

SeraCare Life Sciences, Inc. (Nasdaq/SRLS)

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BUY **Rising from the ashes**

SeraCare provides products and services for the life sciences industry

Investment Highlights

1) SeraCare Life Sciences (SeraCare) has emerged from 2006's Chapter 11 filing with new management, a new, integrated manufacturing facility, a Nasdaq re-listing, new long-term contracts and a new emphasis on growth and profitability. **Positive operating cash flow and quarter-over-quarter revenue growth**, despite a tough economy, was accomplished in the most recent quarter, and those trends and our projections point to continued growth and the meeting of Company management's goal of profitability sometime during this fiscal year.

2) After introducing its Accurun line of quality controls for research into genetic disorders just last October, SeraCare has already added to the line with July's launch of a new suite of products to support **cystic fibrosis** genetic research. SeraCare has also recently added to its infectious disease controls product portfolio with the June launch of its first-to-market **HPV** genotype performance panel. Both of these new product introductions enhance the Company's technological advantage and broaden product offerings to leverage existing sales efforts.

3) SeraCare has a **blue chip** list of corporate and government clients, including major pharmaceutical and biotech companies for their life science products and large agencies and service providers for their bioservices group. The Company recently locked up their largest account, the **US NIH, to a seven-year contract**, and also signed a distribution agreement with Atlanta-based proteomics provider RayBiotech to sell its innovative line of protein and antibody-based products into the burgeoning biomarker discovery market.

Current Price **\$1.41**

Price Target **\$3.00**

Estimates	F2007A	F2008A	F2009E
Revenue(\$000s)	\$47,304	\$48,967	\$43,385
1Q December	9,910	12,626	9,271 A
2Q March	13,989	12,530	10,864 A
3Q June	11,961	12,374	11,500 E
4Q September	11,442	11,436	11,750 E
Prev. Rev. Estimate (\$000s)			

EPS	(\$0.83)	(\$0.64)	(\$0.93)
1Q December	(0.20)	(0.04)	(0.91) A
2Q March	(0.27)	(0.02)	(0.03) A
3Q June	(0.04)	(0.03)	(0.00) E
4Q September	(0.31)	(0.56)	0.00 E
Previous EPS Estimate			
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.58)	\$0.03	\$0.08
EV/EBITDA (x)	N/A	49.7	16.8

Stock Data	
52-Week Range	\$0.27-\$4.90
Shares Outstanding (mil.)	18.6
Market Capitalization (mil.)	\$26.2
Enterprise Value (mil.)	\$26.1
Debt to Capital (3/09)	17.9%
Book Value/Share (3/09)	\$1.26
Price/Book	1.1 x
Average Trading Volume (10-Day)	30,000
Insider Ownership	3.2%
Institutional Ownership	41.4%
Short interest	4,000
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
Initiated - July 27, 2009 – Target \$3.00

Conclusion

SeraCare Life Sciences has accomplished a great deal since filing (2006) and emerging (2007) from bankruptcy including moving into a new manufacturing facility, re-listing on NASDAQ, cleaning up the balance sheet and reaching positive operating cash flow and pre-charge profitability in the most recent fiscal quarter. SeraCare's share price, however, has not been reflective of these strides, and shares currently represent a bargain for value-oriented investors seeking well managed, solidly financed, and profitable innovative companies in the life sciences industry selling at valuation metrics well below their larger, more well-known cohorts in the industry. Therefore, we are initiating coverage on SRLS with a BUY rating and a 12-18 month price target of \$3, still below highs of just last year.

History/Capitalization

SeraCare Life Sciences was spun out of SeraCare Inc. in 2001 upon the acquisition of SeraCare Inc. by Instituto Grifols, S.A. of Spain. Since 2001, the Company has expanded its business through several acquisitions, including the reagents and bioprocessing products of BioMedical Resources and Simply Diagnostics in 2003, control and panel products and certain services businesses from Boston Biomedica in 2004, and Diagnostic manufacturing facilities and certain product lines of the Celliance division of Serologicals (now Millipore) in 2006. In March 2006, the Company filed for Chapter 11 bankruptcy, later to emerge in May 2007 with a new management team, reorganized operations and facilities, a new line of credit and equity financing through a \$20 million rights offering. In September 2008, the Company moved into a new state of the art administrative and manufacturing facility in Milford, Massachusetts. In June 2008, SeraCare began trading on the Nasdaq Capital Market under the SRLS symbol, after trading on the Pink Sheets while in reorganization.

Primary Business/Competition

SeraCare provides diagnostics controls, plasma-derived reagents and molecular biomarkers, and biobanking and contract research services. The Company's business is divided into two segments: **Diagnostic & Biopharmaceutical Products** and **Bioservices**. Diagnostic and Biopharmaceutical Products include quality control products for diagnostic tests and biological products used in the manufacture of therapeutics and vaccines. In the Bioprocessing services area, SeraCare provides biobanking, (the storage of samples for quality control purposes), sample processing and testing for clinical trials, and contract research services. In the most recent fiscal year ending September 30th, 2008, Diagnostic & Biopharmaceutical Products accounted for \$35.0 million in sales, or 71% of total, while Bioservices provided \$14.0 million of sales, or 29%. There are a number of competitors in the multi-billion diagnostic/biopharmaceutical products market, including several companies that are much larger than SeraCare, such as Bio-Rad Laboratories (NYSE/BIO/Not Rated), Millipore (NYSE/MIL/NR), Thermo Fisher Scientific (NYSE/TMO/NR) and Life Technologies (Nasdaq/LIFE/NR). In the smaller, more specialized bioservices area, SeraCare competes again with Thermo Fisher, as well as smaller providers of technical contract research services. SeraCare operates a clinical laboratory and biorepository facilities in Gaithersburg and Frederick, Maryland, and has its headquarters and biopharmaceutical products manufacturing facility in Milford, Massachusetts. Key customers include the National Institutes of Health (18% of fiscal 2008 sales) and Roche Molecular Systems (12%).

Recent Results

In early May, SeraCare reported positive financial results for their fiscal Q2/2009 (ending March), including revenues of \$10.9 million and a net loss of (\$0.6) million or (\$0.03) per share, versus revenues of \$12.5 million and a loss of (\$0.02) per share in the prior year period. Results for Q2/2009 included a \$0.6 million non-cash impairment charge for the Company's West Bridgewater, MA facility, now up for sale, and without this charge

the Company would have reached break-even for the quarter. Q2/2009 revenues declined 13% vis-à-vis the prior year, due to reduced inventory levels at large Biopharmaceutical products customers, an economy –related slowdown in research spending by Bioservice clients, and the absence of a billing correction received last year. Revenues did increase 17% over the prior (December) quarter, however, led by an increase of 23% in product revenues and 2% in bioservices revenue. Gross margin decreased to 34.5% in Q2/2009 from 37.6% in Q2/2008 due to a lower revenue base to spread out fixed manufacturing costs, but improved from 24.5% gross margin in the prior quarter. Offsetting the lower gross margins were lower overhead costs, as the Company was able to reduce discretionary spending in recent quarters to more accurately reflect revenues.

Balance Sheet and Operating Cash Flow

SeraCare maintains a solid balance sheet, with \$5.2 million in cash and equivalents on hand at March 31, 2009 offset by \$5.1 million in long-term debt, including \$3.1 million drawn down on the Company's line of credit with GE Capital, which has \$2.5 million still available. Operating cash flow was a positive \$0.9 million during the quarter, an improvement over the prior quarter and the prior year period. At the end of last fiscal year (September 2008) the Company completed its move into new manufacturing and administrative facilities in Milford, Massachusetts, and does not anticipate any major additional capital expenditures in the near future. In addition to cash balances on hand and additional borrowing capacity under the GE line of credit, SeraCare has potential cash proceeds from its West Bridgewater facility up for sale, although with forecasted break-even or profitable operations over the next 12-18 months, the Company should have plenty of financial resources available to fund growth.

Outlook/Growth Drivers

SeraCare's management has not provided financial guidance for the rest of the fiscal year, however, the Company does have a stated goal of achieving profitability sometime in fiscal 2009 (ending September). We project that quarterly revenues will continue their upward climb for the remainder of the fiscal year, with revenues in Q3/2009 (ending June) increasing to \$11.5 million, boosted by new product introductions in the infectious disease diagnostic area and positive response from the major Clinical Chemistry conference in June. Revenues for the fourth quarter are also expected to grow, aided by the introduction of cystic fibrosis control products in July, although at a lesser rate due to seasonal factors during the quarter, such as summer vacations. We are also projecting that the Company will break-even or make a small profit in the third and fourth quarters. For fiscal 2009 as a whole we are projecting that SeraCare will accrue \$43.4 million in revenues and incur a net loss of (\$0.93) per share, or a loss of (\$0.10) per share before a one-time non-cash charge for impairment of goodwill.

For fiscal 2010, we are estimating that new product introductions and a rebound of services revenue will help boost overall revenues by 12.5% to \$48.8 million for the year. Combined with improved margins from higher sales volumes and tight cost controls from more efficient operations, we are projecting that SeraCare will earn \$1.5 million in net income or \$0.08 per share for the year.

Management

Sue Vogt has been President & CEO and a board member of SeraCare since 2006. Prior to joining the Company, she held executive positions at Millipore, most recently as president of its biopharmaceutical division. **Greg Gould** has been CFO since 2006. Prior to joining SeraCare, he held CFO positions at Atrix Labs, Colorado MedTech and Integrated BioPharma. Other key members of the management team include **Ron Dilling**, VP of Manufacturing, **Kathi Shea**, VP of Bioservices, **Bill Smutny**, VP of Sales, Dr. **Mark Manak**,

Chief Scientific Officer, and **Mike Steele**, VP of Business Development. **Eugene I. Davis**, CEO of turn-around consulting firm Pirinate Consulting Group, has been Chairman of the Board of Directors since May 2007.

Stock Valuation/Comparables

SeraCare's shares currently trade at a discount to our list of eight comparable diagnostic/life science products firms, especially related to price/revenue valuation metrics. (See Table 1 below) Perhaps due to its just recent return to the Nasdaq market and turn-around in operations, SeraCare shares trade at a moderate discount of 5% based on price/earnings ratios for next calendar year (2010E of \$0.10 estimated for SeraCare) but at a much steeper discount to price/revenue metrics (80%) for this year, perhaps reflecting SeraCare's only recent return to profitability. Using a very reasonable assumed price/revenue ratio of 1.25x estimated 2009 revenues of \$43.4 million for SeraCare (about twice the current ratio) combined with a more aggressive price/earnings ratio of 30x estimated earnings of \$0.10 (calendar year 2010E) for next year yields a target price of \$3.00 per share for SeraCare, and therefore we are recommending investors BUY these shares for a 12-18 month price target of \$3.00.

Risk Factors

The approval and manufacturing of many of SeraCare's products are regulated by the **US FDA** and other regulatory agencies, including foreign bodies. In addition, the Company operates a clinical laboratory as part of its bioservices business, which is regulated by a separate certification process under the federal **CLIA** statutes. In addition, many of the products which SeraCare sells to pharmaceutical and biotechnology companies are used in the manufacture of therapeutic products, and are in turn regulated by the FDA as well as governed by **reimbursement guidelines** issued by Federal agencies and private insurance providers. Finally, the Company has only recently emerged from Chapter 11 proceedings and re-listed on the NASDAQ exchange, and has a **shorter history of successful operations** than many of its larger competitors.

Catalysts/Investor Timeline

- 1) Launch of HPV Genotype Panel and Cystic Fibrosis Controls Product Suite – Early Q3/2009
- 2) Additional product launches in the infectious disease and genetic disorder controls market – H2/2009 and 2010
- 3) Third Quarter 2009 (ending June) financial results and board of directors meeting – Mid-August 2009
- 4) Expansion into international developed and emerging markets – 2009-10

SeraCare Life Sciences, Inc.
Consolidated Statements of Income
 (In 000s, except per share data)

FYE December	2003	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09E	4Q09E	2009E	2010E
						December	March	June	September		December	March	June	September		September
Revenue	\$23,203	\$28,441	\$50,300	\$49,176	\$47,304	\$12,626	\$12,530	\$12,374	\$11,436	\$48,967	\$9,271	\$10,864	\$11,500	\$11,750	\$43,385	\$48,810
Cost of revenue	16,075	17,701	50,784	32,552	33,929	8,528	7,817	8,742	8,857	33,944	6,985	7,120	7,420	7,520	29,044	30,510
Gross Profit	7,128	10,740	(484)	16,624	13,374	4,098	4,713	3,632	2,579	15,022	2,286	3,744	4,080	4,230	14,340	18,300
Operating Expenses:																
Research and development	0	0	410	496	567	371	416	446	543	1,776	394	303	350	400	1,446	1,710
Selling, General and administrative	4,234	5,097	11,958	13,308	14,527	3,718	4,113	3,974	4,314	16,119	3,593	3,434	3,550	3,650	14,227	14,400
One-time charges	0	0	0	9,408	10,444	616	396	265	8,024	9,300	15,091	600	100	50	15,841	250
Operating income (loss)	2,894	5,643	(12,852)	(6,588)	(12,163)	(607)	(213)	(1,053)	(10,301)	(12,174)	(16,791)	(593)	80	130	(17,174)	1,940
Interest expense	6	(273)	(2,252)	(2,607)	(1,011)	(105)	(95)	(92)	(94)	(386)	(102)	(104)	(100)	(100)	(406)	(400)
Other (income) expense, net	0	26	(96)	286	85	47	3	186	(16)	221	8	91	100	120	319	400
Income (loss) before tax	2,900	5,396	(15,200)	(8,909)	(13,089)	(665)	(305)	(959)	(10,410)	(12,339)	(16,886)	(606)	(20)	10	(17,262)	1,540
Income tax expense (benefit)	284	1,241	(513)	(31)	76	2	26	(404)	0	(376)	25	0	0	0	25	0
Net income (loss)	2,616	4,155	(14,687)	(8,878)	(13,165)	(667)	(331)	(555)	(10,410)	(11,963)	(16,911)	(606)	(20)	10	(17,286)	1,540
Basic income per share	\$0.35	\$0.51	(\$1.32)	(\$0.63)	(\$0.83)	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.56)	(\$0.64)	(\$0.91)	(\$0.03)	(\$0.00)	\$0.00	(\$0.93)	\$0.08
Diluted income per share	\$0.31	\$0.45	(\$1.32)	(\$0.63)	(\$0.83)	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.56)	(\$0.64)	(\$0.91)	(\$0.03)	(\$0.00)	\$0.00	(\$0.93)	\$0.08
Basic shares outstanding	7,500	8,150	11,100	13,986	15,876	18,559	18,561	18,563	18,562	18,562	18,569	18,577	18,600	18,650	18,599	18,700
Diluted shares outstanding	8,500	9,150	11,100	13,986	15,876	18,559	18,561	18,563	18,562	18,562	18,569	18,577	18,600	18,650	18,599	18,700
Key ratios:																
Revenue growth		22.6%	76.9%	-2.2%	-3.8%	27.4%	-10.4%	3.4%	-0.1%	3.5%	-26.6%	-13.3%	-7.1%	2.7%	-11.4%	12.5%
Gross margin	30.7%	37.8%	-1.0%	33.8%	28.3%	32.5%	37.6%	29.3%	22.6%	30.7%	24.7%	34.5%	35.5%	36.0%	33.1%	37.5%
R&D/revenue	0.0%	0.0%	0.8%	1.0%	1.2%	2.9%	3.3%	3.6%	4.7%	3.6%	4.2%	2.8%	3.0%	3.4%	3.3%	3.5%
S, G & A/revenues	18.2%	17.9%	23.8%	27.1%	30.7%	29.4%	32.8%	32.1%	37.7%	32.9%	38.8%	31.6%	30.9%	31.1%	32.8%	29.5%
Depreciation & amortization	\$1,500	\$2,000	\$2,563	\$3,204	\$3,847	\$830	\$830	\$860	\$823	\$3,343	\$680	\$660	\$660	\$660	\$2,660	\$2,700
Tax Rate	9.8%	23.0%	3.4%	0.3%	N/A	N/A	N/A	42.1%	0.0%	3.0%	-0.1%	N/A	N/A	N/A	N/A	N/A
Cash Flow/share	\$0.48	\$0.67	(\$1.09)	(\$0.41)	(\$0.59)	\$0.04	\$0.05	\$0.03	(\$0.08)	\$0.04	(\$0.06)	\$0.04	\$0.03	\$0.04	\$0.07	\$0.23
EBITDA/share	\$0.52	\$0.81	(\$1.15)	(\$0.39)	(\$0.58)	\$0.04	\$0.05	\$0.02	(\$0.09)	\$0.03	(\$0.06)	\$0.04	\$0.04	\$0.04	\$0.08	\$0.25

Balance Sheets

	(\$000s)	
Assets:	9/30/08	3/31/09
Cash and equivalents	\$2,946	\$5,208
Accounts receivable, net	6,540	6,591
Inventory	12,154	10,452
Prepaid expenses & other	1,153	348
Total current	22,793	22,600
Property & equip., net	6,218	6,158
Goodwill & intangibles	19,558	4,361
Other	2,527	1,856
TOTAL ASSETS	\$51,097	\$34,975
Liabilities:		
Accounts payable	\$2,767	\$1,792
Accrued expenses	3,659	2,369
Long-term debt - current portion	2,037	5,037
Total current	\$8,463	9,198
Long-term debt	61	80
Other long-term	2,162	2,209
Total long-term liabilities	2,223	2,289
Stockholders' equity	40,410	23,487
TOTAL LIAB & EQ	\$51,097	\$34,975

Quarterly Earnings Comparisons

	December	March	June	September	Total
Revenues (in \$Mill)					
2004					\$28,441
2005					\$50,300
2006					\$49,176
2007	9,910	13,989	11,961	11,442	47,304
2008	12,626	12,530	12,374	11,436	48,967
2009E	9,271	10,864	11,500	11,750	43,385
Earnings per Share					
2004					\$0.45
2005					(1.32)
2006					(0.63)
2007	(0.20)	(0.27)	(0.04)	(0.31)	(0.83)
2008	(0.04)	(0.02)	(0.03)	(0.56)	(0.64)
2009E	(0.91)	(0.03)	(0.00)	0.00	(0.93)

Net sales by category (\$000s)

	2005	2006	2007	2008	2009E	2010E
Net sales by segment						
Diagnostics & Biopharmaceuticals	\$36,802	\$37,805	\$34,998	\$34,983	\$29,000	\$32,500
Bioservices	13,498	11,371	12,305	13,984	14,385	16,310
Total	\$50,300	\$49,176	\$47,304	\$48,967	\$43,385	\$48,810
Net sales by Geographic area						
United States	\$34,522	\$34,573	\$37,143	\$41,248	\$37,500	\$42,000
Europe	9,365	11,422	8,191	5,603	3,800	4,300
Asia	5,682	2,439	998	1,312	1,500	1,750
Other	731	741	972	804	585	760
Total	\$50,300	\$49,176	\$47,304	\$48,967	\$43,385	\$48,810

Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Diagnostic/LifeScience Products Comparable Company Analysis

Company	Symbol	Price	Shares		Market Cap		Calendar Year		Revenues		Calendar Year		Price/Revs		Earnings	
			(millions)	(\$Millions)	EPS '09E	EPS '10E	2009E	P/E '09E	P/E '10E	2009E	Growth	Notes				
Bio-Rad Labs	BIO	\$74.67	27.4	\$ 2,050.0	4.37	5.05	1,710	17.1	14.8	1.20	15.6%	Both life science and clinical diagnostics divisions				
Life Technologies	LIFE	\$43.00	174.7	\$ 7,510.0	2.63	3.02	3,170	16.3	14.2	2.37	14.8%	Merger between Invitrogen and Applied Biosystems				
Luminex	LMNX	\$16.87	40.4	\$ 680.0	0.31	0.55	125	54.4	30.7	5.44	77.4%	Expanding proprietary diagnostic test product line				
Millipore	MIL	\$69.07	55.4	\$ 3,830.0	3.89	4.30	1,620	17.8	16.1	2.36	10.5%	Bioprocess and bioscience divisions				
Qiagen	QGEN	\$18.93	195.5	\$ 3,700.0	0.88	1.03	961	21.5	18.4	3.85	17.0%	Both life sciences and clinical diagnostics, Europe-based				
Sigma Aldrich	SIAL	\$49.92	122.1	\$ 6,100.0	2.70	2.98	2,090	18.5	16.8	2.92	10.4%	Primarily research market, also sells chemicals				
Techne	TECH	\$63.01	37.2	\$ 2,340.0	2.80	3.10	270	22.5	20.3	8.67	10.7%	Biotech and Hematology divisions				
Thermo Fisher	TMO	\$44.32	418.3	\$ 18,540.0	2.89	3.22	9,750	<u>15.3</u>	<u>13.8</u>	<u>1.90</u>	<u>11.4%</u>	Analytical Technologies and Laboratory Products				
Average								22.9	18.1	3.59	22.4%					
SeraCare Life Sciences	SRLS	\$1.41	18.6	\$ 30.0	N/A	0.08	43	N/A	17.1	0.69	N/A	Launching new CF controls and HPV panel this year				

Source: Dawson James Securities; Capital IQ

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated - July 27, 2009 – Target \$3.00

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	50%	5	83%
Strong Buy	1	8%	0	0%
Buy	3	25%	0	0%
Neutral	2	17%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	12	100%	7	58%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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