HEMACARE CORP /CA/
Form 10-Q
May 15, 2003

==========

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-15223

HEMACARE CORPORATION
(Exact name of registrant as specified in its charter)

California	95-3280412
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification No.
21101 Oxnard Street Woodland Hills, California (Address of principal executive offices)	91367 (Zip Code)

(Registrant's telephone number, including area code): (818) 226-1968

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)
Yes / / No /X/

As of May 10, 2003, 7,751,090 shares of Common Stock of the registrant were issued and outstanding.

==========

INDEX

HEMACARE CORPORATION AND SUBSIDIARIES

1

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

HEMACARE CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,206,000	$ 1,048,000
Accounts receivable, net of allowance for doubtful accounts - $205,000 (2003) and $208,000 (2002)	4,322,000	4,932,000
Product inventories and supplies	978,000	795,000
Prepaid expenses	285,000	295,000
Deferred income taxes	402,000	402,000
Total current assets	7,193,000	7,472,000
Plant and equipment, net of accumulated depreciation and amortization of $2,598,000 (2003) and $2,450,000 (2002)	3,367,000	3,308,000
Deferred taxes	2,576,000	2,582,000
Other assets	84,000	93,000
	$13,220,000	$13,455,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,957,000	$ 2,277,000
Accrued payroll and payroll taxes	1,528,000	1,231,000
Other accrued expenses	135,000	133,000
Current obligations under capital leases	90,000	90,000
Current obligations under notes payable	200,000	199,000
Reserve for discontinued operations	66,000	68,000
Total current liabilities	3,976,000	3,998,000
Obligations under capital leases, net of current portion	228,000	246,000
Notes payable, net of current portion	906,000	1,107,000
Other long-term liabilities	15,000	17,000
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value - 20,000,000 shares authorized, 7,751,090 issued and outstanding in 2003 and 2002	13,316,000	13,316,000
Accumulated deficit	(5,221,000)	(5,229,000)
Total shareholders' equity	8,095,000	8,087,000
	$13,220,000	$13,455,000

The accompanying notes are an integral part of these

consolidated financial statements.

HEMACARE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31, 2003	2002
Revenues:		
Blood products	$4,946,000	$4,389,000
Blood services	1,985,000	1,932,000
Total revenue	6,931,000	6,321,000
Operating costs and expenses:		
Blood products	4,721,000	4,276,000
Blood services	1,268,000	1,287,000
Total operating costs and expenses	5,989,000	5,563,000
Gross profit	942,000	758,000
General and administrative expenses	928,000	977,000
Income (loss) before income taxes	14,000	(219,000)
Provision (benefit) for income taxes	6,000	(81,000)
Net income (loss)	$ 8,000	$ (138,000)
Basic and diluted per share amounts	$ 0.00	$ (0.02)
Weighted average shares outstanding - basic	7,751,000	7,591,000
Weighted average shares outstanding - diluted	7,834,000	7,591,000

The accompanying notes are an integral part of these consolidated financial statements.

HEMACARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 8,000	$ (138,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	148,000	96,000
Non cash compensation related to employee severance	-	56,000
Deferred income taxes used to offset current period income	6,000	(81,000)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	610,000	621,000
Increase in inventories, supplies and prepaid expenses	(173,000)	(181,000)
Decrease in other assets	9,000	43,000
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(23,000)	55,000
Expenditures for discontinued operations	(2,000)	(1,000)
Net cash provided by operating activities	583,000	470,000
Cash flows from investing activities:		
Purchase of plant and equipment, net	(207,000)	(354,000)
Net cash used in investing activities	(207,000)	(354,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	4,000
Principal payments on line of credit, capital leases and notes payable	(218,000)	(49,000)
Proceeds from capitalized leases	-	100,000
Net cash (used in) provided by financing activities	(218,000)	55,000
Increase in cash and cash equivalents	158,000	171,000
Cash and cash equivalents at beginning of period	1,048,000	1,025,000
Cash and cash equivalents at end of period	$1,206,000	$1,196,000
Supplemental disclosure:		
Interest paid	$ 20,000	$ 10,000
Income taxes paid	$ -	$ -
Items not affecting cash flow:		
Notes and capitalized leases issued in connection with acquisition of plant and equipment	$ -	$ 31,000

The accompanying notes are an integral part of these consolidated financial statements.

4

HemaCare Corporation
Notes to Consolidated Financial Statements

Note 1 - Basis of Presentation and General Information

The accompanying unaudited consolidated financial statements of HemaCare Corporation (the "Company" or "HemaCare") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in HemaCare's Annual Report on Form 10-K for the year ended December 31, 2002.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts from the first quarter of 2002 have been reclassified to conform to the current period presentation.

Note 2 - Line of Credit and Notes Payable

The Company has a working capital line of credit with a bank. The amount the Company may borrow is the lesser of: 75% of eligible accounts receivable less amounts outstanding on the notes payable discussed below, or $2 million. Interest is payable monthly at a rate of prime plus 0.5% (4.75% as of March 31, 2003). As of March 31, 2003, the Company's net borrowings on this line of credit were $600,000 and the Company had unused availability of $1.4 million. This line of credit matures in June 2004, and is included in notes payable, net of current portion on the balance sheet.

In addition, the Company has various notes payable with the same bank. At March 31, 2003, the total amount outstanding under these notes is $409,000 and requires monthly principal payments of approximately $14,000 plus interest at a weighted average fixed rate of 6.6%.

These loans are collateralized by substantially all of the Company's assets and are cross-defaulted. They also require the maintenance of certain financial covenants that require among other things, minimum levels of profitability and prohibit the payment of dividends or stock repurchases. As of March 31, 2003, the Company was in compliance with these loan covenants.

Additionally, the Company has another note payable with a finance company. As of March 31, 2003, the balance on this note is $97,000. The note requires quarterly payments of approximately $10,000 including interest at the rate of 8.5% and matures at January 2006. It is collateralized by certain fixed assets.

Note 3 - Shareholders' Equity

The Company has elected to adopt SFAS 123, "Accounting for Stock-Based Compensation," for disclosure purposes only and applies the provision of APB Opinion No. 25. The Company did not recognize any compensation expense related to the issuance of stock options in 2003 or 2002. Had compensation expense for all options granted to employees and directors been recognized in accordance with SFAS 123, the Company's net income and net income per share would have been as follows:

5

	Quarter Ended March 31, 2003	2002
Net income (loss) as reported	$ 8,000	$(138,000)
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(28,000)	(163,000)
Pro forma net loss	$ (20,000)	$(301,000)
Net income (loss) per share - basic and diluted		
As reported	$ 0.00	$ (0.02)
Pro forma	$ (0.00)	$ (0.04)

Note 4 - Earnings per Share

The following table provides the calculation methodology for the numerator and denominator for diluted earnings per share:

	Quarter Ended March 31, 2003	2002
Net income (loss)	$ 8,000	$(138,000)
Shares outstanding	7,751,000	7,591,000
Net effect of diluted options	83,000	-
Dilutive shares outstanding	7,834,000	7,591,000

Options and warrants outstanding for 1,633,000 shares and 2,156,000

shares for the three months ended March 31, 2003 and 2002, respectively, have been excluded from the above calculation because their effect would have been anti-dilutive.

Note 5 - Provision for Income Taxes

The Company believes that it is more likely than not that it will be able to utilize the deferred tax assets to offset taxable income in future periods. In the event the Company does not achieve profitability, this asset may be written off.

Note 6 - Business Segments

HemaCare operates in two business segments as follows:

- Blood Products - Collection, processing and distribution of blood products and donor testing.
- Blood Services - Therapeutic apheresis and stem cell collection procedures and other therapeutic services to patients.

Management uses more than one measure to evaluate segment performance. However, the dominant measurements are consistent with HemaCare's consolidated financial statements, which present revenue from external customers and operating income for each segment.

6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Factors Affecting Forward-Looking Information

The matters addressed in this Item 2 that are not historical information constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, such statements are inherently subject to risks and the Company can give no assurances that its expectations will prove to be correct. Actual results could differ from those described in this report because of numerous factors, many of which are beyond the control of the Company. These factors include, without limitation, those described below under the heading "Risk Factors Affecting the Company." The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unexpected events.

The following discussion should be read in conjunction with the Company's financial statements and the related notes provided under "Item 1 - Financial Statements" above.

General

Our business segments include blood products and blood services.

Our blood products segment supplies hospitals with a portion of their blood product needs. We perform blood collection on behalf of our hospital clients. We also provide our hospital clients with apheresis platelets and specialty blood components purchased from other blood centers, and donor testing services.

Blood services include therapeutic apheresis procedures, stem cell collection and other blood treatments provided to patients, generally in a hospital setting.

We have entered into blood management programs ("BMPs") with many of our hospital customers. Under a BMP arrangement, a hospital, or a group of hospitals, contracts with us to provide management services which may include operation of a donor center, mobile blood drives and blood services. A BMP provides our hospital customers with a safe and reliable source of blood products and services at a reasonable cost, as well as assistance in achieving their financial, regulatory compliance and patient service goals related to blood products and services.

Results of Operations

Three months ended March 31, 2003 compared to the three months ended March 31, 2002

OVERVIEW

Revenue for the three months ended March 31, 2003 was $6,931,000, compared to $6,321,000 in the same period of 2002. The increase of $610,000 (10%) reflects higher revenue from our new BMPs, the expansion of our California mobile operations and increase in demand for therapeutic apheresis procedures in higher priced regions. These increases were partially offset by fewer single donor platelet collections from our Sherman Oaks platelet program.

Gross profit was $942,000 (13.6% of revenue) for the three months ended March 31, 2003, compared to $758,000 (12.0% of revenue) in the first quarter of 2002. The increase is due to better pricing of red blood cells, an increase in the number of therapeutic apheresis procedures performed in higher margin locations and greater operating efficiencies in our California mobile program. These items were partially offset by BMP losses.

General and administrative expenses were $928,000 during the first quarter of 2003, compared to $997,000 during the first quarter of 2002. During the first quarter of 2002, we incurred substantial expenses related to our litigation against the American Red Cross ("ARC") and certain non cash compensation expense related to the extension of certain employee stock options. These reductions were partially offset by an expanded information technology department to support our blood bank computer system and other technology initiatives.

BLOOD PRODUCTS

Our revenues and expenses are summarized in the following table.

	(In thousands)							
	Mature BMPs (1)		California Mobiles		New BMPs		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Revenue	$ 2,737	$ 3,108	$ 1,805	$1,190	$ 404	$ 91	$ 4,946	$ 4,389
Gross Profit	$ 277	$ 412	$ 237	$ (105)	$ (289)	$ (194)	$ 225	$ 113
GP%	10.1%	13.3%	13.1%	-8.9%	-71.5%	-213.4%	4.6%	2.6%
Collections								
SDP	4,589	5,645	14	-	157	141	4,760	5,786
WB	2,967	3,470	9,165	7,444	1,998	299	14,130	11,213

SDP - Single donor platelets
WB - Whole Blood

(1) Mature BMPs are those that have been open for at least 18 months as of January 1, 2003. Our BMP in Chicago opened in June 2001 and is included in new BMPs as of March 31, 2002. Beginning in January of 2003, it is included in mature BMPs.

Mature BMPs

Revenue from our mature blood products programs provided first quarter revenue of $2.7 million in 2003, compared to $3.1 million in the same period of 2002. Our gross profit margin from mature blood management programs was 10.1% in the first quarter of 2003, compared to 13.3% in the first quarter of 2002. The decrease in revenue and gross profit percentage is primarily attributable to a 23% decrease in platelet collections, or $416,000 of revenue and $133,000 in gross profits, in our Sherman Oaks program. This decrease reflects the change from a paid to volunteer donor program as of January 1, 2003. Despite the decrease in collections, the gross profit margin of this program has remained constant between periods. However, our platelet pricing in Southern California has come under renewed pressure from our competition. Our blood management program at Long Beach Memorial Medical Center was terminated in August of 2002 and our blood management program at the University of Irvine Medical Center was terminated in January 2003. Together, these programs generated $196,000 in revenue and a loss of $7,000 for the three months ended March 31, 2002. The loss of revenue from these programs was partially offset by greater whole blood collections in our other programs; however, a number of these programs currently have whole blood collection costs that exceed the associated revenue.

California Mobiles

Revenue from our California mobile operations increased to $1,805,000 during the first quarter of 2003, compared to $1,190,000 during the same period of 2002. Our gross profit from mobiles was $237,000 (13.1% of revenue) during the quarter ended March 31, 2003, compared to a loss of $105,000 during the quarter ended March 31, 2002. The revenue increase of $615,000 (52%) reflects increased collections and better red cell pricing. Our average revenue per red cell unit in the first quarter of 2003 was $184 compared to $148 during the first quarter of 2002. We believe the market price for red cells in

Southern California exceeds our current pricing. We continue to work

toward bringing our average red cell prices in line with current market prices in Southern California. Our margins improved due to the efficiencies associated with higher collection volumes and increased production and sales of fresh frozen plasma.

New BMPs (open less than 18 months)

We operate new programs in Bangor, Maine; Williston, Vermont; Albany, New York; and Durham, North Carolina. Together, these programs generated revenue of $404,000 during the three months ended March 31, 2003 and an operating loss of $289,000. During the quarter ended March 31, 2002, the Chicago program was our only new BMP with revenue and it provided revenue of $91,000 and a loss of $89,000 (the results of our Chicago program are now included with the mature programs in 2003). In addition to the Chicago program, we incurred pre-opening expenses of $105,000 at our other programs during the three months ended March 31, 2002. Our focus for these programs is to significantly increase the number of whole blood and platelet donations. During the quarter ended March 31, 2003, several additional donor recruiters were hired with the expectation of higher collections in future periods, although it often requires several months for new recruiters to develop a significant donor base.

BLOOD SERVICES

Revenue from blood services was $1,985,000 during the quarter ended March 31, 2003, compared to $1,932,000 during the same period of 2002. The increase of $53,000 (2.7%) reflects an increase of 2.4% in the number of therapeutic apheresis procedures performed from 1,694 procedures performed in the first quarter of 2002 to 1,735 procedures in the first quarter of 2003. Additionally, we performed more procedures in higher margin regions and increased prices in some regions. Consequently, our gross profits increased to $717,000 (36% of revenue) during the three months ended March 31, 2003, compared to $645,000 (33% of revenue) during the three months ended March 31, 2002. We continue to offer a physician education program in California and New York and we are in the process of expanding that program to other targeted geographic markets.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased to $928,000 during the three months ended March 31, 2003, compared to $977,000 during the same period of 2002. The decrease of $49,000 (5%) reflects a reduction in legal fees associated with the settlement of the American Red Cross litigation in 2002. Additionally, during the first quarter of 2002, we incurred $56,000 of non cash compensation expense associated with the extension of certain stock options to our former President of West Coast Products who resigned during the third quarter of 2001. These decreases were partially offset by increases in our information technology department to support the expansion of our blood bank computer system and other technology initiatives.

Critical Accounting Policies and Estimates

Use of Estimates: The preparation of financial statements in

conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates were used to evaluate the adequacy of the allowance for doubtful accounts, the reserve for discontinued operations and the realization of deferred tax assets.

Allowance for Doubtful Accounts: We make ongoing estimates relating to the collectibility of our accounts receivable and maintain a reserve for estimated losses resulting from the inability of our customers to meet their financial obligations to us. In determining the amount of the reserve, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger reserve may be required. In the event we determined that a smaller or larger reserve was appropriate, we would record a credit or a charge to selling and administrative expense in the period in which we made such a determination.

Income Taxes: As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves our estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statements of operations.

Significant management judgment is required in determining our provision for income taxes, deferred tax asset and liabilities and any valuation allowance recorded against our net deferred tax assets. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax asset will be realized. If management ever determined that its deferred tax asset was not likely to be realized, a write-down of that asset would be required and would be reflected in the provision for taxes in the accompanying period.

Liquidity and Capital Resources

As of March 31, 2003, we had cash and cash equivalents of $1,206,000 and working capital of $3,217,000.

The Company has a working capital line of credit with a bank. The amount the Company may borrow is the lesser of: 75% of eligible

accounts receivable less amounts outstanding on the notes payable discussed below, or $2 million. Interest is payable monthly at a rate of prime plus 0.5% (4.75% as of March 31, 2003). As of March 31, 2003, the Company's net borrowings on this line of credit were $600,000. This line of credit matures in June 2004, and is included in notes payable, net of current portion on the balance sheet. As of March 31, 2002, the unused portion of the Company's line of credit was $1.4 million.

In addition, the Company has various notes payable with the same bank. At March 31, 2003, the total amount outstanding under these notes is $409,000 and requires monthly principal payments of approximately $14,000 plus interest at a weighted average fixed rate of 6.6%.

These loans are collateralized by substantially all of the Company's assets and are cross-defaulted. They also require the maintenance of certain financial covenants that among other things require minimum levels of profitability and prohibit the payment of dividends or stock repurchases. As of March 31, 2003, we were in compliance with these covenants.

Additionally, the Company has another note payable with a finance company. The note requires quarterly payments of approximately $10,000 including interest at the rate of 8.5% and is secured by certain fixed assets.

10

The following table summarizes our contractual obligations by year (in thousands).

	Payments Due by Year					
	Total	2004	2005	2006	2007	2008
Operating leases	$1,891	$ 523	$ 495	$ 455	$ 349	$ 69
Capitalized leases	362	114	98	88	62	-
Long-term debt	1,107	200	800	107	-	-
Totals	$3,360	$ 837	$1,393	$ 650	$ 411	$ 69

We are also committed to purchase approximately $17 million of blood collection kits at established prices through 2006.

Cash flow provided from operations was $583,000 during the three months ended March 31, 2003, compared to cash provided by operations of $470,000 during the same period in 2002. During the first quarter of 2003, we continued to work with our customers to reduce the number of days sales outstanding. As a result of this effort, we decreased the number of days sales outstanding to 57 at March 31, 2003, from 62 days at December 31, 2002.

Cash used in investing activities primarily represents the acquisition of plant and equipment to support our blood products segment.

Cash used in financing activities during the three months ended March 31, 2003 consists of net payments of $150,000 on our line of credit and other principal payments on our various notes and capitalized leases payable. During the first quarter of 2002, we received $100,000 in proceeds from a capitalized lease used to finance the purchase of equipment.

We anticipate that our cash on hand and borrowing on our bank line of credit will be sufficient to provide funding for our needs during the next 12 months, including financing our California mobile program and new BMP operations and other working capital requirements, including capital and operating lease commitments.

Our primary sources of liquidity include our cash on hand, available line of credit and cash generated from operations. Our liquidity depends, in part, on timely collections of accounts receivable. Any significant delays in customer payments could adversely affect our liquidity. Our liquidity also depends on our maintaining compliance with our loan covenants. From time to time we have failed to comply with these covenants and have obtained a waiver from our lender. If in the future we are unable to comply with our loan covenants and the bank does not issue a waiver, then our liquidity could be materially affected.

RISK FACTORS AFFECTING THE COMPANY

Our short and long-term success is subject to many factors that are beyond our control. Shareholders and prospective shareholders in the Company should consider carefully the following risk factors, in addition to other information contained in this report. This Quarterly Report on Form 10-Q contains forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various risks and uncertainties, including those described below.

Operating Risk

Since 1976, California law has prohibited the transfusion of blood products to patients if the donors of those products were paid unless, in the opinion of the recipient's physician, blood from a non-paid donor was not immediately available. Apheresis platelet products obtained from paid donors were exempted from this law by a series of state statutes, the latest of which expired on January 1, 2003. Consequently, we are no longer able to offer cash compensation to our apheresis platelet donors. In 2002, the Sherman Oaks paid donor program provided revenue of $5.4 million, or 19% of total revenue, and gross profits of $1.4 million. The Company converted

its paid program to a 100% volunteer program as of January 1, 2003. The ultimate success of this conversion cannot be determined. In the event the Company is unable to maintain a substantial donor base, it will close this program and may terminate some other blood product activities in Southern California whose profitability depends on sharing overhead with the paid donor program. The loss of this program will have a material adverse financial affect on the Company. Early indications are that the program is operating at approximately 73% of 2002 collection volume.

Nationally, in 2001 the prices for red blood cells increased 35% to 45%. As a result of the price increases, combined with chronic product shortages in many parts of the U.S., we significantly expanded our programs for the collection of whole blood. We added one new BMP in 2001 and four new BMPs in 2002. Our expansion efforts have resulted in new clients and additional blood product revenues. However, to date, our costs relating to blood products operations have increased in amounts greater than our revenues resulting in a decline in profitability.

Management may not be successful in executing its operating plan. Although platelet production activities have been historically profitable, whole blood collections have not. Successful results of both programs are dependent upon management's ability to effectively recruit donors and control operating costs.

Market Prices for Blood Do Not Necessarily Reflect Costs

We depend on competitive pricing to gain sales. Our cost management strategy has generally enabled us to profitably sell blood products at or below the prices of our competition. But as our costs increase we will not be able to raise our prices commensurately if our competitors do not. Some of our competitors have greater resources than we have to sustain periods of unprofitable sales. Cost increases may therefore have a direct negative effect on our profits and a material adverse affect on our business.

Declining Blood Donations

Our business depends on the availability of donated blood. Only a small percentage of the population donates blood, and the rate continues to decline. In addition, new regulations intended to reduce the risk of introducing infectious diseases in the blood supply have eliminated some groups of potential donors. If the level of donor participation in our blood product programs declines, we will not be able to achieve profitability or reduce costs sufficiently to maintain profitability in our mature blood products programs. While the Company has developed strategies to recruit volunteer blood donors, there can be no assurance that these strategies will result in sufficient blood collections to meet hospital needs or to assure profitability.

We Face Increasing Costs

The costs of collecting, processing and testing blood have risen significantly in recent years and will likely continue to rise. These cost increases are related to new and improved testing procedures to assure that blood is free of infectious disease, increased regulatory requirements related to blood safety, and increased costs associated with recruiting blood donors. New testing protocols have required us to outsource some of our testing. Competition, and in some cases multi-year contractual arrangements, may limit our ability to pass these increased costs on to customers. In this circumstance, the increased costs could reduce our profitability and could have a material adverse effect on our business and results of operations.

Increasing Reliance on Outside Laboratories

We maintain laboratories that are licensed and accredited to test

blood products for purity, potency and quality. Recently, we have turned to outside laboratories for nucleic acid testing. As other new testing and processing technologies are introduced, we may have to increase our reliance on outside laboratories. In using outside laboratories we will have less control over testing quality. In addition, because laboratory facilities competent in these new technologies are scarce, the loss of an outside laboratory because of competition for capacity would have a material adverse effect on our business.

Our Targeted Donor Base Involves Higher Collection Costs

Part of our recruitment strategy involves conducting blood drives for organizations that provide a relatively small number of donors. Blood drives directed at a smaller donor sites lack the efficiencies associated with larger blood drives. As a result, our collection costs might be higher than our competition and may affect our profitability and growth plans.

Access to Insurance

We currently maintain insurance coverage that we believe is appropriate for our products and our industry. However, if we experience losses or the risks associated with the blood products industry increase in the future, insurance may become more expensive or unavailable at reasonable prices or at all. We also cannot assure you that as our business expands or we introduce new products and services we will be able to obtain additional liability insurance on acceptable terms, or that our insurance will provide adequate coverage against any and all potential claims. Also, the limitations of liability contained in agreements to which we are a party may not be enforceable and may not otherwise protect us from liability for damages. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or changes in our insurance policies, such as premium increases or the imposition of large deductibles or co-insurance requirements, could materially and adversely affect our business.

Universal Leukoreduction

In January 2001, the Department of Health and Human Services Advisory Committee on Blood Safety and Availability ("BSAC") recommended that universal pre-storage leukoreduction be implemented as soon as feasible. The leukoreduction process removes the white blood cells or leukocytes from blood and platelets before they are transfused. BSAC's recommendation was conditioned on an implementation process that does not diminish blood supplies and also that HHS establishes adequate funding for the effort. It is possible that the FDA will mandate that all blood products distributed be leukoreduced.

Historically, only portions of blood component transfusions were leukoreduced and the process was often performed in the hospital setting immediately prior to transfusion rather than pre-storage (at the time of collection or processing). While we have provided only leukoreduced apheresis platelet products for several years, our whole blood component products are not routinely leukoreduced. The adoption of a universal leukoreduced policy for all blood products would raise our costs to manufacturing whole blood products. Competition may

limit our ability to pass these increased costs on to customers. In this circumstance, the increased costs could reduce our profitability and could have a material adverse effect on our business and results of operations.

We May Be Unable to Meet Future Capital Needs

Currently, the Company believes it has sufficient cash available through its cash on hand, bank credit facilities and funds from operations to finance its operations for the next twelve months. However, the Company incurred a $591,000 loss in 2002, which reduced available cash. The Company may need to raise additional capital in the debt or equity markets. There can be no assurance that we will be able to obtain such financing on reasonable terms or at all. Additionally, there is no assurance that we will be able to obtain sufficient capital to finance future expansion.

Not-For-Profit Status Gives Advantages to Our Competitors

We believe we are the only significant blood supplier in the U.S. that is operated for profit and investor owned. Our competitors are nonprofit organizations, which are exempt from federal and state taxes, have substantial community support and have access to tax-exempt financing. We may not be able to continue to compete successfully with nonprofit organizations and our business and results of operations will suffer material adverse harm.

Reimbursement Rates Have Not Kept Pace with Cost Increases

The reimbursement rates for blood products provided to Medicaid and Medicare patients were based on market prices prevailing several years ago. Market prices have increased substantially since that time, but the reimbursement rates have not. At present, the Company's prices are less than the reimbursement rates in its established markets and as a result, the Company's products are profitable. But costs may continue to increase in the future, and there can be no assurance that reimbursement rates will increase at that time. If they do not, our profits could be reduced or eliminated.

HemaCare's Business May Face Interruption Due to Terrorism and Increased Security Measures In Response to Terrorism

HemaCare's business depends on the free flow of products and services through the channels of commerce and freedom of movement for patients and donors. The 2001 response to terrorist activities slowed or stopped transportation, mail, financial and other services for a period of time. Further delays or stoppages in transportation of perishable blood products and interruptions of mail, financial or other services could have a material adverse effect on HemaCare's business, results of operations and financial condition. Furthermore, HemaCare may experience an increase in operating costs, such as costs for transportation, insurance and security, as a result of the terrorist activities and potential activities, which may target health care facilities or medical products. The Company may also experience delays in receiving payments from payers that have been affected by terrorist activities and potential activities. The U.S. economy in general is being adversely affected by the terrorist

activities and potential activities and any economic downturn could adversely impact the Company's results of operations, impair its ability to raise capital or otherwise adversely affect its ability to grow its business.

We Could Lose our Lines of Credit

In December 2002, we replaced our then existing lines of credit with a new $2.0 million working capital line of credit that requires HemaCare to maintain certain financial covenants including profitability coverage. The Company was in compliance with these covenants at March 31, 2003, but maintaining compliance is dependent on achieving the required profitability coverage. In 2002, the Company lost $591,000. Continued losses would violate the terms of the new credit line. From time to time, the Company has failed to comply with the covenants in its bank credit agreements, and has had to seek waivers from its lenders. While in the past lenders have granted these waivers when needed, we are not assured that they will continue to grant them in the future. Failure to obtain such waivers when, and if needed, could result in acceleration of payment obligations under our credit facilities and severely reduce our liquidity and available cash resources.

We May Be Adversely Affected by Changes in the Healthcare Industry

In the U.S., a fundamental change is occurring in the healthcare system. Competition to gain patients on the basis of price, quality and service is intensifying among healthcare providers who are under pressure to decrease the costs of healthcare delivery. This trend is expected to continue. In addition, there has been significant consolidation among healthcare providers as providers seek to enhance efficiencies, and this consolidation is expected to continue. As a result of these trends, we may be limited in our ability to increase prices for our products in the future, even if our costs increase. Further, we could be adversely affected by customer attrition as a result of consolidation among healthcare providers.

Future Technological Developments Could Jeopardize Our Business

As a result of the risks posed by blood-borne diseases, many companies are currently seeking to develop synthetic substitutes for human blood products. Because our business consists of collecting, processing and distributing human blood and blood products, the introduction and acceptance in the market of synthetic blood substitutes would cause material adverse harm to our business.

Our Operations Depend on Obtaining the Services of Qualified Medical Professionals

We are highly dependent upon obtaining the services of qualified medical professionals. In particular, our collection operations depend on the services of registered nurses. Nationwide, the demand for registered nurses exceeds the supply and competition for their services is strong. This shortage could be aggravated in the event of a war or other international conflict. If we were unable to attract and retain a staff of qualified medical professionals, our operations would be adversely affected.

We Operate in a Heavily Regulated Industry

Our business consists of the collection, processing and distribution of blood and blood products, all activities that are subject to extensive and complex regulation by the state and federal governments. With regard to the safety of our products, facilities and procedures and the purity and quality of our blood products, we are required to obtain and maintain numerous licenses in different locations and are subject to frequent regulatory inspections. In addition, state and federal laws include anti-kickback and self-referral prohibitions and other regulations that affect the relationships between blood banks and hospitals, physicians and other persons who refer business to them. Health insurers and government payers such as Medicare and Medicaid also cap reimbursement for our products and services and have regulations that must be complied with before reimbursement will be made.

The Company devotes substantial resources to complying with laws and regulations and believes it is currently in compliance. However, the possibility cannot be eliminated that interpretations of existing laws and regulations will result in a finding that we have not complied with significant existing regulations, which could materially harm our business. Moreover, healthcare reform is continually under consideration by regulators, and we do not know how laws and regulations will change in the future. Some of these changes could require costly compliance efforts or expensive outsourcing of functions we currently handle internally could make some of the Company's operations prohibitively expensive or impossible to continue.

Product Safety and Product Liability

Blood products carry the risk of transmitting infectious diseases, including hepatitis, HIV and Creutzfeldt-Jakob Disease. HemaCare carefully screens donors, uses the latest available technology to test its blood products for known pathogens and complies with all applicable safety regulations. Nevertheless, the risk that screening and testing processes might fail or that new pathogens may be undetected by them cannot be completely eliminated. There is currently no test to detect the pathogen responsible for Creutzfeldt-Jakob Disease. If patients are infected by known or unknown pathogens, claims brought against us could exceed our insurance coverage and materially and adversely affect our financial condition. Furthermore, healthcare regulations are constantly changing and certain changes could require costly compliance or make some of our operations impossible to continue.

Environmental Risks

HemaCare's operations involve the controlled use of bio-hazardous materials and chemicals. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed the resources of the Company and its insurance coverage. The Company may incur substantial costs to

maintain compliance with environmental regulations as it develops and expands its business.

Our Articles of Incorporation and Rights Plan Could Delay or Prevent an Acquisition or Sale of HemaCare

Our Articles of Incorporation empower the Board of Directors to establish and issue a class of preferred stock, and to determine the rights, preferences and privileges of the preferred stock. This gives the Board of Directors the ability to deter, discourage or make more difficult a change in control of HemaCare, even if such a change in control would be in the interest of a significant number of our shareholders or if such a change in control would provide our shareholders with a substantial premium for their shares over the then-prevailing market price for our common stock.

In addition, the Board of Directors has adopted a Shareholder's Rights Plan designed to require a person or group interested in acquiring a significant or controlling interest in HemaCare to negotiate with the Board. Under the terms of our Shareholders' Rights Plan, in general, if a person or group acquires more than 15% of the outstanding shares of common stock, all of our other shareholders would have the right to purchase securities from us at a discount to the fair market value of our common stock, causing substantial dilution to the acquiring person or group. The Shareholders' Rights Plan may inhibit a change in control and, therefore, could materially adversely affect our shareholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with such a transaction. For a description of the Rights Plan see the Company's Current Report on Form 8-K filed with the SEC on March 5, 1998.

Stocks Traded on the OTC Bulletin Board are Subject to Greater Market Risks than Those of Exchange-Traded and NASDAQ Stocks

Our common stock was delisted from the NASDAQ Small Cap Market on October 29, 1998 because we failed to maintain the market's requirement of a minimum bid price of $1.00. Since November 2, 1998 our common stock has been traded on the OTC Bulletin Board, an electronic, screen-based trading system operated by the National Association of Securities Dealers, Inc. Securities traded on the OTC Bulletin Board are, for the most part, thinly traded and generally are not subject to the level of regulation imposed on securities listed or traded on the NASDAQ Stock Market or on a national securities exchange. As a result, an investor may find it difficult to dispose of our common stock or to obtain accurate quotations as to its price.

Our Stock Price Could Be Volatile

The price of our common stock has fluctuated in the past and may be more volatile in the future. Factors such as the announcements of government regulation, new products or services introduced by us or our competitors, healthcare legislation, trends in the health insurance and HMO industry, litigation, fluctuations in our operating results and market conditions for healthcare stocks in general could have a significant impact on the future price of our common stock. In addition, the stock market has from time to time experienced extreme price and volume fluctuations that may be unrelated to the operating performance of particular companies. The generally low volume of trading in our common stock makes it more vulnerable to

rapid changes in price in response to market conditions.

Future Sales of Equity Securities Could Dilute the Company's Common Stock

The Company may seek new financing in the future through the sale of its securities. Future sales of common stock or securities convertible into common stock could result in dilution of the common stock currently outstanding. In addition, the perceived risk of dilution may cause some of our shareholders to sell their shares, which could further reduce the market price of the Common Stock.

We Do Not Expect to Pay Any Dividends

The Company intends to retain any future earnings for use in its business, and therefore does not anticipate declaring or paying any

16

cash dividends in the foreseeable future. The declaration and payment of any cash dividends in the future will depend on the Company's earnings, financial condition, capital needs and other factors deemed relevant by the Board of Directors. In addition, the Company's credit agreement prohibits the payment of dividends during the term of the agreement.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

The Company has $1,424,000 of debt that includes $824,000 of notes payable and capitalized leases with fixed interest rates. The remaining $600,000 of debt represents advances on our working capital line of credit and the interest rate is linked to the prime interest rate. Accordingly, interest rate expense will fluctuate with rate changes in the U.S. If interest rates were to increase or decrease by 1% for the year, our interest expense would increase or decrease by approximately $6,000.

Item 4. Controls and Procedures

Within 90 days prior to the filing date of this report, the Chief Executive Office and the Chief Financial Officer of the Company, with the participation of the Company's management, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to the Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer believe that, as of the date of the evaluation, the Company's disclosure controls and procedures are effective in making known to them material information relating to the Company (including its consolidated subsidiaries) required to be included in this report

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objections is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes

or intentional circumvention of the established process.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls, known to the Chief Executive Officer or Chief Financial Officer, subsequent to the date of the evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in various routine legal proceedings incidental to the conduct of its business. Management does not believe that any of these legal proceedings will have a material adverse impact on the business, financial condition or results of operations of the Company, either due to the nature of the claims, or because management believes that such claims should not exceed the limits of the Company's insurance coverage. See disclosure in Form 10-K for the year ended December 31, 2002.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

11 Net Income per Common and Common Equivalent Share

99.1 Certification Pursuant to 18 U.S.C. 1350 Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

b. Reports on Form 8-K

On March 13, 2003, the Company filed a Form 8-K disclosing under Item 5 (Other Information), a press

release dated March 13, 2003, announcing the Company's 2002 Fourth Quarter and Year End Financial Results.

On April 8, 2003, the Company filed a Form 8-K disclosing under Item 5 (Other Information), a press release dated April 8, 2003, announcing the development of a liquid IVIG manufacturing process.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2003

HEMACARE CORPORATION

(Registrant)

/s/ David E. Fractor

David E. Fractor, Chief Financial Officer
(Duly authorized officer and principal financial and accounting officer)

CERTIFICATION

I, David Fractor certify that:

1. I have reviewed this quarterly report on Form 10-Q of HemaCare Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in, all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15b-14) for the registrant, and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedure as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003 /s/ David Fractor

Chief Financial Officer

19

CERTIFICATION

I, Judi Irving certify that:

1. I have reviewed this quarterly report on Form 10-Q of HemaCare Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15b-14) for the registrant, and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its

consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedure as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003 /s/ Judi Irving

Chief Executive Officer

19