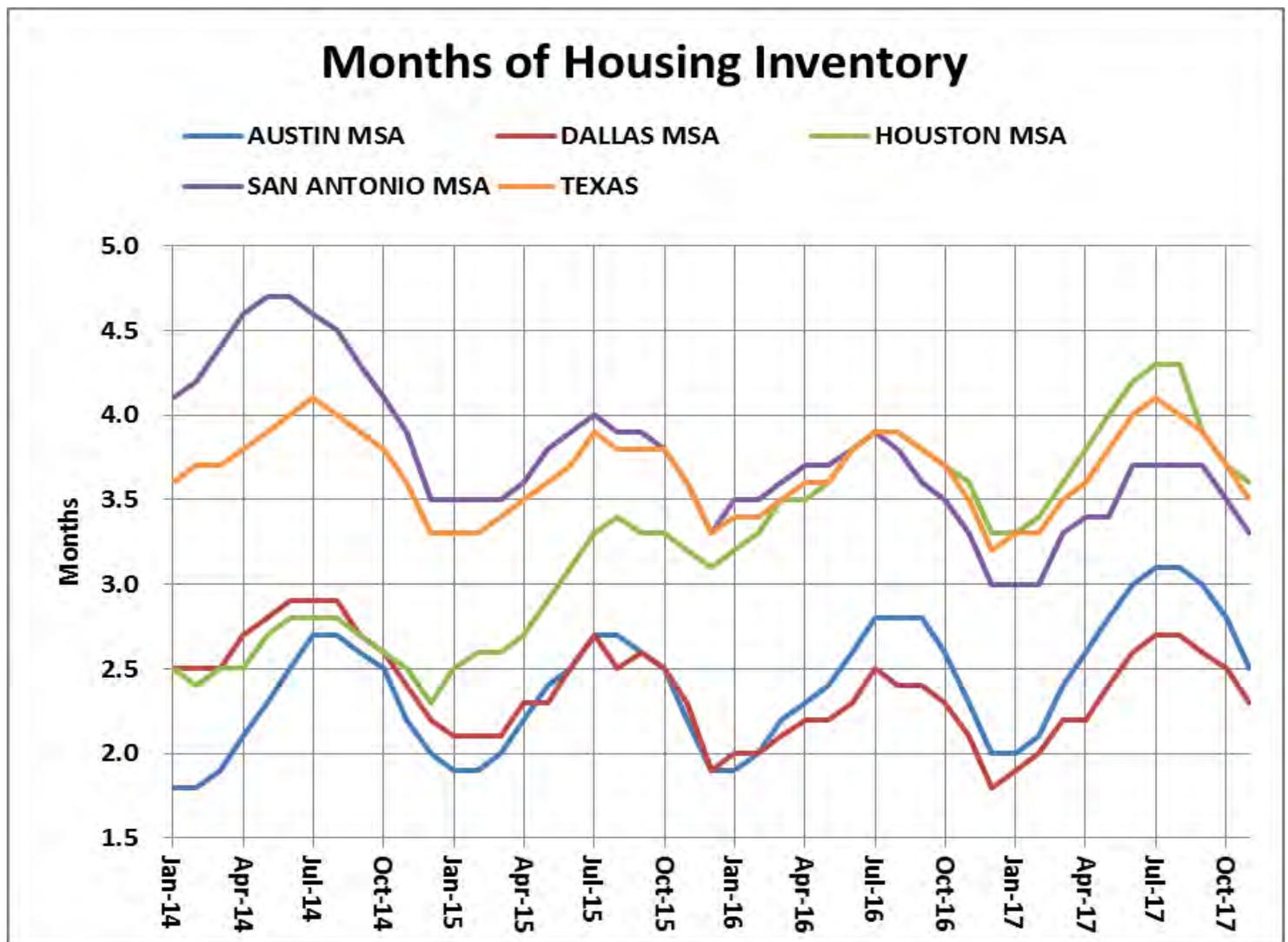


UNITED STATES

“The general economic picture at year-end 2017 is little changed from earlier in the year, with growth, employment and business confidence remaining strong. Forecasts for fourth-quarter gross domestic product (GDP) point to continued growth of about 2.5 percent. Headline and core inflation measures have either leveled off or increased in recent months. Most forecasters still project inflation will reach the target rate of 2 percent by 2018 or 2019.” - Research Department at the Federal Reserve Bank of Dallas

HOUSING – INVENTORY

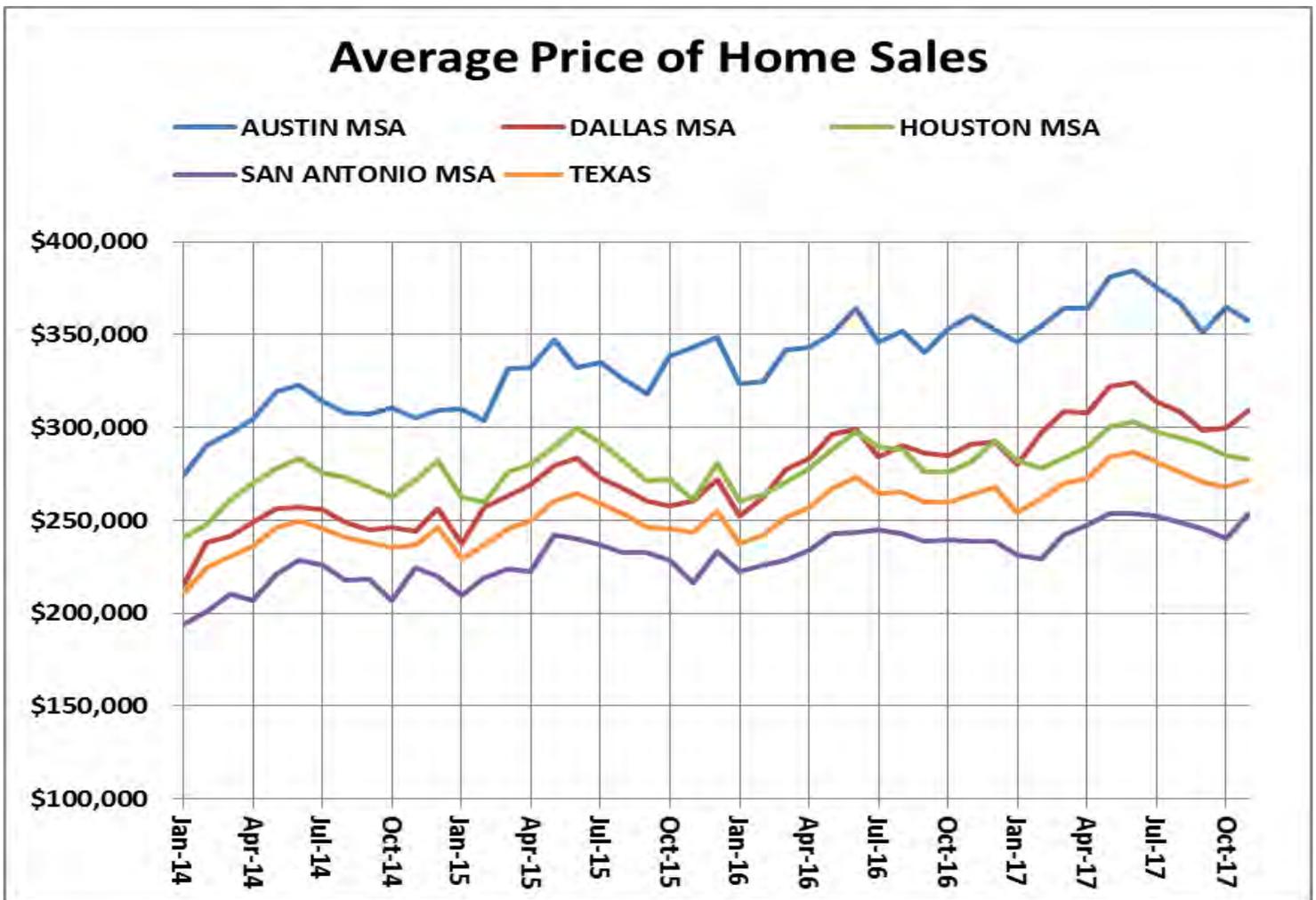
The Austin MSA’s months of housing inventory was 2.5 in November 2017. The Real Estate Center has estimated that “seasonally adjusted; around 6.5 months of inventory is considered a balanced housing market in which neither sellers nor buyers dictate prices.”



Source: Real Estate Center at Texas A&M University

HOUSING – AVERAGE SALES PRICE

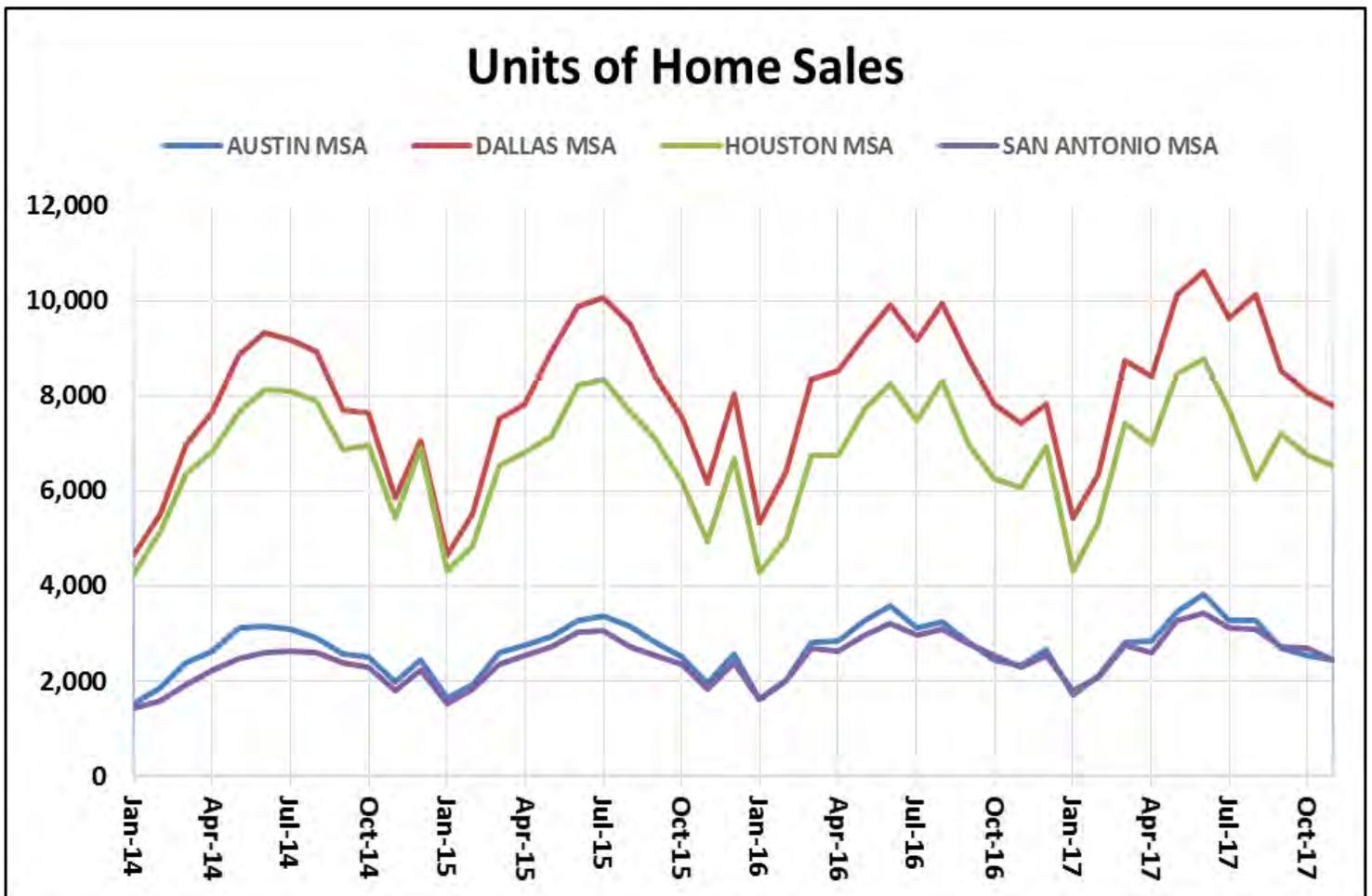
For a single-unit of residential housing in the Austin MSA, the average sales price in November 2017 declined slightly [year-over-year] from \$359,925 to \$357,704.



Source: Real Estate Center at Texas A&M University

HOUSING – HOME SALES

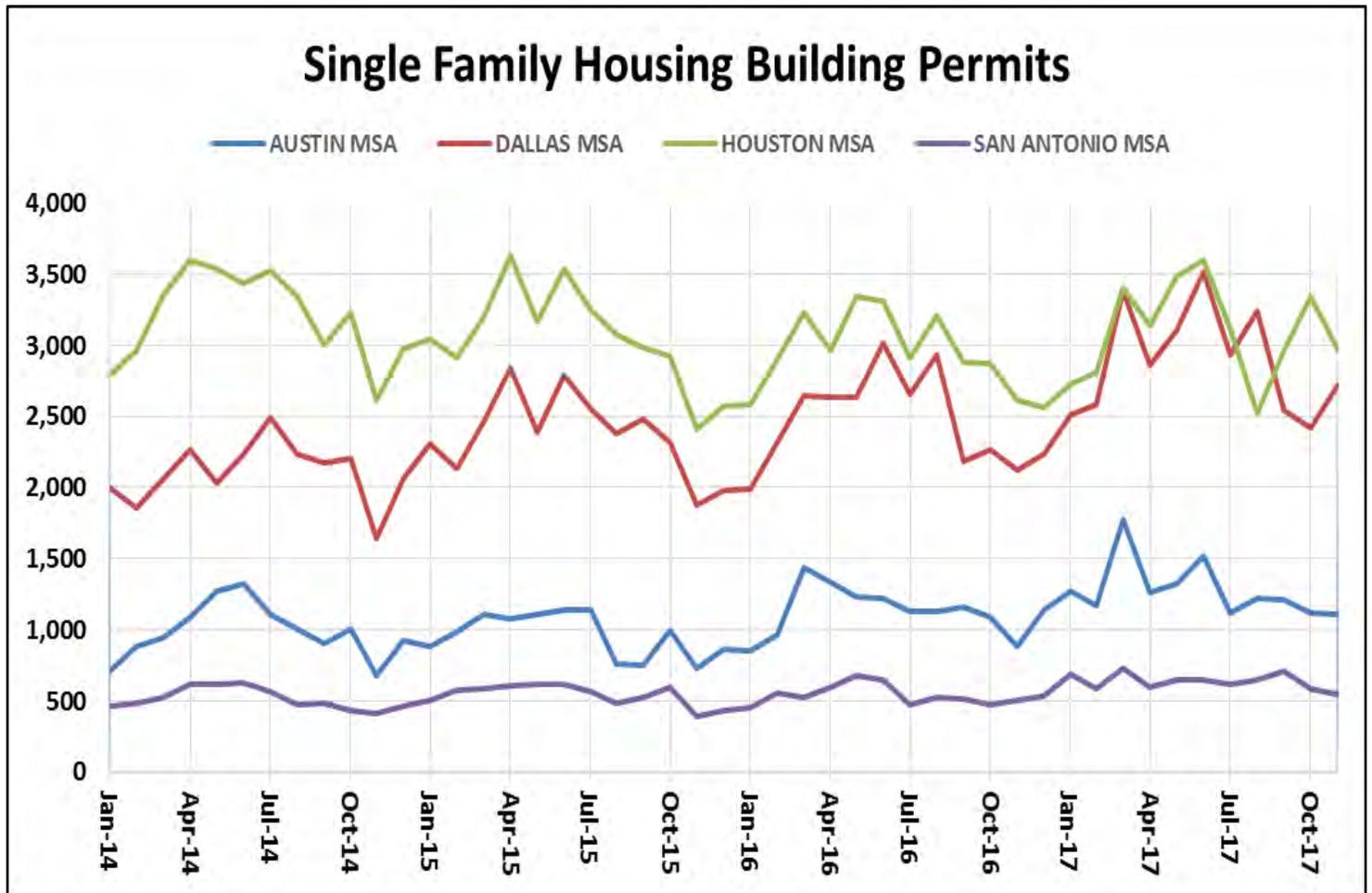
Austin MSA’s “sales volume for single-unit residential housing increased 4.17% YoY from 2,351 to 2,449 transactions. Year-to-date sales reached a total of 31,226 closed listings. Dollar volume rose from \$845.49 million to \$879.62 million.” – November Housing Report for Austin-Round Rock – Real Estate Center



Source: Real Estate Center at Texas A&M University

HOUSING – SINGLE FAMILY BUILDING PERMITS

“Housing permits in Austin slowed toward the end of the year, falling from a 10-year high [earlier in the year]. Nonetheless, year-over-year growth was nearly 6 percent compared with just 2.5 percent for the state. The median home price remained high at \$296,815, while existing-home sales reached a new high in November.” – Jan 2018 Dallas Fed

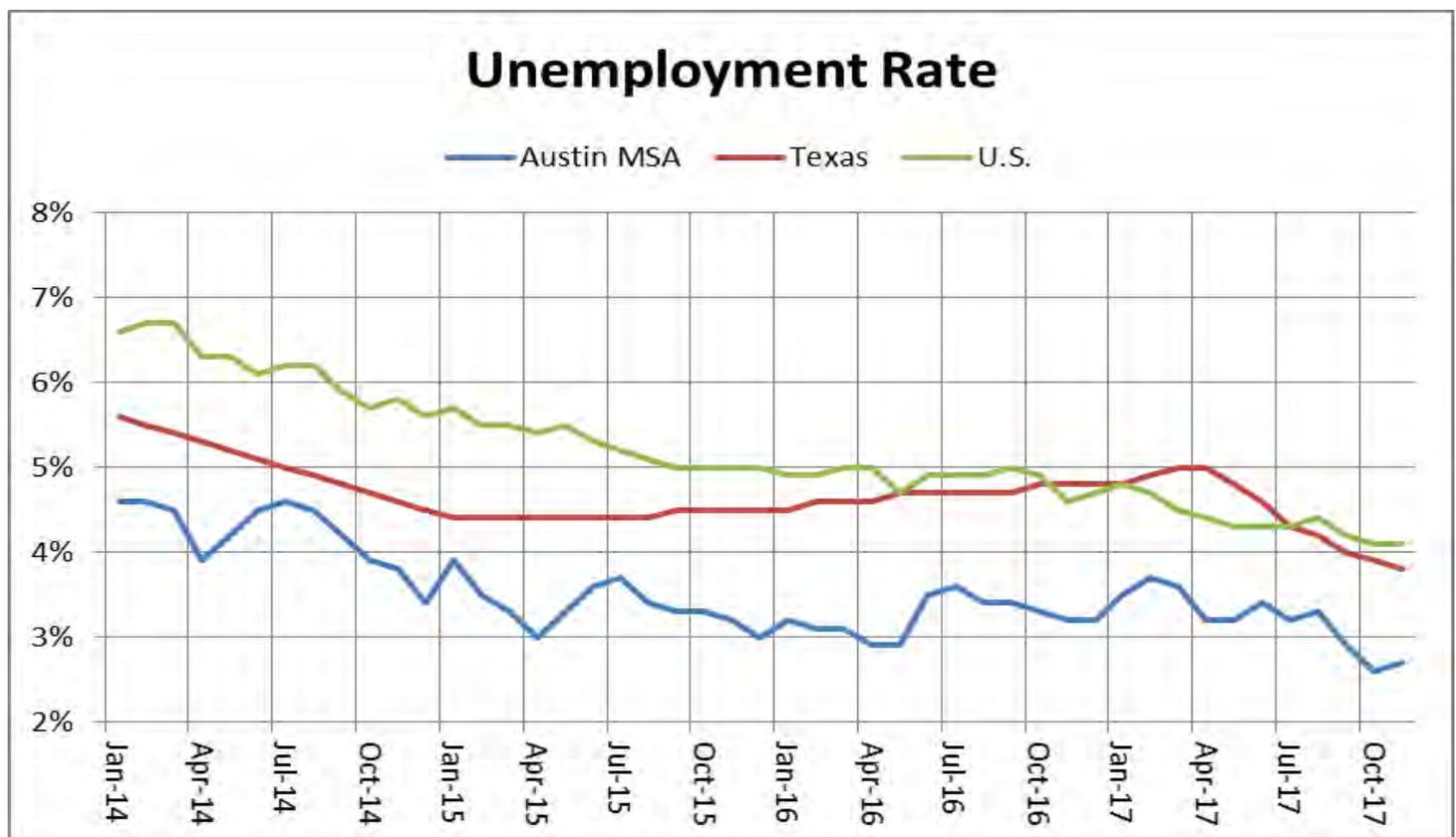


Source: Real Estate Center at Texas A&M University

JOBS - UNEMPLOYMENT RATES – AUSTIN MSA, TEXAS, U.S.

The Texas unemployment rate dipped to 3.8 percent in November breaking a 40 year record. “Recent rates of population growth and labor force participation in Texas suggest that the rate of job growth needed to maintain the unemployment rate is around 1.7 percent, significantly below the expected pace for 2018. This implies that, **given current trends, the jobless rate will continue to fall next year.** Given ongoing labor market tightness, wages have begun to rise in Texas this year.” – Texas Economic Update – Federal Reserve Bank of Dallas – December 2017

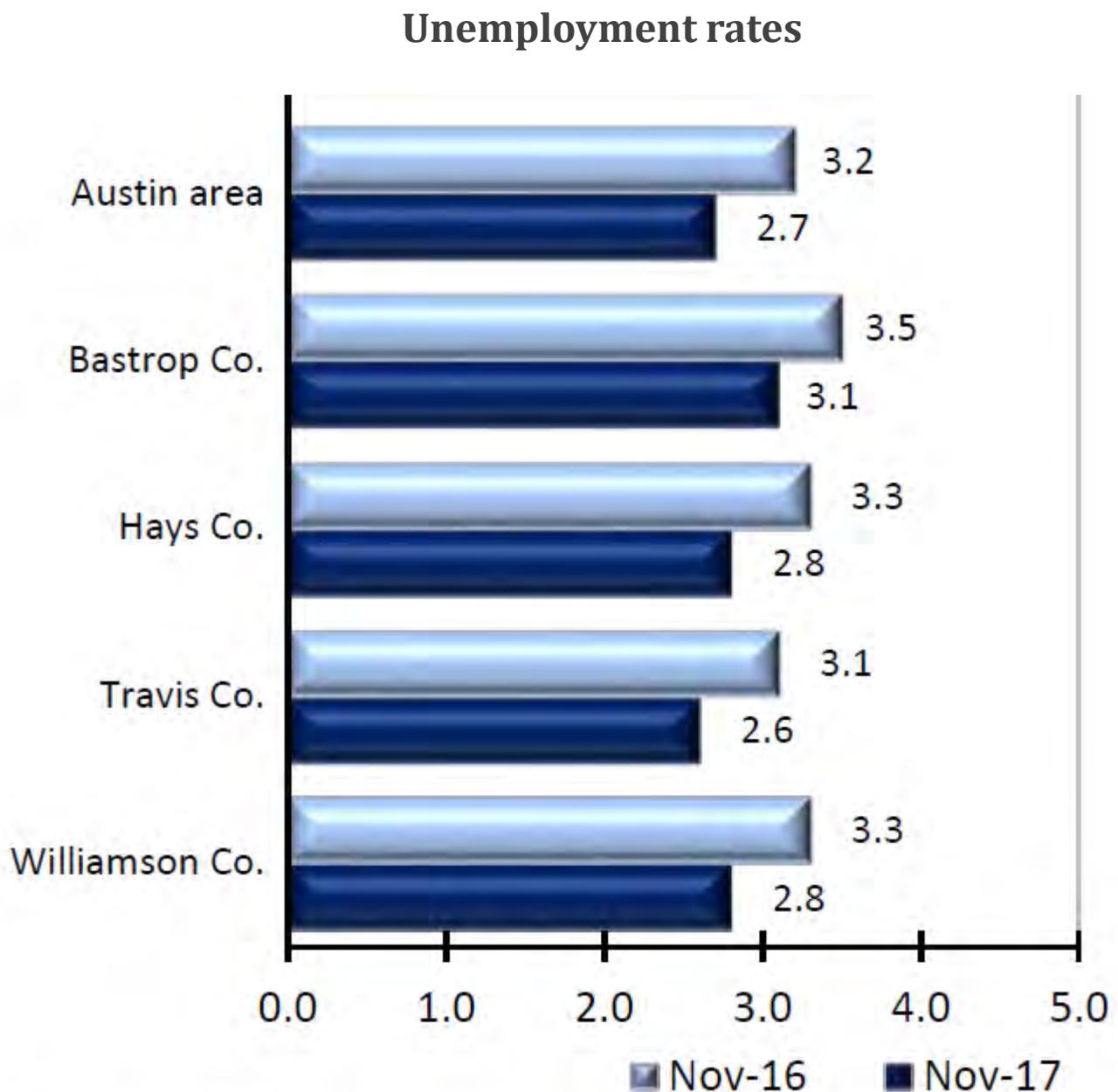
The Austin MSA unemployment rate was 2.7 percent in November. This is significantly below the state and national rates of 3.8 and 4.1 percent, respectively. “The Austin labor force expanded at an annualized 5.6 percent rate, and 2017 growth of 2.3 percent through November is the second fastest among the major state metro areas.” - Austin Economic Indicators - Dallas Fed – Jan 2018



Note: U.S. and Texas seasonally adjusted, Austin MSA not seasonally adjusted.
Source: Bureau of Labor Statistics

JOBS - UNEMPLOYMENT RATE – AUSTIN AREA

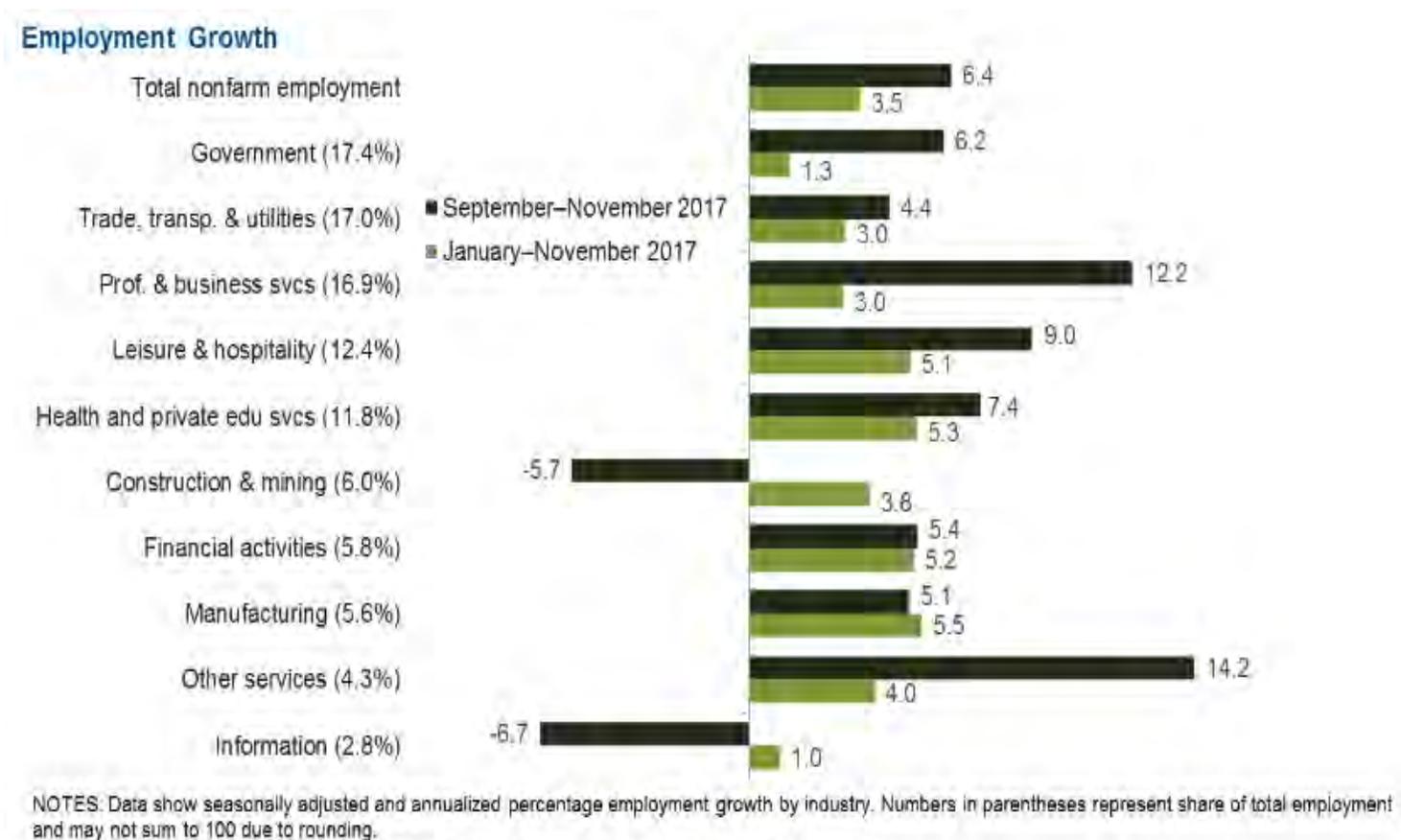
Below is a chart taken from the January 4, 2018, Austin Area Economic Summary prepared by the U.S. Bureau of Labor Statistics. It graphically shows that unemployment rates throughout the Austin area have declined compared to prior year.



Source: U.S. BLS, Local Area Unemployment Statistics.

JOBS – GROWTH RATE – AUSTIN

“Jobs in Austin grew at a 6.4 percent annualized rate over the three months through November. Growth was broad based, with only construction and information services shedding jobs over this time. Professional and business services employment grew rapidly at 12.2 percent, adding 5,000 jobs. The leisure and hospitality and health care services sectors also saw strong gains and together added 5,000 jobs. Public-sector employment, propelled by strong state government hiring, grew 6.2 percent. Financial activities, manufacturing and transportation services also increased at a strong pace.” - Austin Economic Indicators - Dallas Fed – Jan 2018



JOBS – NONFARM EMPLOYMENT BY INDUSTRY

The chart below shows the year-over-year changes in employment by major industry sector. The total Austin area nonfarm employment has increased by 27,800 jobs (2.7%) from prior year.

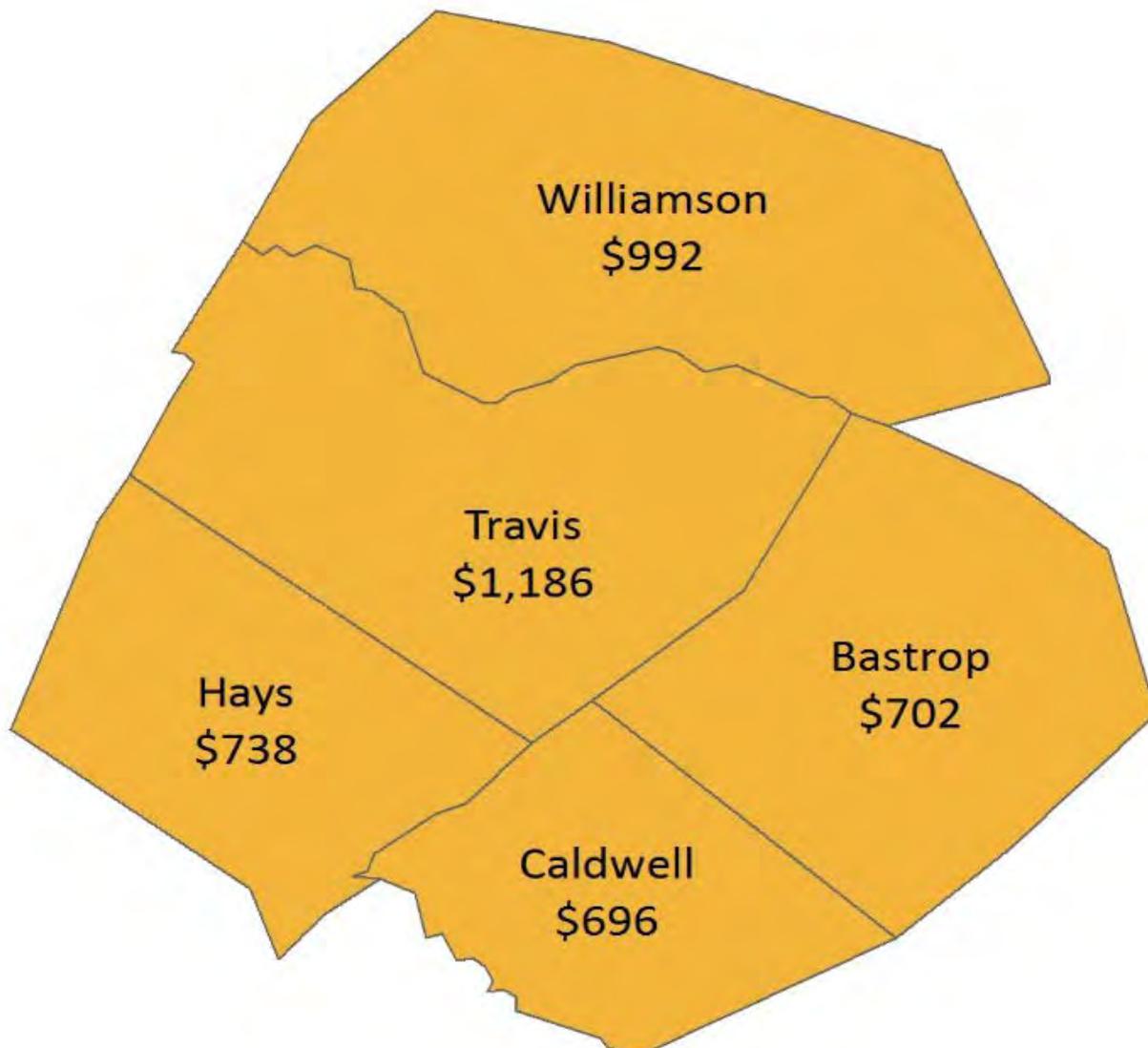
| Austin area employment (numbers in thousands) | Nov. 2017 | Change from Nov. 2016 to Nov. 2017 | |
|--|-----------|---------------------------------------|---------|
| | | Number | Percent |
| Total nonfarm | 1,046.4 | 27.8 | 2.7 |
| Mining, logging, and construction | 62.7 | 1.9 | 3.1 |
| Manufacturing | 58.7 | 3.1 | 5.6 |
| Trade, transportation, and utilities | 179.0 | 3.8 | 2.2 |
| Information | 27.5 | -1.4 | -4.8 |
| Financial activities | 58.7 | 1.0 | 1.7 |
| Professional and business services | 175.5 | 2.9 | 1.7 |
| Education and health services | 123.7 | 4.2 | 3.5 |
| Leisure and hospitality | 129.8 | 7.5 | 6.1 |
| Other services | 46.3 | 2.1 | 4.8 |
| Government | 184.5 | 2.7 | 1.5 |

Source: U.S. BLS, Current Employment Statistics.

JOBS – AVERAGE WEEKLY WAGES BY COUNTY

Below is a chart comparing the average weekly wages for all industries by county. The most recent data for the Austin area is from the 2nd Quarter 2017. Travis County wages show an increase of \$66 over the same quarter for the previous year.

What is included in total wages? “Under most State laws or regulations, wages include bonuses, stock options, severance pay, profit distributions, cash value of meals and lodging, tips and other gratuities, and, in some States, employer contributions to certain deferred compensation plans such as 401(k) plans.” – Bureau of Labor Statistics (BLS)



Source: U.S. BLS, Quarterly Census of Employment and Wages.

JOBS – HOW DOES THE TEXAS UNEMPLOYMENT RATE COMPARE?

The low unemployment rate in Texas is ranked 23rd nationwide.

| State | November 2017 (p) | Rank |
|----------------|-------------------|------|
| Hawaii | 2.0 | 1 |
| North Dakota | 2.6 | 2 |
| Nebraska | 2.7 | 3 |
| New Hampshire | 2.7 | 3 |
| Colorado | 2.9 | 5 |
| Idaho | 2.9 | 5 |
| Iowa | 2.9 | 5 |
| Vermont | 2.9 | 5 |
| Minnesota | 3.1 | 9 |
| Tennessee | 3.1 | 9 |
| Utah | 3.2 | 11 |
| Wisconsin | 3.2 | 11 |
| Maine | 3.3 | 13 |
| Missouri | 3.4 | 14 |
| Alabama | 3.5 | 15 |
| Kansas | 3.5 | 15 |
| South Dakota | 3.5 | 15 |
| Florida | 3.6 | 18 |
| Massachusetts | 3.6 | 18 |
| Arkansas | 3.7 | 20 |
| Indiana | 3.7 | 20 |
| Virginia | 3.7 | 20 |
| Texas | 3.8 | 23 |
| Maryland | 3.9 | 24 |
| Montana | 4.0 | 25 |
| South Carolina | 4.0 | 25 |

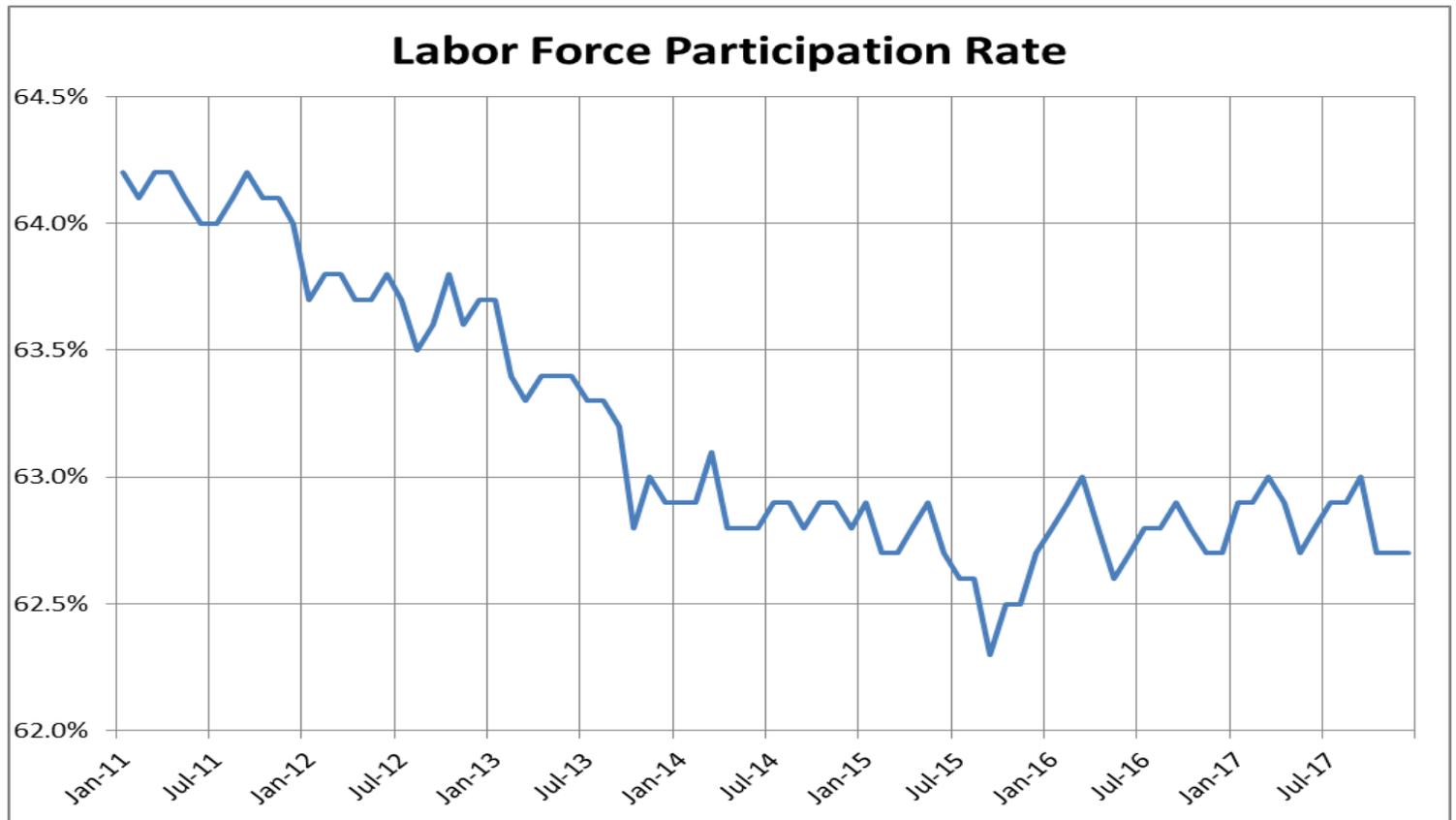
| State | November 2017 (p) | Rank |
|-------------------------------------|-------------------|------|
| Oklahoma | 4.2 | 27 |
| Oregon | 4.2 | 27 |
| Arizona | 4.3 | 29 |
| Georgia | 4.3 | 29 |
| North Carolina | 4.3 | 29 |
| Rhode Island | 4.3 | 29 |
| Wyoming | 4.3 | 29 |
| Washington | 4.5 | 34 |
| California | 4.6 | 35 |
| Connecticut | 4.6 | 35 |
| Michigan | 4.6 | 35 |
| Pennsylvania | 4.6 | 35 |
| Delaware | 4.7 | 39 |
| Kentucky | 4.7 | 39 |
| Louisiana | 4.7 | 39 |
| New York | 4.7 | 39 |
| Mississippi | 4.8 | 43 |
| Ohio | 4.8 | 43 |
| Illinois | 4.9 | 45 |
| Nevada | 5.0 | 46 |
| New Jersey | 5.1 | 47 |
| West Virginia | 5.3 | 48 |
| New Mexico | 6.1 | 49 |
| Alaska | 7.2 | 50 |
| Footnotes (p) Preliminary | | |

Source of Data: Bureau of Labor Statistics

JOBS – LABOR PARTICIPATION RATE

The **labor force participation rate**, as defined by the Bureau of Labor Statistics (BLS), is “the percentage of the population [16 years and older] that is either employed or unemployed [that is, either working or actively seeking work].”

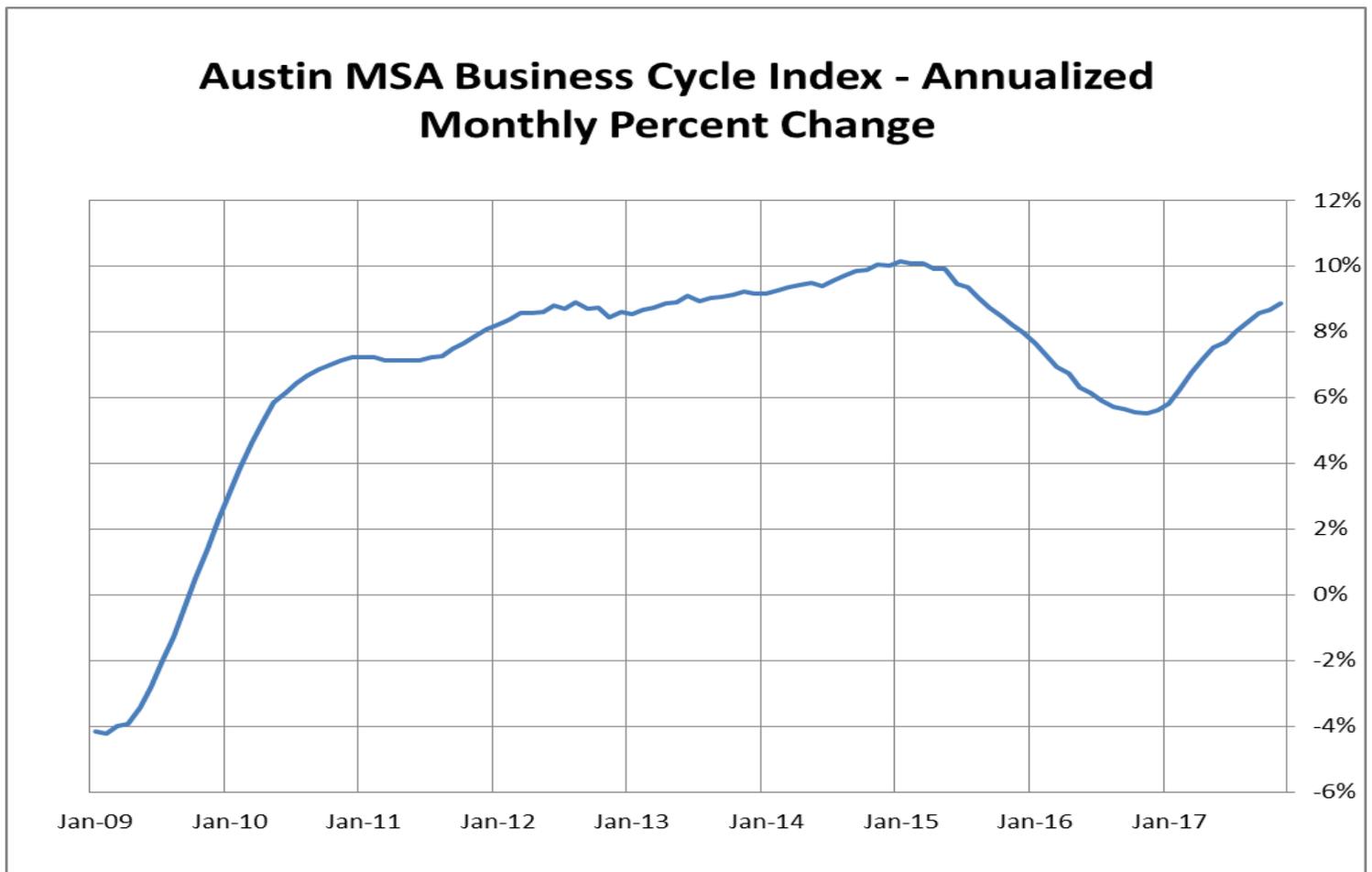
“Since 2014, the rate has been largely flat, an indication that despite low unemployment and signs of strong economic growth, many would-be workers are sitting on the sidelines. ‘Even with the baby boomers retiring, a growing economy should lead to more workers entering the workforce,’ said Bob Funk, CEO of Express Employment Professionals, and the former Chairman of the Federal Reserve Bank of Kansas City. ‘As wages rise, I expect to see the labor force participation rate increase, which would be great for workers and the overall economy.’ The Bureau of Labor Statistics said today that the unemployment rate remained at 4.1 percent with 148,000 new jobs created in December. The labor force participation rate, a key measure of jobs related to economic growth, remained at 62.7 percent for the third month in a row. For the year, it declined from 62.9 percent to 62.7.” – The Daily Telescope



BUSINESS CYCLE INDEX – AUSTIN MSA

Business Cycle Indexes are meant to reflect broad movements in local economic conditions. The Dallas Fed states that “the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy.”

“The Austin Business-Cycle Index increased at an 8.9 percent annualized pace in November, the fastest rate of growth since 2015. Strong employment gains in the second half of the year and declines in the unemployment rate have propelled growth in the index.”– Austin Economic Indicators - Dallas Fed



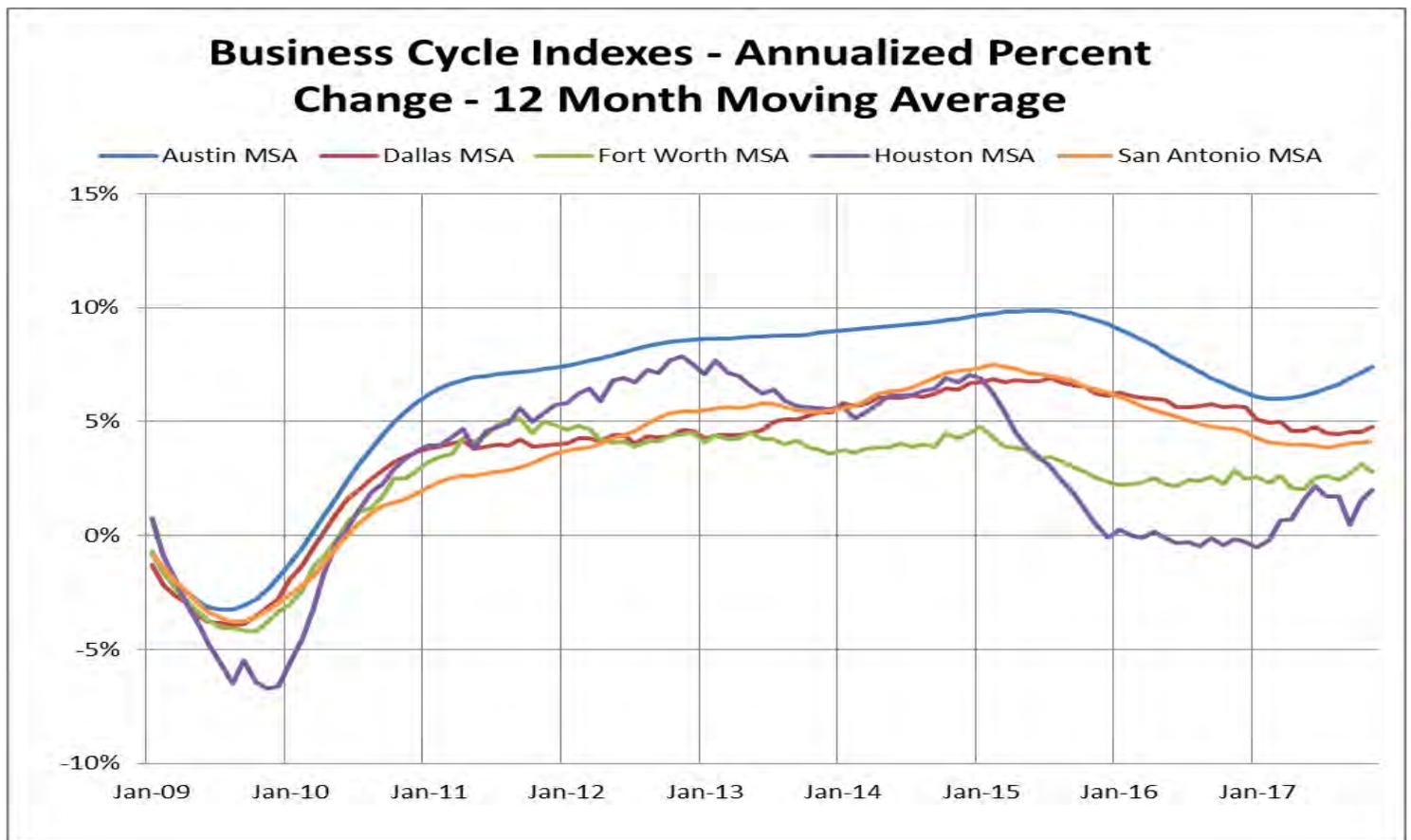
Source: Federal Reserve of Dallas – Index, 1980 = 100

BUSINESS CYCLE INDEX – MAJOR METROS

In the chart below, a twelve month moving average was incorporated to smooth out short-term fluctuations and highlight longer-term cycles.

“Gains in the Dallas and Fort Worth business-cycle indexes remained robust in November. The Dallas index climbed an annualized 7.3 percent in November following October’s 5.8 percent pace. This is above its long-term trend of growth and is the fastest the index has expanded since mid-2016. Fort Worth’s index climbed 3.4 percent after expanding 5.3 percent in October. Year over year, the Dallas index was up a solid 4.8 percent, and the Fort Worth index rose 2.8 percent in part due to continued job creation and declining unemployment.” – Dallas – Fort Worth Economic Indicators

“The San Antonio Business-Cycle Index expanded at a 5.2 percent annualized rate in November, slowing from 5.4 percent in October. November job growth was moderate at 2.8 percent, and the unemployment was flat at a low level.” – San Antonio Economic Indicators



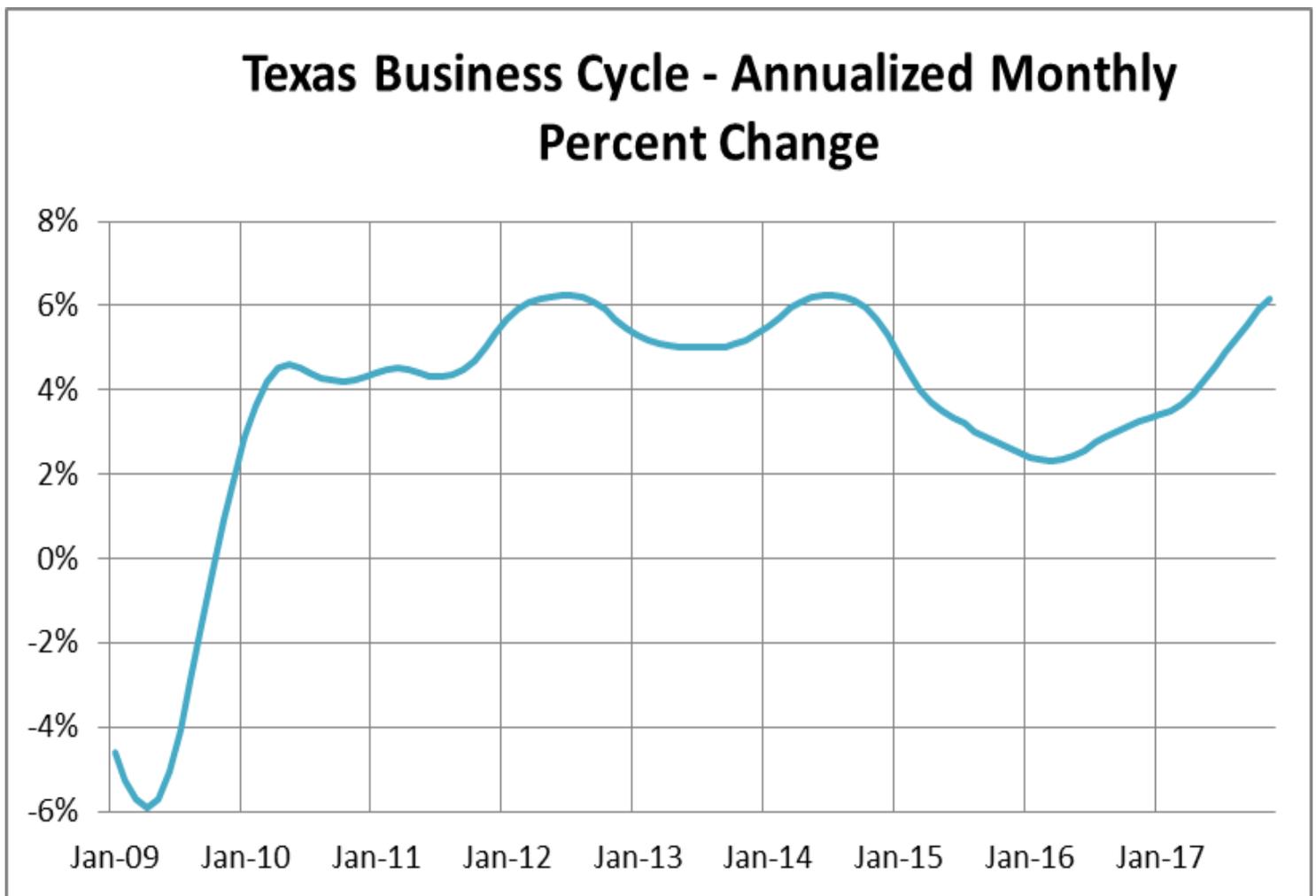
Source: Federal Reserve of Dallas – Index, 1980 = 100

Source: Federal Reserve of Dallas

BUSINESS CYCLE INDEX – TEXAS

“The **Texas Business-Cycle Index** is a single economic statistic that helps gauge the **current state** of the Texas economy. The Texas Business-Cycle Index is constructed using payroll employment, gross state product and the unemployment rate.” – Dallas Fed

“Texas’ economic expansion continued as the Dallas Fed’s Business-Cycle Index (a measure of current economic activity in the state) posted 6 percent quarterly annualized growth—the highest since 2014.” – Outlook for the Texas Economy - Real Estate Center – Texas A&M University

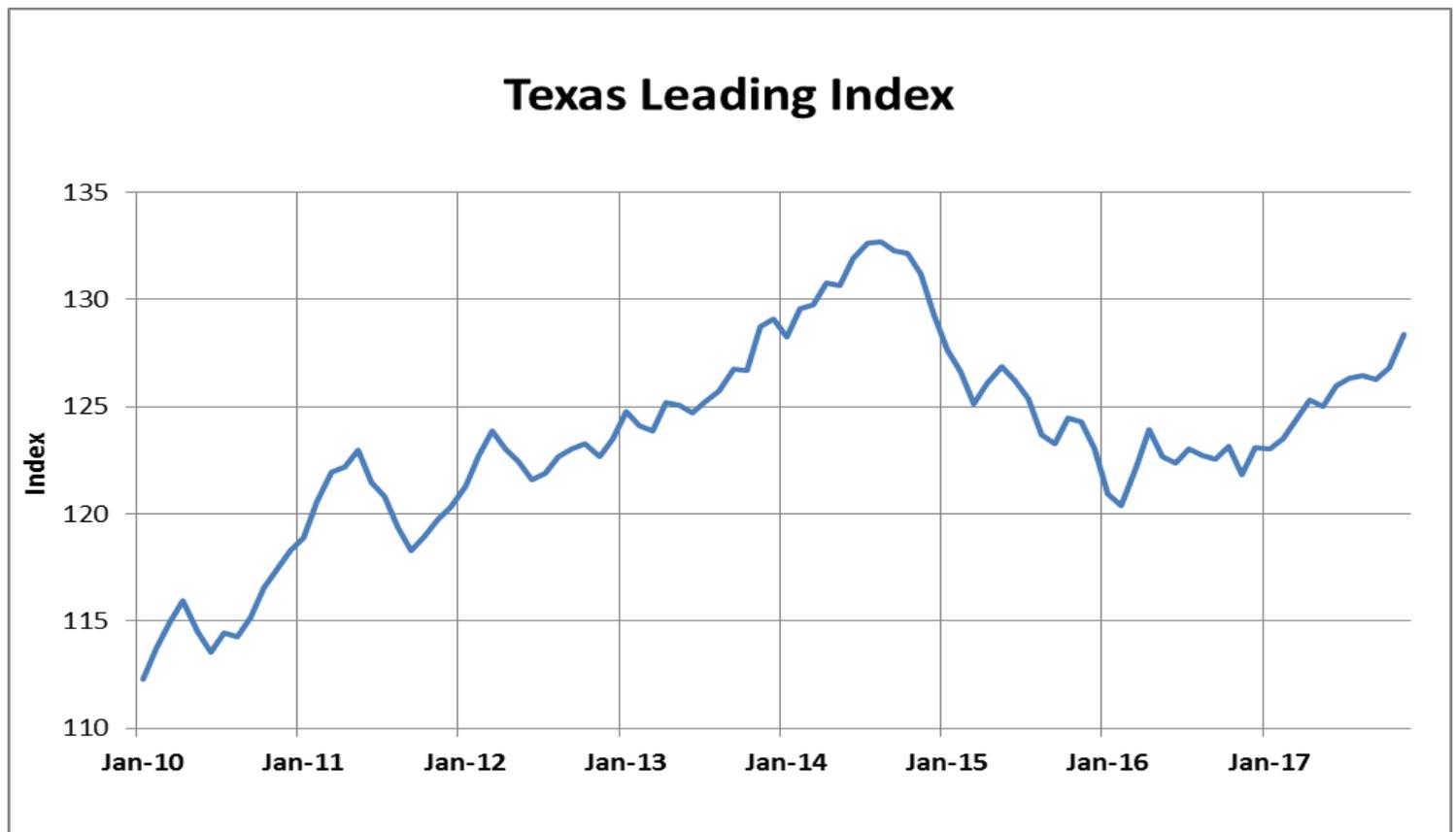


Source: Federal Reserve of Dallas - Index, 1987 = 100

LEADING INDEX – TEXAS graph

Dallas Fed has defined the **Texas Leading Index** as the “single summary statistic that sheds light on **the future of the State's economy.**” The Texas Leading Index is made up of eight leading indicators that have been shown to change direction – up or down – before the overall economy. The eight indicators used by the Dallas Fed are the Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing.

“The Texas Leading Economic Index (a measure of future directional changes in the business cycle) reached a two-year high as advances in the U.S. leading index and higher oil prices outweighed appreciation in the Texas value of the dollar (a weight on Texas export competitiveness).” – Outlook for the Texas Economy - Real Estate Center – Texas A&M University

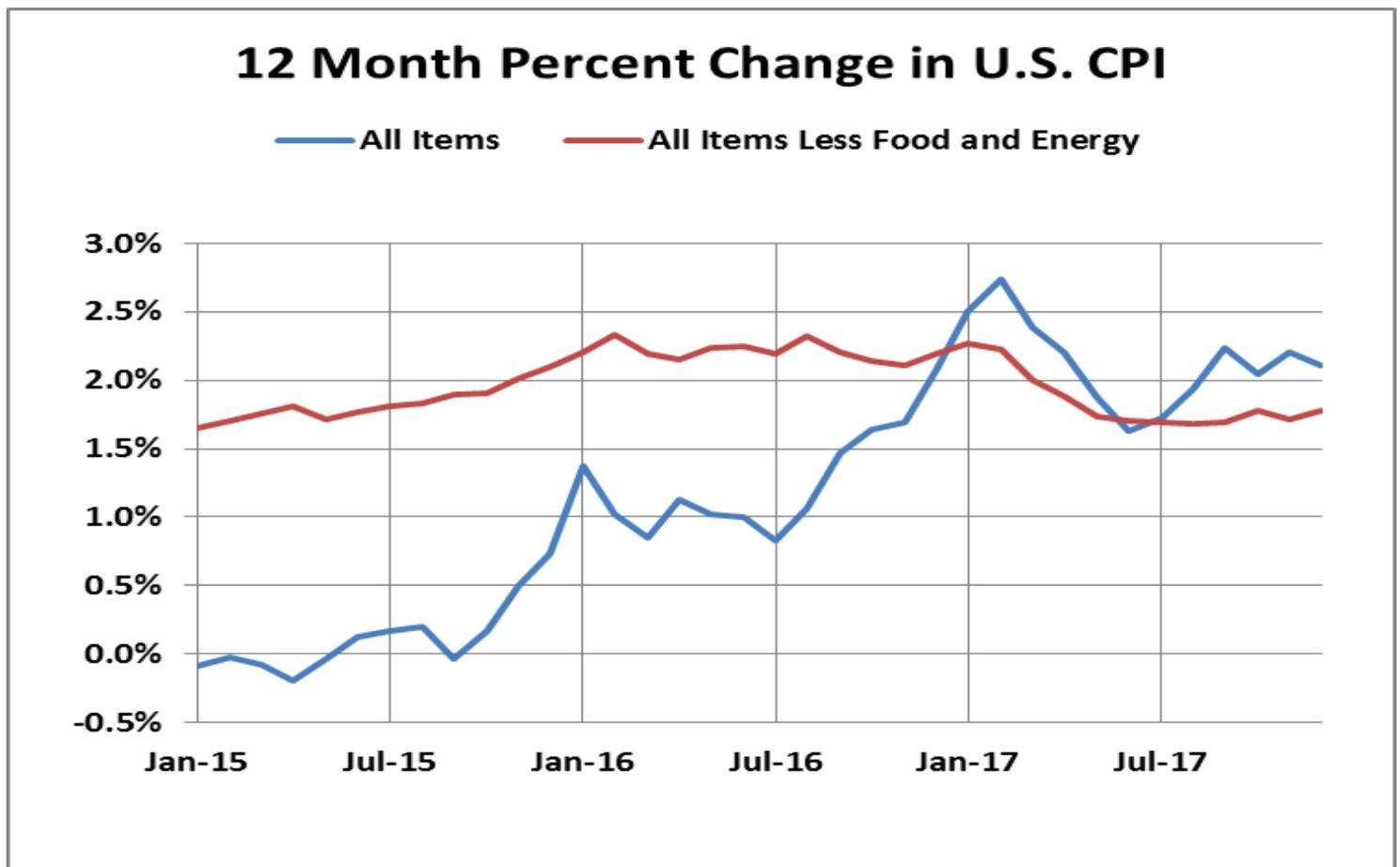


Source: Federal Reserve of Dallas - Index, 1987 = 100

CONSUMER PRICE INDEX

According to the Bureau of Labor Statistics (BLS), “There are a variety of CPI numbers generated each month. In the graph below, two numbers are compared. The first is the **Official CPI Number** that is reported to the media. It is the broadest and most comprehensive CPI and is called the **All Items CPI for All Urban Consumers**. The second one is called the **All items less food and energy**. The BLS mentions that “Some users of CPI data use this index because food and energy prices are relatively volatile, and these users want to focus on what they perceive to be the ‘core’ or ‘underlying’ rate of inflation.”

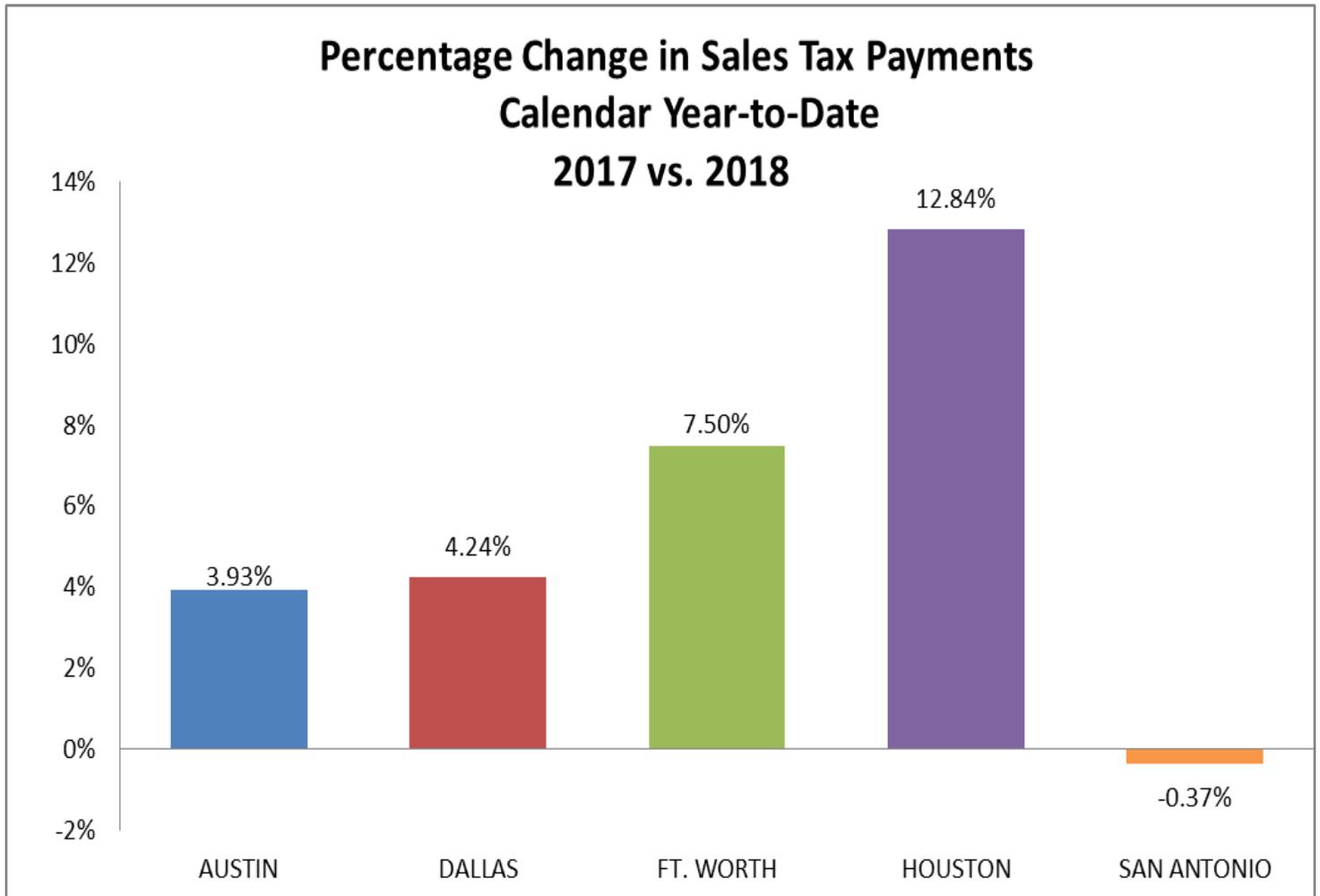
“The all items index rose 2.1 percent for the 12 months ending December, compared to 2.2 percent for the 12 months ending November. The index for all items less food and energy increased 1.8 percent over the last year; the 12-month change has now been either 1.7 or 1.8 percent for eight consecutive months. The food index rose 1.6 percent over the past year; the index for energy increased 6.9 percent, with all of its major component indexes rising during 2017.” BLS – Economic News Release



Source: Bureau of Labor Statistics, not seasonally adjusted, 1982-84=100

SALES TAX – MAJOR METRO

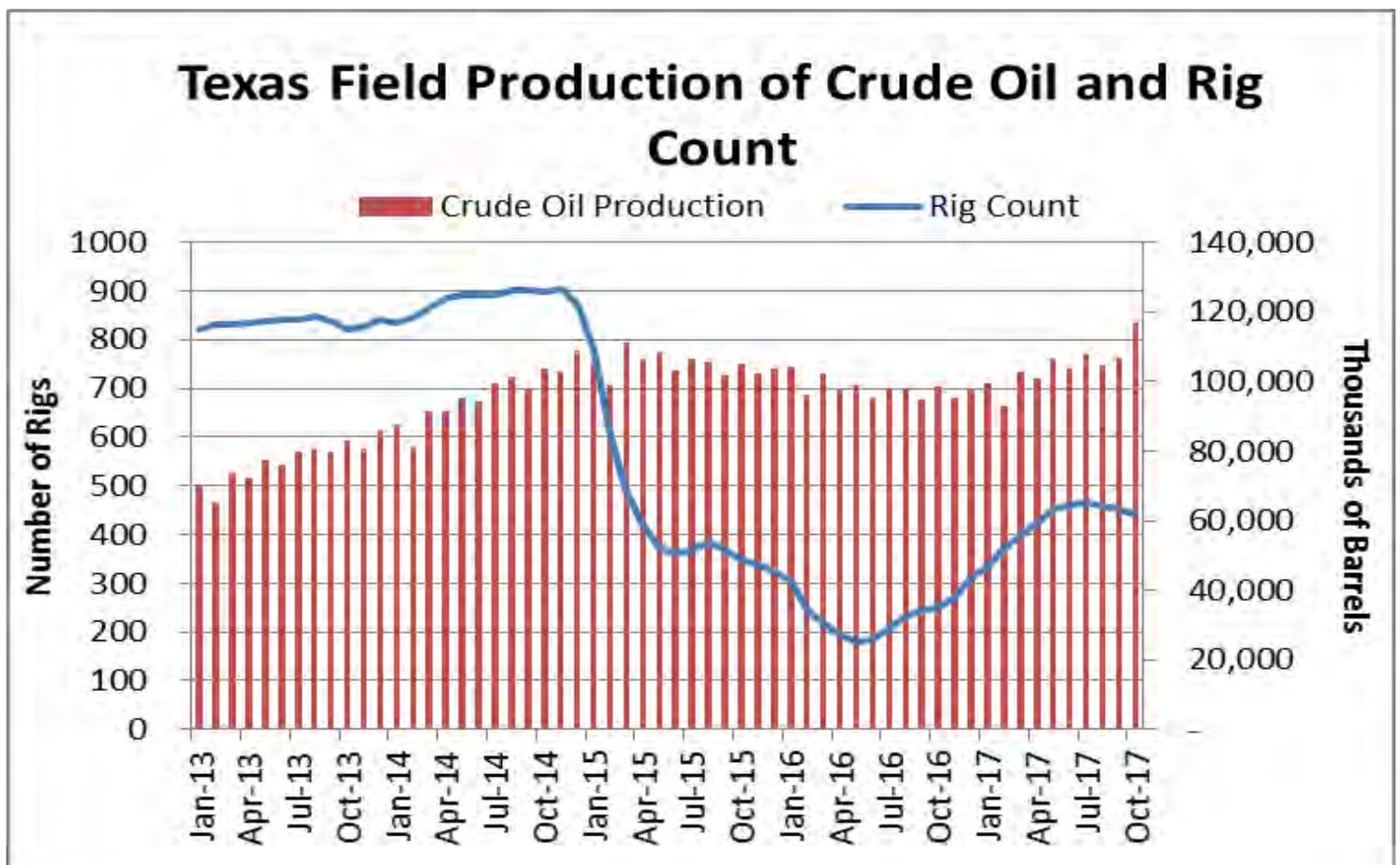
Below is a graph of the 2017 vs. 2018 year-to-date percentage change in Sales Tax Payments made by the State to the five major cities in Texas. Based on the January 2018 report, the increase in Austin’s year-to-date revenue is 3.93% or \$0.7M.



Source: Texas Comptroller of Public Accounts

OIL AND NATURAL GAS

“The average West Texas intermediate crude oil spot price increased to \$56.64, the highest in two years, driven by geopolitical tension in the Middle East, robust global demand, and extended OPEC production cuts. The number of active rigs in Texas rose to 446, primarily from increased activity in the Permian Basin. In response to higher prices, crude oil production increased more than 5 percent for the second straight month. The Henry Hub natural gas spot price surpassed \$3.00 per million BTU (British thermal unit) for the first time since May as global supply decreased, a trend that could continue amid predictions of a colder-than-average winter in the United States.” – Outlook for the Texas Economy - Real Estate Center – Texas A&M University



Source: of Data: Baker Hughes and U.S. Energy Information Administration.

IN-DEPTH – CASHLESS SOCIETY

WHAT IS A CASHLESS SOCIETY?

A cashless society is one where “financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information between the transacting parties.”– Wikipedia

WHAT ARE THE PROS AND CONS OF A COUNTRY GOING CASHLESS?

| PROS | CONS |
|--|---|
| Every transaction is transparent. This would make it harder to finance terrorism and sell illicit drugs. | No transaction could be considered private. Cash allows anonymity. |
| The costs of producing, storing, shipping, protecting and disposing of legal tender would be eliminated. | Jobs associated with handling and securing legal tender would be eliminated. |
| The government and businesses would no longer have to contend with counterfeit bills and physical theft. | Centralized databases are susceptible to data breaches from nation-states, criminal hackers, and rogue employees. |
| The Central Bank’s ability to stimulate the economy would be strengthened as they could enact negative interest rates without fear of depositors withdrawing cash. | Negative interest rates are an additional tax on savers. |
| Criminal assaults on individuals and monetary losses due to the physical theft of cash would be reduced. | Cash is seen as irreplaceable in emergency situations when ATMs and cell phones are not functioning. |
| The time spent by individuals accessing cash at banks or ATM’s would be reduced and ATM charges would be eliminated. | Bank fees could replace and possibly exceed ATM charges. |

IN-DEPTH – CASHLESS SOCIETY

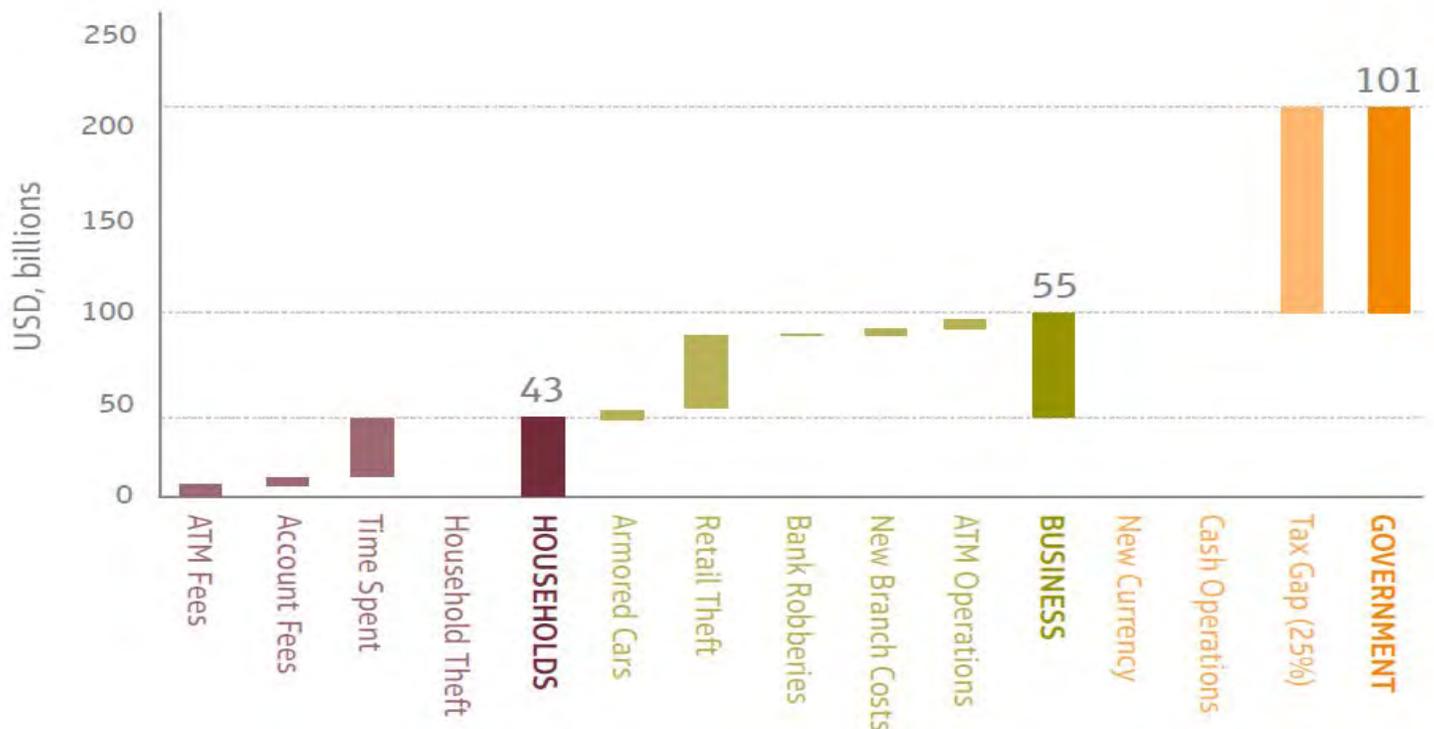
WHAT IS THE COST OF CASH IN THE UNITED STATES?

In 2013, Bhaskar Chakravorti co-authored a study entitled “The Cost of Cash in the United States.” The graph below summarizes his team’s findings.

As shown graphically, the largest cost of cash is the tax gap. The tax gap is the difference between the taxes received and the taxes owed to the Internal Revenue Service. This gap is estimated between \$400 to \$600 billion per year. Chakravorti conservatively calculated that 25% (\$100 billion) of this gap is directly related to underreported cash receipts.

The second largest cost of cash was incurred by U.S. retail businesses which lose \$40 billion dollars annually through theft. Individuals do not lose large sums to theft (less than \$500 million annually) but do spend time accessing cash and “pay close to \$8 billion in fees for ATM transactions outside of their account-holding bank’s network.” - Chakravorti

Annual Cost of Cash in the United States Stakeholder, Breakdown



Source: of Data: 2013 The Fletcher School of Law and Diplomacy, Tufts University

IN-DEPTH – CASHLESS SOCIETY

WHAT STEPS WOULD A COUNTRY TAKE TO MOVE AWAY FROM CASH?

In March 2017, the International Monetary Fund (IMF) issued an IMF Working Paper titled “The Macroeconomics of De-Cashing” by Alexei Kireyev. De-cashing is defined as “the gradual phasing out of currency from circulation and its replacement with convertible deposits.”

The framework mentioned in the paper for de-cashing as well as examples of countries that have implemented those steps is as follows:

- **Abolish large denomination bills** – the European Central Bank abolished the 500 euro banknote in 2016; Canada eliminated the \$1,000 note in 2000, and Singapore removed the \$10,000 note in 2014. In 2016, in an effort to fight illegal activities, India abolished the 500 and 1,000 rupee notes effectively removing 80 percent of the currency in circulation.
- **Impose ceilings on cash transactions** – restrictions on cash transactions are in place in 12 of the 28 European Union member states. For example, in France and Spain citizens are limited to cash transactions under 1,000 euros, Belgium 3,000 euros and Greece 500 euros.
- **Introduce declaration requirements on the carriage of cash in and out of the country** – the United States does not allow individuals to bring more than \$10,000 into the country without reporting it. Likewise, in the European Union all sums exceeding 10,000 euros in cash must be declared to customs authorities.
- **Required reporting of cash payments exceeding a specified amount** – in the U.S. “Anyone in a trade or business who receives \$10,000 or more in cash in a single transaction or multiple related transactions must report the receipt of the money to the IRS.” – April 2017, The Balance
- **Taxing cash transactions** – Economist Marvin Goodfriend, currently nominated for a 14 year term to the Board of Governors of the Federal Reserve, dislikes cash. According to a December 2017 Bloomberg article, Goodfriend wants to “phase out high-denomination bills or charge banks and the public whenever paper money is paid out or received.”

IN-DEPTH – CASHLESS SOCIETY

IS THE WORLD MOVING TOWARDS A CASHLESS SOCIETY?

There certainly is a movement towards using less cash. Whether it is from countries eliminating large denomination bills or the worldwide proliferation of cell phones in the hands of a younger population, the result is a decrease in the use of cash.

Africa:

“Throughout sub-Saharan Africa, where only about a third of the population have bank accounts but at least sixty percent have cell phones, mobile payments have begun to leapfrog over paper currency. (About a quarter of Kenya’s gross national product runs through its payment app, M-Pesa.)” - Oct 2016 - The New Yorker (TNY)

Australia:

“Cash use in Australia has fallen by a third in a period of six years.” - TNY

Belgium:

“Ninety-three percent of consumer transactions in Belgium are now cashless—partly because, like other European countries, it has capped the amount that can legally be paid in cash.” -TNY

India:

To curtail an underground economy that has been estimated at \$460 billion dollars annually, India eliminated two of its largest bills. This “ban on large bills is very likely to hasten India’s transition away from cash. About 78 percent of transactions in India last year were made in cash, compared with 20 percent to 25 percent in the United States, Britain and other countries, according to a report by Google India and the Boston Consulting Group. The new policy puts India at the ‘leading edge of countries restricting the use of high-denomination currency notes that are now seen as mostly fueling illegal activities rather than legitimate commerce’ said Eswar S. Prasad, a trade policy professor at Cornell.” – Nov 2016 – New York Times

IN-DEPTH – CASHLESS SOCIETY

IS THE WORLD MOVING TOWARDS A CASHLESS SOCIETY? (cont'd)

Globally people are exchanging less cash and instead transferring wealth with peer-to-peer mobile phone, cash-transfer apps, debit cards, credit cards and cryptocurrencies. Some countries are moving faster than others.

China:

The Chinese “are making less use of old-fashioned cash, as in coins and folding money. They spent about 66 trillion yuan (nearly \$10 trillion) that way in 2016, down about 10% in two years, according to a central-bank payments report.” – Jan 2018 - The Wall Street Journal (WSJ)

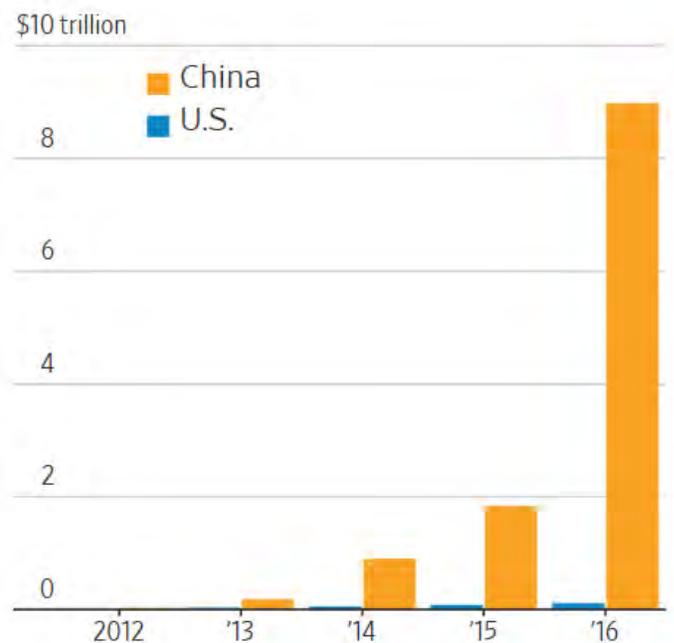
“Almost everyone in major Chinese cities is using a smartphone to pay for just about everything.” – Jul 2017 New York Times

“Payment via mobile-phone services such as WeChat is sweeping the country. After gaining a beachhead as a means to buy things online, mobile payments moved on to store purchases and are fast becoming the way many people in China pay for just about everything.

People link their bank accounts to the app, then can pay for things either by scanning a merchant’s QR code or having the merchant scan theirs. People also can transfer money by tapping on an icon in WeChat or Alipay.

Rapid Adoption

Mobile payments more than quadrupled in China from 2015 to 2016, while only increasing about 40% in the U.S.



Sources: Forrester Research; iResearch

Though the U.S. saw \$112 billion of mobile payments in 2016, by a Forrester Research estimate, such payments in China totaled \$9 trillion, according to iResearch Consulting Group, a Chinese firm.” – WSJ

IN-DEPTH – CASHLESS SOCIETY

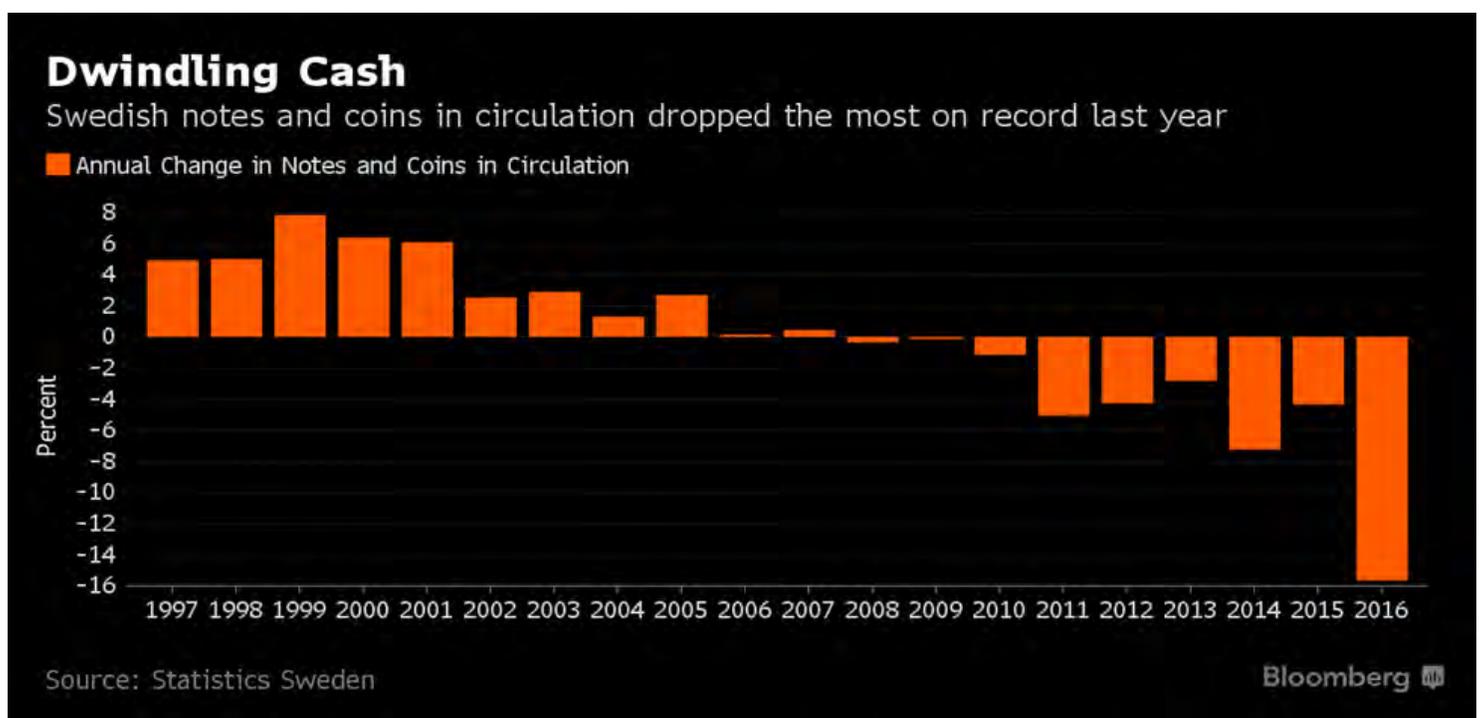
IS THE WORLD MOVING TOWARDS A CASHLESS SOCIETY? (cont'd)

Sweden: “Swedish buses have not taken cash for years, it is impossible to buy a ticket on the Stockholm metro with cash, retailers are legally entitled to refuse coins and notes, and street vendors – and even churches – increasingly prefer card or phone payments.

According to central bank the Riksbank, cash transactions made up barely 2% of the value of all payments made in Sweden last year – a figure some see dropping to 0.5% by 2020. In shops, cash is now used for barely 20% of transactions, half the number five years ago, and way below the global average of 75%.

And astonishingly, about 900 of Sweden’s 1,600 bank branches no longer keep cash on hand or take cash deposits – and many, especially in rural areas, no longer have ATMs. Circulation of Swedish krona has fallen from around 106bn in 2009 to 80bn last year.

‘I think, in practice, Sweden will pretty much be a cashless society within about five years’ said Niklas Arvidsson, an associate professor specializing in payment systems innovation at Stockholm’s Royal Institute of Technology (KTH).” – June 2016 The Guardian



IN-DEPTH TOPICS COVERED IN PREVIOUS ISSUES – SEE AUDITOR WEBPAGE

- Alibaba 3rd Qtr 2017
- Bitcoin 4th Qtr 2016
- Cashless Society 4th Qtr 2017
- Labor Participation Rate 4th Qtr 2015
- Money Market Fund Reform – New Rules 3rd Qtr 2016
- Negative Interest Rate Policy (NIRP) 2nd Qtr 2016
- New Silk Road 2nd Qtr 2017
- Quantitative Easing 1st Qtr 2016

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