



**Featured Research:** CVS, RNA, VCYT, XLRN, Healthcare IT & Distribution, Managed Care

**Initiations:** None | **Rating Changes:** None | **Price Target Changes:** VCYT | **Estimate Changes:** CVS, VCYT, RNA | **MEDACorp:** Healthcare IT & Distribution, CVS, VCYT

**Reference Tools:**

[Catalyst Tracker](#) | [Calendar of Events](#) | [HC Conferences](#) | [Earnings Rundown](#) | [Abbreviations & Acronyms](#) | [Leerink Events](#)

## Leerink Events - Please contact your Leerink Partners representative for details

**3/19: MEDACorp Pulse Call:** Prospects for Innate Pharma's Immuno-Oncology Drugs Lirilumab (anti-KIR) and IPH2201 (anti-NKG2A), Boston, 2:00PM EDT

**3/19: MEDACorp Pulse Call:** Medicare Advantage Final Rate Preview April 7; Potential Implications of Reversal to Proposed Part, Boston, 11:00AM EDT

**3/20: Corporate Access:** Luminex Corp.: LMNX, Philadelphia

**3/20: MEDACorp Pulse Call:** American College of Cardiology (ACC) Preview, New York, 2:00PM EDT

**3/21: Corporate Access:** Luminex Corp.: LMNX, Baltimore

**3/27: Corporate Access:** Hyperion Therapeutics: HPTX, Baltimore

**3/28: Investor Tours / Site Visits:** C.R. Bard, Inc.: BCR, New Jersey

## Today's Healthcare Events

**FDA AdCom:** Blood Products

**Medical Meetings:** American Chemical Society; Interphex Annual Meeting; International Society of Dermatopathology; American Academy of Osteopathy

**EPS After the Close:** XNCR

## Today's Research

**Healthcare IT & Distribution** | *David Larsen, CFA*

**ABC Likely to Retain Share, WAG and CVS Transforming Into Providers**

**Outperform:** ABC, CAH, CTRX, CVS, ESRX, WAG

• **Bottom Line:** On Tuesday we hosted a call with two MEDACorp pharmacy specialists, one who previously worked at Walgreens for ~40 years and one who has ~20+ years of community pharmacy experience. Comments on the call reiterated our belief that Walgreens (WAG, OP) stands to recognize significant synergies from its AmerisourceBergen (ABC, OP) and Alliance Boots (AB) relationship. We believe CVS (OP) and WAG are both well positioned to drive incremental specialty business to retail locations, and we believe Walgreens and CVS are both advancing retail clinical capabilities. We also believe that ABC will retain "independent share." We maintain our OP rating on WAG, CVS, and ABC.

- ABC and WAG distribution agreement unlikely to impact ABC's retention of independent pharmacy customers.
- WAG can potentially leverage Boots for generic manufacturing.
- Retail pharmacies focused on specialty drugs and clinical programs.
- We remain positive on the pharmaceutical supply chain group.

**CVS Caremark (CVS)** | *David Larsen, CFA*

**Our Views on CVS' Specialty Capabilities & ACA Benefit Affirmed by Specialists**

**Outperform** | **Market Cap:** \$87,131.1M | **Price:** \$73.69 | **Price Target:** \$85.00 | **Methodology:** 16.7x 2015E EPS

• **Bottom Line:** On Tuesday we held a call with two MEDACorp specialists who have ~30+ years of retail pharmacy experience each. Our discussion covered the margin profile of generic drugs over their life cycle, M&A activity in

the drug distribution space, the Affordable Care Act (ACA), and other trends. Our takeaways from the call, as they specifically relate to CVS Caremark are: (1) CVS' push to distribute more specialty drugs at the retail counter is real and will likely be successful; (2) inclusion in narrow networks & clinical care is an important consideration for CVS, health plans, and Accountable Care Organizations (ACOs); (3) we agree with the specialists that joint ventures and recent M&A activity will likely result in incremental earnings power for CVS & WAG (OP); and (4) volumes for Medicaid are increasing and Medicaid is a profitable payer. We rate CVS Outperform and maintain our \$85 price target.

- CVS' "Specialty Maintenance Choice" Program Is Real.
  - Inclusion in Narrow Networks Is an Important Consideration.
  - CAH and CVS JV Likely to Work.
  - Medicaid Volumes Are Picking Up.
  - Model Update. We are updating our model to account for the restated financials provided by management. Our 2014E and 2015E adjusted EPS of \$4.50 (+14% y/y) and \$5.10 (+13% y/y) stand.
  - **2014E EPS/REV:** \$4.50 / \$133.7 → \$4.50 / \$132.8
  - **2015E EPS/REV:** \$5.10 / \$141.8 → \$5.10 / \$139.3
- Revenues in billions.*

**Veracyte, Inc. (VCYT)** | *Dan Leonard*

### **Quarter, Forecast Augments Growth Story; Raising PT**

**Outperform** | **Market Cap:** \$360.8M | **Price:** \$17.02 | **Price Target:** \$21.00 → \$23.00 | **Methodology:** 7.0x EV/2015E revenues

- **Bottom Line:** We see several catalysts in 2014 and highlight Outperform-rated VCYT as one of our top small-cap picks. We increase our PT to \$23 (from \$21) due to the 4Q beat and above-Street guide.
  - Strong finish to 2013.
  - Additional positive coverage decision by payer in early 2014.
  - Commercial expansion tracking ahead of plan.
  - Plenty underway in the pipeline.
  - Estimates little changed.
  - **2014E EPS/REV:** (\$1.28) / \$39.6 → (\$1.31) / \$39.5
  - **2015E EPS/REV:** (\$0.98) / \$73.4 → (\$0.93) / \$75.2
- Revenues in \$ millions.*

**Managed Care** | *Ana Gupte, Ph.D.*

### **Exchange Enrollment at 5MM; Risk Pool Improving; CA Leads With > 1MM Enrollees**

**Outperform:** AET, CNC, HUM, WLP | **Market Perform:** HNT, UNH

- **Bottom Line:** As reported by HHS, public exchange enrollment reached 5MM individuals as of March 17, 2014, with CA leading the pack by accounting for more than 1MM enrollees or a 20% share. Details regarding the breakdown by age or metal tier were not given. On the positive, as per a detailed report released last week (which accounted for 4.2MM enrollees), the proportion of young adults (ages 18-34) selecting an exchange plan had increased from 24% during the first three months (Oct – Dec 2013) to 27% (Jan – Feb 2014), thereby, improving the risk pool. Silver plan continued to remain the most sought after plan with 63% of the enrollees choosing the product. Among our coverage, WLP (OP) has maximum exposure with estimated greater than 1.1MM enrollees. Based on the latest disclosures, we estimate HUM (OP) exchange enrollment to have reached ~335K while HNT (MP) enrollment to have crossed 200K members. While CNC (OP) expects enrollment to be in the lower range of the 70-140K guidance, we estimate AET (OP) to have ~225K members to date (other companies haven't disclosed enrollment estimates and publicly released company-wise break-up data for the states is insufficient to develop estimates).
- As reported by HHS, public exchange enrollment reached 5MM individuals as of March 17, 2014, with CA recording the highest number of enrollees among all States at ~1MM or a 20% share. The numbers released

yesterday don't indicate how many of the sign-ups are newly insured or have started paying premiums, the final step to getting coverage. And the administration didn't give any new details about the ages of enrollees, how many are the demographically desirable "young invincibles."

- On the positive, as per a detailed report released last week (which accounted for 4.2MM enrollees), the proportion of young adults (ages 18-34) selecting an exchange plan had increased from 24% during the first three months (Oct – Dec 2013) to 27% (Jan – Feb 2014), thereby, improving the risk pool. Overall, as per the report released March 11, 25% of those enrolled, were between the ages of 18 and 34 while 31% were aged 34 and under.. The report also showed that Silver plans remains the most sought after with 63% of the enrollees choosing the product followed by Bronze (18%) > Gold (11%) > Platinum (6%) > catastrophic (1%)
- Among our coverage, WLP has maximum exposure with estimated greater than 1.1MM enrollees. Based on latest disclosures, we estimate HUM exchange enrollment to have reached ~335K while HNT enrollment to have crossed 200K members. While CNC expects enrollment to be in the lower range of the 70-140K guidance, we estimate AET to have ~225K members to date
- Published 3.18.14, intra-day.

**Prosensa (RNA)** | Joseph P. Schwartz

### **DEMAND V 48-Week Data Supportive of Drisapersen, Regulatory Update 2Q14**

**Outperform** | **Market Cap:** \$244.0M | **Price:** \$6.76 | **Price Target:** \$11.00 | **Methodology:** DCF with 11% discount rate, 0% terminal growth rate

• **Bottom Line:** This morning RNA reported 4Q13 results that included ~€7MM of operating expenditures, in line with our expectations. On the conference call this AM, the company also reviewed 48-week DEMAND V data (announced after the close yesterday), which we believe present an incremental positive and along with the DEMAND II data and drisapersen pooling analysis support our view that a drisapersen drug effect is likely. RNA is currently in the midst of the 120-day transition period with GSK (MP) after regaining the rights in January to its exon skipping franchise, but expects to be able to provide investors an update on drisapersen next steps (either an NDA filing or an additional confirmatory study) after meeting with the Agency in 2Q14. **Reiterate OP on RNA and \$11 PT in 12 Months.**

- 48-week DEMAND V data supportive of a drisapersen drug effect.
- A re-initiation of drisapersen dosing in many boys previously treated in open-label extension studies is expected in 3Q14.
- Next up: RNA expects to provide an update on drisapersen next steps in 2Q14.
- Published 3.18.14, intra-day.
- **2014E EPS/REV:** (€1.33) / 0.0 → (€1.35) / 0.0  
*Revenues in MM.*

**Accelaron Pharma (XLRN)** | Marko Kozul, M.D.

### **NKF Data Interpretation & Multiple 2014 Catalysts Create Buying Opportunity**

**Outperform** | **Market Cap:** \$1,321.8M | **Price:** \$42.50 | **Price Target:** \$52.00

• **Bottom Line:** We see XLRN weakness as unwarranted and would be taking advantage of it this morning. We believe the disconnect stems from investors comparing National Kidney Foundation (NKF) abstract (released late yesterday) data for Sotatercept's magnitude of hemoglobin increases with historical ESA numbers. The main point of this Phase II trial is not to demonstrate Sotatercept's ability to compete directly with ESA but rather to demonstrate the ability to ameliorate bone mineral density issues that can plague End-Stage Renal Disease (ESRD) patients on hemodialysis. The secondary goal is to demonstrate Sotatercept's ability to induce a hemoglobin increase in these patients that is relatively similar to ESAs. We believe early data in the abstract demonstrate this secondary goal is being accomplished. Bone biomarker data was not scheduled to be presented at NKF but will be part of the Part-2 presentation in 1H15.

- NKF Abstract demonstrated early dose escalation Sotatercept hemoglobin increases relatively on par with Erythrocyte Stimulating Agents (ESAs) even if this is not the main goal of the Phase II trial.

- The main point of this study is not to demonstrate Sotatercept's superiority to ESAs but rather to capitalize on its ability to positively impact ESRD hemodialysis patients experiencing bone mineral density (BMD) abnormalities or vascular calcifications.
- Nearer term, we look forward to main pipeline 2Q14 catalysts and initiation of a Dalantercept-Sorafenib combo Phase II trial in Hepatocellular Carcinoma (HCC) that should yield preliminary data ~4Q14 and could drive further upside to our current valuation
- Published 3.18.14, intra-day.

## Research Previews

### March 19 – Earnings – After the Close

#### XNCR – OP – Michael Schmidt

**Close: \$13.40, Mkt Cap: \$401M**

- 4Q13E Leerink EPS/Rev: -\$0.20 / \$1.0M
- 4Q13E Street EPS/Rev: -\$0.16 / \$1.8M
- 2014E Leerink EPS/Rev: -\$0.78 / \$5.0M
- 2014E Street EPS/Rev: -\$0.63 / \$6.5M
- **CC:** 4:30pm EDT; **Dial-in:** 855 433-0932, **Access Code:** 7783117

### March 20 – Earnings – After the Close

#### AMBI – OP – Howard Liang

**Close: \$10.31, Mkt Cap: \$179M**

- 4Q13E Leerink EPS/Rev: -\$0.40 / \$2.0M
- 4Q13E Street EPS/Rev: -\$0.44 / \$2.0M
- 2014E Leerink EPS/Rev: -\$1.58 / \$15.0M
- 2014E Street EPS/Rev: -\$1.96 / \$7.5M
- **CC:** 5:00pm EDT; **Dial-in:** 866 436-9172, **Access Code:** 36742362

#### MGNX – OP – Michael Schmidt

**Close: \$37.23, Mkt Cap: \$977M**

- 4Q13E Leerink EPS/Rev: \$0.00 / \$19.1M
- 4Q13E Street EPS/Rev: -\$0.21 / \$12.8M
- 2014E Leerink EPS/Rev: -\$1.59 / \$44.0M
- 2014E Street EPS/Rev: -\$1.07 / \$55.0M
- **CC:** 4:30pm EDT; **Dial-in:** 877 303-6253, **Access Code:** 8248481

### March 21 – WLP Investor Day – NYC

#### WLP – OP – Ana Gupte

**Close: \$97.71, Mkt Cap: \$27,096M**

- WLP is hosting its Investor Day on 3/21. Given this event has not occurred since Feb. 2011, and will be the first Investor Day hosted by newly appointed CEO Joseph Swedish, we see this as a market-moving event.
- We expect light to be shed that can dispel the key bear theses on WLP.

### March 23-27 – Society of Toxicology – Phoenix, AZ

#### ICEL – MP – Dan Leonard

**Close: \$17.59, Mkt Cap: \$260M**

- ICEL has podium presentations scheduled at SOT including those on Stem Cell Technology, Applications, and Toxicity De-risking Strategies.
- ICEL will also be presenting Scientific Posters at SOT including different methods to assess toxicity in human iPSC Cardiomyocytes and human iPSC Hepatocytes.

### March 25 – Earnings Before the Open

#### WAG – OP – Dave Larsen

**Close: \$67.20, Mkt Cap: \$45,503M**

- F2Q14E Leerink EPS/Rev: \$0.92 / \$19,563.0M
- F2Q14E Street EPS/Rev: \$0.93 / \$19,610.0M
- 2014E Leerink EPS/Rev: \$3.45 / \$76,000.0M
- 2014E Street EPS/Rev: \$3.42 / \$75,800.4M
- **CC:** 8:30am EDT; **Dial-in:** webcast; **Access Code:** --

### March 25 – Earnings – After the Close

#### ITCI – OP – Marko Kozul

**Close: \$19.40, Mkt Cap: \$534M**

- 4Q13E Leerink EPS/Rev: -\$0.23 / \$0.0M
- 4Q13E Street EPS/Rev: -\$0.21 / \$0.0M
- 2014E Leerink EPS/Rev: -\$1.48 / \$0.0M
- 2014E Street EPS/Rev: -\$1.15 / \$0.0M
- **CC:** 4:30pm EDT; **Dial-in:** 877 375-1350, **Access Code:** 15579533

## Previous Notes

### March 18

[Managed Care/Making Sense of Recent News Flow; Obamacare Continues to Diminish in Impact](#), Ana Gupte  
[ABT/Minor Updates to Our Model to Better Reflect Underlying Trends/Market Perform](#), Danielle Antalffy  
[MNK/Fresenius Is Gx Threat to Ofirmev; Slight Edge to Innovator for Now/Market Perform](#), Jason Gerberry  
[SYK/Model Update for SYK Post-AAOS/Outperform](#), Richard Newitter  
[MRTX/Model Update to Reflect 4Q13 Results/Outperform](#), Michael Schmidt  
[WMGI/Model Update for WMGI Post-AAOS/Outperform](#), Richard Newitter  
[ZMH/Model Update for ZMH Post-AAOS/Outperform](#), Richard Newitter

**Updated Models:** [ABT - Model](#), [CERN - Model](#), [MRTX - Model](#), [SYK - Model](#), [VCRA - Model](#), [WMGI - Model](#), [ZMH - Model](#)

### AACR (4/5-9) Preview Notes

[Flash -- AZN/AACR Could Make It a Hat-trick of Interesting Medical Mtgs for AZN in 2Q:14/Outperform](#), Seamus Fernandez  
[SNSS/Encouraging AACR-14 Vosaroxin MDS/AML Abstract Drives our New \\$17 PT; Reit OP/Outperform](#), Marko Kozul  
[Pharmaceuticals/ Major/AACR Preview: CDK 4/6 & MRK's IO Presentations Set the Pre-ASCO Table](#), Seamus Fernandez

### Long Shelf Life Reports

[P&A V - Partnerships & Acquisitions in Biopharma: Our New Top Ten List](#), Joe Schwartz et al.  
[BMRN/Deep Dive on BMN111: Compelling Logic/Early Efficacy Warrant Investor Attention/Outperform](#), Joseph Schwartz

[DYAX/Deep Dive on DX2930: Value Warranted for Novel HAE Monoclonal Antibody/Outperform](#), Joseph Schwartz  
[SHPG/Deep Dive on Ph. III Pipe; Feedback on Lifitegrast Surprisingly Constructive/Outperform](#), Jason Gerberry

### **Leerink Partners 2014 Global Healthcare Conference**

[Managed Care/Takeaways from our 2014 GHC Conference: Panel on Exchanges](#), Ana Gupte  
[Medical Supplies and Devices/Takeaways from 2014 Leerink Global Healthcare Conference](#), Antalffy/Newitter  
[Pharmaceuticals / Major/Takeaways from Our 2014 Global Healthcare Conference](#), Seamus Fernandez  
[Biopharma/Takeaways from Our 2014 Global Healthcare Conference: Immuno-oncology](#), Fernandez/Liang/Schmidt  
[Biopharma/Takeaways from our Global Healthcare Conference - The Hepatitis C Panel](#), Howard Liang  
[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Michael Schmidt  
[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Joe Schwartz  
[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Marko Kozul  
[Specialty Pharmaceuticals/Takeaways from our 2014 Global Healthcare Conference](#), Jason Gerberry  
[Life Science Tools and Diagnostics/Takeaways from our 2014 Global Healthcare Conference: Clinical NGS](#), Dan Leonard  
[HCIT/Takeaways from our 2014 Global Healthcare Conference](#), Dave Larsen

### **Recent Surveys**

[TEVA/Signs of Cash Flow Stability Suggest M&A Activity Likely to Accelerate/Outperform](#), Jason Gerberry  
[Managed Care/Broker Survey Points to Stable Market for 2014, Shifts to Exchanges in 2015](#), Ana Gupte  
[KYTH/Survey Reactions to ATX-101 Validate Expectations for Successful 2015 Launch/Outperform](#), Seamus Fernandez  
[Medical Supplies and Devices/Hemophilia Physician Survey: BAX Share Loss Likely in Line with Estimates](#), Danielle Antalffy  
[AGN/4Q:13 Cosmetic Survey Highlights Stable Growth Trends, Cont'd AGN Strength/Market Perform](#), Seamus Fernandez  
[Medical Devices-Orthopedics/Hip/Knee Survey Highlights 4Q Seasonality & Possible Positive Sign for 1H14](#), Richard Newitter  
[EW/TAVR Survey Suggests Weak 4Q13, Supports Long-Term Market Potential/Outperform](#), Danielle Antalffy  
[Pharmaceuticals/ Major/MEDACorp Diabetes Survey: Solid SGLT2 Prospects & A Tough Januvia \(MRK\) Outlook](#), Seamus Fernandez  
[Life Science Tools and Diagnostics/Survey Offers Mixed Feedback on Forthcoming Sequencing Demand](#), Dan Leonard

### **White Papers**

[Specialty Pharmaceuticals/ Generics/Future of Respiratory Generics - Next Major Generic Product Class](#), Jason Gerberry, JD  
[Medical Devices-Orthopedics/The Future Of Growth & Innovation In US Extremities Ortho Reconstruction](#), Rich Newitter  
[Biotechnology/Future of Dynamic Multiple Sclerosis Landscape](#), Marko Kozul, M.D.  
[Healthcare IT & Distribution/The Future of HCIT Population Health Management](#), Dave Larsen  
[Life Science Tools and Diagnostics/The Future of DNA Sequencing](#), Dan Leonard - Life Science Tools and Diagnostics  
[Biopharma/Future of Cancer Treatment - Immuno-Oncology](#), Seamus Fernandez  
[Biopharma/Future of Orphan Drugs: Neuro Nirvana](#), Joseph P. Schwartz - Biotechnology  
[Biopharma/Future of Hepatitis C Treatment](#), Howard Liang, Ph.D. - Biotechnology  
[Medical Devices-Cardiology/Future of Atrial Fibrillation](#), Danielle Antalffy - Medical Devices

## **Upcoming Healthcare Events**

### **Regulatory Events**

**3/18-19:** FDA AdCom: Blood Products

**3/20:** FDA AdCom: Vaccines and Biological Products; Gastroenterology and Urology Products

**3/21:** PDUFA: CELG Otezia (psoriatic arthritis)

**3/26:** FDA AdCom: Molecular & Clinical Genetics

#### **Medical Meetings**

**3/16-20:** American Chemical Society

**3/18-20:** Interphex Annual Meeting

**3/19-20:** International Society of Dermatopathology

**3/19-23:** American Academy of Osteopathy

**3/21-25:** American Academy of Dermatology

**3/22-25:** Society of Gynecologic Oncologists - Annual Meeting on Women's Cancer

**3/22-27:** Society of Interventional Radiology

**3/23-26:** Society of Gynecologic Surgeons

**3/23-27:** Society of Toxicology

**3/24-26:** World Vaccine Congress

**3/25-29:** Annual Clinical Genetics Meeting

**3/26-29:** European Lung Cancer Conference, CLVS

#### **Corporate Events**

**3/21:** WLP Investor Day

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## Disclosures Appendix

### Analyst Certification

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Distribution of Ratings/Investment Banking Services (IB) as of 12/31/13				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	118	64.50	30	25.00
HOLD [MP]	65	35.50	2	3.00
SELL [UP]	0	0.00	0	0.00

### Explanation of Ratings

**Outperform (Buy):** We expect this stock to outperform its benchmark over the next 12 months.

**Market Perform (Hold/Neutral):** We expect this stock to perform in line with its benchmark over the next 12 months.

**Underperform (Sell):** We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

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