INSTITUTIONAL RESEARCH
Healthcare & Biotechnology
COMPANY UPDATE

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SeraCare Life Sciences, Inc. (Nasdaq/SRLS)

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BUY Q4/11 results promising; R&D steps up

SeraCare provides products and services for the life sciences industry

Investment Highlights

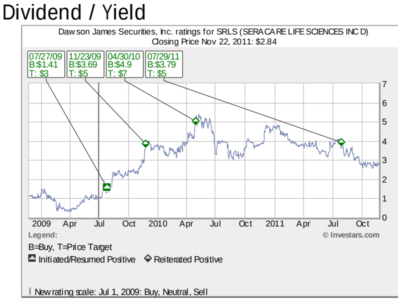
1) SeraCare reported promising financial results for their Q4/2011 (ending December) last week, including revenues of $11.0 million, down 17% year-over-year, and a net loss of $830,000 or ($0.04) per share as compared with net income of $2.0 million or $0.14 per share in the prior year period. Bottom line results for SeraCare in Q4/2011 included a one-time charge of $1.4 million for severance and other costs; without this charge the Company would have shown a profit of approximately $0.03 per share. Our estimates had been revenues of $10.9 million for SeraCare for Q4/2011 and a net loss of $400,000 or ($0.02) per share. We had also factored in one-time charges in our estimate, albeit in a lesser amount. The Company did not break-out revenues by segment for the quarter, but based on the annual amounts we estimate that for the quarter revenues from the larger, corporate-oriented Diagnostic and Biopharmaceutical Products group increased slightly to $8.4 million from $8.3 million. On the other hand, revenues from the government-centered BioServices unit fell to $2.6 million in Q4/2011 from $4.9 million in the prior year, accounting for the decrease in revenues for the Company as a whole, due specifically to the loss of a large government contract during the fiscal year. Gross margins stayed steady year-over-year during the quarter at 39%, but did improve over the 37% gross margins posted in the previous quarter. We estimate that cash flow was positive for the quarter, at approximately $1.0 million, and that the Company was able to increase its cash position during the quarter to $18.1 million from $17.2 million.

2) SeraCare management did not provide specific financial guidance for the upcoming 2012 fiscal year, however, we are using results for the most recent quarter to initiate projections of $45.7 million in revenues for the Company in 2012 and net income of $3.5 million or $0.18 per share. Our estimates assume revenue growth of 5% year-over-year, strictly from the diagnostics and biopharmaceutical products group, and gross margins of 38.9%, just slightly above the

Current Price	**$2.84**
Price Target	**$5.00**

Estimates	F2010A	F2011A	F2012E
Revenue($000s)	**$50,380**	**$43,484**	**$45,760**
1Q December	11,257	10,462 A	11,090 E
2Q March	12,851	11,003 A	11,330 E
3Q June	12,975	11,029 A	11,690 E
4Q September	13,297	10,990 A	11,650 E
Prev. Rev. Estimate ($000s)		**$43,394**	**N/A**
EPS	**$0.35**	**$0.14**	**$0.18**
1Q December	0.07	0.08 A	0.04 E
2Q March	0.11	0.07 A	0.04 E
3Q June	0.07	0.03 A	0.05 E
4Q September	0.11	(0.04) A	0.05 E
Previous EPS Estimate		**$0.16**	**N/A**
P/E (x)	8.1	20.5	15.7
EBITDA/Share	$0.42	$0.32	$0.30
EV/EBITDA (x)	4.5	5.9	6.2

Stock Data	
52-Week Range	$2.58-$4.97
Shares Outstanding (mil.)	19.0
Market Capitalization (mil.)	$54.1
Enterprise Value (mil.)	$36.0
Debt to Capital (9/11)	0.1%
Book Value/Share (9/11)	$2.08
Price/Book	1.4 x
Average Trading Volume (10-day)	71,500
Insider Ownership	23.6%
Institutional Ownership	34.7%
Short interest	75,600
Dividend / Yield	$0.00/0.0%



Price target and ratings changes over the past 3 years:
Initiated - July 27, 2009 – BUY - Target $3.00
Price target changed to $5.00 - November 23, 2009
Price target changed to $7.00 - April 30, 2010
Price target changed to $5.00 - July 29, 2011

38.5% margins earned in fiscal 2011. Our projections also assume a slight increase in S, G &A expense (3% year-over-year) and a larger increase in R&D costs (19%) as the Company beefs up its product line for the commercial sector. We are also projecting that revenues and earnings per share will gradually ramp-up as fiscal 2012 progresses, with positive quarterly year-over-year earnings comparisons appearing by third quarter (ending June 2012).

3) On the R&D front, SeraCare was busy during the fourth quarter, launching twelve new products to make 24 new introductions in the 2011 fiscal year. This number represents a solid increase from the fourteen products introduced by the Company in fiscal 2010. SeraCare also is beginning to see benefits from their new hands-on sales and marketing approach, implemented earlier this year with the help of a new VP of Sales and Marketing, as fourth quarter product sales showed a year-over-year increase for the first time in fiscal 2011. Finally, even though SeraCare has put their acquisition search on hold following the departure of their CEO and VP of Business Development this past summer, the Company still has significant financial resources available should an acquisition opportunity arise, including over $18 million in cash and $20 million in unused lines of credit.

Conclusion/Stock Valuation

The most recent positive quarterly results represented an important psychological boost for SeraCare's prospects, including a turnaround in quarterly revenue declines at its largest division (diagnostic and biopharmaceutical products), and overall profitability before a one-time charge. We are forecasting that SeraCare will return to profitability and revenue growth in the coming fiscal year, and combined with a solid balance sheet (nearly $1 per share in cash with no debt and over $2 per share in book value), strong R&D, advanced manufacturing capabilities and a broad client base, SeraCare shares present an attractive vehicle for value-oriented investors. Thus, we are maintaining our Buy rating and 12-18 month price target of $5, equating to 2.1X estimated sales for this fiscal year, 27X estimated earnings for this year, and 2.5X book value, while still offering new investors significant price appreciation over current levels.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by SeraCare Life Sciences with other companies in the industry, we believe the primary risks to our price target include the following:

1. **Regulatory approvals and oversight —** 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. Finally, 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.
2. **Government reimbursement and funding —** Many of the therapeutic products and diagnostic controls manufactured by SeraCare or by its customers are subject to US and international reimbursement rulings and could see future markets decline should these requirements change in the future. In addition, the Company's BioServices business is primarily fueled by US Federal government contracts, and could decline if later years' budgets are reduced.
3. **Short history of profitable operations -** 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.
4. **Management turnover –** In the past fiscal year, SeraCare has seen the departure of its CEO, Vice President of Sales and Marketing, and Vice President of Business Development, as well as the

appointment of a new Chairman of its Board of Directors. While its former CFO has taken over as interim CEO and the Company may search for a new CEO in the near future, the extent of the recent management changes may disrupt the Company's operating performance in the future.

5. **Limited stock liquidity** – Trading volume in SeraCare stock is comparatively light at an average of 71,500 shares per day. As such, news regarding SeraCare, its target market, and/or competitors could lead to significant volatility in the stock price.

Catalysts/Investor Timeline

1) Additional product launches in the infectious disease and genetic disorder controls market – Fiscal 2012
2) First Quarter 2012 (ending December) financials released – Early February 2012
3) Appointment of new CEO – Fiscal 2012
4) Additional federal agency BioServices contracts signed – 2011-12
5) Potential product acquisitions/product in-licenses – 2011-12

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

Robert M. Wasserman

FYE December	2005	2006	2007	2008	2009	2010	1Q11 December	2Q11 March	3Q11 June	4Q11 September	2011	1Q12E December	2Q12E March	3Q12E June	4Q12E September	2012E
Revenue	$50,300	$49,176	$47,304	$48,967	$44,434	$50,380	$10,462	$11,003	$11,029	$10,990	$43,484	$11,090	$11,330	$11,690	$11,650	$45,760
Cost of revenue	50,784	32,552	33,929	33,944	28,990	29,594	6,495	6,603	6,935	6,708	26,741	6,820	6,910	7,190	7,050	27,970
Gross Profit	(484)	16,624	13,374	15,022	15,444	20,786	3,968	4,399	4,093	4,282	16,743	4,270	4,420	4,500	4,600	17,790
Operating Expenses:																
Research and development	410	496	567	1,776	1,122	777	309	236	304	427	1,277	350	370	390	410	1,520
Selling, General and administrative	11,958	13,308	14,527	16,119	13,714	13,161	2,947	2,868	3,265	3,204	12,284	3,110	3,170	3,210	3,200	12,690
One-time charges	0	9,408	10,444	9,300	15,741	0	(846)	0	0	1,438	592	0	0	0	0	0
Operating income (loss)	(12,852)	(6,588)	(12,163)	(12,174)	(15,133)	6,848	1,558	1,295	525	(788)	2,589	810	880	900	990	3,580
Interest expense, net	(2,252)	(2,607)	(1,011)	(386)	(380)	(235)	22	(9)	(37)	(38)	(61)	20	30	40	50	140
Other (income) expense, net	(96)	286	85	221	183	99	0	15	0	8	23	0	0	0	0	0
Income (loss) before tax	(15,200)	(8,909)	(13,089)	(12,339)	(15,330)	6,713	1,581	1,301	488	(818)	2,551	830	910	940	1,040	3,720
Income tax expense (benefit)	(513)	(31)	76	(376)	49	8	0	(93)	(35)	13	(116)	40	50	50	50	190
Net income (loss)	(14,687)	(8,878)	(13,165)	(11,963)	(15,379)	6,705	1,581	1,394	523	(831)	2,667	790	860	890	990	3,530
Basic income per share	($1.32)	($0.63)	($0.83)	($0.64)	($0.83)	$0.36	$0.08	$0.07	$0.03	($0.04)	$0.14	$0.04	$0.04	$0.05	$0.05	$0.18
Diluted income per share	($1.32)	($0.63)	($0.83)	($0.64)	($0.83)	$0.35	$0.08	$0.07	$0.03	($0.04)	$0.14	$0.04	$0.04	$0.05	$0.05	$0.18
Basic shares outstanding	11,100	13,986	15,876	18,562	18,585	18,820	18,861	18,905	18,929	19,041	18,934	19,100	19,200	19,300	19,400	19,250
Diluted shares outstanding	11,100	13,986	15,876	18,562	18,585	19,080	19,270	19,312	19,281	19,041	19,226	19,400	19,500	19,600	19,700	19,550
Key ratios:																
Revenue growth	76.9%	-2.2%	-3.8%	3.5%	-9.3%	13.4%	-7.1%	-14.4%	-15.0%	-17.3%	-13.7%	6.0%	3.0%	6.0%	6.0%	5.2%
Gross margin	-1.0%	33.8%	28.3%	30.7%	34.8%	41.3%	37.9%	40.0%	37.1%	39.0%	38.5%	38.5%	39.0%	38.5%	39.5%	38.9%
R&D/revenue	0.8%	1.0%	1.2%	3.6%	2.5%	1.5%	3.0%	2.1%	2.8%	3.9%	2.9%	3.2%	3.3%	3.3%	3.5%	3.3%
S, G & A/revenues	23.8%	27.1%	30.7%	32.9%	30.9%	26.1%	28.2%	26.1%	29.6%	29.2%	28.3%	28.0%	28.0%	27.5%	27.5%	27.7%
Depreciation & amortization	$2,563	$3,204	$3,847	$3,343	$2,290	$1,205	$300	$330	$350	$350	$1,330	$350	$350	$350	$350	$1,400
Tax Rate	3.4%	0.3%	N/A	3.0%	N/A	0.1%	0.0%	N/A	N/A	N/A	-4.5%	5.0%	5.0%	5.0%	5.0%	5.1%
Cash Flow/share	($1.09)	($0.41)	($0.59)	$0.04	$0.14	$0.41	$0.11	$0.10	$0.06	$0.06	$0.33	$0.07	$0.07	$0.07	$0.08	$0.30
EBITDA/share	($1.15)	($0.39)	($0.58)	$0.03	$0.16	$0.42	$0.11	$0.10	$0.05	$0.06	$0.32	$0.07	$0.08	$0.08	$0.08	$0.30

Balance Sheets

($000s)	9/30/10	9/30/11
Assets:		
Cash and equivalents	$16,075	$18,106
Accounts receivable, net	7,288	6,339
Inventory	9,029	10,163
Prepaid expenses & other	452	131
Total current	32,844	34,740
Property & equip., net	5,970	5,669
Goodwill & intangibles	4,285	4,285
Other	527	384
TOTAL ASSETS	$43,626	$45,078
Liabilities:		
Accounts payable	$2,788	$2,035
Accrued expenses	4,041	2,384
Long-term debt - current portion	56	24
Total current	6,885	4,443
Long-term debt	22	0
Other long-term	2,217	2,031
Total long-term liabilities	2,239	2,031
Stockholders' equity	34,502	38,604
TOTAL LIAB & EQ	$43,626	$45,078

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
2009	9,271	10,864	11,778	12,522	44,434
2010	11,257	12,851	12,975	13,297	50,380
2011	10,462	11,003	11,029	10,990	43,484
2012E	11,090	11,330	11,690	11,650	45,760
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)
2009	(0.91)	(0.03)	0.04	0.08	(0.83)
2010	0.07	0.11	0.07	0.11	0.35
2011	0.08	0.07	0.03	(0.04)	0.14
2012E	0.04	0.04	0.05	0.05	0.18

Net sales by category ($000s)

Net sales by segment	2005	2006	2007	2008	2009	2010	2011	2012E
Diagnostics & Biopharmaceuticals	$36,802	$37,805	$34,998	$34,983	$32,855	$34,136	$32,198	$34,360
Bioservices	13,498	11,371	12,305	13,984	11,579	16,244	11,286	11,400
Total	$50,300	$49,176	$47,304	$48,967	$44,434	$50,380	$43,484	$45,760
Net sales by Geographic area								
United States	$34,522	$34,573	$37,143	$41,248	$35,565	$40,363	$33,371	$35,360
Europe	9,365	11,422	8,191	5,603	6,432	7,329	7,177	7,300
Asia	5,682	2,439	998	1,312	1,414	1,621	1,665	1,700
Other	731	741	972	804	1,024	1,067	1,271	1,400
Total	$50,300	$49,176	$47,304	$48,967	$44,434	$50,380	$43,484	$45,760

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

Important Disclosures:

Price Chart:

Price target and ratings changes over the past 3 years:
Initiated – BUY - July 27, 2009 – Target $3.00
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Ratings definitions: 1) Buy: the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Buy	27	84%	8	30%
Neutral	4	13%	3	75%
Sell	1	3%	0	0%
Total	32	100%	11	34%

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