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

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

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

For the quarterly period ended June 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	I.R. S. Employer I.D.
Jurisdiction of	Number
Incorporation or	
Organization	

4954 Van Nuys Boulevard	
Sherman Oaks, California	91403
-----	-----
(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 August 12, 2002, 7,738,060 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

	June 30, 2002	December 31, 2001
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,079,000	\$ 1,025,000
Accounts receivable, net of allowance for		

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doubtful accounts - \$208,000 in 2002 and \$212,000 in 2001.....	4,454,000	5,454,000
Product inventories and supplies.....	805,000	707,000
Prepaid expenses.....	268,000	192,000
Deferred income taxes.....	498,000	498,000
	-----	-----
Total current assets.....	7,104,000	7,876,000
 Plant and equipment, net of accumulated depreciation and amortization of \$2,217,000 in 2002 and \$2,030,000 in 2001.....	2,786,000	2,348,000
Goodwill.....	362,000	362,000
Deferred taxes.....	2,498,000	2,405,000
Other assets.....	47,000	91,000
	-----	-----
	\$12,797,000	\$13,082,000
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 2,409,000	\$ 2,495,000
Accrued payroll and payroll taxes.....	880,000	948,000
Other accrued expenses.....	114,000	113,000
Current obligations under capital leases.....	50,000	31,000
Current obligations under notes payable.....	168,000	168,000
Reserve for discontinued operations.....	73,000	75,000
	-----	-----
Total current liabilities.....	3,694,000	3,830,000
 Obligations under capital leases, net of current portion.....	257,000	176,000
Notes payable, net of current portion.....	375,000	626,000
Other long-term liabilities.....	20,000	23,000
Commitments and contingencies.....		
Shareholders' equity:		
Common stock, not par value - 20,000,000 shares authorized, 7,671,590 issued and outstanding in 2002 and 7,590,205 in 2001.....	13,246,000	13,065,000
Accumulated deficit.....	(4,795,000)	(4,638,000)
	-----	-----
Total shareholders' equity.....	8,451,000	8,427,000
	-----	-----
	\$12,797,000	\$13,082,000
	=====	=====

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

HEMACARE CORPORATION  
CONSOLIDATED INCOME STATEMENTS  
(Unaudited)

Three months ended June 30,  
2002                      2001

Six months ended June 30  
2002                      2001

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Revenues:				
Blood products.....	\$4,742,000	\$3,979,000	\$ 9,131,000	\$ 7,915,000
Blood services.....	2,198,000	2,259,000	4,130,000	4,380,000
Total revenue.....	6,940,000	6,238,000	13,261,000	12,295,000
Operating costs and expenses:				
Blood products.....	4,471,000	3,586,000	8,772,000	7,072,000
Blood services.....	1,482,000	1,441,000	2,742,000	2,820,000
Total operating costs and expenses.....	5,953,000	5,027,000	11,514,000	9,892,000
Gross profit.....	987,000	1,211,000	1,747,000	2,403,000
General and administrative expenses.....	1,018,000	967,000	1,997,000	1,812,000
Income (loss) before income taxes.....	(31,000)	244,000	(250,000)	591,000
Provision (benefit) for income taxes...	(12,000)	91,000	(93,000)	219,000
Net income (loss).....	\$ (19,000)	\$ 153,000	\$ (157,000)	\$ 372,000
Income per share				
Basic.....	\$ -	\$ 0.02	\$ (0.02)	\$ 0.02
Diluted.....	\$ -	\$ 0.02	\$ (0.02)	\$ 0.02
Weighted average shares outstanding - basic.....	7,611,000	7,431,000	7,601,000	7,508,000
Weighted average shares outstanding - diluted.....	7,611,000	8,119,000	7,601,000	8,297,000

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

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HEMACARE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

Six months ended June 30,  
2002                      2001

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Cash flows from operating activities:		
Net (Loss) Income.....	\$ (157,000)	\$ 372,000
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	192,000	141,000
Compensation expense related to stock options.....	56,000	-
Issuance of common stock to 401-K plan.....	122,000	93,000
Deferred income taxes.....	(93,000)	181,000
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable.....	1,000,000	(539,000)
Increase in inventories, supplies and prepaid expenses.....	(174,000)	(36,000)
Decrease in accounts payable, accrued expenses and other liabilities.....	(156,000)	(269,000)
(Expenditures) for discontinued operations.....	(2,000)	(1,000)
	-----	-----
Net cash provided by (used in) operating activities...	788,000	(58,000)
Cash flows from investing activities:		
Decrease in other assets.....	44,000	15,000
Decrease in marketable securities.....	-	572,000
Proceeds from disposition of plant and equipment.....	10,000	-
Purchases of equipment, net.....	(609,000)	(396,000)
	-----	-----
Net cash (used in) provided by investing activities.....	(555,000)	191,000
Cash flows from financing activities:		
Proceeds from exercise of stock options.....	3,000	-
Principal payments on line of credit, capital leases and notes payable.....	(282,000)	(31,000)
Borrowings from equipment line of credit.....	-	116,000
Proceeds from capitalized leases.....	100,000	-
Repurchase of common stock.....	-	(386,000)
	-----	-----
Net cash used in financing activities.....	(179,000)	(301,000)
	-----	-----
Increase (decrease) in cash and cash equivalents.....	54,000	(168,000)
Cash and cash equivalents at beginning of period.....	1,025,000	1,362,000
	-----	-----
Cash and cash equivalents at end of period.....	\$1,079,000	\$1,194,000
	=====	=====
Supplemental and non-cash disclosure:		
Interest paid.....	\$ 31,000	\$ 8,000
	=====	=====
Income taxes paid.....	\$ -	\$ 46,000
	=====	=====
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.

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### Note 1 - Basis of Presentation and General Information

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The accompanying unaudited consolidated financial statements of HemaCare Corporation (the "Company" or "HemaCare") have been prepared in accordance with generally accepted accounting principles 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 six months ended June 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 generally accepted accounting principles 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

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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 June 30, 2002). As of June 30, 2002, the Company did not have any borrowings 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% (6.05% as of June 30, 2002). At June 30, 2002, the total amount financed under the equipment line of credit is \$543,000 and requires 48 monthly principal payments of \$13,000 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 June 30, 2002, the Company was not in compliance with a covenant that requires the Company to be profitable each quarter. During the quarter ended June 30, 2002, the Company incurred a loss. The bank has waived this violation.

### Note 3 - Capitalized Lease

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During the six months ended June 30, 2002, the Company entered into a capitalized lease in the amount of \$131,000 to finance the

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acquisition of certain equipment. The lease requires monthly payments of \$3,265 including interest at the rate of 8.5% per annum and expires in January 2006.

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### Note 4 - Commitments and Contingencies

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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. Unless existing California law is modified by legislation currently being considered by the California legislature, the exemption will expire, which could have a material adverse effect on the Company's revenue and net income. Revenue from paid platelet donors during the six months ended June 30, 2002 was \$2,773,000.

State and Federal laws set forth antikickback 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.

### Note 5 - Business Segments

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HemaCare operates in two business segments as follows:

- Blood Products - Collection, processing and distribution of apheresis and whole blood derived 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

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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 and other intangible assets with indefinite lives. The Company completed the transitional goodwill impairment test during the second quarter of 2002 and will continue to test goodwill and other intangible assets not subject to amortization for impairment at least annually.

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Goodwill was \$362,000 as of June 30, 2002 and was unchanged since December 31, 2001. There was no impairment loss recorded during the quarter. 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 six months ended June 30:

	2002	2001	
	-----	-----	
Reported net (loss) income	\$ (157,000)	\$ 372,000	
Goodwill amortization	-	26,000	
	-----	-----	
Adjusted net (loss) income	\$ (157,000)	\$ 398,000	
	=====	=====	
Income per share			
Basic			
Reported net (loss) income	\$ (0.02)	\$ 0.05	
Goodwill amortization	-	-	
	-----	-----	
Adjusted net (loss) income	\$ (0.02)	\$ 0.05	
	=====	=====	
Diluted			
Reported net (loss) income	\$ (0.02)	\$ 0.04	
Goodwill amortization	-	-	
	-----	-----	
Adjusted net (loss) income	\$ (0.02)	\$ 0.04	
	=====	=====	

### Note 7 - Equity

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Options and warrants totaling 5,000 and 7,000 were exercised for the three and six months ended June 30, 2002 and 2001 respectively. Additionally, the company contributed 76,385 and 92,848 shares of stock to the 401-K plan during the quarters ended June 30, 2002 and 2001, respectively.

### Note 8 - Earnings per Share

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The following table provides a reconciliation of the numerator and denominator for earnings per share:

	Three months ended June 30,		Six months ended June 30,		
	-----	-----	-----	-----	
	2002	2001	2002	2001	
	-----	-----	-----	-----	
Net income (loss)	\$ ( 19,000)	\$ 153,000	\$ (157,000)	\$ 372,000	
	=====	=====	=====	=====	
Shares outstanding	7,611,000	7,431,000	7,601,000	7,508,000	
Net effect of diluted options	-	688,000	-	789,000	
	-----	-----	-----	-----	



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Dilutive shares outstanding	7,611,000	8,119,000	7,601,000	8,297,000
	-----	-----	-----	-----

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Options and warrants outstanding of 2,226,000 and 725,000 for the three months and 2,226,000 and 575,000 for the six months ended June 30, 2002 and 2001, respectively, have been excluded from the above calculation because they were not considered common share equivalents or because their effect would have been anti-dilutive.

### Note 9 - Provision for income taxes

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The tax rate used to compute the provision for income taxes is based upon the Company's estimate for the full year and is subject to change.

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

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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.

### RESULTS OF OPERATIONS

Three-months ended June, 2002 compared to the three-months ended June 30, 2001

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### Revenue, Gross Profit and Net Income

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#### Overview

Revenue for the three-months ended June 30, 2002, was \$6,940,000 compared to \$6,238,000 in the same period of 2001. The increase of \$702,000 (11%) reflects the continued expansion of our Blood Products segment, including a greater number of collections and price increases to certain customers, partially offset by a decrease in demand for Blood Services and the loss of revenue of \$470,000 from a terminated BMP agreement.

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Gross profits were \$987,000 (14.2% of revenues) in 2002 compared to \$1,211,000 (19.4% of revenues) in 2001. The decrease in gross profit margins primarily resulted from start-up losses for our new BMPs and pre-opening expenses associated with our new BMPs in Vermont, Albany, New York and Bangor, Maine. Additionally, the decline in demand for therapeutic apheresis negatively affected our gross profits.

Our BMP in Chicago, which began operations in June of 2001, provided revenue from its Blood Products and Blood Services of \$187,000 and an operating loss of \$35,000. During the quarter we continued to emphasize our collection efforts and our losses have narrowed from previous quarters.

General and administrative expenses increased in 2002 as compared to 2001 as a result of increased costs relating to litigation with the American Red Cross, and increased levels of infrastructure to support our expanded operations.

During the quarter ended June 30, 2002, we incurred a net loss of \$19,000, or \$0.00 per share basic and diluted compared to net income of \$153,000, or \$0.02 per share basic and diluted in the same period of 2001.

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### Blood Products

The Company has made significant efforts to expand its mobile and fixed site whole blood collection program conducted for our hospital clients since mid 2001. While we have conducted whole blood collection services for hospitals for several years, our activities in this area prior to 2001 were primarily viewed as necessary part of our service agreements with hospital clients rather than a significant source of earnings. Nationwide increases in the prices charged for red blood cells and other products produced from whole blood, which became effective mid year 2001, have now made this activity attractive economically.

For the three months ended June 30, 2002, revenue from Blood Products was \$4,742,000 compared to \$3,979,000 in the same period of 2001. The increase of \$763,000 (19%) was the result of several factors including; 1) continued expansion of the Southern California mobile whole blood collection program, 2) collection of an increased number of red cells from our East Coast BMPs, 3) opening of new BMPs and 4) price increases for whole blood derived products at some of our West Coast BMP customers. The increased revenue from these activities was partially offset by a slowdown in the collection and sale of platelets derived from the Sherman Oaks paid platelet program and the loss of the St. Vincent's BMP that terminated in August 2001. The St. Vincent's BMP contributed \$470,000 of revenue during the second quarter of 2001.

Gross profits from Blood Products were \$271,000 (6% of revenue) for the three months ended June 30, 2002, compared to \$393,000 (10% of revenue) during the second quarter of 2001, a decrease of \$122,000. The decrease was primarily attributed to start up costs and pre-opening expenses at our new BMPs and limited recruiting success of whole blood donors at our Southern California mobile collection program and at our East Coast BMPs. These decreases were partially offset by price increases for whole blood derived products at our West Coast BMPs, which increased profits at these programs.

During the second quarter of 2002, we continued the expansion of our whole blood collection program in our donor centers and our Southern

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California mobile program. During the three months ended June 30, 2002, we collected 12,000 whole blood donations compared to 5,600 during the same period last year. We implemented certain price increases for whole blood derived products at certain donor centers and for some of our mobile customers. Some of these price increases took affect during the second quarter and some will take effect during the third quarter. Although we collected 114% more whole blood units over the prior period, we increased our infrastructure to support an even greater number of collections. Since those have not yet materialized (but are expected to do so), our profitability was negatively impacted. We collected 5,600 platelets during the three months ended June 30, 2002 compared to 5,800 during the same period in 2001. Effective August 1, 2002, we terminated our operation of the Long Beach Memorial Medical Center donor center. This donor center provided \$111,000 in revenue and \$22,000 in profits during the three months ended June 30, 2002. We will continue to collect whole blood products for this hospital as part of our Southern California mobile collectiono program.

We currently have four new programs that are in various start up stages in North Caorlina, Vermont and Maine. Together, these programs contributed revenue of \$97,000 during the three months ended June 30, 2002, and incurred start up and pre-opening losses of \$93,000.

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### Blood Services

Revenue for the three months ended June 30, 2002, was \$2,198,000 compared to \$2,259,000 during the three months ended June 30, 2001. The decrease of \$61,000 (3%) was due to a slowdown in demand for therapeutic apheresis services in Southern California partially offset by an increase in demand in other regions. We performed 1,824 procedures during the second quarter of 2002, compared to 1,894 during the same period of 2002. We continue to sponsor a physician education program that was started in 2000. The success of that program along with an increase in the disease states that require therapeutic apheresis, caused a greater demand for our Blood Services in the three months ended June 30, 2001 as compared to the same period of 2002. The gross profit margin was 33% during the three months ended June 30, 2002, compared to 36% during the same period last year. The decrease was primarily due to increases in labor costs in the Southern California region.

### General and Administrative Expenses

-----  
General and administrative expenses were \$1,018,000 for the three months ended June 30, 2002, compared to \$967,000 for the three months ended June 30, 2001. The increase of \$51,000 (5%) is primarily due to increased legal fees associated with the American Red Cross litigation and expanded staff and corporate facilities.

Six months ended June 30, 2002 compared to June 30, 2001  
-----

### Revenue, Gross Profit and Net Income

#### Overview

Revenue for the six months ended June 30, 2002 was \$13,261,000 compared to \$12,295,000 in the same period of 2001. The increase of \$966,000 (8%)

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reflects the continued expansion of our Blood Products segment partially offset by a decrease in demand for Blood Services and the loss of \$954,000 from a terminated BMP agreement.

Gross profits were \$1,747,000 (13.2% of revenue) in the six months ended June 30, 2002 compared to \$2,403,000 (19.5% of revenue) in the same period of 2001. The decrease in gross profit margins primarily resulted from start-up losses for our new BMPs in Chicago, Illinois, Bangor, Maine and Durham, North Carolina and pre-opening expenses associated with our new BMPs in Vermont and Albany, New York along with the expansion of our California based mobile collection program. Additionally, the decline in demand for therapeutic apheresis negatively affected our gross profits.

Our BMP in Chicago, which began operations in June of 2001, provided revenue from its Blood Products and Blood Services of \$303,000 and incurred an operating loss of \$127,000. Other new programs in the start up stage contributed \$106,000 in revenue and incurred losses of \$221,000.

General and administrative expenses were \$1,997,000 for the six months ended June 30, 2002, compared to \$1,812,000 for the six months ended June 30, 2001. The increase of \$185,000 (5%) is primarily due to increased legal fees associated with the American Red Cross litigation and expanded staff and corporate facilities.

For the six months ended June 30, 2002, we incurred a net loss of \$157,000, or \$0.02 per share basic and diluted, compared to net income of \$372,000, or \$0.05 per share basic and \$0.04 per share diluted, during the same period of 2001.

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### Blood Products

Revenue from Blood Products was \$9,131,000 for the six months ended June 30, 2002, compared to \$7,915,000 for the same period of 2001. The increase of \$1,216,000 (15%) was the result of several factors including 1) expansion of our Southern California mobile whole blood collection program, 2) the collection of red cells in our East Coast BMPs, 3) revenue from new programs and 4) price increases in our west coast donor centers. The increased revenue from these activities was partially offset by the loss of the St. Vincent's BMP which was terminated in August 2001 and contributed revenue of \$954,000 during the six months ended June 30, 2002.

Gross profits from Blood Products declined to \$359,000 (4% of revenue) during the six months ended June 30, 2002, compared to \$843,000 (11% of revenue) during the six months ended June 30, 2001. The decrease was primarily attributed to start up losses at our new BMPs and limited recruiting success of whole blood donors at our Southern California mobile collection program and at our east coast BMPs. These decreases were partially offset by price increases for whole blood products at our west coast BMPs.

During the first six months of 2002, we continued the expansion of our whole blood collection program in our donor centers and our Southern California mobile program. During the six months ended June 30, 2002, we collected 23,200 whole blood donations compared to 10,400 during the same period last year. We implemented certain price increases for whole blood derived products at certain donor centers and for some of our mobile customers. Some of these price increases took effect during the second quarter and some will take effect during the third quarter. Although we collected 123% more whole blood units over the prior period, we increased

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our infrastructure to support an even greater number of collections. Since those collections have not yet materialized (but are expected to do so), our profitability was negatively impacted.

We collected 11,500 platelets during the six months ended June 30, 2002 compared to 11,900 during the same period in 2001. Some of our hospital customers' demand for platelets decreased during the six months ended June 30, 2002. Accordingly, we reduced our collection efforts for those programs.

Effective August 1, 2002, we terminated our operation of the Long Beach Memorial Medical Center donor center. This donor center provided \$198,000 in revenue and \$21,000 in profits during the six months ended June 30, 2002. We will continue to collect whole blood products for this hospital as part of our Southern California mobile program.

### Blood Services

Revenue for the six months ended June 30, 2002 was \$4,130,000 compared to \$4,380,000 during the six months ended June 30, 2001. The decrease of \$250,000 (6%) was due to a slowdown in demand for therapeutic apheresis services in Southern California partially offset by an increase in demand in other regions. We performed 3,500 procedures during the first six months of 2002, compared to 3,700 during the same period of 2001. We continue to sponsor a physician education program that was started in 2000. The success of that program along with an increase in the disease states that require therapeutic apheresis, increased demand for our Blood Services in 2001. The gross profit margin was 34% during the six months ended June 30, 2002, compared to 36% during the same period last year. The decrease was primarily due to increases in labor costs in the Southern California region.

### General and Administrative Expenses

-----

General and administrative expenses were \$1,997,000 for the six months ended June 30, 2002, compared to \$1,812,000 during the same period in the prior year. The increase of \$185,000 (10%) is primarily due to increased legal fees associated with the ARC litigation and costs associated with lobbying efforts to change the legislation affecting our paid platelet program. Additionally, we incurred \$56,000 of non cash compensation expense related to the extension of certain employee stock options as part of an employee severance arrangement.

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### Liquidity and Capital Resources

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As of June 30, 2002, we had cash and cash equivalents of \$1,079,000 and working capital of \$3,410,000.

We have two lines of credit with a commercial bank. The first line of credit is a working capital line. We can 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% (5.0% as of June 30, 2002). The second line of credit provides \$1.25 million for equipment purchases. Periodically, we can 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% (6.05% as of June 30, 2002). As of June 30, 2002, we had outstanding

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borrowings of \$543,000 on the equipment line of credit and no borrowings on the working capital line of credit. These lines of credit are secured by substantially all of our unencumbered assets and require us to maintain certain financial covenants. As of June 30, 2002, we were not in compliance with one of these covenants due to our incurring a loss in the second quarter of 2002. The bank has waived this covenant violation.

Cash flow provided from operations was \$788,000 for the six months ended June 30, 2002, compared to cash used in operations of \$58,000 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 59 days as of June 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 used in financing activities for the six months ended June 30, 2002 was \$179,000 compared to \$301,000 for the same period of 2001. The cash used in financing activities for the six months ended June 30, 2002 was primarily the principal payments on our working capital and equipment lines of credit. We also received \$100,000 in proceeds from a capitalized lease. The cash used in financing activities during the six months ended June 30, 2001, was primarily to repurchase \$386,000 of company stock.

We anticipate that our cash on hand and borrowing from the bank lines of credit 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. Our 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 lines of credit and cash generated from operations. Our liquidity is dependent, in part, on timely collections of accounts receivable. Any significant delays in customer payments could adversely affect our liquidity. Our liquidity is also dependent on our maintaining compliance with our bank covenants. As previously stated the bank waived the June 30, 2002 covenant violation. 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.

Since 1976, California law has prohibited the infusion of blood products into 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, including our Sherman Oaks center's paid donors, have been

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exempted from this law by a series of state statutes. Unless a new exemption is obtained, the existing exemption will expire under its sunset provision of December 31, 2002. This could have a material adverse effect on the Company's revenue and net income. Revenue from paid platelet donors during the six months ended June 30, 2002 was \$2,773,000. If we are unable to continue our practice of paying platelet donors in our Sherman Oaks operation, it would have a materially adverse effect on our profitability and could have an impact on loan compliance. Absent significant economic improvement in our volunteer donor blood programs in Southern California, we may exit the blood products business and focus on our therapeutic apheresis operations in the state and our non-California blood products operations and BMPs.

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 first six months of 2002.

Although we incurred a loss during the first six 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 and litigation expense associated with our lawsuit against the American Red Cross.

### Factors Affecting Forward-Looking Information

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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; new laws that might threaten our paid donor programs; 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 on increases in reimbursement rates from Medicare and Medicaid payers; competitive restraints on our ability to pass increased costs on to customers; increased use of fixed price contracts for our services; possible interruptions from terrorist activity; uncertainty about our ability to obtain additional capital when needed in the future

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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.

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Item 3. Qualitative and Quantitative Disclosures About Market Risk

None.

### PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See disclosure in Form 10-K for the year ended December 31, 2001.

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

- a. The Company's annual meeting of shareholders (the "Meeting") held on June 13, 2002 was adjourned and reconvened on July 1, 2002.
- b. The following table shows the tabulation of votes for all matters put to vote at the Meeting.

Matters Put to Vote	For	Against\ Withheld	Abstain
1. Election of Six Directors			
Alan C. Darlington.....	6,244,338	242,904	-
Stephen P. Wallace.....	6,244,338	242,904	-
Julian L. Steffenhagen...	6,244,338	242,904	-
Robert L. Johnson.....	6,244,338	242,904	-
Ronald O. Gilcher.....	6,244,338	242,904	-
Dana E. Belisle.....	6,244,338	242,904	-
Thomas M. Asher.....	3,373,632	-	-

Item 5. Other Information



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None.

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Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

11 Net Income per Common and Common Equivalent Share

99 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

The Company filed a Form 8-k with the Securities and Exchange Commission on July 18, 2002 regarding the change in accountants.

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: August 14, 2002

HEMACARE CORPORATION

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(Registrant)

/s/ David E. Fractor

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

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