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SeraCare Life Sciences, Inc. (Nasdaq/SRLS)

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BUY 2010 keeps ahead of the curve

SeraCare provides products and services for the life sciences industry

Investment Highlights

1) SeraCare Life Sciences (SeraCare) reported excellent financial results yesterday for their Q2/2010 (ending March), earning \$0.11 per share on revenues of \$12.85 million, an increase of 18.3% year-over-year. Our estimates had been revenues of \$12.77 million (very close to actual) and earnings per share of only \$0.05, due to our higher estimate of overhead expenses. In Q2/2009 the Company broke even before a one-time charge of \$600,000 or (\$0.03) per share for a loss on an older facility put up for sale and since sold. Revenue growth in Q2/2010 was led by an 8% in sales of diagnostic and biopharmaceutical products, primarily due to increasing orders from top established customers in the US as well as new penetration into the European market through expanded product offerings and distribution. A 51% increase in revenues from the smaller BioServices segment is a direct result of several new and expanded government contracts signed last September and hiring to staff these projects completed over the past two quarters. Gross margins improved this year to 43% (same as last quarter) versus 35% in the prior year period, due to increased volumes and a new manufacturing facility. Due to fixed-cost government contracts, greater BioServices revenue did not contribute to higher gross margins but did boost overall operating margins because of better utilization of more specialized R&D staff. Combined with reduced R&D spending and lower interest costs, earnings per share jumped to \$0.11, including an \$112,000 or \$0.01 per share tax benefit, up from break-even in the prior year and \$0.07 in the prior quarter.

2) We are adjusting our earnings estimates for SeraCare for fiscal 2010 (ending September) upward once again, taking into account the positive Q2/2010 results, to \$0.33 per share from \$0.25 previously, due both to the positive 2nd quarter but also due to higher gross margins and lower overhead costs. Our revised forecasts assume essentially equivalent revenues of \$51.1 million (representing a 15% year-over-year increase). We do not expect summer seasonality for SeraCare to be nearly as severe this year as in past years, in fact probably not a

Current Price \$4.90

Price Target \$7.00

Estimates	F2008A	F2009A	F2010E
Revenue(\$000s)	\$48,967	\$44,434	\$51,128
1Q December	12,626	9,271	11,257 A
2Q March	12,530	10,864	12,851 A
3Q June	12,374	11,778	13,250 E
4Q September	11,436	12,522	13,770 E
Prev. Rev. Estimate (\$000s)		\$43,385	\$51,047

EPS	(\$0.64)	(\$0.83)	\$0.33
1Q December	(0.04)	(0.91)	0.07 A
2Q March	(0.02)	(0.03)	0.11 A
3Q June	(0.03)	0.04	0.07 E
4Q September	(0.56)	0.08	0.08 E
Previous EPS Estimate		(\$0.93)	\$0.25
P/E (x)	N/A	N/A	14.8

EBITDA/Share	\$0.03	\$0.16	\$0.42
EV/EBITDA (x)	N/A	153.4	27.9

Stock Data	
52-Week Range	\$0.62-\$5.18
Shares Outstanding (mil.)	19.0
Market Capitalization (mil.)	\$93.1
Enterprise Value (mil.)	\$82.4
Debt to Capital (3/10)	0.3%
Book Value/Share (3/10)	\$1.65
Price/Book	3.0 x
Average Trading Volume (10-day)	122,000
Insider Ownership	9.0%
Institutional Ownership	36.8%
Short interest	2,600
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:

Initiated - July 27, 2009 – Target \$3.00

Price target changed to \$5.00 - November 23, 2009

Price target changed to \$7.00 - April 30 23, 2010

Please find Important Disclosures beginning on Page 4.

factor at all in 2010 due to the new government BioServices contracts. The one factor that may curtail quarterly earnings for the last part of fiscal 2010 could be increased R&D spending for SeraCare, as the Company makes a concerted effort to launch new diagnostic and biopharmaceutical products to compensate for slower growth expected next year in the BioServices area (unless new government contracts are signed this fall). On the other hand, if additional government service contracts are signed this fall (similar to the agreements last September), SeraCare could see its current rate of growth continue or even accelerate, most likely beginning early next fiscal year.

3) Operating cash flow was again very strong for SeraCare during the fiscal second quarter, at \$2.6 million versus \$2.0 million in the first quarter and less than \$1 million in the same period a year ago. At the end of March, SeraCare had \$10.8 million in cash on hand and no long-term debt after completing the sale of the West Bridgewater building in January and repaying the mortgage. The Company also has the capability of adding a line of credit since terminating its previous line with GE last year. The growing cash balances and elimination of debt, combined with a past history of acquisitions, could pave the way for a return to acquisition-related growth later this fiscal year or next.

Conclusion/Stock Valuation

After holding steady the first (calendar) quarter of this year, SeraCare shares have bounced nicely this spring heading into and following the very positive Q2/2010 earnings report. Perhaps most importantly, higher trading volumes, increased market capitalization (due to share price rather than share dilution) and growing earnings momentum are gradually attracting greater investor awareness. Despite the recent share price gains, we continue to believe that value oriented investors will be rewarded in the future by this profitable, growing, well-managed yet still little-known stock, and therefore we are maintaining our Buy rating on SRLS and increasing our 12-18 month price target from \$5 to \$7, representing 4.2x book value and 21X estimated earnings per share for fiscal 2010, still below share trading levels of just two years ago.

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. Furthermore, many of the products which SeraCare sells to pharmaceutical and biotechnology companies are used in the manufacture of therapeutic products, which 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) Additional product launches in the infectious disease and genetic disorder controls market – Fiscal 2010
- 2) Third Quarter 2010 (ending June) financials released – Late July 2010
- 3) Further expansion into international developed and emerging markets – 2010-11
- 4) Additional federal agency bioservices contracts signed – 2010-11

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

FYE December	2003	2004	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10E	4Q10E	2010E
							December	March	June	September		December	March	June	September	
Revenue	\$23,203	\$28,441	\$50,300	\$49,176	\$47,304	\$48,967	\$9,271	\$10,864	\$11,778	\$12,522	\$44,434	\$11,257	\$12,851	\$13,250	\$13,770	\$51,128
Cost of revenue	16,075	17,701	50,784	32,552	33,929	33,944	6,985	7,120	7,531	7,355	28,990	6,340	7,293	7,950	8,120	29,703
Gross Profit	7,128	10,740	(484)	16,624	13,374	15,022	2,286	3,744	4,247	5,167	15,444	4,917	5,559	5,300	5,650	21,425
Operating Expenses:																
Research and development	0	0	410	496	567	1,776	394	303	217	209	1,122	163	168	250	270	852
Selling, General and administrative	4,234	5,097	11,958	13,308	14,527	16,119	3,593	3,434	3,258	3,429	13,714	3,260	3,408	3,640	3,720	14,028
One-time charges	0	0	0	9,408	10,444	9,300	15,091	600	0	50	15,741	0	0	20	20	40
Operating income (loss)	2,894	5,643	(12,852)	(6,588)	(12,163)	(12,174)	(16,791)	(593)	772	1,480	(15,133)	1,493	1,982	1,390	1,640	6,506
Interest expense	6	(273)	(2,252)	(2,607)	(1,011)	(386)	(102)	(104)	(86)	(88)	(380)	(205)	(26)	(30)	(30)	(291)
Other (income) expense, net	0	26	(96)	286	85	221	8	91	8	77	183	2	28	50	70	150
Income (loss) before tax	2,900	5,396	(15,200)	(8,909)	(13,089)	(12,339)	(16,886)	(606)	694	1,468	(15,330)	1,291	1,984	1,410	1,680	6,365
Income tax expense (benefit)	284	1,241	(513)	(31)	76	(376)	25	0	(3)	28	49	8	(112)	70	80	46
Net income (loss)	2,616	4,155	(14,687)	(8,878)	(13,165)	(11,963)	(16,911)	(606)	697	1,440	(15,379)	1,283	2,096	1,340	1,600	6,319
Basic income per share	\$0.35	\$0.51	(\$1.32)	(\$0.63)	(\$0.83)	(\$0.64)	(\$0.91)	(\$0.03)	\$0.04	\$0.08	(\$0.83)	\$0.07	\$0.11	\$0.07	\$0.08	\$0.33
Diluted income per share	\$0.31	\$0.45	(\$1.32)	(\$0.63)	(\$0.83)	(\$0.64)	(\$0.91)	(\$0.03)	\$0.04	\$0.08	(\$0.83)	\$0.07	\$0.11	\$0.07	\$0.08	\$0.33
Basic shares outstanding	7,500	8,150	11,100	13,986	15,876	18,562	18,569	18,577	18,596	18,599	18,585	18,740	18,838	18,940	19,040	18,890
Diluted shares outstanding	8,500	9,150	11,100	13,986	15,876	18,562	18,569	18,577	18,596	18,599	18,585	18,876	19,005	19,100	19,200	19,045
Key ratios:																
Revenue growth		22.6%	76.9%	-2.2%	-3.8%	3.5%	-26.6%	-13.3%	-4.8%	9.5%	-9.3%	21.4%	18.3%	12.5%	10.0%	15.1%
Gross margin	30.7%	37.8%	-1.0%	33.8%	28.3%	30.7%	24.7%	34.5%	36.1%	41.3%	34.8%	43.7%	43.3%	40.0%	41.0%	41.9%
R&D/revenue	0.0%	0.0%	0.8%	1.0%	1.2%	3.6%	4.2%	2.8%	1.8%	1.7%	2.5%	1.5%	1.3%	1.9%	2.0%	1.7%
S, G & A/revenues	18.2%	17.9%	23.8%	27.1%	30.7%	32.9%	38.8%	31.6%	27.7%	27.4%	30.9%	29.0%	26.5%	27.5%	27.0%	27.4%
Depreciation & amortization	\$1,500	\$2,000	\$2,563	\$3,204	\$3,847	\$3,343	\$680	\$660	\$660	\$290	\$2,290	\$385	\$280	\$350	\$350	\$1,365
Tax Rate	9.8%	23.0%	3.4%	0.3%	N/A	3.0%	-0.1%	N/A	-0.5%	1.9%	N/A	0.6%	-5.7%	5.0%	5.0%	0.7%
Cash Flow/share	\$0.48	\$0.67	(\$1.09)	(\$0.41)	(\$0.59)	\$0.04	(\$0.06)	\$0.04	\$0.07	\$0.09	\$0.14	\$0.12	\$0.14	\$0.11	\$0.12	\$0.41
EBITDA/share	\$0.52	\$0.81	(\$1.15)	(\$0.39)	(\$0.58)	\$0.03	(\$0.06)	\$0.04	\$0.07	\$0.10	\$0.16	\$0.13	\$0.14	\$0.11	\$0.13	\$0.42

Balance Sheets

	(\$000s)	
	9/30/09	3/31/10
Assets:		
Cash and equivalents	\$6,169	\$10,812
Accounts receivable, net	7,180	6,807
Inventory	8,707	9,464
Prepaid expenses & other	413	506
Total current	22,469	27,589
Property & equip., net	5,942	5,537
Goodwill & intangibles	4,285	4,285
Other	1,768	361
TOTAL ASSETS	\$34,464	\$37,772
Liabilities:		
Accounts payable	\$1,320	\$1,794
Accrued expenses	3,156	3,006
Long-term debt - current portion	349	50
Total current	4,825	4,850
Long-term debt	1,195	49
Other long-term	2,250	2,261
Total long-term liabilities	3,445	2,309
Stockholders' equity	26,194	30,613
TOTAL LIAB & EQ	\$34,464	\$37,772

Quarterly Earnings Comparisons

	(\$Mill)				
	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
2010E	11,257	12,851	13,250	13,770	51,128
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	(0.03)	(0.03)	0.04	0.08	(0.83)
2010E	0.07	0.11	0.07	0.08	0.33

Net sales by category (\$000s)

	2005	2006	2007	2008	2009	2010E
Net sales by segment						
Diagnostics & Biopharmaceuticals	\$36,802	\$37,805	\$34,998	\$34,983	\$32,855	\$36,500
Bioservices	13,498	11,371	12,305	13,984	11,579	14,600
Total	\$50,300	\$49,176	\$47,304	\$48,967	\$44,434	\$51,100
Net sales by Geographic area						
United States	\$34,522	\$34,573	\$37,143	\$41,248	\$35,565	\$40,000
Europe	9,365	11,422	8,191	5,603	6,432	8,000
Asia	5,682	2,439	998	1,312	1,414	1,800
Other	731	741	972	804	1,024	1,300
Total	\$50,300	\$49,176	\$47,304	\$48,967	\$44,434	\$51,100

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

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	12	86%	6	50%
Neutral	2	14%	2	100%
Sell	0	0%	0	0%
Total	14	100%	8	57%

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

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