HEMACARE CORP /CA/
Form 10-Q
November 14, 2008

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# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark one)**

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

**For the quarterly period ended September 30, 2008**

**OR**

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

**For the transition period from to**

**Commission File Number: 0-15223**

# HEMACARE CORPORATION

(Exact name of registrant as specified in its charter)

| **California** | **95-3280412** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **15350 Sherman Way, Suite 350 Van Nuys, California** | **91406** |
| (Address of principal executive offices) | (Zip Code) |

**(818) 226-1968**

(Registrant's telephone number, including area code)

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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large Accelerated Filer o | Accelerated Filer o | Non-Accelerated Filer o | Smaller reporting company ý |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of November 7, 2008, 9,886,954 shares of Common Stock of the registrant were issued and outstanding.

**HEMACARE CORPORATION AND SUBSIDIARIES**

**INDEX TO FORM 10-Q**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

**HEMACARE CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 59,000 | $ 420,000 |
| Accounts receivable, net of allowance for doubtful accounts of $230,000 in 2008 and $302,000 in 2007 | 6,074,000 | 4,942,000 |
| Product inventories and supplies | 1,254,000 | 1,120,000 |
| Prepaid expenses | 711,000 | 508,000 |
| Assets held for sale | 511,000 | 482,000 |
| Other receivables | 59,000 | 83,000 |
| Total current assets | 8,668,000 | 7,555,000 |
| Plant and equipment, net of accumulated depreciation and amortization of $5,427,000 in 2008 and $4,678,000 in 2007 | 4,542,000 | 4,847,000 |
| Other assets | 86,000 | 92,000 |
| | $ 13,296,000 | $ 12,494,000 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 3,027,000 | $ 2,728,000 |
| Accrued payroll and payroll taxes | 846,000 | 1,115,000 |
| Other accrued expenses | 279,000 | 202,000 |
| Liabilities related to assets held for sale | 2,082,000 | 2,046,000 |
| Current obligation under notes payable | 2,074,000 | 2,700,000 |
| Total current liabilities | 8,308,000 | 8,791,000 |
| Other long-term liabilities | 668,000 | 631,000 |
| Shareholders' equity: | | |
| Common stock, no par value 20,000,000 shares authorized, 9,886,955 issued and outstanding in 2008 and 8,799,955 in 2007 | 16,165,000 | 15,717,000 |
| Accumulated deficit | (11,845,000) | (12,645,000) |
| Total shareholders' equity | 4,320,000 | 3,072,000 |
| | $ 13,296,000 | $ 12,494,000 |

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

**HEMACARE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (OPERATIONS)**

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | Reclassified 2007 | 2008 | Reclassified 2007 |
| Revenues | | | | |
| Blood products | $7,573,000 | $ 6,367,000 | $21,632,000 | $19,615,000 |
| Blood services | 1,901,000 | 2,066,000 | 6,010,000 | 5,590,000 |
| Total revenues | 9,474,000 | 8,433,000 | 27,642,000 | 25,205,000 |
| Operating costs and expenses | | | | |
| Blood products | 6,487,000 | 5,780,000 | 18,517,000 | 17,438,000 |
| Blood services | 1,476,000 | 1,457,000 | 4,328,000 | 4,294,000 |
| Total operating costs and expenses | 7,963,000 | 7,237,000 | 22,845,000 | 21,732,000 |
| Gross profit | 1,511,000 | 1,196,000 | 4,797,000 | 3,473,000 |
| General and administrative expenses | 1,452,000 | 1,600,000 | 4,375,000 | 4,810,000 |
| Income (loss) from operations | 59,000 | (404,000) | 422,000 | (1,337,000) |
| Other income | 396,000 | | 331,000 | |
| Income (loss) before income taxes | 455,000 | (404,000) | 753,000 | (1,337,000) |
| Provision for income taxes | | 623,000 | 45,000 | 623,000 |
| Income (loss) from continuing operations | 455,000 | (1,027,000) | 708,000 | (1,960,000) |
| Discontinued Operations: | | | | |
| (Loss) income from discontinued operations | (170,000) | (4,565,000) | 92,000 | (4,388,000) |
| Provision for income taxes | | 4,000 | | 8,000 |
| (Loss) income from discontinued operations | (170,000) | (4,569,000) | 92,000 | (4,396,000) |
| Net income (loss) | $ 285,000 | $(5,596,000) | $ 800,000 | $ (6,356,000) |
| Income (loss) per share | | | | |
| Basic | | | | |
| Continuing operations | $ 0.05 | $ (0.12) | $ 0.08 | $ (0.23) |
| Discontinued operations | $ (0.02) | $ (0.52) | $ 0.01 | $ (0.51) |
| Total | $ 0.03 | $ (0.64) | $ 0.08 | $ (0.74) |
| Diluted | | | | |
| Continuing operations | $ 0.05 | $ (0.12) | $ 0.07 | $ (0.23) |
| Discontinued operations | $ (0.02) | $ (0.52) | $ 0.01 | $ (0.51) |
| Total | $ 0.03 | $ (0.64) | $ 0.08 | $ (0.74) |
| Weighted average shares outstanding basic | 9,696,000 | 8,794,000 | 9,415,000 | 8,588,000 |
| Weighted average shares outstanding diluted | 9,942,000 | 8,794,000 | 9,588,000 | 8,588,000 |

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

**HEMACARE CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Period Ended September 30,**

**(Unaudited)**

| | 2008 | Reclassified 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 800,000 | $ (6,356,000) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| (Income) loss from discontinued operations | (92,000) | 4,396,000 |
| (Recovery of) provision for bad debts | (72,000) | 95,000 |
| Increase in deferred tax asset valuation reserve | | 623,000 |
| Depreciation and amortization | 753,000 | 960,000 |
| Loss on disposal of assets | 3,000 | 50,000 |
| Share-based compensation | 97,000 | 221,000 |
| Gain on transfer of common stock | (126,000) | |
| Discharge of debt and related accrued interest | (242,000) | |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (1,060,000) | 1,295,000 |
| Increase in inventories, supplies and prepaid expenses | (337,000) | (90,000) |
| Decrease in other receivables | 24,000 | 231,000 |
| Decrease in other assets | 6,000 | 8,000 |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | 285,000 | (1,118,000) |
| Net cash provided by operating activities | 39,000 | 315,000 |
| Cash flows from investing activities: | | |
| Investment in goodwill | | 657,000 |
| Purchases of plant and equipment | (451,000) | (1,521,000) |
| Net cash used in investing activities | (451,000) | (864,000) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 433,000 | 33,000 |
| Proceeds from the exercise of stock options | 44,000 | |
| Principal payments of debt and capitalized leases | (426,000) | (7,000) |
| Proceeds from line of credit | | 475,000 |
| Net cash provided by financing activities | 51,000 | 501,000 |
| Net cash used in continuing operations | (361,000) | (48,000) |
| Cash Flows Discontinued Operations | | |
| Net cash provided by (used in) operating activities | 368,000 | (571,000) |
| Net cash provided by (used in) discontinued operations | 368,000 | (571,000) |
| Increase (decrease) in cash and cash equivalents | 7,000 | (619,000) |
| Cash and cash equivalents at beginning of period | 556,000 | 1,136,000 |
| Cash and cash equivalents at end of period | $ 563,000 | $ 517,000 |
| Cash and cash equivalents Continuing operations | $ 59,000 | $ (58,000) |
| Cash and cash equivalents Assets held for sale | 504,000 | $ 575,000 |
| Total cash and cash equivalents | $ 563,000 | $ 517,000 |

| | | |
|---|---|---|
| Supplemental disclosure: | | |
| Interest paid | $ 118,000 | $ 126,000 |
| Income taxes paid | $ 22,000 | $ 105,000 |
| Supplemental disclosure of non-cash activities | | |
| Transfer of common stock due to settlement of litigation | $ (126,000) | $ |
| Reduction in notes payable and related accrued interest due to settlement of litigation | $ (242,000) | $ |

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

**HemaCare Corporation**

**Notes to Unaudited Condensed Consolidated Financial Statements**

***Note 1 Basis of Presentation and General Information***

**BASIS OF PRESENTATION**

In the opinion of management, the accompanying (a) condensed consolidated balance sheet as of December 31, 2007, which has been derived from audited financial statements, and (b) the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2008 and 2007, include all adjustments (consisting of normal recurring accruals) which management considers necessary to present fairly the financial position of the Company as of September 30, 2008 and December 31, 2007, the results of its operations for the three and nine months ended September 30, 2008 and 2007, and its cash flows for the nine months ended September 30, 2008 and 2007 in conformity with accounting principles generally accepted in the United States.

These financial statements have been prepared consistently with the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission ("SEC") on April 14, 2008 which should be read in conjunction with this Quarterly Report on Form 10-Q. The notes from the consolidated financial statements for 2007 are incorporated by reference from the Notes to Consolidated Financial Statements as of December 31, 2007 as described in the Company's Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the consolidated results of operations to be expected for the full fiscal year ending December 31, 2008. The following unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

**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.

*Revenues and Accounts Receivable:* Revenues are recognized upon acceptance of the blood products or the performance of blood services. Occasionally the Company receives advance payment against future delivery of blood products or services. Until the related products or services are delivered, the Company records advance payments as deferred revenue, which appears as a current liability on the balance sheet. Blood services revenues consist primarily of mobile therapeutics sales, while blood products revenues consist primarily of sales of single donor platelets, whole blood components or other blood products that are manufactured or purchased and distributed by the Company. Accounts receivable are reviewed periodically for collectability. The Company estimates an allowance for doubtful accounts based on balances owed that are 90 days or more past due from the invoice date, unless evidence exists, such as subsequent cash collections, that specific amounts are collectable. In addition, balances less than 90 days past due are reserved based on the Company's recent bad debt experience.

*Inventories and Supplies:* Inventories consist of Company-manufactured platelets, whole blood components and other blood products, as well as component blood products purchased for resale. Supplies consist primarily of medical supplies used to collect and manufacture products and to provide

therapeutic services. Inventories are stated at the lower of cost or market and are accounted for on a first-in, first-out basis. Management estimates the portion of inventory that might not have future value by analyzing historical sales history for the twelve months prior to any balance sheet date. For each inventory type, management establishes an obsolescence reserve equal to the value of inventory quantity in excess of twelve months of historical sales quantity, using the first-in, first-out inventory valuation methodology. The Company did not record any reserves for obsolete inventory for continuing operations as of September 30, 2008 or year ended December 31, 2007. The Company recorded no reserves for obsolete inventory for discontinued operations as of September 30, 2008, but recorded $1,341,000 for obsolete inventory for discontinued operations as of December 31, 2007.

*Share-Based Compensation:* In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-based Payment: An Amendment of FASB Statements No. 123 and 95* ("SFAS 123R"), the Company recognizes compensation expense related to stock options, restricted stock units and restricted stock, granted to employees based on compensation cost for all share-based payments granted prior to September 30, 2008, based on the grant date fair value estimated in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123").

The Company's assessment of the estimated fair value of share-based payments is impacted by the price of the Company's stock, as well as assumptions regarding a number of complex and subjective variables and the related tax impact. Management calculated fair value based on fair value of the stock at the date of issuance for restricted stock and restricted stock units. Management utilized the Black-Scholes model to estimate the fair value of share-based payments granted. Generally, the calculation of the fair value for share-based payments granted under SFAS 123R is similar to the calculation of fair value under SFAS 123, with the exception of the treatment of forfeitures.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including:

(a) The expected volatility of the common stock price, which was determined based on historical volatility of the Company's common stock;

(b) Expected dividends, which are not anticipated;

(c) Expected life, which is estimated based on the historical exercise behavior of employees; and

(d) Expected forfeitures.

In the future, management may elect to use different assumptions under the Black-Scholes valuation model or a different valuation model, which could result in a significantly different impact on earnings.

The Company currently uses the 2006 Equity Incentive Plan ("2006 Plan") approved by shareholders at the 2006 annual meeting to grant stock options, and other share-based payments. At the March 19, 2008 meeting of the Board of Directors, the non-employee directors were awarded their 2008 annual stock option grants utilizing the closing stock price on March 19, 2008, the date of the meeting. Since this grant was intended as compensation for annual service, and since the vesting policy requires quarterly vesting of non-employee director options, the Company recorded $12,000 and $24,000 of share-based compensation for the three and nine months ended September 30, 2008, respectively, utilizing the Black-Scholes valuation model. In addition, the Board of Directors awarded stock options, restricted stock units and restricted stock grants during the first three quarters of 2008 to members of senior management.

*Income Taxes:* The process of preparing the financial statements requires management estimates of income taxes in each of the jurisdictions that the Company operates. This process involves estimating current tax exposure together with assessing temporary differences resulting from differing treatment of

items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the balance sheet. Under the provisions of SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"), the Company must utilize 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. Management must assess the likelihood that the deferred tax assets or liabilities will be realized for future periods, and to the extent management believes that realization is not likely, must establish a valuation allowance. To the extent a valuation allowance is created or adjusted in a period, the Company must include an expense or benefit within the tax provision in the statements of operations.

Significant management judgment is required in determining the provision for income taxes, deferred tax asset and liabilities and any valuation allowance recorded against net deferred tax assets. It is possible that a selection of different input variables could produce a materially different estimate of the provision, asset, liability and valuation allowance.

Prior to September 30, 2007, the Company recorded net operating losses that were available as deductions against future taxable income, creating a potential deferred tax asset. As of September 30, 2007, management determined that based on the Company's recent performance there was insufficient evidence of guaranteed future profitability to insure that the Company would realize any benefit from the deferred tax assets. Therefore, the Company recorded a 100% valuation reserve against all of the deferred tax assets. As of September 30, 2008, management determined no justification existed to reduce the deferred tax asset valuation reserve.

In September 2008, the State of California suspended the use of net operating loss carryforwards when calculating income taxes for 2008 and 2009. Although the Company has generated income in the first nine months of 2008, management has determined that sufficient temporary book to tax differences exist that it is unlikely the Company will have any income tax liability to the State of California for 2008.

*Reclassification:* Certain prior year amounts have been reclassified to conform to the current year presentation. In November 2007, the Board of Directors of HemaCare BioScience, Inc. ("HemaBio") closed its Florida-based research blood products operation. Accordingly, the financial results for this operation have been reported as discontinued operations, and this subsidiary's assets and liabilities as held for sale, in the condensed consolidated financial statements as of September 30, 2008 and as of December 31, 2007. Since the condensed consolidated financial statements for the three and nine months ended September 30, 2007 previously reported HemaBio as part of continuing operations, the financial results and cash flow statement have been reclassified to reflect the change in the status of HemaBio as a discontinued operation in accordance with SFAS No. 144, *Accounting for Impairment and Disposal of Long-Lived Assets* ("SFAS No. 144") The following reconciles the financial statements for

the three and nine months ended September 30, 2007 as originally reported, with those reclassified financial statements presented along with the 2008 financial statements:

**HEMACARE CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**Reclassification for the Three and Nine Months Ended September 30, 2007**

| | Three Months Ended September 30, 2007 | | | Nine Months Ended September 30, 2007 | | |
|---|---|---|---|---|---|---|
| | As Reported | Discontinued Operations | Reclassified | As Reported | Discontinued Operations | Reclassified |
| Revenues | | | | | | |
| Blood products | $ 7,495,000 | $ 1,128,000 | $ 6,367,000 | $22,973,000 | $ 3,358,000 | $19,615,000 |
| Blood services | 2,066,000 | | 2,066,000 | 5,590,000 | | 5,590,000 |
| Total revenues | 9,561,000 | 1,128,000 | 8,433,000 | 28,563,000 | 3,358,000 | 25,205,000 |
| Operating costs and expenses | | | | | | |
| Blood products | 7,209,000 | 1,429,000 | 5,780,000 | 20,922,000 | 3,484,000 | 17,438,000 |
| Blood services | 1,457,000 | | 1,457,000 | 4,294,000 | | 4,294,000 |
| Total operating costs and expenses | 8,666,000 | 1,429,000 | 7,237,000 | 25,216,000 | 3,484,000 | 21,732,000 |
| Gross profit | 895,000 | (301,000) | 1,196,000 | 3,347,000 | (126,000) | 3,473,000 |
| General and administrative expenses | 1,605,000 | 5,000 | 1,600,000 | 4,810,000 | | 4,810,000 |
| Goodwill impairment | 4,259,000 | 4,259,000 | | 4,259,000 | 4,259,000 | |
| Loss before income taxes | (4,969,000) | (4,565,000) | (404,000) | (5,722,000) | (4,385,000) | (1,337,000) |
| Provision for income taxes | 627,000 | 4,000 | 623,000 | 634,000 | 11,000 | 623,000 |
| Net loss | $(5,596,000) | $(4,569,000) | $(1,027,000) | $ (6,356,000) | $(4,396,000) | $ (1,960,000) |

*Facility Rent Accrual:* The initial lease term for one of the Company's facilities expired in 1998; however, the Company continued to occupy the facility based on an annual automatic renewal provision in the original lease. Since 2003 the Company estimated the rent owed on the basis of the renewal provision. However, as a result of recent lease renewal negotiations, management determined the estimated rent was overstated by $183,000.

**CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances at various financial institutions. Deposits not exceeding $250,000 and $100,000, as of September 30, 2008 and December 31, 2007, respectively, for each institution are insured by the Federal Deposit Insurance Corporation. At September 30, 2008 and December 31, 2007, the Company's uninsured cash and cash equivalents was $254,000 and $337,000, respectively.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 establishes a common definition for fair value under GAAP, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007. In December 2007, the FASB also issued Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 to fiscal years and interim periods within those fiscal years beginning after November 15, 2008, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a

recurring basis (at least annually). The Company is evaluating the impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* or SFAS No. 159. This standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 was effective in the first quarter of 2008. The Company has not elected the fair value option for eligible items that existed as of January 1, 2008.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations ("*SFAS 141R"), which replaces SFAS No. 141, *Business Combinations* ("SFAS 141"). SFAS 141R establishes principles and requirements for how an acquiring entity in a business combination would recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures any goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R retains certain fundamental requirements of SFAS 141, but also clarifies the definition of an acquirer in a business combination, and expands its scope to apply to all transactions and events in which one entity obtains control over one or more other businesses. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect that the issuance of SFAS 141R will have an impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51(*"SFAS 160"), which establishes accounting and reporting for noncontrolling interests, referred to in current GAAP as minority interests, in a subsidiary and for the deconsolidation of a subsidiary. Under SFAS 160, noncontrolling interests shall be reported as equity in the consolidated financial statements. On the statement of operations, SFAS 160 requires disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest, thereby eliminating diversity in practice and providing transparency in disclosure. SFAS 160 also simplifies accounting standards by establishing a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation; and requires that, when a subsidiary is deconsolidated, a parent will recognize gain or loss in net income. SFAS 160 further requires expanded disclosures surrounding the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company does not expect that the issuance of SFAS 160 will have an impact on its consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3 *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure

requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, our management believes that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

***Note 2 Inventory***

Inventories consist of Company-manufactured platelets, whole blood components and other blood products, as well as component blood products purchased for resale. Supplies consist primarily of medical supplies used to collect and manufacture products and to provide therapeutic services. Inventories are stated at the lower of cost or market and are accounted for on a first-in, first-out basis.

Inventories are comprised of the following as of:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Continuing Operations | | |
| Supplies | $ 700,000 | $ 839,000 |
| Blood products | 554,000 | 281,000 |
| Total continuing operations | 1,254,000 | 1,120,000 |
| Discontinued Operations | | |
| Blood products | | 90,000 |
| Total discontinued operations | | 90,000 |
| Total | $ 1,254,000 | $ 1,210,000 |

***Note 3 Discontinued Operations***

On November 5, 2007, the Board of Directors of the Company's Florida subsidiary, HemaBio, closed this operation to avoid further losses. On December 4, 2007, HemaBio executed an Assignment for Benefit of Creditors, under Florida Statutes Section 727.101 et seq., assigning all of its assets to an assignee, who is responsible for taking possession of, protecting, preserving, and liquidating such assets and ultimately distributing the proceeds to creditors of HemaBio according to their priorities as established by Florida law. The assignee continues to fulfill his obligations under the Assignment, but has not concluded his efforts to liquidate all of the assets or distribute all proceeds to HemaBio's creditors.

Per SFAS No. 144, the results of operations of HemaBio, along with all closure related costs are reflected in the December 31, 2007 and September 30, 2008 financial statements. The following is the

breakdown of the assets held for sale and the liabilities related to the assets held for sale for the discontinued operation:

**HEMACARE CORPORATION**

**Discontinued Operations**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets Held for Sale** | | |
| Cash and cash equivalents | $ 504,000 | $ 136,000 |
| Accounts receivable, net of allowance for doubtful accounts of $133,000 in 2007 | | 210,000 |
| Product inventories and supplies | | 90,000 |
| Other receivables | 7,000 | 7,000 |
| Plant and equipment, net of accumulated depreciation and amortization of $133,000 in 2007 | | 39,000 |
| **Total assets held for sale** | $ 511,000 | $ 482,000 |
| **Liabilities related to assets held for sale** | | |
| Accounts payable | $ 830,000 | $ 832,000 |
| Accrued payroll and payroll taxes | 603,000 | 603,000 |
| Other accrued expenses | 149,000 | 111,000 |
| Current obligations under notes payable | 500,000 | 500,000 |
| **Total liabilities related to assets held for sale** | $ 2,082,000 | $ 2,046,000 |

Per the American Institute of Certified Public Accountants Statements of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* ("SOP 90-7"), an entity in some form of reorganization, such as the assignment for benefit of creditors action filed for HemaBio in Florida, shall not recognize any gain from the relief of any obligation until relief is ordered by the courts, or a settlement of creditors is finalized. Since complete conveyance of assets, final settlement with all creditors or court action granting HemaBio relief from any creditors' claims, has not been obtained, HemaBio's liabilities remain, and will remain, recorded at full value on the financial statements of the Company as "liabilities related to assets held for sale" until such conveyance, settlement or court action is complete.

***Note 4 Line of Credit and Notes Payable***

On September 26, 2006, the Company, together with the Company's subsidiaries Coral Blood Services, Inc. and HemaBio, entered into an Amended and Restated Loan and Security Agreement ("Comerica Agreement") with Comerica Bank ("Comerica") to provide a working capital line of credit. The Comerica Agreement restated the terms of the prior credit agreement with Comerica, with the following revisions: (i) the limits on the amount the Company may borrow were changed to the lesser of 75% of eligible accounts receivable or $3 million, (ii) HemaBio was added as an additional borrower, (iii) Comerica was given a security interest in all of the assets of HemaBio, and (vi) the term of the Comerica Agreement was extended one year to June 30, 2008. On March 26, 2007, the Comerica Agreement was amended by the First Modification which increased the line of credit from $3 million to $4 million. The Comerica Agreement provided that interest was payable monthly at a rate of prime minus 0.25%. In addition, the Company had the option to draw against this facility for thirty, sixty or ninety days using LIBOR as the relevant rate of interest. As of December 31, 2007, the Company had borrowed $2,500,000 on this line of credit. The Comerica Agreement was collateralized

by substantially all of the Company's assets and required the maintenance of certain covenants that, among other things, required minimum levels of profitability and prohibited the payment of dividends.

The Comerica Agreement provided, among other things, that in the event the Company failed to observe any covenants in the Agreement, or permitted a default in any material agreement to which the Company was a party with third parties that results in an acceleration of any indebtedness, then an event of default shall have occurred under the Comerica Agreement, and Comerica may, among other things, declare the Company's indebtedness to Comerica immediately due and payable. As of September 30, 2007, the Company was not in compliance with certain financial covenants in the Comerica Agreement, and Comerica did not provide a waiver of this violation as provided in the past. As of December 31, 2007, the Company's covenant violations remained, and Comerica had not provided a waiver.

On April 10, 2008, the Company, together with the Company's subsidiary Coral Blood Services, Inc., entered into a Credit and Security Agreement ("Wells Agreement") with Wells Fargo Bank ("Wells Fargo") to provide a $4.75 million, revolving line of credit for working capital purposes, and a $250,000 capital expenditure line of credit. The Wells Agreement provides that the Company may borrow the lesser of 85% of eligible accounts receivables, or $4.75 million with respect to the revolving line of credit. The term of the Wells Agreement is three years. Interest on the working capital line of credit is payable monthly at a rate of the Wells Fargo prime rate minus 0.25%, and interest on the capital expenditure line of credit is payable monthly at the Wells Fargo prime rate. As of September 30, 2008, the Wells Fargo prime rate was 5%. In addition, as of September 30, 2008, the Company had utilized $2,074,000 of the Wells Fargo line of credit. The Wells Agreement is collateralized by substantially all of the Company's assets and requires the maintenance of certain covenants that, among other things, require minimum levels of profitability and prohibit the payment of dividends. As of September 30, 2008, the Company was in compliance with all of the covenants in the Wells Agreement.

Upon closing of the Wells Agreement, the Company used the available proceeds to payoff the outstanding debt obligation to Comerica in full. In exchange, the Company and Comerica terminated the Comerica Agreement, and Comerica released the security interest in the Company's assets. In addition, upon closing the Wells Agreement, the Company acquired $300,000 of secured debt of HemaBio previously owed to Comerica. Subsequently the Company received $100,000 from the Florida assignee as a preliminary distribution. As of September 30, 2008, $200,000 remains as a note payable to HemaCare Corporation on the books of HemaBio, which is eliminated in the consolidated balance sheet, and therefore not included in liabilities related to assets held for sale.

As part of the consideration to acquire HemaBio, the Company issued a promissory note to both of the sellers. One note for $153,800 for the benefit of Joseph Mauro required four equal annual installments of $38,450, plus accrued interest, commencing August 29, 2007 until paid. This note paid interest at 5% annually, and was secured through a security agreement, by all of the assets of HemaBio, and was subordinate to Comerica. The second note for $46,200 for the benefit of Valentin Adia, required four equal annual installments of $11,550, plus accrued interest, commencing August 29, 2007 until paid. This note paid interest at 5% annually, was also secured by all of the assets of HemaBio, and was subordinate to Comerica.

The Company failed to pay the first installment due to Mr. Mauro on August 29, 2007 of $46,000, which included $8,000 in accrued interest. Under the terms of the promissory note between the Company and Mr. Mauro, if an event of default occurred, the interest rate on the outstanding obligation increased to 12%. The Company's failure to pay the first installment was an event of default that triggered an increase in the interest rate. Therefore, since August 29, 2007, and until the note was cancelled, the Company accrued interest expense on the outstanding balance of this note at an interest rate of 12%.

The Company failed to pay the first installment due to Mr. Adia on August 29, 2007 of $15,000, which included $3,000 in accrued interest. As of September 30, 2008, the Company accrued $4,000 in interest due to Mr. Adia.

Disputes arose between the Company and Messrs. Mauro and Adia pertaining to the Company's acquisition of HemaBio, and their management of HemaBio after the acquisition. The dispute led to the filing of a lawsuit against Mauro and Adia in the Los Angeles Superior Court (Case No. LC082173) (the "Lawsuit").

On August 26, 2008, the Company entered into a Settlement Agreement and Mutual General Release (the "Mauro/Adia Agreement") with Mauro and Adia. The Mauro/Adia Agreement resolves the disputes, including those alleged in the Lawsuit. The Mauro/Adia Agreement provides for the mutual general release of all claims between the Company and Mauro and Adia in exchange for (i) Mauro and Adia's cancellation of promissory notes, and accrued interest, received from the Company as part of the HemaBio acquisition consideration; (ii) return of 248,000 shares of the Company's common stock received by Mauro and Adia as part of the HemaBio acquisition consideration; and (iii) payment by Mauro and Adia of $50,000 to the Company.

As a result of the cancellation of the promissory notes, and other consideration received by the Company from the Mauro/Adia Agreement, the Company recognized a gain of $405,000, which is reported on the Company's income statement as a component of Other Income.

When the Company acquired HemaBio, two former HemaBio investors, Dr. Lawrence Feldman and Dr. Karen Raben, each held a $250,000 note from HemaBio. Both of these notes require four equal annual installments of $62,500, plus accrued interest, commencing August 29, 2007, until paid and pay interest at 7% annually, and are secured by all of the assets of HemaBio, and were subordinate to Comerica.

HemaBio failed to pay the first installments due to Drs. Feldman and Raben on August 29, 2007 of $160,000, which included $35,000 in accrued interest. Under the terms of the promissory notes between HemaBio and Drs. Feldman and Raben, failure to pay any of the scheduled payments when due causes the entire unpaid balance, including unpaid interest, to become immediately due and payable, and causes the stated interest rate on both notes to increase to 10% per annum. Therefore, since August 29, 2007, HemaBio, now shown as discontinued operations, recognized accrued interest expense on the outstanding balance on both notes at an interest rate of 10%.

The foregoing descriptions of the notes, the Comerica Agreement and the Mauro/Adia Agreement are qualified in their entirety by the copies of those agreements filed as exhibits to the Company's Current Reports on Form 8-K filed with the SEC on September 5, 2006, September 29, 2006, March 28, 2007 and September 5, 2008.

As of September 30, 2008, HemaBio's default on the notes to Drs. Feldman and Raben remain unresolved.

***Note 5 Shareholders' Equity***

The Company recognizes share-based compensation expense per SFAS 123R. This statement requires that the cost resulting from all share-based payment transactions be recognized in the Company's consolidated financial statements. In addition, in March 2005 the SEC released Staff Accounting Bulletin No. 107, *Share-Based Payment* ("SAB 107"). SAB 107 provides the SEC's staff's position regarding the application of SFAS 123R and certain SEC rules and regulations, and also provides the staff's views regarding the valuation of share-based payment arrangements for public companies. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values.

Per SFAS 123R, the Company recognizes share-based compensation expense for all share-based payments granted prior to September 30, 2008, based on the grant date fair value estimated in accordance with SFAS 123R. For the three and nine months ended September 30, 2008, the Company recognized increases of $58,000 and $97,000 in share-based compensation costs, respectively, per SFAS 123R, including $12,000 and $24,000, respectively, of share-based compensation for non-employee director options. (see Note 1)

The following summarizes the activity of the Company's stock options for the nine months ended September 30, 2008:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) |
|---|---|---|---|
| Number of shares under option: | | | |
| Outstanding at January 1, 2008 | 1,829,000 | $ 1.32 | |
| Granted | 220,000 | 0.28 | |
| Exercised | (140,000) | 0.32 | |
| Canceled or expired | (344,000) | 1.23 | |
| Forfeited | (30,000) | 0.64 | |
| Outstanding at September 30, 2008 | 1,535,000 | $ 1.29 | 6.2 |
| Exercisable at September 30, 2008 | 1,271,750 | $ 1.34 | 5.6 |

The following summarizes the activity of the Company's stock options that have not yet vested as of September 30, 2008:

| | Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested at January 1, 2008 | 284,000 | $ 1.24 |
| Granted | 220,000 | 0.26 |
| Vested | (210,750) | 0.78 |
| Forfeited | (30,000) | 0.59 |
| Nonvested at September 30, 2008 | 263,250 | $ 0.87 |

The following summarizes the activity of the Company's restricted stock units for the nine months ended September 30, 2008:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Restricted Stock Units: | | |
| Outstanding at January 1, 2008 | | $ |
| Granted | 47,200 | 0.00 |
| Exercised | | |
| Canceled or expired | | |
| Outstanding at September 30, 2008 | 47,200 | $ 0.00 |
| Exercisable at September 30, 2008 | | $ |

The following summarizes the activity of the Company's restricted stock units that have not yet vested as of September 30, 2008:

| | Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested at January 1, 2008 | | $ |
| Granted | 47,200 | 0.25 |
| Vested | | |
| Canceled | | |
| Nonvested at September 30, 2008 | 47,200 | $ 0.25 |

The following summarizes the activity of the Company's restricted stock for the nine months ended September 30, 2008:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Restricted Stock: | | |
| Outstanding at January 1, 2008 | | $ |
| Granted | 115,385 | 0.00 |
| Exercised | | |
| Canceled or expired | | |
| Outstanding at September 30, 2008 | 115,385 | $ 0.00 |
| Exercisable at September 30, 2008 | | $ |

The following summarizes the activity of the Company's restricted stock that have not yet vested as of September 30, 2008:

| | Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested at January 1, 2008 | | $ |
| Granted | 115,385 | 0.25 |
| Vested | | |
| Canceled | | |
| Nonvested at September 30, 2008 | 115,385 | $ 0.25 |

As of September 30, 2008, there was $146,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under existing share-based payments. This cost is expected to be recognized over a weighted-average period of 2.3 years. The total measurement fair value of shares vested during the nine months ended September 30, 2008 was $165,000.

The Black-Scholes option pricing model is used by the Company to determine the weighted average fair value of share-based payments. The fair value at date of grant and the assumptions utilized to determine such values are indicated in the following table:

| | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Weighted average fair value at date of grant for share-based payments awarded during the period | N/A | $ 0.26 |
| Weighted average fair value at date of grant for share-based payments vested during the period | $ 0.76 | $ 0.78 |
| Risk-free interest rates | 4.0% | 4.0% |
| Expected stock price volatility | 190.8% | 190.8% |
| Expected dividend yield | 0% | 0% |
| Expected forfeitures | 29.5% | 29.5% |

Starting in the third quarter of 2008, the Company no longer assumes a forfeiture rate when assessing value for options held by independent members of the Board of Directors. Since options issued to independent board members are not forfeited upon separation from the Company, management has determined it is inappropriate to assign a forfeiture rate to these options. As a result of this change in forfeiture rate, the Company recognized $6,000 in additional share-based compensation expense in the third quarter of 2008.

At the Company's annual meeting of shareholders held on May 24, 2006, the shareholders approved the 2006 Plan. The purpose of the 2006 Plan is to encourage ownership in the Company by key personnel whose long-term service is considered essential to the Company's continued progress, thereby linking these employees directly to stockholder interests through increased stock ownership. A total of 1,200,000 shares of the Company's common stock have been reserved for issuance under the 2006 Plan. As of September 30, 2008, the Company had utilized 627,585 of the shares reserved under the 2006 Plan, and 572,415 shares remain available. Awards may be granted to any employee, director or consultant, or those of the Company's affiliates.

Prior to the 2006 Plan, the Company utilized the 1996 Stock Incentive Plan ("1996 Plan"). The 1996 Plan expired on July 19, 2006, although options remain outstanding that were originally issued under this plan.

On August 6, 2008, the Board of Directors approved an amendment to the Company's 2004 Stock Purchase Plan ("2004 Plan") to increase the number of shares eligible for purchase from 1,000,000 to 2,000,000. Prior to the third quarter of 2008, 1,000,000 shares were purchased through the 2004 Plan.

During the third quarter of 2008 members of the Board of Directors and management purchased 430,000 shares of the Company's common stock through the 2004 Plan at $0.49, the purchase price determined under the terms and conditions of the 2004 Plan. There remain 570,000 shares available for purchase under the 2004 Plan.

***Note 6 Earnings per Share***

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Continuing Operations | | | | |
| Net income (loss) | $ 455,000 | $(1,027,000) | $ 708,000 | $ (1,960,000) |
| Weighted average shares outstanding | 9,696,000 | 8,794,000 | 9,415,000 | 8,588,000 |
| Net effect of dilutive options and warrants | 246,000 | | 173,000 | |
| Diluted shares outstanding | 9,942,000 | 8,794,000 | 9,588,000 | 8,588,000 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Discontinued Operations | | | | |
| Net (loss) income | $ (170,000) | $(4,569,000) | $ 92,000 | $ (4,396,000) |
| Weighted average shares outstanding | 9,696,000 | 8,794,000 | 9,415,000 | 8,588,000 |
| Net effect of dilutive options and warrants | 246,000 | | 173,000 | |
| Diluted shares outstanding | 9,942,000 | 8,794,000 | 9,588,000 | 8,588,000 |

Options, restricted stock and restricted stock units outstanding of 1,335,000 shares of common stock for the three and nine months ended September 30, 2008 have been excluded from the above calculation because their effect would have been anti-dilutive.

Options outstanding covering 1,759,000 shares of common stock for the three and nine months ended September 30, 2007 have been excluded from the above calculation because their effect would have been anti-dilutive.

***Note 7 Provision for Income Taxes***

The process of preparing the financial statements includes estimating income taxes in each of the jurisdictions that the Company operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the balance sheet. Under the provisions of SFAS 109, the Company must utilize 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. Management must assess the likelihood that the deferred tax assets or liabilities will be realized for future periods, and to the extent management believes that realization is not likely, must establish a valuation allowance. To the extent a valuation allowance is created or adjusted in a period, the Company must include an expense, or benefit, within the tax provision in the statements of operations. Significant management judgment is required to determine the provision for income taxes, deferred tax asset and liabilities and any valuation allowance recorded against net deferred tax assets.

Prior to September 30, 2007, the Company recorded net operating losses that were available as deductions against future taxable income, creating a potential deferred tax asset. As of September 30, 2007, management determined that based on the recent performance of the Company there was insufficient evidence of guaranteed future profitability to insure that the Company would realize any

benefit from the deferred tax assets. Therefore, the Company recorded a 100% valuation reserve against all of the deferred tax assets. As of September 30, 2008, management determined no justification existed to reduce the deferred tax asset valuation reserve.

In September 2008, the State of California suspended the use of net operating loss carryforwards when calculating income taxes for 2008 and 2009. Although the Company has generated income in the first nine months of 2008, management has determined that sufficient temporary book to tax differences exist that it is unlikely the Company will have any income tax liability to the State of California for 2008.

In the first quarter of 2006, the Company adopted the fair value recognition provisions of SFAS 123R pertaining to share-based compensation transactions. This adoption creates temporary differences between GAAP based net income and tax based net income because the compensation deduction permitted under SFAS 123R is not deductible for taxes. When option holders exercise their rights to purchase the Company's shares, the Company is entitled to take a tax deduction, eliminating the temporary difference created when the option rights vested. The Company recognized $97,000 in compensation expense related to SFAS 123R in the first nine months of 2008. As a result of the temporary difference created, the Company's deferred tax asset balance increased $24,000 The Company recalculated the valuation reserve to include the addition to the deferred tax asset which resulted in no net change in the deferred tax asset reported on the balance sheet.

***Note 8 Business Segments***

HemaCare operates two business segments as follows:

Blood Products Collection, processing, purchasing and distribution of blood products and donor testing.

Blood Services Therapeutic apheresis, stem cell collection procedures and other therapeutic services to patients.

There were no intersegment revenues for either the three or nine month periods ended September 30, 2008.

***Note 9 Commitments and Contingencies***

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 the Company 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.

Healthcare reform is continuously under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. However, policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

The Company is party to various claims, actions and proceedings incidental to its normal business operations. The Company believes the outcome of such claims, actions and proceedings, individually and in the aggregate, will not have a material adverse effect on the business and financial condition of the Company.

***Note 10 Severance to Chief Executive Officer***

On June 28, 2007, Judi Irving resigned as the Company's President and Chief Executive Officer, and as a member of the Company's Board of Directors. Based on the terms of Ms. Irving's employment letter of November 26, 2002, and in exchange for a release of any employment related claims Ms. Irving could assert against the Company, the Company agreed to pay Ms. Irving one year of her salary as of the date of her separation, payable in 26 equal bi-weekly installments. In addition, the Company agreed to pay Ms. Irving's health and dental coverage for 18 months on the same terms that existed prior to Ms. Irving's separation from the Company. The Company recognized a charge to general and administrative expenses in the second quarter of 2007 of $326,000 as the total cost of the separation obligation to Ms. Irving. As of September 30, 2008, $2,000 of this obligation remained unpaid.

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

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

*The matters discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q that are not historical are forward-looking statements. These statements may also be identified by the use of words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "project," "will" and similar expressions, as they relate to the Company, its management and its industry. Investors and prospective investors are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results could differ materially from those described in this report because of numerous factors, many of which are beyond the Company's control. These factors include, without limitation, those described below under the heading "Risk Factors Affecting the Company." The Company does not undertake to update its forward-looking statements to reflect later events and circumstances or actual outcomes.*

***General***

HemaCare Corporation ("HemaCare" or the "Company") provides the customized delivery of blood products and services. The Company collects, processes, purchases and distributes blood products to hospitals and research related organizations. The Company operates and manages donor centers and mobile donor vehicles to collect transfusable blood products from donors. In addition, the Company purchases blood products from other blood suppliers. The Company also provides blood related services, principally therapeutic apheresis procedures, stem cell collection and other blood treatments to patients with a variety of disorders. Blood related therapeutic services are usually provided to hospitals under contract as an outside purchased service.

The Company has operated in Southern California since 1979. In 1998, the Company expanded operations to include portions of the eastern United States. In 2003, the Company reduced the number of geographic regions served as part of a restructuring plan to return the Company to profitability. From 2003 through 2006, the Company's earnings improved as a result of the successful implementation of this plan. In August 2006, the Company acquired Florida based Teragenix Corporation, subsequently renamed HemaCare BioScience, Inc. ("HemaBio"), which sourced, processed and distributed human biological specimens, manufactured quality control products and provided clinical trial management and support services. For a description of the terms of this acquisition, see the Company's Current Report on Form 8-K filed with the SEC on November 15, 2006. As a result of projected losses by HemaBio in the third and fourth quarters of 2007 and the resignations of key members of HemaBio's management, the Board of Directors of HemaBio, in consultation with, and with the approval of, the Board of Directors of the Company, determined HemaBio's business could not operate without senior management, and therefore closed all operations of HemaBio, effective November 5, 2007.

The Company's current strategy is to focus on increasing the utilization of existing blood products capacity in those markets currently served through investment in new marketing campaigns and expanded and enhanced donor recruitment programs, and to expand the market potential for therapeutic apheresis services through physician education and other marketing efforts.

Although most suppliers of transfusable blood products are organized as not-for-profit, tax-exempt organizations, all suppliers charge fees for blood products to cover their cost of operations. The Company believes that it is the only investor-owned and taxable organization operating as a transfusable blood supplier with significant operations in the U.S.

The Company was incorporated in the state of California in 1978.

***Results of Operations***

***Three months ended September 30, 2008 compared to the three months ended September 30, 2007***

**Overview**

The Company's continuing operations generated $9,474,000 in revenue for the third quarter of 2008, compared to $8,433,000 in the third quarter of 2007, representing an increase of $1,041,000, or 12%. Blood products revenue increased $1,206,000, or 19%, while blood services revenue decreased $165,000, or 8%.

Gross profit in the third quarter of 2008 increased $315,000, or 26%, to $1,511,000 compared to $1,196,000 for the same period of 2007. This increase is comprised of $499,000, or an 85% increase, in gross profit for the blood products business segment, and $184,000, or a 30% decrease, in gross profit for the blood services business segment. The gross profit percentage increased to 16% in the third quarter of 2008 compared to 14% for the same period of 2007.

The Company generated $59,000 in income from operations in the third quarter of 2008 compared to to a loss of $404,000 for the same period of 2007, primarily as a result of the improvement in gross profit.

The Company recognized $396,000 in other income in the third quarter of 2008, which is primarily the result of the Company entering into a Settlement Agreement and Mutual General Release ("Mauro/Adia Agreement") with Joseph Mauro and Valentin Adia related to disputes with the Company over the Company's acquisition of HemaBio, and Messrs. Mauro and Adia's management of HemaBio after the acquisition. The disputes led to the filing of a lawsuit against Mauro and Adia in the Los Angeles Superior Court (Case No. LC082173) (the "Lawsuit").

On August 26, 2008, the Company entered into the Mauro/Adia Agreement which resolved the disputes, including those alleged in the Lawsuit. The Maruo/Adia Agreement provides for the mutual general release of all claims between the Company and Mauro and Adia in exchange for (i) Mauro and Adia's cancellation of promissory notes, and accrued interest, received from the Company as part of the HemaBio acquisition consideration; (ii) return of 248,000 shares of the Company's common stock received by Mauro and Adia as part of the HemaBio acquisition consideration; and (iii) payment by Mauro and Adia of $50,000 to the Company.

As a result of the cancellation of the promissory notes, and other consideration received by the Company from the Mauro/Adia Agreement, the Company recognized a gain of $405,000, which is reported on the Company's income statement as a component of Other Income. Partially offsetting this income, the Company incurred $9,000 in other expenses for outside consultants to assist with the completion of an evaluation of the Company's 2007 Sarbanes Oxley internal controls.

Discontinued operations generated a loss of $170,000 in the third quarter of 2008 compared to a loss of $4,569,000 for the same period of 2007.

The Company recorded no increase in the provision for income taxes for the three month period ended September 30, 2008, whereas the Company recorded a $623,000 increase in the provision for the same three month period of 2007. This increase was the result of an adjustment in the Company's valuation reserve for deferred tax assets.

The Company generated net income from continuing operations of $455,000 for the third quarter of 2008, compared to a net loss of $1,027,000 for the same period of 2007. This improvement is the result of the combination of an improvement in operating income, the gain from the Mauro/Adia Agreement and the lack of any addition to the provision for income taxes in the 2008 period compared to the large increase in the 2007 period.

**Blood Products Continuing Operations**

For the three months ended September 30, 2008, blood products revenue increased $1,206,000, or 19%, to $7,573,000 from $6,367,000 for the same period of 2007. This increase is primarily attributable to a 21% increase in revenue generated by the Company's California-based blood products operations in the quarter, and is primarily the result of a 62% increase in the amount of purchased products sold in the quarter. Summer vacations and other summer activities often result in a decrease in the Company's whole blood collections during the summer months. Therefore, in order to meet customer demand, the Company relied more heavily on purchased products during the quarter. In addition, the Company's Maine-based blood products operations generated an 18% increase in revenue in the quarter, primarily as a result of a 19% increase in the number of platelet units sold. Enhanced donor recruitment efforts in this region resulted in an increase in collections, and therefore an overall increase in inventory available for sale.

For the three months ended September 30, 2008, blood products gross profit increased $499,000, or 85%, to $1,086,000 from $587,000 in the third quarter of 2007. This is primarily the result of the increase in revenue for this business segment without a corresponding increase in costs. The gross profit percentage for this segment improved from 9% for the third quarter of 2007 to 14% in the same quarter of 2008. The growth in revenue at both the Company's California and Maine operations created operational efficiencies through greater leveraging of fixed cost components.

**Blood Services**

Blood services revenue decreased $165,000, or 8%, to $1,901,000 in the third quarter of 2008 from $2,066,000 generated in the same period of 2007. This decrease is due to a 17% decrease in the number of procedures performed in California. The Company's Mid-Atlantic operations reported a 3% increase in the number of procedures performed in the quarter.

Blood services gross profit decreased $184,000, or 30%, from $609,000 in the third quarter of 2007 to $425,000 for the same period of 2008. The decrease is attributable to the decrease in revenue as the procedures performed in California are typically full service procedures that produce higher profit margins than those performed in the Mid-Atlantic region. The gross profit percentage during the third quarter of 2008 decreased to 22% from 29% as reported in third quarter of 2007.

**General and Administrative Expenses**

General and administrative expenses decreased $148,000, or 9%, to $1,452,000 in the third quarter of 2008, from $1,600,000 in the same period of 2007. The decrease is primarily the result of a $118,000 decrease in bad debt expense, a $64,000 decrease in the cost of outside services and temporary personnel and a $17,000 decrease in share-based compensation expense. These decreases in general and administrative expenses were partially offset by a $33,000 increase in employee benefits, and $24,000 in bank service charges.

The decrease in bad debt expense is the result of improvements in the Company's collection efforts. The decrease in share-based compensation expense is the result of the decrease in the price of the Company's stock and management's recalculation of the forfeiture rate assumption used in the valuation of options, restricted stock units and restricted stock. Recent experience in actual forfeitures prompted the recalculation, which resulted in an increase in the forfeiture rate, thereby reducing the expense the Company must recognize. The decrease in outside services and temporary personnel expense is the result of hiring staff to perform duties previously performed by consultants and temporary personnel. The increase in employee benefits expense is from the increase in the accrual for contributions to the Company's 401(k) plan, as a result of the increase in profits reported thus far in 2008 compared to a loss for 2007.

For the third quarter of 2008, general and administrative expenses represented 15% of revenue from continuing operations, compared to 19% for the same period of 2007.

**Income Taxes**

The Company recorded no increase to the income tax provision in the three months ended September 30, 2008, although the Company recorded $623,000 in the provision for the same period of 2007. Prior to September 30, 2007, the Company recorded net operating losses that were available as deductions against future taxable income, creating a potential deferred tax asset. As of September 30, 2007, management determined that based on the recent performance of the Company that there was insufficient evidence of guaranteed future profitability to insure that the Company would realize any benefit from the deferred tax assets. Therefore, the Company recorded a 100% valuation reserve against all of the deferred tax assets. As of September 30, 2008, management determined no justification existed to reduce the deferred tax asset valuation reserve.

In September 2008, the State of California suspended the use of net operating loss carryforwards when calculating income taxes for 2008 and 2009. Although the Company has generated income in the first nine months of 2008, management has determined that sufficient temporary book to tax differences exist that it is unlikely the Company will have any income tax liability to the State of California for 2008.

In the first quarter of 2006, the Company adopted the fair value recognition provisions of SFAS 123R pertaining to share-based compensation transactions. This adoption creates temporary differences between GAAP based net income and tax based net income because the compensation deduction permitted under SFAS 123R is not deductible for taxes. When option holders exercise their rights to purchase the Company's shares, the Company is entitled to take a tax deduction, eliminating the temporary difference created when the option rights vested. The Company recognized $58,000 in compensation expense related to SFAS 123R in the third quarter of 2008. As a result of the temporary difference created, the Company's deferred tax asset balance increased $15,000. The Company recalculated the valuation reserve to include the addition to the deferred tax asset which resulted in no net change in the deferred tax asset reported on the balance sheet.

***Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007***

**Overview**

The Company's continuing operations generated $27,642,000 in revenue for the first nine months of 2008 compared to $25,205,000 in the same period in 2007, representing an increase of $2,437,000, or 10%. Blood products revenue increased $2,017,000, or 10%, for the period, while blood services revenue increased $420,000, or 8%.

Gross profit for the first nine months of 2008 increased $1,324,000, or 38%, to $4,797,000 from $3,473,000 for the same period of 2007. This increase is comprised of $938,000, or a 43% increase, in gross profit for the Company's blood products business segment, and $386,000, or a 30% increase, in gross profit for the Company's blood services business segment. The gross profit percentage increased to 17% in the period, compared to 14% for the same period of 2007.

Income from operations for the first nine months of 2008 was $422,000 compared to a loss from operations of $1,337,000 for the same period of 2007, representing an improvement of $1,759,000. This improvement is primarily the result of the improvement in gross profit.

The Company recognized $331,000 in other income in the first nine months of 2008, which is primarily the result of the Company entering into the Mauro/Adia Agreement to resolve disputes with the Company. The Mauro/Adia Agreement provides for the mutual general release of all claims between the Company and Mauro and Adia in exchange for (i) Mauro and Adia's cancellation of

promissory notes, and accrued interest, received from the Company as part of the HemaBio acquisition consideration; (ii) return of 248,000 shares of the Company's common stock received by Mauro and Adia as part of the HemaBio acquisition consideration; and (iii) payment by Mauro and Adia of $50,000 to the Company.

As a result of the cancellation of the promissory notes, and other consideration received by the Company from the Mauro/Adia Agreement, the Company recognized a gain of $405,000, which is reported on the Company's income statement as a component of Other Income. Partially offsetting this income, the Company incurred $65,000 in other expense related to a billing adjustment for revenue recognized prior to 2008, and $9,000 in other expense for outside consultants to assist with the completion of an evaluation of the Company's 2007 Sarbanes Oxley internal controls.

The Company recorded a $45,000 increase in the provision for income taxes for continuing operations for the nine month period ended September 30, 2008, whereas the Company recorded a $623,000 increase in the provision for the same nine month period of 2007. This increase was the result of an adjustment in the Company's valuation reserve for deferred tax assets.

The Company generated net income from continuing operations of $708,000 in the first nine months of 2008, compared with a net loss of $1,960,000 in the same period of 2007. Excluding the $331,000 one-time items included in Other Income, the Company would have reported $377,000 in net income from continuing operations in the first nine months of 2008, representing a $2,337,000 improvement compared to the same period of 2007. The improvement is attributable to the increase in gross profit from both of the Company's business segments, and the substantially smaller addition to the provision for income taxes in the 2008 period compared to the large increase in the 2007 period.

**Blood Products Continuing Operations**

For the nine months ended September 30, 2008, blood products revenue increased $2,017,000, or 10%, to $21,632,000 from $19,615,000 for the same period in 2007. This increase is primarily attributable to a 10% increase in revenue at the Company's California operation, which is a result of a 14% increase in the number of units of red cells sold. In addition, the Company's Maine operations generated a 19% increase in revenue, attributable to an 18% increase in the number of units of red cells sold, and a 16% increase in the number of units of platelets sold.

For the nine months ended September 30, 2008, blood products gross profit increased $938,000, or 43%, to $3,115,000 from $2,177,000 for the same period in 2007. This is primarily the result of the increase in revenue by the Company's California and Maine-based operations creating operational efficiencies through leveraging of the fixed cost components in these operations. The gross profit percentage for this segment increased to 14% in the first nine months of 2008 compared to 11% in the same period of 2007.

**Blood Services**

Blood services revenue increased $420,000, or 8%, to $6,010,000 in the first nine months of 2008 from $5,590,000 generated in the same period of 2007 primarily due to a 7% increase in the number of procedures performed. The Company's California operations reported a 4% decrease in the number of procedures performed for the period, whereas the Company's Mid-Atlantic operations reported a 17% increase in the number of procedures performed.

Blood services gross profit increased $386,000, or 30%, from $1,296,000 in the first nine months 2007 to $1,682,000 during the same period of 2008, primarily as a result of the increase in revenue. The gross profit percentage for this business segment increased to 28% for the first nine months of 2008, from 23% for the same period of 2007. This improvement is a result of operational efficiencies as a

result of an increase in the number of procedures performed, primarily from the Company's Mid-Atlantic based operations.

**General and Administrative Expenses**

General and administrative expenses decreased by $435,000, or 9%, to $4,375,000 in the first nine months of 2008 from $4,810,000 in the same period of 2007. The decrease is the result of a $374,000 decrease in officer salaries, a $225,000 decrease in outside services and temporary personnel, a $115,000 decrease in share-based compensation, and a $67,000 decrease in bad debt expense. Partially offsetting these decreases were increases of $144,000 in employee benefits and bonuses.

The decrease in officer salaries is primarily due to the recognition of $326,000 in severance expense in 2007 related to the separation of employment of the Company's former President and Chief Executive Officer. The decrease in outside services and temporary personnel is due to the hiring of staff to perform duties previously performed by consultants and temporary personnel. The decrease in share-based compensation is due to the lower market price of the Company's common stock, as well as an increase in the estimated stock option forfeiture rate. Bad debt expense decreased as a result of improvements in the Company's efforts to collect outstanding receivables that had previously been included in the reserve for doubtful accounts. The increase in employee benefits and bonus expense was due to the accrual of a contribution to the Company's 401(k) plan, and the increase in management bonuses as a result of improved profitability for the Company thus far in 2008 compared to 2007.

For the first nine months of 2008, general and administrative expenses represented 16% of revenue from continuing operations, compared to 19% for the same period of 2007.

**Income Taxes**

The Company recorded $45,000 to the income tax provision for continuing operations in the first nine months of 2008, primarily for state income taxes as a result of the net income recognized thus far in 2008, whereas the Company recorded $623,000 to the provision for the same period of 2007. Prior to September 30, 2007, the Company recorded net operating losses that were available as deductions against future taxable income, creating a potential deferred tax asset. As of September 30, 2007, management determined that based on the recent performance of the Company that there was insufficient evidence of guaranteed future profitability to insure that the Company would realize any benefit from the deferred tax assets. Therefore, the Company recorded a 100% valuation reserve against all of the deferred tax assets. As of September 30, 2008, management determined no justification existed to reduce the deferred tax asset valuation reserve.

In September 2008, the State of California suspended the use of net operating loss carryforwards when calculating income taxes for 2008 and 2009. Although the Company has generated income in the first nine months of 2008, management has determined that sufficient temporary book to tax differences exist that it is unlikely the Company will have any income tax liability to the State of California for 2008.

In the first quarter of 2006, the Company adopted the fair value recognition provisions of SFAS 123R pertaining to share-based compensation transactions. This adoption creates temporary differences between GAAP based net income and tax based net income because the compensation deduction permitted under SFAS 123R is not deductible for taxes. When option holders exercise their rights to purchase the Company's shares, the Company is entitled to take a tax deduction, eliminating the temporary difference created when the option rights vested. The Company recognized $97,000 in compensation expense related to SFAS 123R in the first nine months of 2008. As a result of the temporary difference created, the Company's deferred tax asset balance increased $24,000. The

Company recalculated the valuation reserve to include the addition to the deferred tax asset which resulted in no net change in the deferred tax asset reported on the balance sheet.

**Discontinued Operations**

In the first nine months of 2007, HemaBio, produced significantly lower earnings than anticipated by the Company and HemaBio's management team. In the third quarter of 2007, HemaBio's management team projected a net loss from operations of approximately $300,000, and projected further losses for the fourth quarter of 2007 as well. On November 2, 2007, HemaBio received letters of resignation from Mr. Joseph Mauro, HemaBio's President, and Mr. Valentin Adia, HemaBio's Vice President of Business Development. Mr. Mauro and Mr. Adia both stated that their resignations were submitted under the "good reason" provisions of their employment agreements. The Board of Directors of HemaBio, in consultation with, and with the approval of, the Board of Directors of the Company, determined that HemaBio's business could not operate successfully because (i) HemaBio was always operated as a separate and independent business from the Company, (ii) HemaBio's employees, principally Mr. Mauro and Mr. Adia, possessed all knowledge of HemaBio's suppliers, markets and customers, (iii) without senior management there were no other individuals at HemaBio who could run the business and find a pathway to future profitability, (iv) none of the Company's management were available, nor possessed the knowledge, to take over the responsibility to run HemaBio, and (v) the projected operating losses at HemaBio were growing, and HemaBio did not have sufficient financial resources to operate for the time period required to recruit, hire and train new management. Therefore, the Board of Directors of HemaBio decided that it was in the best interest of HemaBio's creditors to close all operations of HemaBio, effective November 5, 2007.

On December 4, 2007, HemaBio executed an Assignment for Benefit of Creditors, under Florida Statutes Section 727.101 et seq. ("Assignment"), assigning all of its assets to an assignee, who is responsible for taking possession of, protecting, preserving, and liquidating such assets and ultimately distributing the proceeds to creditors of HemaBio according to their priorities as established by Florida law. The assignee continues to fulfill his obligations under the Assignment, but has not concluded his efforts to liquidate all of the assets or distribute any proceeds to HemaBio's creditors. See "Note 3 Discontinued Operations." HemaBio had no operations in the three and nine months ended September 30, 2008; however expenses related to efforts to liquidate the assets resulted in $170,000 loss in the third quarter. Previously in 2008, the Company recognized gains from the sale of inventory that previously were estimated at no value. Combined with the loss recorded in the third quarter, the Company recorded a $92,000 gain for the first nine months of 2008. In the three and nine months ended September 30, 2007, HemaBio's net loss was $4,569,000 and $4,396,000, respectively, which included $4,259,000 for goodwill impairment recorded in the third quarter of 2007.

***Critical Accounting Policies and Estimates***

***Use of Estimates***

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to valuation reserves, income taxes and intangibles. The Company bases its estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

***Accounting for Share-Based Incentive Programs***

In the third quarter of 2008 the Company recognized compensation expense related to stock options, restricted stock units and restricted stock granted to employees based on the cost for all share-based payments granted prior to September 30, 2008 based on the grant date fair value estimated in accordance with SFAS 123R, adjusted for an estimated future forfeiture rate.

The Company's assessment of the estimated fair value of stock options, restricted stock units and restricted shares is affected by the price of the Company's stock, as well as assumptions regarding a number of complex and subjective variables and the related tax impact. Management utilized the Black-Scholes model to estimate the fair value of share-based awards. Generally, the calculation of fair value for options granted under SFAS 123R is similar to the calculation of fair value under SFAS 123, with the exception of the treatment of forfeitures.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including:

(a) The expected volatility of the common stock price, which was determined based on historical volatility of the Company's common stock;

(b) Expected dividends, which are not anticipated;

(c) Expected life of the stock option, which is estimated based on the historical stock option exercise behavior of employees; and

(d) Expected forfeitures.

Starting in the third quarter of 2008, the Company no longer assumes a forfeiture rate when assessing value for options held by independent members of the Board of Directors. Since options issued to independent board members are not forfeited upon separation from the Company, management has determined it is inappropriate to assign a forfeiture rate to these options. As a result of this change in forfeiture rate, the Company recognized $6,000 in additional share-based compensation expense in the third quarter of 2008.

In the future, management may elect to use different assumptions under the Black-Scholes valuation model or a different valuation model, which could result in a significantly different impact on net income or loss.

***Allowance for Doubtful Accounts***

The Company makes ongoing estimates relating to the collectibility of accounts receivable and maintains a reserve for estimated losses resulting from the inability of customers to meet their financial obligations to the Company. In determining the amount of the reserve, management considers the historical level of credit losses and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since management cannot predict future changes in the financial stability of customers, actual future losses from uncollectible accounts may differ from the estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve may be required. In the event it is determined that a smaller or larger reserve was appropriate, the Company would record a credit or a charge to general and administrative expense in the period in which such a determination is made.

***Inventory***

Inventories consist of Company-manufactured platelets, whole blood components and other blood products, as well as component blood products purchased for resale. Supplies consist primarily of medical supplies used to collect and manufacture products and to provide therapeutic services. Inventories are stated at the lower of cost or market and are accounted for on a first-in, first-out basis. Management estimates the portion of inventory that might not have future value by analyzing historical sales history for the twelve months prior to any balance sheet date. For each inventory type, management establishes an obsolescence reserve equal to the value of inventory quantity in excess of twelve months of historical sales quantity, using the first-in, first-out inventory valuation methodology.

***Income Taxes***

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

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

***Liquidity and Capital Resources***

As of September 30, 2008, the Company's cash and cash equivalents for continuing operations were $59,000, and the Company's working capital from continuing operations was $1,931,000.

On September 26, 2006, the Company, together with the Company's subsidiaries Coral Blood Services, Inc. and HemaBio, entered into an Amended and Restated Loan and Security Agreement ("Comerica Agreement") with Comerica Bank ("Comerica") to provide a working capital line of credit. The Comerica Agreement restated the terms of the prior credit agreement with Comerica, with the following revisions: (i) the limits on the amount the Company may borrow were changed to the lesser of 75% of eligible accounts receivable or $3 million, (ii) HemaBio was added as an additional borrower, (iii) Comerica was given a security interest in all of the assets of HemaBio, and (vi) the term of the Comerica Agreement was extended one year to June 30, 2008. On March 26, 2007, the Comerica Agreement was amended by the First Modification which increased the line of credit from $3 million to $4 million. The Comerica Agreement provided that interest was payable monthly at a rate of prime minus 0.25%. In addition, the Company had the option to draw against this facility for thirty, sixty or ninety days using LIBOR as the relevant rate of interest. As of December 31, 2007, the Company had borrowed $2,500,000 on this line of credit. The Comerica Agreement was collateralized by substantially all of the Company's assets and required the maintenance of certain covenants that, among other things, required minimum levels of profitability and prohibited the payment of dividends.

The Comerica Agreement provided, among other things, that in the event the Company failed to observe any covenants in the Agreement, or permitted a default in any material agreement to which the Company was a party with third parties that results in an acceleration of any indebtedness, then an event of default shall have occurred under the Comerica Agreement, and Comerica may, among other things, declare the Company's indebtedness to Comerica immediately due and payable. As of

September 30, 2007, the Company was not in compliance with certain financial covenants in the Comerica Agreement, and Comerica did not provide a waiver of this violation as provided in the past. As of December 31, 2007, the Company's covenant violations remained, and Comerica had not provided a waiver.

On April 10, 2008, the Company, together with the Company's subsidiary Coral Blood Services, Inc., entered into a Credit and Security Agreement ("Wells Agreement") with Wells Fargo Bank ("Wells Fargo") to provide a $4.75 million revolving line of credit for working capital purposes, and a $250,000 capital expenditure line of credit. The Wells Agreement provides that the Company may borrow the lesser of 85% of eligible accounts receivables or $4.75 million with respect to the revolving line of credit. The term of the Wells Agreement is three years. Interest on the working capital line of credit is payable monthly at a rate of the Wells Fargo prime rate minus 0.25%, and interest on the capital expenditure line of credit is payable monthly at the Wells Fargo prime rate. As of September 30, 2008, the Wells Fargo prime rate was 5%. In addition, as of September 30, 2008, the Company had utilized $2,074,000 of the Wells Fargo line of credit. The Wells Agreement is collateralized by substantially all of the Company's assets and requires the maintenance of certain covenants that, among other things, require minimum levels of profitability and prohibit the payment of dividends. As of September 30, 2008, the Company was in compliance with all of the covenants in the Wells Agreement.

Upon closing of the Wells Agreement, the Company used the available proceeds to payoff the outstanding debt obligation to Comerica in full. In exchange, the Company and Comerica terminated the Comerica Agreement, and Comerica released the security interest in the Company's assets. In addition, upon closing the Wells Agreement, the Company acquired $300,000 of secured debt of HemaBio previously owed to Comerica. Subsequently the Company received $100,000 from the Florida assignee as a preliminary distribution. As of September 30, 2008, $200,000 remains as a note payable to HemaCare Corporation on the books of HemaBio, which is eliminated in the consolidated balance sheet, and therefore not included in liabilities related to assets held for sale.

As part of the consideration to acquire HemaBio, the Company issued a promissory note to both of the sellers. One note for $153,800 for the benefit of Joseph Mauro required four equal annual installments of $38,450, plus accrued interest, commencing August 29, 2007 until paid. This note paid interest at 5% annually, and was secured through a security agreement, by all of the assets of HemaBio, and was subordinate to Comerica. The second note for $46,200 for the benefit of Valentin Adia, required four equal annual installments of $11,550, plus accrued interest, commencing August 29, 2007 until paid. This note paid interest at 5% annually, was also secured by all of the assets of HemaBio, and was subordinate to Comerica.

The Company failed to pay the first installment due to Mr. Mauro on August 29, 2007 of $46,000, which included $8,000 in accrued interest. Under the terms of the promissory note between the Company and Mr. Mauro, if an event of default occurred, the interest rate on the outstanding obligation increased to 12%. The Company's failure to pay the first installment was an event of default that triggered an increase in the interest rate. Therefore, since August 29, 2007, and until its settlement, the Company accrued interest expense on the outstanding balance of this note at an interest rate of 12%.

The Company failed to pay the first installment due to Mr. Adia on August 29, 2007 of $15,000, which included $3,000 in accrued interest. As of September 30, 2008, the Company accrued $4,000 in interest due to Mr. Adia.

Disputes arose between the Company and Messrs. Mauro and Adia pertaining to the Company's acquisition of HemaBio, and their management of HemaBio after the acquisition. The dispute led to the filing of a lawsuit against Mauro and Adia in the Los Angeles Superior Court (Case No. LC082173) (the "Lawsuit").

On August 26, 2008, the Company entered into a Settlement Agreement and Mutual General Release (the "Mauro/Adia Agreement") with Mauro and Adia. The Mauro/Adia Agreement resolves the disputes, including those alleged in the Lawsuit. The Maruo/Adia Agreement provides for the mutual general release of all claims between the Company and Mauro and Adia in exchange for (i) Mauro and Adia's cancellation of promissory notes, and accrued interest, received from the Company as part of the HemaBio acquisition consideration; (ii) return of 248,000 shares of the Company's common stock received by Mauro and Adia as part of the HemaBio acquisition consideration; and (iii) payment by Mauro and Adia of $50,000 to the Company.

As a result of the cancellation of the promissory notes, and other consideration received by the Company from the Mauro/Adia Agreement, the Company recognized a gain of $405,000, which is reported on the Company's income statement as a component of Other Income.

When the Company acquired HemaBio, two former HemaBio investors, Dr. Lawrence Feldman and Dr. Karen Raben, each held a $250,000 note from HemaBio. Both of these notes require four equal annual installments of $62,500, plus accrued interest, commencing August 29, 2007, until paid and pay interest at 7% annually, and are secured by all of the assets of HemaBio, and were subordinate to Comerica.

HemaBio failed to pay the first installments due to Drs. Feldman and Raben on August 29, 2007 of $160,000, which included $35,000 in accrued interest. Under the terms of the promissory notes between HemaBio and Drs. Feldman and Raben, failure to pay any of the scheduled payments when due causes the entire unpaid balance, including unpaid interest, to become immediately due and payable, and causes the stated interest rate on both notes to increase to 10% per annum. Therefore, since August 29, 2007, HemaBio recognized accrued interest expense on the outstanding balance on both notes at an interest rate of 10%.

The foregoing descriptions of the notes, the Comerica Agreement and the Mauro/Adia Agreement are qualified in their entirety by the copies of those agreements filed as exhibits to the Company's Current Reports on Form 8-K filed with the SEC on September 5, 2006, September 29, 2006, March 28, 2007 and September 5, 2008.

As of September 30, 2008, HemaBio's default on notes to Drs. Feldman and Raben remain unresolved.

Future minimum payments under operating leases and notes payable are as follows:

| | Total | Less than 1 Year | 1 3 Years | 3 5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Operating leases | $5,669,000 | $ 191,000 | $1,541,000 | $1,406,000 | $2,531,000 |
| Notes Payable | 2,574,000 | 2,574,000 | | | |
| Totals | $8,243,000 | $2,765,000 | $1,541,000 | $1,406,000 | $2,531,000 |

For the nine months ended on September 30, 2008, cash provided by operating activities was $39,000, compared to $315,000 for the nine months ended September 30, 2007. The decrease of $276,000 in cash provided between the two periods is partially due to the discharge of $242,000 of promissory notes to Joseph Mauro and Valentin Adia, and related accrued interest, that was originally part of the acquisition of HemaBio. Additionally, accounts receivable increased $1,060,000 in the first nine months of 2008, compared to a decrease of $1,295,000 for the same period in 2007, and inventory, supplies and prepaid expenses increased $337,000 compared to only $90,000 in the same period in 2007. Partially offsetting these factors are accounts payable, accrued expenses and other liabilities which increased $285,000 in the first nine months of 2008, compared to a $1,118,000 decrease in this category in the same period in 2007. HemaCare's days sales outstanding stood at 60 days as of September 30, 2008, compared to 53 days as of December 31, 2007.

For the nine months ended on September 30, 2008, net cash used in investing activities was $451,000, compared to $864,000 for the same period in 2007. In 2007, the Company invested in leasehold improvements for the Company's Van Nuys donor center that were not incurred in 2008.

For the nine months ended September 30, 2008, net cash provided by financing activities was $51,000, compared to $501,000 for the same period of 2007. In first nine months of 2008, the Company paid down $426,000 of the senior secured line of credit. During the same period of 2007, the Company drew $475,000 from the Company's senior secured line of credit.

For discontinued operations, cash provided by operating activities in 2008 was $368,000 compared with cash used of $571,000 in the first nine months of 2007. The cash provided in 2008 was from sale of inventory remaining after the close of HemaBio and the liquidation of additional assets.

Management anticipates that cash on hand, availability on the Wells Fargo bank line of credit and cash generated by operations will be sufficient to provide funding for the Company's needs during the next year, including working capital requirements, equipment purchases, operating lease commitments and funding of the new information technology project.

The Company's primary sources of liquidity include cash on hand, available borrowing under the Wells Fargo line of credit, and cash generated from operations. Liquidity depends, in part, on timely collections of accounts receivable. Any significant delays in customer payments could adversely affect the Company's liquidity. Liquidity also depends on maintaining compliance with the various loan covenants. Presently, HemaBio is in default on two notes related to the HemaBio acquisition.

***Risk Factors Affecting the Company***

*The Company's short and long-term success is subject to many factors that are beyond management's control. Shareholders and prospective shareholders of the Company should consider carefully the following risk factors, in addition to other information contained in this report. The matters discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K that are not historical are forward-looking statements. These statements may also be identified by the use of words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "project," "will" and similar expressions, as they relate to the Company, its management and its industry. Investors and prospective investors are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which will be beyond the control of the Company. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various risks and uncertainties, including those discussed below or in other filings by the Company with the Securities and Exchange Commission. The Company does not undertake to update its forward-looking statements to reflect later events and circumstances or actual outcomes.*

***Company reported losses for all of 2007 and may not return to profitability***

The Company reported losses in each quarter of 2007. Although the Company reported net income in the first nine months of 2008, management can not be certain if the Company will continue to be profitable. Continued losses could result in a drain of cash, and threaten the ability of the Company to continue to operate.

***Costs increasing more rapidly than market prices could reduce profitability***

The cost of collecting, processing and testing blood products has risen significantly in recent years and will likely continue to increase. These cost increases are related to new and improved testing procedures, increased regulatory requirements related to blood safety, and higher staff and supply costs related to collecting and processing blood products. Competition and fixed price contracts may limit the Company's ability to maintain existing operating margins. Some competitors have greater resources

than the Company to sustain periods of marginally profitable or unprofitable sales. Costs increasing more rapidly than market prices, may reduce profitability and may have a material adverse impact on the Company's business and results of operations.

***Changes in demand for blood products could affect profitability***

The Company's operations are structured to produce particular blood products based on customers' existing demand, and perceived potential changes in demand, for these products. Sudden or unexpected changes in demand for these products could have an adverse impact on the Company's profitability. Increasing demand could harm relationships with customers if the Company is unable to alter production capacity, or purchase products from other suppliers, adequately to fill orders. This could result in a decrease in overall revenues and profits. Decreases in demand may require the Company to make sizeable investments to restructure operations away from declining products to the production of new products. Lack of access to sufficient capital, or lack of adequate time to properly respond to such a change in demand, could result in declining revenue and profits as customers transfer to other suppliers.

***Declining blood donations could affect profitability***

The Company's blood products business depends on the availability of donated blood. Only a small percentage of the population donates blood, and regulations intended to reduce the risk of introducing infectious diseases in the blood supply, result in a decreased pool of potential donors. If the level of donor participation declines, the Company may not be able to reduce costs sufficiently to maintain profitability in blood products.

***Competition may cause a loss of customers and an inability to pass on increases in costs thereby impacting profitability***

Competition in the blood products and blood services industries is primarily based on fees charged to customers. The Company's primary competition in the blood products market is the American Red Cross ("ARC"), which owns a significant market share advantage over the Company in the regions the Company operates. As a result, the ARC possesses significant market power to influence prices, which can prevent the Company from passing along increases in costs to customers. In addition, hospital consolidations and affiliations allow certain customers to negotiate as a group, exerting greater price pressure on the Company. These changes may have a negative impact on the Company's future revenue, and may negatively impact future profitability.

***Operations depend on services of qualified professionals and competition for their services is strong***

The Company is highly dependent upon obtaining the services of qualified professionals. In particular, the Company's operations depend on the services of registered nurses, medical technologists, regulatory and quality assurance professionals, and others with knowledge of the blood industry. Nationwide, the demand for these professionals exceeds the supply and competition for their services is strong. The Company incurs significant costs to hire and retain staff. If the Company is unable to attract and retain a staff of qualified professionals, operations may be adversely affected which, in turn, may adversely impact profitability.

***Industry regulations and standards could increase operating costs or result in closure of operations***

The business of collecting, processing and distributing blood products is subject to extensive and complex regulation by the state and federal governments. The Company is required to obtain and maintain numerous licenses in different legal jurisdictions regarding the safety, purity and quality of products, condition of facilities and that appropriate procedures are utilized. Periodically the Food and Drug Administration ("FDA") conducts inspections of HemaCare's facilities and operations. At the

conclusion of each inspection, the FDA provides the Company with a list, if any, of observations of regulatory issues discovered during the inspection. On May 5, 2006, the Company received a warning letter from the FDA pertaining to specific observations pertaining to an inspection of the Company's California operations earlier that year. In August of 2007, the FDA performed another inspection of the Company's California operations. As a result of this inspection, the Company was provided with a list of observations of regulatory issues. The Company believes it has either adequately addressed the issues raised by the FDA, or is in the process of addressing these issues. The Company believes that its response and actions taken to address the FDA observations is sufficient, however, the Company cannot insure against future FDA actions, including possible sanctions or closure of selected Company operations.

On October 12, 2006, the AABB issued a timeline for gradual implementation of the United States Industry Consensus Standards for the Uniform Labeling of Blood and Blood Components using ISBT 128. To maintain accreditation, blood facilities would need to develop a written implementation plan by November 1, 2006 and complete full implementation by May 2008. The Company requested and received a variance from the AABB to delay the deadline for full implementation until December 31, 2008. If the Company fails to complete the implementation by the new deadline, the Company can request another variance. The Company expects the AABB would approve any such variance request, but cannot insure against the AABB declining the request. If the Company no longer qualifies for AABB accreditation, the Company's relationship with selected customers, who require blood suppliers to be AABB accredited, could be negatively impacted.

On November 3, 2006, the AABB provided recommendations to reduce the risk of transfusion-related acute lung injury. The recommendations, to be fully implemented for high-plasma volume blood products and platelets by November 2007 and 2008, respectively, may reduce the volume of products available to customers, which may negatively impact the Company's operations and profitability.

State and federal laws include anti-kickback and self-referral prohibitions and other regulations that affect the shipment of blood products and the relationships between blood banks, hospitals, physicians and other persons who refer business to each other. Health insurers and government payers, such as Medicare and Medicaid, also limit reimbursement for products and services, and require compliance with certain regulations before reimbursement will be made.

The Company devotes substantial resources to complying with laws and regulations; however, the possibility cannot be eliminated that interpretations of existing laws and regulations will result in findings that the Company has not complied with significant existing regulations. Such a finding could materially harm the Company's business. Moreover, healthcare reform, new laws and regulations are continually under consideration, and the Company does not know how laws and regulations will change in the future and what impact these changes may have on the Company.

***Discontinuation of the operations of the Company's Florida-based research subsidiary may hinder the Company's ability to generate profits***

The Company's Florida-based research subsidiary recorded a decrease in revenue and a related increase in operating losses throughout the first nine months of 2007. On November 5, 2007, the Board of Directors of HemaBio closed this operation to avoid further losses. On December 4, 2007, HemaBio executed an Assignment for Benefit of Creditors, under Florida Statutes Section 727.101 et seq., assigning all of its assets to an assignee, who is responsible for taking possession of, protecting, preserving, and liquidating such assets and ultimately distributing the proceeds to creditors of HemaBio according to their priorities as established by Florida law. These actions could temporarily increase costs, utilize scarce financial resources, and distract management and have a material adverse impact on the Company and its results of operations. In addition, HemaBio creditors could attempt to pursue HemaCare for recovery of unpaid claims if they are not satisfied with the results of the Assignment for Benefit of Creditors process. If HemaBio's creditors are successful, HemaCare may not have sufficient liquidity to satisfy these obligations.

***Decrease in reimbursement rates may affect profitability***

Reimbursement rates for blood products and services provided by Medicaid, Medicare and commercial insurance, impact the fees that the Company is able to negotiate with customers. In addition, to the degree that the Company's hospital customers receive lower reimbursement for the products and services provided by the Company, these customers may reduce their demand for these goods and services, and adversely affect the Company's revenue. If the Company is unable to increase prices for goods and services, the Company's profitability may be adversely impacted.

***Not-for-profit status gives advantages to competitors***

HemaCare is the only significant blood products supplier to hospitals in the U.S. that is operated for profit and investor owned. The not-for-profit competition is exempt from federal and state taxes, and has substantial community support and access to tax-exempt financing. The Company may not be able to continue to compete successfully with not-for-profit organizations and the business and results of operations may suffer material adverse harm.

***Potential inability to meet future capital needs could impact ability to operate***

The Company may not generate sufficient operating cash in the future to finance its operations for the next year. Currently the Company is utilizing its credit facility with Wells Fargo to help finance its operations. The Company may need to raise additional capital in the debt or equity markets in order to finance future operations and procure necessary equipment. There can be no assurance that the Company will be able to obtain such financing on reasonable terms or at all. Additionally, there is no assurance that the Company will be able to obtain sufficient capital to finance future expansion.

***Reliance on relatively few vendors for significant supplies and services could affect the Company's ability to operate***

The Company currently relies on a relatively small number of vendors to supply important supplies and services. Significant price increases, or disruptions in the ability to obtain products and services from existing vendors, may force the Company to find alternative vendors. Alternative vendors may not be available, or may not provide their products and services at favorable prices. If the Company cannot obtain the products and services it currently uses, or alternatives, at reasonable prices, the Company's ability to produce products and provide services may be severely impacted, resulting in a reduction of revenue and profitability.

***Potential adverse effect from changes in the healthcare industry, including consolidations, could affect access to customers***

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. There has been significant consolidation among healthcare providers seeking to enhance efficiencies, and this consolidation is expected to continue. As a result of these trends, the Company may be limited in its ability to increase prices for products in the future, even if costs increase. Further, customer attrition as a result of consolidation or closure of hospital facilities may adversely impact the Company.

***Future technological developments or alternative treatments could jeopardize business***

As a result of the risks posed by blood-borne diseases, many companies and healthcare providers are currently seeking to develop alternative treatments for blood product transfusions. HemaCare's business consists of collecting, processing and distributing human blood products and providing blood related therapeutic services. The introduction and acceptance in the market of alternative treatments

may cause material adverse harm to the future profitability for these products and to the Company's business.

***Limited access to insurance could affect ability to defend against possible claims***

The Company currently maintains insurance coverage consistent with the industry; however, if the Company experiences losses or the risks associated with the blood industry increase in the future, insurance may become more expensive or unavailable. The Company also cannot give assurance that as the business expands, or the Company introduces new products and services, that additional liability insurance on acceptable terms will be available, or that the existing insurance will provide adequate coverage against any and all potential claims. Also, the limitations on liability contained in various agreements and contracts may not be enforceable and may not otherwise protect the Company from liability for damages. The successful assertion of one or more large claims against the Company that exceeds available insurance coverage, or changes in insurance policies, such as premium increases or the imposition of large deductibles or co-insurance requirements, may materially and adversely impact the Company's business.

***Ability to attract, retain and motivate management and other skilled employees***

The Company's success depends significantly on the continued services of key management and skilled personnel. Competition for qualified personnel is intense and there are a limited number of people with knowledge of, and experience in, the blood product and blood service industries. The Company does not have employment agreements with most key employees, nor maintain life insurance policies on them. The loss of key personnel, especially without advance notice, or the Company's inability to hire or retain qualified personnel, could have a material adverse impact on revenue and on the Company's ability to maintain a competitive advantage. The Company cannot guarantee that it can retain key management and skilled personnel, or that it will be able to attract, assimilate and retain other highly qualified personnel in the future.

***Product safety and product liability could provide exposure to claims and litigation***

Blood products carry the risk of transmitting infectious diseases, including, but not limited to, hepatitis, HIV and Creutzfeldt-Jakob disease. HemaCare screens donors, uses highly qualified testing service providers, and conducts selective blood testing, to test blood products for known pathogens in accordance with industry standards, 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 may exceed insurance coverage and materially and adversely impact the Company's financial condition.

***Targeted partner blood drives involve higher collection costs***

Part of the Company's current operations involves conducting blood drives in partnership with hospitals. Some blood drives are conducted under the name of the hospital partner and require that all promotional materials and other printed material include the name of the hospital partner. This strategy lacks the efficiencies associated with blood drives that are not targeted to benefit particular hospital partners. As a result, collection costs might be higher than those experienced by the Company's competition and may impact profitability and growth plans.

***Environmental risks could cause the Company to incur substantial costs to maintain compliance***

HemaCare's operations involve the controlled use of bio-hazardous materials and chemicals. Although the Company believes that its safety procedures for handling and disposing of such materials

comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed the resources of the Company and its insurance coverage. The Company may incur substantial costs to maintain compliance with environmental regulations as it develops and expands its business.

***Business interruption due to terrorism and increased security measures in response to terrorism could adversely impact profitability***

HemaCare's business depends on the free flow of products and services through the channels of commerce and freedom of movement for patients and donors. Delays or stoppages in the transportation of perishable blood products and interruptions of mail, financial or other services could have a material adverse impact on the Company's results of operations and financial condition. Furthermore, the Company may experience an increase in operating costs, such as costs for transportation, insurance and security, as a result of terrorist activities and potential activities, which may target health care facilities or medical products. The Company may also experience delays in receiving payments from payers that have been impacted by terrorist activities and potential activities. The U.S. economy in general is adversely impacted by terrorist activities, and potential activities, and any economic downturn may adversely impact the Company's results of operations, impair its ability to raise capital or otherwise adversely impact its ability to grow its business.

***Business interruption due to earthquakes could adversely impact profitability***

HemaCare's principal blood products and blood services operations, as well as the Company's corporate headquarters, are located in Southern California, which is an area known for potentially destructive earthquakes. A severe event in this location could have a substantial negative impact on the ability of the Company to continue to operate. Any significant delay in resuming operations following such an event could cause a material adverse impact on the profitability of the Company. In addition, the Company's insurance policies do not provide any coverage for damages as a result of an earthquake. Therefore, the Company would bear all of the costs incurred to resume operations after an earthquake and the Company may not have sufficient resources to do so.

***Evaluation and consideration of strategic alternatives, and other significant projects, may distract management from reacting appropriately to business challenges and lead to reduced profitability***

As a publicly traded Company, management must constantly evaluate and consider new strategic alternatives, and other significant projects, in an attempt to maximize shareholder value. The Company does not possess a large management team that can both consider strategic alternatives and manage daily operations. Therefore, management distractions associated with the evaluation and consideration of strategic alternatives could prevent management from dedicating appropriate time to immediate business challenges or other significant business decisions. This may cause a material adverse impact on the future profitability of the Company.

***Strategy to acquire companies may result in unsuitable acquisitions or failure to successfully integrate acquired companies, which could lead to reduced profitability***

The Company may embark on a growth strategy through acquisitions of companies or operations that complement existing product lines, customers or other capabilities. The Company may be unsuccessful in identifying suitable acquisition candidates, or may be unable to consummate a desired acquisition. To the extent any future acquisitions are completed, the Company may be unsuccessful in integrating acquired companies or their operations, or if integration is more difficult than anticipated, the Company may experience disruptions that could have a material adverse impact on future

profitability. Some of the risks that may affect the Company's ability to integrate, or realize any anticipated benefits from, acquisitions include:

unexpected losses of key employees or customers of the acquired company;

difficulties integrating the acquired company's standards, processes, procedures and controls;

difficulties coordinating new product and process development;

difficulties hiring additional management and other critical personnel;

difficulties increasing the scope, geographic diversity and complexity of the Company's operations;

difficulties consolidating facilities, transferring processes and know-how;

difficulties reducing costs of the acquired company's business;

diversion of management's attention from the management of the Company; and

adverse impacts on existing business relationships with customers.

***Articles of Incorporation and Rights Plan could delay or prevent an acquisition or sale of HemaCare***

HemaCare's 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 for a change in control of HemaCare, even if such a change in control would be in the interest of a significant number of shareholders or if such a change in control would provide shareholders with a substantial premium for their shares over the then-prevailing market price for the Company's 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 the other shareholders would have the right to purchase securities from the Company at a discount to the fair market value of the common stock, causing substantial dilution to the acquiring person or group. The Shareholders' Rights Plan may inhibit a change in control and, therefore, may materially adversely impact the shareholders' ability to realize a premium over the then-prevailing market price for the common stock in connection with such a transaction. For a description of the Shareholders' Rights Plan see the Company's Current Report on Form 8-K filed with the SEC on March 20, 2008.

***Quarterly revenue and operating results may fluctuate in future periods, and the Company may fail to meet investor expectations***

The Company's quarterly revenue and operating results have fluctuated significantly in the past, and are likely to continue to do so in the future due to a number of factors, many of which are not within the Company's control. If quarterly revenue or operating results fall below the expectations of investors, the price of the Company's common stock could decline significantly. Factors that might cause quarterly fluctuations in revenue and operating results include the following:

changes in demand for the Company's products and services, and the ability to obtain the required resources to satisfy customer demand;

ability to develop, introduce, market and gain market acceptance of new products or services in a timely manner;

ability to manage inventories, accounts receivable and cash flows;

ability to control costs; and

ability to attract qualified blood donors.

The level of expenses incurred depends, in part, on the expectation for future revenue. In addition, since many expenses are fixed in the short term, the Company cannot significantly reduce expenses if there is a decline in revenue to avoid losses.

***Stocks traded on the OTC Bulletin Board are subject to greater market risks than those of exchange-traded stocks since they are less liquid***

HemaCare's common stock was delisted from the Nasdaq Small Cap Market on October 29, 1998 because of the failure to maintain Nasdaq's requirement of a minimum bid price of $1.00. Since November 2, 1998, the common stock has 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 another national securities exchange. As a result, an investor may find it difficult to dispose of the Company's common stock or to obtain accurate price quotations.

***Stock price could be volatile***

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

***Future sales of equity securities could dilute the Company's common stock***

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

***Lack of dividend payments could impact the price of the Company's common stock***

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.

***Evaluation of internal control and remediation of potential problems will be costly and time consuming and could expose weaknesses in financial reporting***

The regulations implementing Section 404 of the Sarbanes-Oxley Act of 2002 require management to perform an assessment of the effectiveness of the Company's internal control over financial reporting beginning with its Annual Report on Form 10-K for the fiscal year ending December 31, 2007. The Company's independent registered public accounting firm will be required to test and

evaluate the design and effectiveness of such controls and publicly attest to such evaluation beginning with the Annual Report on Form 10-K for the fiscal year ending December 31, 2009.

This process will be expensive and time consuming, and will require significant attention of management. The portion of this process completed thus far has revealed material weaknesses in internal controls that will require remediation. See "Item 4. Control and Procedures." The remediation process may also be expensive and time consuming, and management can give no assurance that the remediation effort will be completed on time or be effective. In addition, management can give no assurance that additional material weaknesses in internal controls will not be discovered. Management also can give no assurance that the process of evaluation and the auditor's attestation will be completed on time. The disclosure of a material weakness, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and harm the Company's stock price, especially if a restatement of financial statements for past periods is required.

If the Company is unable to adequately design its internal control systems, or prepare an "internal control report" to the satisfaction of the Company's auditors, the Company's auditors may issue a qualified opinion on the Company's financial statements.

***Item 3.*** **Quantitative and Qualitative Disclosures About Market Risk**

As of September 30, 2008, the Company has $500,000 of debt in the form of notes payable with fixed interest rates. As of September 30, 2008, the Company has $2,074,000 outstanding on the line of credit with Wells Fargo that is based on a variable interest rate linked to the prime interest rate. Accordingly, the Company's interest rate expense will fluctuate with changes in the Wells Fargo prime rate. If interest rates increase or decrease by 1% for the year, the Company's interest expense would increase or decrease by approximately $21,000.

***Item 4.*** **Controls and Procedures**

(a)

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company, with the participation of the Company's management, carried out a partial evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Since management failed to complete a full evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer cannot conclude that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective or ineffective to provide reasonable assurance that information required to be disclosed in this report is:

a.

Recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms; and

b.

Accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure.

Management is not aware any specific control weakness that resulted in a material misstatement in the Company's financial statements, and management does not believe any of its financial statements contain any material misstatements.

(b)

Material Weaknesses in Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and the Chief Financial Officer and implemented by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

statements for external purposes in accordance with generally accepted accounting principals in the United States of America ("GAAP").

The Company's internal control over financial reporting includes those policies and procedures that: i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are made only in accordance with authorizations of management and directors of the Company; and iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material impact on the financial statements.

As discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "2007 10-K"), the Company's management, including the Chief Executive Officer, does not expect that the Company's disclosure controls and procedures, or the Company's internal controls over financial reporting, will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, the Company's internal control system can provide only reasonable assurance of achieving its objectives and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about the likelihood of future events, and can provide only reasonable, not absolute, assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances, or the degree of compliance with the policies and procedures may deteriorate.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. An internal control material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, and with assistance from outside consultants, conducted a partial evaluation of the effectiveness of the Company's internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included a complete risk assessment of all the Company's business processes and financial statement account categories based on the following weighted risk categories:

Potential impact on the accuracy of the financial statements (30%)

Nature and complexity (20%)

Degree of subjectivity (20%)

Potential for fraud (20%)

Previously identified errors (10%)

Each financial statement account category was assigned a risk score of 1, 2 or 3, based on if an error might have no material impact on either the balance sheet or income statement, might have a material impact on either the balance sheet or income statement, or might have a material impact on both the balance sheet and income statement. A calculation was then performed for each financial statement account category to weight the score for each risk category. At the conclusion of this analysis, management identified those financial statement account categories that were perceived to be either high risk, medium risk or low risk for material error. Those categorized as high risk were selected for further evaluation of the related internal control structure.

Prior to the completion and filing of the Company's 2007 10-K, the Company's outside consultants performed an evaluation of approximately 50% of the internal controls related to the high risk account categories including a review of the related business processes, review of related Company policies, interviews with key personnel and, where applicable, an assessment of related information technology controls. The Company did not design or execute a testing plan to determine if any of these controls were effective or ineffective.

In addition, the outside consultants performed an evaluation of the Company's information technology controls, including the design and execution of a testing plan to determine if these controls were effective.

Based on the portion of the consultant's evaluation that was completed, and based on management's assessment of selected internal controls, the Company identified the following internal control weakness over financial reporting: (a) the Company failed to institute all elements of an effective program to help prevent and detect fraud by Company employees; (b) the Company did not maintain adequate segregation of duties for staff members responsible for recording revenue; and (c) the Company failed to provide adequate controls over the use of spreadsheets used to record certain accounting entries and used to produce the Company's financial statements.

On September 11, 2008, the Company hired an outside consultant to assist with the remaining evaluation of the Company's internal controls in effect in 2007, develop a test plan for the internal controls that were determined to be appropriate and execute the test plan to determine if those controls functioned effectively. As of the date of this report, the Company has not completed the evaluation of all the internal controls. The Company anticipates that the evaluation of internal controls and testing of internal controls will be completed by December 2008.

Management does not believe any of its financial statements contain a material error as a result of any material weakness in internal controls.

(c)

Remediation of Material Weakness in Internal Control Over Financial Reporting

From June 2007 through September 2007, the Company engaged the services of an outside consultant to assist with an assessment of the Company's internal controls. At the conclusion of this engagement, the consultant provided management with documentation of the internal control weaknesses they identified. Once management was informed of these weaknesses, the Company has engaged in, and will continue to engage in, remediation efforts to address the material weakness in its internal control over financial reporting. Specific actions which have been or will be taken are outlined below:

The Company has:

developed a list of identified control weaknesses;

developed action plans to correct each identified weakness;

held meetings to discuss the allocation of resources and timelines to complete each action plan;

instituted other mitigating controls over revenue recognition and over the use of spreadsheets to enhance the control environment pertaining to these areas of material weakness; and

evaluated and standardized SOX testing and controls.

The Company has determined to take the following additional actions before the end of 2008:

retain the services of a consultant, or consultants, to complete an evaluation of the internal controls in existence for 2007 related to the high risk account categories;

develop a list of additional control weaknesses identified by the consultant or consultants; and

develop action plans to correct each identified additional weakness.

The Company will assess the need to take additional actions including, but not limited, to the following:

evaluate accounting and control systems to identify opportunities for enhanced controls;

recruit and hire additional staff to provide greater segregation of duty;

evaluate the need for other employee changes;

expand executive management's ongoing communications regarding the importance of adherence to internal controls and company policies;

implement an internal auditing function at HemaCare and its subsidiaries; and

evaluate such other actions as the Company's advisors may recommend.

(d) Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the Company's fiscal quarter ended September 30, 2008 that has materially impacted, or is reasonably likely to materially impact, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

***Item 1.*** **Legal Proceedings**

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

***Item 1A.*** **Risk Factors**

The risk factors disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 have not materially changed other than as set forth below:

***Company reported losses for all of 2007 and may not return to profitability***

The Company reported losses in each quarter of 2007. Although the Company reported net income in the first nine months of 2008, management can not be certain if the Company will continue to be profitable. Continued losses could result in a drain of cash, and threaten the ability of the Company to continue to operate.

***Costs increasing more rapidly than market prices could reduce profitability***

The cost of collecting, processing and testing blood products has risen significantly in recent years and will likely continue to increase. These cost increases are related to new and improved testing procedures, increased regulatory requirements related to blood safety, and higher staff and supply costs related to collecting and processing blood products. Competition and fixed price contracts may limit the Company's ability to maintain existing operating margins. Some competitors have greater resources than the Company to sustain periods of marginally profitable or unprofitable sales. Costs increasing more rapidly than market prices, may reduce profitability and may have a material adverse impact on the Company's business and results of operations.

***Discontinuation of the operations of the Company's Florida-based research subsidiary may hinder the Company's ability to generate profits***

The Company's Florida-based research subsidiary recorded a decrease in revenue and a related increase in operating losses throughout the first three quarters of 2007. On November 5, 2007, the Board of Directors of HemaBio closed this operation to avoid further losses. On December 4, 2007, HemaBio executed an Assignment for Benefit of Creditors, under Florida Statutes Section 727.101 et seq., assigning all of its assets to an assignee, who is responsible for taking possession of, protecting, preserving, and liquidating such assets and ultimately distributing the proceeds to creditors of HemaBio according to their priorities as established by Florida law. These actions could temporarily increase costs, utilize scarce financial resources, and distract management and have a material adverse impact on the Company and its results of operations. In addition, HemaBio creditors could attempt to pursue HemaCare for recovery of unpaid claims if they are not satisfied with the results of the Assignment for Benefit of Creditors process. If HemaBio's creditors are successful, HemaCare may not have sufficient liquidity to satisfy these obligations.

***Industry regulations and standards could increase operating costs or result in closure of operations***

The business of collecting, processing and distributing blood products is subject to extensive and complex regulation by the state and federal governments. The Company is required to obtain and

maintain numerous licenses in different legal jurisdictions regarding the safety, purity and quality of products, condition of facilities and that appropriate procedures are utilized. Periodically the Food and Drug Administration ("FDA") conducts inspections of HemaCare's facilities and operations. At the conclusion of each inspection, the FDA provides the Company with a list, if any, of observations of regulatory issues discovered during the inspection. On May 5, 2006, the Company received a warning letter from the FDA pertaining to specific observations pertaining to an inspection of the Company's California operations earlier that year. In August of 2007, the FDA performed another inspection of the Company's California operations. As a result of this inspection, the Company was provided with a list of observations of regulatory issues. The Company believes it has either adequately addressed the issues raised by the FDA, or is in the process of addressing these issues. The Company believes that its response and actions taken to address the FDA observations is sufficient, however, the Company cannot insure against future FDA actions, including possible sanctions or closure of selected Company operations.

On October 12, 2006, the AABB issued a timeline for gradual implementation of the United States Industry Consensus Standards for the Uniform Labeling of Blood and Blood Components using ISBT 128. To maintain accreditation, blood facilities would need to develop a written implementation plan by November 1, 2006 and complete full implementation by May 2008. The Company requested and received a variance from the AABB to delay the deadline for full implementation until December 31, 2008. If the Company fails to complete the implementation by the new deadline, the Company can request another variance. The Company expects the AABB would approve any such variance request, but cannot insure against the AABB declining the request. If the Company no longer qualifies for AABB accreditation, the Company's relationship with selected customers, who require blood suppliers to be AABB accredited, could be negatively impacted.

On November 3, 2006, the AABB provided recommendations to reduce the risk of transfusion-related acute lung injury. The recommendations, to be fully implemented for high-plasma volume blood products and platelets by November 2007 and 2008, respectively, may reduce the volume of products available to customers, which may negatively impact the Company's operations and profitability.

State and federal laws include anti-kickback and self-referral prohibitions and other regulations that affect the shipment of blood products and the relationships between blood banks, hospitals, physicians and other persons who refer business to each other. Health insurers and government payers, such as Medicare and Medicaid, also limit reimbursement for products and services, and require compliance with certain regulations before reimbursement will be made.

The Company devotes substantial resources to complying with laws and regulations; however, the possibility cannot be eliminated that interpretations of existing laws and regulations will result in findings that the Company has not complied with significant existing regulations. Such a finding could materially harm the Company's business. Moreover, healthcare reform, new laws and regulations are continually under consideration, and the Company does not know how laws and regulations will change in the future and what impact these changes may have on the Company.

***Potential inability to meet future capital needs could impact ability to operate***

The Company may not generate sufficient operating cash in the future to finance its operations for the next year. Currently the Company is utilizing its credit facility with Wells Fargo to help finance its operations. The Company may need to raise additional capital in the debt or equity markets in order to finance future operations and procure necessary equipment. There can be no assurance that the Company will be able to obtain such financing on reasonable terms or at all. Additionally, there is no assurance that the Company will be able to obtain sufficient capital to finance future expansion.

***Business interruption due to earthquakes could adversely impact profitability***

HemaCare's principal blood products and blood services operations, as well as the Company's corporate headquarters, are located in Southern California, which is an area known for potentially destructive earthquakes. A severe event in this location could have substantial negative impact on the ability of the Company to continue to operate. Any significant delay in resuming operations following such an event could cause a material adverse impact on the profitability of the Company. In addition, the Company's insurance policies do not provide any coverage for damages as a result of an earthquake. Therefore, the Company would bear all of the costs incurred to resume operations after an earthquake and the Company may not have sufficient resources to do so.

The following risk factor disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 has been removed as a result of the settlement of certain disputes arising from the acquisition of HemaBio as described in Note 4:

***The Company is in default on notes to former owners of HemaBio which could result in acceleration of note obligations which the Company may not have sufficient resources to satisfy.***

The Company is in default on notes to the former owners of HemaBio as a result of the Company's failure to pay the first required installment on August 29, 2007. As a result, the note holders may accelerate the payment of the entire obligation of $200,000, plus accrued interest. The Company may not possess the resources to repay the amounts outstanding when required to do so. Although these notes are only secured by the assets of HemaBio, the note holders could initiate legal action to force payment or seize Company assets in an attempt to satisfy the outstanding obligation. Defending such action could be costly and likely distract management from efforts to grow the Company and improve future profitability, which may negatively impact future profitability.

***Item 2.*** **Unregistered Sales of Equity Securities and Use of Proceeds**

The Wells Agreement requires the maintenance of certain covenants that, among other things, require minimum levels of profitability and prohibit the payment of dividends.

***Item 3.*** **Defaults Upon Senior Securities**

None.

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

None.

***Item 5.*** **Other Information**

Under certain circumstances, shareholders are entitled to present proposals at stockholder meetings. Any such proposal to be included in the proxy statement for the 2009 annual meeting of shareholders must be received at the Company's executive offices at 15350 Sherman Way, Suite 350, Van Nuys, CA, 91406, addressed to the attention of the Corporate Secretary by December 20, 2008 in a form that complies with applicable regulations. If the date of the 2009 annual meeting of shareholders is advanced or delayed more than 30 days from the date of the 2008 annual meeting, stockholder proposals intended to be included in the proxy statement for the 2009 annual meeting must be received by the Company within a reasonable time before the Company begins to print and mail the proxy statement for the 2009 annual meeting. Upon any determination that the date of the 2009 annual meeting will be advanced or delayed by more than 30 days from the date of the 2008 annual meeting, the Company will disclose the change in the earliest practicable Quarterly Report on Form 10-Q.

The SEC's rules provide that, in the event a stockholder proposal is not submitted to the Company prior to March 15, 2009, the proxies solicited by the Board for the 2009 annual meeting of shareholders will confer authority on the holders of the proxy to vote the shares in accordance with their best judgment and discretion if the proposal is presented at the 2009 annual meeting of stockholder without any discussion of the proposal in the proxy statement for such meeting. If the date of the 2009 annual meeting is advanced or delayed by more than 30 days from the date of the 2008 annual meeting, then the shareholder proposal must not have been submitted to the Company within a reasonable time before the Company mails the proxy statement for the 2009 annual meeting.

***Item 6.*** **Exhibits**

a. Exhibits

| | |
|---|---|
| 3.1 | Restated Articles of Incorporation of the Registrant incorporated by reference to Exhibit 3.1 to Form 10-K of the Registrant for the year ended December 31, 2002. |
| 3.2 | Amended and Restated Bylaws of the Registrant, as amended, incorporated by reference to Exhibit 3.1 to Form 8-K of the Registrant filed on March 28, 2007. |
| 10.1 | Settlement Agreement and Mutual Release entered into as of August 26, 2008, between HemaCare Corporation and Joseph Mauro and Valentin Adia, incorporated by reference to Exhibit 99.1 to Form 8-K of the Registrant filed on September 5, 2008. |
| 11 | Net Income per Common and Common Equivalent Share |
| 31.1 | Certification Pursuant to Rule 13a-14(a) Under the Securities Exchange Act |
| 31.2 | Certification Pursuant to Rule 13a-14(a) Under the Securities Exchange Act |
| 32.1 | Certification Pursuant to 18 U.S.C. 1350 and Rule 13a-14(b) Under the Securities Exchange Act of 1934 |

**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 14, 2008

HEMACARE CORPORATION

(Registrant)

By: /s/ JOHN DOUMITT

John Doumitt, *Chief Executive Officer*

By: /s/ ROBERT S. CHILTON

Robert S. Chilton, *Chief Financial Officer*

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