HEMACARE CORP /CA/
Form 10-Q
November 14, 2002

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

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 I.D. Number

21101 Oxnard Street Woodland Hills, California	91367
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 986-3883

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 ___

As of November 10, 2002, 7,751,090 shares of Common Stock of the registrant were issued and outstanding.

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HEMACARE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

HEMACARE CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2002	December 31, 2001

	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,206,000	$ 1,025,000
Accounts receivable, net of allowance for doubtful accounts - $208,000 in 2002 and $212,000 in 2001	4,643,000	5,454,000
Product inventories and supplies	838,000	707,000
Prepaid expenses	271,000	192,000
Deferred income taxes	498,000	498,000
Total current assets	7,456,000	7,876,000
Plant and equipment, net of accumulated depreciation $2,324,000 in 2002 and $2,030,000 in 2001	2,954,000	2,348,000
Goodwill	-	362,000
Deferred taxes	2,563,000	2,405,000
Other assets	61,000	91,000
	$13,034,000	$13,082,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,163,000	$ 2,495,000
Accrued payroll and payroll taxes	1,470,000	948,000
Other accrued expenses	99,000	113,000
Current obligations under capital leases	57,000	31,000
Current obligations under notes payable	169,000	168,000
Reserve for discontinued operations	73,000	75,000
Total current liabilities	4,031,000	3,830,000
Obligations under capital leases, net of current portion	172,000	176,000
Notes payable, net of current portion	774,000	626,000
Other long-term liabilities	18,000	23,000
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value - 20,000,000 shares authorized, 7,751,090 issued and outstanding in 2002 and 7,590,205 in 2001	13,296,000	13,065,000
Accumulated deficit	(5,257,000)	(4,638,000)
Total shareholders' equity	8,039,000	8,427,000
	$13,034,000	$13,082,000

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30, 2002	2001	Nine months ended Sep 2002	
Revenues:				
Blood products	$4,979,000	$4,230,000	$14,110,000	$12,
Blood services	2,202,000	2,210,000	6,332,000	6,
Total revenue	7,181,000	6,440,000	20,442,000	18,
Operating costs and expenses:				
Blood products	4,699,000	3,784,000	13,471,000	10,
Blood services	1,460,000	1,511,000	4,202,000	4,
Total operating costs and expenses	6,159,000	5,295,000	17,673,000	15,
Gross profit	1,022,000	1,145,000	2,769,000	3,
General and administrative expenses	1,187,000	1,138,000	3,184,000	2,
Write off of impaired goodwill	362,000	-	362,000	
Income (loss) before income taxes	(527,000)	7,000	(777,000)	
Provision (benefit) for income taxes	(65,000)	2,000	(158,000)	
Net income (loss)	$ (462,000)	$ 5,000	$ (619,000)	$
Income per share				
Basic and diluted	$ (0.06)	$ 0.00	$ (0.08)	$
Weighted average shares outstanding - basic	7,738,000	7,541,000	7,647,000	7,
Weighted average shares outstanding - diluted	7,738,000	8,426,000	7,647,000	8,

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

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HEMACARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30, 2002	2001
Cash flows from operating activities:		
Net (loss) income	$ (619,000)	$ 377,000
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	299,000	214,000
Compensation expense related to stock options	56,000	-
Issuance of common stock to 401-K plan	122,000	93,000
Impaired goodwill	362,000	-
Deferred income taxes	(158,000)	197,000
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	811,000	(1,277,000)
Increase in inventories, supplies and prepaid expenses	(210,000)	(35,000)
Increase in accounts payble, accrued expenses and other liabilities	171,000	327,000
Decrease in reserve for discontinued operations	(2,000)	(1,000)
Net cash provided by (used in) operating activities	832,000	(105,000)
Cash flows from investing activities:		
Decrease (increase) in other assets	30,000	(25,000)
Decrease in marketable securities	-	668,000
Proceeds from dispostion of plant and equipment	10,000	-
Purchases of equipment, net	(870,000)	(1,067,000)
Net cash used in investing activities	(830,000)	(424,000)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	53,000	194,000
Principal payments on capital leases and notes payable	(149,000)	(49,000)
Borrowings from lines of credit	275,000	584,000
Repurchase of common stock	-	(386,000)
Net cash provided by financing activities	179,000	343,000
Increase (decrease) in cash and cash equivalents	181,000	(186,000)
Cash and cash equivalents at beginning of period	1,025,000	1,362,000
Cash and cash equivalents at end of period	$1,206,000	$1,176,000
Supplemental and non-cash disclosure:		
Interest paid	$ 44,000	$ 15,000
Income taxes paid	$ -	$ 74,000
Items not affecting cash flow:		
Notes and capitalized leases issued in connection with acquisition of plant and equipment	$ 131,000	$ 144,000

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

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 and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

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 current period presentation.

Note 2 - Line of Credit and Notes Payable

The Company has a working capital line of credit whereby the Company may borrow the lesser of 75% of eligible accounts receivable or $2.0 million at an interest rate of prime plus .25% (5.0% as of September 30, 2002). As of September 30, 2002, the Company had net borrowings of $450,000 outstanding on this working capital line of credit. This line matures on June 30, 2003.

In addition, the Company has a credit facility with the same bank which provides for $1.25 million to be used to acquire vehicles and equipment. Payments are made on a straight-line basis over a period of four years including interest equal to the bank's internal cost of funds plus 2.5% (5.0% as of September 30, 2002). At September 30, 2002, the total amount financed under the equipment line of credit is $493,000 and the line of credit requires 48 monthly principal payments of $14,000 plus interest at a weighted average fixed rate of 6.6% per annum.

The two lines of credit are collateralized by substantially all of the Company's assets and are cross defaulted. They also require the maintenance of certain financial covenants. As of September 30, 2002, the Company was not in compliance with a

covenant that requires the Company to be profitable each quarter. During the quarter ended September 30, 2002, the Company incurred a loss. The bank has waived this violation.

The Company is currently in negotiations with the bank to revise the terms of the working capital line of credit. If negotiations are successful, the new line of credit will have an availability equal to the lesser of $2.5 million or 75% of eligible accounts receivable. The maximum availability will be reduced by the outstanding balance of the notes payable under the equipment line

of credit. Interest will be payable monthly at a rate of prime plus one half percent per annum. Until this line of credit becomes effective, the bank has indicated that it will continue to make advances under the existing working capital line of credit; however, it will not make any additional advances under the equipment line of credit.

Note 3 - Capitalized Lease

During the nine months ended September 30, 2002, the Company entered into two capitalized leases in the amount of $131,000 to finance the acquisition of certain equipment. The leases require monthly payments of $4,264 including interest at the weighted average rate of 9.2% per annum through January 2006 when they expire.

Note 4 - Commitments and Contingencies

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 have been exempted from this law by a series of state statutes, the latest of which expires on January 1, 2003. Despite our lobbying efforts and support from our hospital customers and the medical community, the California Legislature did not extend our paid platelet program. Consequently, we will be unable to offer cash compensation to our donors after January 1, 2003. The Sherman Oaks paid donor program provided revenue of $4,083,000, or 20% of total revenue, during the nine months ended September 30, 2002 and gross profits of $1,094,000. The Company is in the process of attempting to convert its paid donors to volunteer donors. However, the ultimate success of this conversion can not be determined. In the event the Company is unable to successfully convert its paid donors to volunteer donors, it will close this program and may terminate some other Blood Product activities in Southern California whose profitability depends on the paid donor program. The loss of this program will have a material adverse financial affect on the Company. Additionally, the blood donor center at the University of Irvine Medical Center is also dependent on paid platelet donations. The Company gave the hospital a 90-day notice of closure on October 15, 2002. Accordingly, the Company will no longer operate this donor center after January 15, 2003. This program provided $374,000 in revenue and $35,000 in gross profits during the nine months ended

September 30, 2002.

State and Federal laws set forth anti-kickback and self-referral prohibitions and otherwise regulate financial relationships between blood banks and hospitals, physicians and other persons who refer business to them. While HemaCare believes its present operations comply with applicable regulations, there can be no assurance that future legislation or rule making, or the interpretation of existing laws and regulations will not prohibit or adversely impact the delivery by HemaCare of its services and products.

HemaCare and its subsidiary, Coral Blood Services, Inc. filed an antitrust action against the American Red Cross alleging that the business practices of the Red Cross relating to its blood products operations are illegal under antitrust laws and designed to eliminate or prevent competition in the blood industry.

The courts elected to treat the litigation as two separate actions, 1) HemaCare v. the American National Red Cross (relating to matters in Southern California) under the jurisdiction of the

Federal Court in Los Angeles, and 2) Coral Blood Services, Inc. v. the American National Red Cross (relating to matters outside of California) under the jurisdiction of the Federal Court in Boston. The HemaCare litigation, relating to matters in California, has been dismissed with prejudice, pursuant to a mutual agreement between HemaCare and the American Red Cross. The Coral litigation, pertaining to matters outside of California, remains active and is in the discovery stage.

During the quarter ended September 30, 2002, the Company's Chairmen and Chief Executive Officer resigned. Pursuant to the terms of his employment contract, the Company is obligated to make certain severance payments. Although negotiations are on-going, the Company has estimated that the value of the severance payments to be $247,000.

Note 5 - 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.

Note 6 - Goodwill

During the first quarter of 2002, the Company adopted Statement of Financial Accounting Standards Number 142, "Goodwill and Other Intangible Assets," (SFAS 142). In accordance with SFAS 142, the

Company discontinued amortizing goodwill that was recorded as part of the Coral Blood Services, Inc. transaction in 1998. The Company completed the transitional goodwill impairment test during the second quarter of 2002 and determined that there was no impairment. During the third quarter of fiscal 2002, due to continued economic declines and decrease is stock price, management determined there was a possible impairment of goodwill. As a result, the Company completed an interim test for impairment during the third quarter and concluded that the existing goodwill was impaired. The Company recorded an adjustment to write-off all of remaining goodwill in the amount of $362,000. The Company does not have any other intangible assets, other than goodwill.

The following table presents net income (loss) on a comparable basis after adjustment for amortization of goodwill, for the nine months ended September 30:

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	2002	2001
Reported net (loss) income	$ (619,000)	$ 377,000
Goodwill amortization	-	39,000
Goodwill impairment	362,000	-
Adjusted net (loss) income	$ (257,000)	$ 416,000
Income per share		
Basic		
Reported net (loss) income	$ (0.08)	$ 0.05
Goodwill amortization	-	0.01
Goodwill impairment	0.05	-
Adjusted net (loss) income	$ (0.03)	$ 0.06
Diluted		
Reported net (loss) income	$ (0.08)	$ 0.05
Goodwill amortization	-	-
Goodwill impairment	0.05	-
Adjusted net (loss) income	$ (0.03)	$ 0.05

Note 7 - Equity

Options and warrants totaling 79,500 and 84,500 were exercised for the three and nine months ended September 30, 2002. During the three and nine months ended September 30, 2001, 133,000, and 140,000 options and warrants were exercised. Additionally, the Company contributed 76,385 and 92,848 shares of stock to the 401-K plan during the nine months ended September 30, 2002 and 2001, respectively.

Note 8 - Earnings per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net income (loss).....	$ (462,000)	$ 5,000	$ (619,000)	$ 377,000
Shares outstanding.....	7,738,000	7,541,000	7,647,000	7,509,000
Net effect of diluted options.	-	885,000	-	738,000
Dilutive shares outstanding...	7,738,000	8,426,000	7,647,000	8,247,000

Options and warrants outstanding of 2,034,000 for the three and nine months ended September 30, 2002 and 575,000 options and warrants for the three and nine months ended September 30, 2001 have been excluded from the above calculation because their effect would have been anti-dilutive.

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Note 9 - 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. However, if the Company does not achieve profitability, then this asset may require a write off.

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

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 uncertainties 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 "Factors Affecting Forward Looking Information." The Company undertakes no obligation to revise or update its forward-looking statements to reflect events or circumstances after the date of this report.

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.

CRITICAL ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenues and Accounts Receivable: Revenues are recognized upon acceptance of the blood products or the performance of blood services. Blood services revenues consist primarily of mobile therapeutics sales, while blood product revenues consist primarily of sales of single donor platelets and whole blood components that are manufactured or purchased and distributed by the Company and donor testing. Accounts receivable are reviewed periodically for collectability.

Plant and Equipment: Plant and equipment is stated at original cost. Furniture, fixtures, equipment and vehicles are depreciated using the straight-line method over three to ten years. Leasehold improvements are amortized over the lesser of their useful life or the length of the lease, ranging from three to five years. The cost of normal repairs and maintenance are expensed as incurred.

Income Taxes: Income taxes are computed under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactments of changes in the tax law or rates.

Per Share Data: Earnings per share-basic is computed by dividing net income by the weighted average shares outstanding. Earnings per share-diluted is computed by dividing net income by the weighted average number of shares outstanding including the diluted effect of options, warrants and preferred stock.

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 operate blood collection programs for the benefit of our hospital clients. We also provide apheresis platelets collected in our Sherman Oaks facility, specialty blood components and donor testing services to hospitals in Southern California.

Our Blood Services segment includes therapeutic apheresis procedures, stem cell collection and other blood treatments provided to patients, generally in a hospital setting.

As part of our marketing strategy we have entered into Blood Management Programs ("BMP") with many of our hospital customers. Under a BMP arrangement, we provide blood products and services under a multiyear contractual agreement.

Although we incurred a loss during the first nine months of 2002, most of our established operations remain profitable. Our losses were primarily due to start-up losses associated with the expansion of our blood management programs, expenses associated with the expansion of our whole blood collection program, litigation expense associated with our lawsuit against the American Red Cross, severance to the former CEO and the write off of goodwill.

Loss of Paid Platelet Programs

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 have been exempted from this law by a series of state statutes, the latest of which expires on January 1, 2003. Despite our lobbying efforts and support from our hospital customers and the medical community, the California Legislature did not extend our paid platelet program. Consequently, we will be unable to offer cash compensation to our donors after January 1, 2003. We obtain platelets from paid donors in our Sherman Oaks and University of Irvine Medical Center donor programs.

We are in the process of converting our Sherman Oaks paid donors to volunteers by offering non-cash compensation. The Food and Drug Administration has donor incentive guidelines that provide a vast array of incentives that we can offer to our donors. We will offer these incentives with the expectation that we can retain a sufficient number of donors to remain profitable. If successful, this program will continue to collect single donor platelets; however, we expect to

have significantly fewer donations. If this volunteer platelet program is unsuccessful, we may have to terminate this program and some other blood product activities in Southern California. Revenue from the Sherman Oaks paid platelet program was $4,083,000 for the nine months ended September 30, 2002 and the gross profits were $1,094,000. For the three months ended September 30, 2002, revenue from this program was $1,310,000 and gross profits were $332,000. Since the blood donor center at the University of Irvine significantly relies on donors that are paid by the medical center and this donor center has been only marginally profitable, we gave a 90 day notice of closure to

the hospital on October 15, 2002. We will terminate this program on January 15, 2003. This blood center provided $374,000 in revenue and $35,000 in gross profits during the nine months ended September 30, 2002. The termination of these programs will result in our reducing our labor force accordingly and we expect to incur the cost of severance payments to the affected employees. Some employees will be offered positions in other parts of the Company; however, we will not reassign employees unless additional staff is needed in other departments. The amount of the severance payments will depend upon the number of paid platelet donors that can be converted to volunteers and the continued expansion of the California mobile program.

RESULTS OF OPERATIONS

Three months ended September 30, 2002 compared to the three months ended September 30, 2001

Revenue, Gross Profit and Net Income

Overview

Revenue for the three months ended September 30, 2002 was $7,181,000 compared to $6,440,000 in the same period last year. The increase of $741,000 (12%) resulted from the expansion of our blood products segment. During the most recent quarter we operated more BMPs, expanded our California mobile program, experienced a greater number of collections and increased prices for certain products. These increases were partially offset by the termination of our St. Vincent's BMP, which provided $320,000 in revenue during the quarter ended September 30, 2001.

Gross profits were $1,022,000 (14.2% of revenue) during the quarter ended September 30, 2002, compared to $1,145,000 (17.8% of revenue) during the prior period. The decline is primarily due to start- up losses at our new BMPs in Chicago, Vermont, Bangor, Albany, and Durham and low margins attributable to our whole blood collection programs.

General and administrative expenses were $1,187,000 during the most recent quarter compared to $1,138,000 during the same period last year. The increase of $49,000 (4%) reflects the severance accrual to former Chief Executive Officer Alan C. Darlington ($247,000), partially offset by the salary and other related expenses of our former president of West Coast Productions who resigned during the third quarter of 2001 and was not replaced.

During the quarter ended September 30, 2002, we incurred a net loss of $462,000, or $0.06 per share basic and diluted compared to net income of $5,000 or $0.00 per share basic and diluted during the same quarter of 2001. Without the severance to Alan C. Darlington and the goodwill impairment charge, our net income would have been $49,000, or $0.01 per share basic and diluted. The financial results for the quarter include $1,310,000 of revenue and $332,000 of gross profits from our paid platelet program that will be transitioned to a volunteer program in 2003 (See "Loss of Paid Platelet Programs" above).

BLOOD PRODUCTS

Our revenues and expenses are summarized in the following table.

(In Thousands)

	Mature Programs		California Mobiles		New Programs		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenue.....	$ 3,220	$ 3,689	$1,447	$ 496	$ 312	$ 45	$ 4,979	$ 4,230
Gross Profit.....	$ 493	$ 486	$ 49	$ 0	$ (262)	$ (49)	$ 280	$ 446
GP%.....	15.3%	13.2%	3.4%	1.9%	-84.1%	-107.9%	5.6%	10.5
Collections*								
SDP.....	5,404	5,195	-	-	292	23	5,696	5,218
WB.....	3,157	4,797	7,572	2,942	1,020	428	11,749	8,167

SDP - Single Donor Platelet
WB - Whole Blood

* Excludes products from our St. Vincent's BMP, because that BMP was a combination of collections and product purchased from other blood.

The Company continues to make significant efforts to expand its mobile and fixed-site whole blood collection programs. Prior to 2001, our efforts in this area were primarily considered a necessary part of our service agreements with our hospital customers rather than a significant source of earnings potential. Nationwide increases in the price of red cells, which became effective in mid-year 2001, have now made this activity economically attractive.

Mature programs

Revenue from our mature programs (those that have been open for more than 18 months) decreased to $3,220,000 during the three months ended September 30, 2002, compared to $3,688,000 during the same period of 2001. The decrease of $468,000 (13%) was primarily due to the termination of the St. Vincent's BMP on August 31, 2001. This program provided $320,000 of revenue during the third quarter of 2001. We collected more platelets from most donor centers with the exception of our Sherman Oaks platelet program (See "Loss of Paid Platelet Programs" above). Whole blood collections during the third quarter of 2001 reflected a significant increase in donations in the aftermath of the events of September 11. Additionally, our donor center at Long Beach Memorial Medical Center was terminated on August 1, 2002. These factors were partially offset by an increase in red cell prices during the quarter ended September 30, 2002.

The gross profit margin of our mature programs increased to 15.3% during the three months ended September 30, 2002 compared to 13.2% in the same period of 2001. The St. Vincent's program, which closed on August 31, 2001, had a gross profit margin of only 5%. Our margins were also helped by new technology in the Sherman Oaks platelet operations that increased the number of saleable products obtained from each platelet donor. This technology change reduced the cost per platelet and improved the gross profit percentage partially offset by a 21% decrease in donations. Most of our BMP customers had red cell prices that were contractually established prior to the increase in

the market price that occurred during mid-2001. Over the past year, we have raised red cell prices either through contract renegotiation

or by raising prices when these contracts were renewed. Consequently, we have raised red cell prices over the last year, thereby improving our profit margins. Excluding the increase in donations in the aftermath of September 11, 2001, we increased our whole blood collections during the most recent quarter over the prior year. However, we increased our labor staff in many locations to support an even greater number of collections. The extra labor reduced our efficiency in these locations. On August 1, 2002, our operation of the Long Beach Memorial Medical Center donor center was terminated. During the quarter, this program provided $64,000 in blood products revenue and $31,000 in gross profits. We will continue to collect whole blood products for this hospital as part of our Southern California mobile collection program.

California Mobiles

Revenue from mobiles increased to $1,447,000 during the three months ended September 30, 2002, compared to $496,000 during the three months ended September 30, 2001. The increase of $951,000 (192%) reflects an increase in the number of whole blood collections and improved red cell pricing. Our average revenue per mobile red blood cell increased to $183 in the most recent quarter compared to $139 in the same period of 2001. The increase in price reflects the continued efforts to bring our red cell prices in line with current market prices in Southern California. Our gross profit from California mobiles were $49,000 (3.4% of revenue) in the third quarter of 2002, compared to $9,000 (1.9% of revenue) in the same period of 2001. Our collection costs, particularly our labor and benefits costs, continue to be higher than expected. Although we collected a record number of whole blood donations, we have staffed to anticipate an even higher number of collections in the fourth quarter of 2002 and beyond. Consequently, this program's labor efficiency continues to be less than optimal, which reduces our gross profit margin. We continue to make progress in manufacturing fresh frozen plasma from whole blood donations. During the third quarter of 2002, we manufactured fresh frozen plasma from 83% of our California mobile whole blood donations compared to 77% during the same period in 2001. The extra plasma provides additional revenue per collection, thereby increasing our gross profit margin.

New Programs

We operate new programs in Chicago, Vermont, Bangor, Albany and Durham. Together, these programs provided revenue of $312,000 and losses of $262,000 during the three months ended September 30, 2002. The Chicago program is the oldest, as it began collections in June 2001. The programs in Bangor and Durham began collections prior to the start of the third quarter of 2002. Vermont collections began in September and Albany has not started collections as of the end of the most recent quarter. We are committed to making these programs profitable by focusing on new recruiting initiatives that include a national recruitment training program and expanding our recruitment staff. Until these programs are profitable, we will not open programs in new markets. If these programs are unable to achieve

profitability within certain time frames they will be shut down.

BLOOD SERVICES

Revenue from Blood Services during the quarter ended September 30, 2002 was $2,202,000 compared to $2,210,000 during the same period last year. We experienced a decrease in demand for services in California, offset by an increase in demand in the East Coast. During the most recent quarter we performed 1,895 therapeutic apheresis procedures compared to 1,903 during the three months ended September 30, 2001. Our gross profits slightly increased to $742,000 (33.7% of revenue) during the three months ended September 30, 2002, compared to $699,000 (31.6% of revenue) during the same period in 2001. The increase reflects a modest change in the geographic mix of customers to regions with lower operating costs. We continue to operate a physician education program that began in California and are in the process of expanding that program to other targeted geographic markets.

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GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expense increased to $1,187,000 during the three months ended September 30, 2002, compared to $1,138,000 during the same period of 2001. The increase of $49,000 (4%) was primarily due to the contractual severance to former Chief Executive Officer Alan C. Darlington ($247,000), partially offset by the salary and other related expenses of our former President of West Coast Products who resigned during the third quarter of 2001 and was not replaced.

IMPAIRED GOODWILL

During the first quarter of 2002, we adopted Statement of Financial Accounting Standards Number 142, "Goodwill and Other Intangible Assets," (SFAS 142). In accordance with SFAS 142, we discontinued amortizing goodwill that was recorded as part of the Coral Blood Services, Inc. transaction in 1998. We completed the transitional goodwill impairment test during the second quarter of 2002 and determined that there was no impairment. During the third quarter of fiscal 2002, due to continued economic declines and decrease is stock price, we determined there was a possible impairment of goodwill. As a result, we completed the additional testing for impairment during the third quarter and concluded that the existing goodwill was impaired. We recorded an adjustment to write-off all of remaining goodwill in the amount of $362,000. We do not have any other intangible assets, other than goodwill.

Nine months ended September 30, 2002 compared to 2001

Revenue, Gross Profit and Net Income

Overview

Revenue for the nine months ended September 30, 2002 was $20,442,000 compared to $18,735,000 in the same period of 2001. The increase of $1,707,000 (8%) was due to the expansion of our Blood Products segment, including new BMPs and expansion of our California mobile

operations, partially offset by the loss of one BMP in August of 2001. The revenue increase was also partially offset by a decline in overall demand for Blood Services during the nine months ended September 30, 2002.

Gross profits during the nine months ended September 30, 2002 were $2,769,000 or (13.5% of revenue) compared to $3,548,000 (18.9% of revenue) during 2001. The decline was principally due to start up losses at our new programs in Chicago, Vermont, Bangor, Albany and Durham.

General and administrative expenses were $3,184,000 during the nine months ended September 30, 2002, compared to $2,950,000 during the same period last year. The increase of $234,000 (8%) was primarily due to the accrual of a severance to the former Chief Executive Officer.

For the nine months ended September 30, 2002, we incurred a loss of $619,000 or $0.08 per share basic and diluted compared to net income of $377,000 or $0.05 per share basic and diluted during the nine months ended September 30, 2001.

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BLOOD PRODUCTS

Our revenues and expenses are summarized in the following table.

(In Thousands)

	Mature Programs		California Mobiles		New Programs		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Revenue.....	$ 9,478	$11,078	$ 3,976	$ 1,016	$ 656	$ 51	$14,110	$12,14
Gross Profit.....	$ 1,356	$ 1,373	$ (94)	$ 14	$ (623)	$ (98)	$ 639	$ 1,28
GP%.....	14.3%	12.4%	-2.4%	1.4%	-95.1%	-191.2%	4.5%	10
Collections*								
SDP.....	16,409	17,470	-	-	750	28	17,159	17,49
WB.....	10,078	11,012	22,774	7,102	2,089	473	34,941	18,58

* Excludes products from our St. Vincent's BMP, because that BMP was a combination of collections and product purchased from other blood providers.

Mature Programs

Revenue from our mature programs (those that have been open for more than 18 months) decreased to $9,478,000 during the nine months ended September 30, 2002, compared to $11,078,000 in the same period of 2001. The decrease of $1,600,000 (14%) was primarily due to the termination of the St. Vincent's BMP on August 31, 2001. This program provided revenue of $1,273,000 during the nine months ended September 30, 2001. Additionally, we collected fewer platelets from our Sherman

Oaks paid platelet program (See "Loss of Paid Platelet Programs" below). Our donor center at Long Beach Memorial Medical Center was terminated on August 1, 2002. These decreases were partially offset by increased prices on red cells during the nine months ended September 30, 2002.

Gross profit margins of our mature programs increased to 14.3% during the nine months ended September 30, 2002, compared to 12.4% during the prior year. The termination of the St. Vincent's BMP helped our margins as this program operated with a 2% loss during the first nine months of 2001. Our margins were also helped by new technology in the Sherman Oaks platelet operations that increased the number of saleable products obtained from each platelet donor. This technology change reduced the cost per platelet and improved the gross profit percentage (albeit with fewer donors). Over the past year, we have raised red cell prices either through contract renegotiation or by raising prices when these contracts were renewed. Consequently, we have raised red cell prices over the last year, thereby improving our profit margins. Excluding the increase in donations in the aftermath of September 11 2001, we increased our whole blood collections during the nine months ended September 30, 2002 compared to the same period in the prior year. However, we increased our labor staff in many locations to support an even greater number of collections. The extra labor reduced our efficiency in these locations. Our operation of the Long Beach Memorial Medical Center donor center was terminated on August 1, 2002. This program provided revenue of $282,000 and gross profit of $47,000 during the nine months ended September 30, 2002. We will continue to collect whole blood for this hospital as part of our California mobile program.

California Mobiles

Revenue from mobiles increased to $3,976,000 during the nine months ended September 30, 2002, compared to $1,016,000 during the same period in 2001. The increase of $2,960,000 (291%) was due to the expansion of this program in late 2001 and resulted in an increase in the number of whole blood collections. Our average revenue per red blood cell increased to $166 during the first nine months of 2002 compared to $125 in the same period of 2001. The current market price of a red cell in Southern California is approximately $215. The increase in price reflects the continued efforts to bring our red cell prices in line with current market prices in Southern California. We incurred a loss of $94,000 (2% of revenue) for the nine months ended 2002, compared to gross profits of $14,000 (1% of revenue) in the same period of 2001. Our collection costs, particularly our labor and benefit costs, continue to be higher than expected. Although we collected a record number of whole blood donations, we have staffed to anticipate an even higher number of collections in the fourth quarter of 2002 and beyond. Consequently, this program's labor efficiency continues to be less than optimal, which reduces our gross profit margin. We continue to make progress in manufacturing fresh frozen plasma from whole blood donations. During the nine months ended September 30, 2002, we manufactured fresh frozen plasma from 82% of our California mobile whole blood donations compared to 75% during the same period in 2001. The extra plasma provides additional revenue per collection, thereby increasing our gross profit margin.

New Programs

We operate new programs in Chicago, Vermont, Bangor, Albany and Durham. Together, these programs provided revenue of $656,000 and losses of $623,000 during the nine months ended September 30, 2002. The Chicago program is the oldest, as it began collections in June 2001. The programs in Bangor, Durham and Vermont began during the nine months ended September 30, 2002. The program in Albany has not started collections as of the end of the most recent quarter. We are committed to making these programs profitable by focusing on new recruiting initiatives that include a national recruitment training program and expanding our recruitment staff in selected markets. Until these programs are profitable, we will not open programs in new markets. If these programs are unable to achieve profitability within certain time frames they will be shut down.

BLOOD SERVICES

Revenue from Blood Services for the nine months ended September 30, 2002 was $6,332,000 compared to $6,590,000 during the same period of 2001. We experienced a decrease in demand for services in California offset by an increase in demand in the East Coast. For the nine months ended September 30, 2002, we provided 5,413 therapeutic apheresis procedures compared to 5,892 during the same period of 2001. Our gross profits declined to $2,130,000 (33.6% of revenue) during the nine months ended September 30, 2002 compared to $2,259,000 (34.3% of revenue) in the same period of 2001. The decrease in gross profit margin reflects a decline in procedures in high margin geographic locations. We continue to operate a physician education program that began in California and we are in the process of expanding that program to other targeted geographic markets.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to $3,184,000 during the nine months ended September 30, 2002, compared to $2,950,000 during the same period in 2001. The increase of $234,000 (8%) primarily resulted from a contractual severance payment of $247,000 to the former Chief Executive Officer.

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LIQUDITY AND CAPTIAL RESOURCES

As of September 30, 2002, we had cash and cash equivalents of $1,206,000 and working capital of $3,425,000.

As of September 30, 2002, we have two lines of credit with a commercial bank. The first line of credit is a working capital line. We are able to borrow the lesser of 75% of eligible accounts receivable or $2.0 million. Interest is payable monthly at a rate of prime plus 0.25% (5% as of September 30, 2002). The second line of credit provides $1.25 million for equipment purchases. Periodically, we are able to convert equipment purchase loans into a long-term, fully amortized note payable. The note requires monthly payments including interest equal to the bank's internal cost of funds plus 2.5% (5% as of September 30, 2002). As of September 30, 2002, we had outstanding borrowings of $493,000 on the equipment line of credit and net borrowings of $450,000 on the working capital line of credit. These lines of credit are secured by substantially all of our

unencumbered assets and require the maintenance of certain financial covenants. As of September 30, 2002, we were not in compliance with a covenant requiring us to be profitable each quarter. The bank has waived this covenant violation.

Currently, we are negotiating a new loan agreement with the bank. If negotiations are successful, the new line of credit will have an availability equal to the lesser of $2.5 million or 75% of eligible accounts receivable. The maximum availability will be reduced by the outstanding balance of the notes payable under the equipment line of credit. Interest will be payable monthly at a rate of prime plus one half percent per annum. Until this line of credit becomes effective, the bank has indicated that it will continue to make advances under the existing working capital line of credit; however, it will not make any additional advances under the equipment line of credit.

The following table summarizes our contractual obligations by year.

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	1-3 Years	4-5 Years	After 5 Years
Long-Term Debt.....	$ 943,000	$ 169,000	$ 317,000	$ 7,000	$450,000
Capital Lease Obligations.....	229,000	57,000	127,000	12,000	33,000
Operating Leases.....	1,885,000	486,000	863,000	536,000	
Total Contractual Cash Obligations.....	$3,057,000	$ 712,000	$1,307,000	$555,000	$483,000

Additionally, we are committed to purchase approximately $10.5 million of blood collection kits at established prices through 2006.

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Cash flow provided from operations was $832,000 for the nine months ended September 30, 2002, compared to cash used in operations of $105,000 during the same period of 2001. During 2001, we experienced a slowdown in our accounts receivable collections. Beginning in late 2001, we increased the frequency of our customer contacts and tightened our credit policies. Consequently, the number of days sales outstanding was reduced from 77 days at December 31, 2001 to 62 days as of September 30, 2002.

Cash used in investing activities primarily represents the acquisition of plant and equipment. We acquired various assets to support our continued expansion of our Blood Products segment.

Cash provided by financing activities for the nine months ended September 30, 2002 was $179,000 compared to $343,000 for the same period of 2001. The cash provided by financing activities for the nine months ended September 30, 2002 was primarily the results of borrowings on our working capital line of credit. The cash provided by financing activities during the nine months ended September 30, 2001,

was primarily due to $584,000 of notes payable issued to the bank that were used to finance equipment purchases. This was partially offset by the repurchase of $386,000 of company stock.

During the third quarter of 2002, we placed an order for five new collection buses. These buses are scheduled to arrive during the fourth quarter of 2002 at a total cost of approximately $450,000. We are in the process of obtaining financing with a leasing company to fund these buses. The terms of this lease have not been finalized.

We anticipate that our cash on hand, borrowing from the bank line of credit and the equipment financing will be sufficient to provide funding for our needs during the next 12 months for (i) existing operations, (ii) the remaining costs of discontinued operations, (iii) bringing existing start-up programs to maturity and (iv) other working capital requirements including capital and operating lease commitments. We will not open any new programs in new geographic regions until our current start-up operations are profitable. Future programs to extend our blood collection and blood management programs to new hospital customers may require significant capital investments in new equipment for new blood collection centers, mobile collection units ("bloodmobiles"), blood processing laboratories and other supporting facilities. The amounts of such capital needs may exceed our existing sources of capital (operating cash flow and unused borrowing facilities) and require us 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.

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.

In July 2000, we announced our intention to repurchase up to 15% of our outstanding common stock, or up to 1.1 million shares. Purchases were made in the open market or in private transactions depending on price and availability. We funded the purchases from cash and cash equivalents and marketable securities along with profits generated in the normal course of business. In 2001, we repurchased 772,000 shares at an average price of $1.41 per share. No purchases were made during the nine months ended September 30, 2002.

FACTORS AFFECTING FORWARDING-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" from liability for forward-looking statements. Certain information included in this Form 10-Q and other materials filed or to be filed by our Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by or on behalf of our Company) are forward-looking, such as statements relating to operational and financing plans, competition, the impact of future price increases for

blood products, the effects of discontinued operations, demand for our Company's products and services, and the anticipated outcome of litigated matters. Such forward-looking statements involve important risks and uncertainties, many of which will be beyond the control of our Company. These risks and uncertainties could significantly affect anticipated results in the future, both short-term and long-term, and accordingly, such results may differ from those expressed in forward-looking statements made by or on behalf of our Company. These risks and uncertainties include, but are not limited to, the following: the high degree of government regulation of our business; product safety concerns and potential liability for blood-borne diseases; environmental risks; access to insurance; declining blood donations; our competitor's advantages as tax-exempt organizations; difficulties in expanding our business; increasing costs; increasing reliance on outside laboratories; our emphasis on single-donor platelet products, which may have limited future growth; difficulty in recruiting new volunteer donors for apheresis collection; our emphasis on smaller donor groups than our competitors; lack of increases in reimbursement rates from Medicare and Medicaid payers; competitive restraints on our ability to pass increased costs on to customers; possible interruptions from terrorist activity; uncertainty about our ability to obtain additional capital when needed in the future or to obtain capital for expansion of our business; defaults on our credit agreements that could lead to a loss of our working capital credit line; our dependence on key personnel; our Rights Plan and provisions of our Articles of Incorporation, which could discourage a takeover of the Company; the limited market for our stock resulting from our delisting from the NASDAQ Small Cap Market and thin trading volume; possible volatility in our stock price; possible dilution from future issuances of equity securities; and the likelihood that we will not pay dividends in the future.

RISK FACTORS AFFECTING THE COMPANY

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'soperations 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.

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.

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. 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.

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. Although we believe that as a result of our responsibility to operate for the benefit of investors we have consistently achieved lower overhead than our nonprofit competitors, there can be no assurance that we can maintain this advantage. If we do not, we will not be able to compete successfully with nonprofit organizations and our business and results of operations will suffer material adverse harm.

Competition

As a supplier of blood products we compete principally with the American Red Cross and to a lesser degree with community-based blood centers and hospital-based blood banks. As a provider of therapeutic

blood services, we compete principally with regional and community blood banks and hospital-based apheresis centers. We strive to provide cost effective services, but our competitors sometimes have advantages of price or established positions in their communities. Also, the American Red Cross is a much larger organization than HemaCare and has greater resources to sustain periods of unprofitable sales or to adopt aggressive pricing strategies for the purpose of defending or increasing its market share.

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. Costs may increase further if the FDA makes pre-storage leukoreduction mandatory. Because competition limits our ability to pass these increased costs on to customers, 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 or NAT, a new type of infectious disease test, which we expect to be mandated by the FDA. 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 Target Donors Involve Higher Collection Costs

Our competitors are most active in collecting blood outside of major

urban areas at sites where large numbers of potential donors are concentrated, such as schools, large commercial employers and government facilities. We believe that strategy has bypassed the largest portion of the U.S. population and have instead targeted smaller donor groups to raise blood for specific hospitals and their patients. While we believe our donor recruitment and blood collection activities are generally more cost-effective than our competition, our targeted donor community does not offer the same economies of scale as that of our competitors. As we grow we will need to increase our number of donors, and our emphasis on smaller donor organizations could make it more difficult for us to maintain a price advantage over our competition.

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, when the American Red Cross reportedly sold red blood cells at below-cost prices. 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.

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.

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 had a loss in the fourth quarter 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.

We May Be Unable to Finance Expansion of Our Business

Our plans to expand blood collections and blood management programs to new hospital customers will require significant capital investments in equipment for new blood collection centers, bloodmobiles, blood processing laboratories and other supporting facilities. In addition, these new programs will require capital to finance start-up costs and working capital requirements. The amount of these capital needs may

exceed our existing sources of capital and require us 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.

We Could Lose our Lines of Credit

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. In particular, the Company has failed in the last four quarters to comply with a covenant that it be profitable in each quarter. While the lenders have previously granted these waivers when needed, we cannot assure you 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.

Because of the risks posed by blood-borne diseases, many companies are currently seeking to develop synthetic substitutes for human blood products. At present, none of these products is a medically accepted

substitute for human blood and its constituents. Nevertheless, 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 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.

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 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

Because some of the Company's obligations under its credit agreement bear interest at floating rates (primarily prime interest rate), the Company is sensitive to changes in prevailing interest rates. The Company's interest expense is sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S.

interest rates affect interest paid on the Company's debt. A majority of the Company's credit facilities are at variable interest rates.

Item 4. Controls and Procedures

Within 90 days prior to the filing date of this report, the Chief Operating 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 Operating 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 in 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 Operating Officer or Chief Financial Officer, subsequent to the date of the evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of pending litigation, see disclosure in Form 10-K for the year ended December 31, 2001. For a description of recent developments in the Company's litigation with the American Red Cross, see Note 4 in Notes to Consolidated Financial Statements.

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.

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. The Company filed a Form 8-K with the Securities and Exchange Commission on (i) July 18, 2002 regarding the change in accountants and (ii) August 26, 2002 regarding the potential termination of its paid donor program.

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: November 13, 2002

HEMACARE CORPORATION
(Registrant)

/s/ David E. Fractor

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