HEMACARE CORP /CA/
Form 10-Q
August 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2010

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 (State or other jurisdiction of incorporation or organization)	95-3280412 (I.R.S. Employer Identification No.)

15350 Sherman Way, Suite 350 Van Nuys, California (Address of principal executive offices)	91406 (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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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 ¨	Smaller reporting company T

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

As of August 6, 2010, 10,062,039 shares of Common Stock of the registrant were issued and 10,057,039 were outstanding.

HEMACARE CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2010

HEMACARE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 Unaudited	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$2,002,000	$1,007,000
Accounts receivable, net of allowance for doubtful accounts of $93,000 in 2010 and $87,000 in 2009	3,414,000	3,669,000
Product inventories and supplies	1,130,000	870,000
Prepaid expenses	747,000	558,000
Assets held for sale	210,000	215,000
Other receivables	22,000	56,000
Total current assets	7,525,000	6,375,000
Plant and equipment, net of accumulated depreciation and amortization of $7,210,000 in 2010 and $6,654,000 in 2009	3,692,000	4,035,000
Other assets	154,000	165,000
Total assets	$11,371,000	$10,575,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$1,677,000	$1,601,000
Accrued payroll and payroll taxes	1,078,000	583,000
Other accrued expenses	346,000	217,000
Liabilities related to assets held for sale	2,069,000	2,049,000
Total current liabilities	5,170,000	4,450,000
Deferred rent	569,000	600,000
Shareholders' equity:		
Common stock, no par value - 20,000,000 shares authorized, 10,062,039 issued and outstanding in 2010 and10,049,539 in 2009	16,420,000	16,336,000
Less: treasury stock held 5,000 shares	3,000	-
Accumulated deficit	(10,791,000)	(10,811,000)
Total shareholders' equity	5,632,000	5,525,000
Total liabilities and shareholders' equity	$11,371,000	$10,575,000

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

HEMACARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue				
Blood services	$6,197,000	$8,167,000	$12,268,000	$16,025,000
Therapeutic services	1,947,000	1,862,000	3,724,000	3,714,000
Total revenue	8,144,000	10,029,000	15,992,000	19,739,000
Operating costs and expenses				
Blood services	5,301,000	6,610,000	10,426,000	13,397,000
Therapeutic services	1,408,000	1,385,000	2,740,000	2,771,000
Total operating costs and expenses	6,709,000	7,995,000	13,166,000	16,168,000
Gross profit	1,435,000	2,034,000	2,826,000	3,571,000
General and administrative expenses	1,188,000	1,617,000	2,771,000	3,071,000
Income from operations	247,000	417,000	55,000	500,000
Provision for income taxes	10,000	48,000	10,000	50,000
Income from continuing operations	237,000	369,000	45,000	450,000
Loss from discontinued operations	(13,000)	(12,000)	(25,000)	(25,000)
Net income	$224,000	$357,000	$20,000	$425,000
Income per share				
Basic				
Continuing operations	$0.02	$0.04	$0.00	$0.05
Discontinued operations	$-	$-	$-	$-
Total	$0.02	$0.04	$0.00	$0.05
Diluted				
Continuing operations	$0.02	$0.04	$0.00	$0.04
Discontinued operations	$-	$-	$-	$-
Total	$0.02	$0.04	$0.00	$0.04
Weighted average shares outstanding-basic	10,049,148	10,027,755	10,049,339	9,966,031
Weighted average shares outstanding-diluted	10,234,148	10,108,755	10,232,339	10,030,031

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

HEMACARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	For the Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 20,000	$ 425,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	25,000	25,000
Provision for (recovery of) bad debts	6,000	(18,000)
Depreciation and amortization	570,000	495,000
Loss (gain) on disposal of assets	3,000	(1,000)
Share-based compensation	83,000	84,000
Changes in operating assets and liabilities:		
Decrease in accounts receivable	249,000	1,206,000
(Increase) decrease in inventories, supplies and prepaid expenses	(449,000)	32,000
Decrease in other receivables	34,000	40,000
Decrease (increase) in other assets	11,000	(5,000)
Increase (decrease) in accounts payable, accrued payroll and payroll taxes, accrued expenses and deferred rent	669,000	(84,000)
Net cash provided by operating activities	1,221,000	2,199,000
Cash flows from investing activities:		
Proceeds from the sale of plant and equipment	1,000	8,000
Purchases of plant and equipment	(230,000)	(329,000)
Net cash used in investing activities	(229,000)	(321,000)
Cash flows from financing activities:		
Purchase of treasury stock	(3,000)	-
Proceeds from the exercise of stock options	6,000	-
Principal payments on notes payable	-	(1,887,000)
Net cash provided by (used in) financing activities	3,000	(1,887,000)
Net cash provided by (used in) continuing operations	995,000	(9,000)
Cash Flows - Discontinued operations		
Net cash used in operating activities	(5,000)	-
Net cash used in discontinued operations	(5,000)	-
Increase (decrease) in cash and cash equivalents	990,000	(9,000)
Cash and cash equivalents at beginning of period	1,222,000	1,215,000
Cash and cash equivalents at end of period	$ 2,212,000	$ 1,206,000
Cash and cash equivalents - Continuing operations	2,002,000	894,000
Cash and cash equivalents - Assets held for sale	210,000	312,000
Total cash and cash equivalents	$ 2,212,000	$ 1,206,000

Supplemental disclosure:				
Interest paid	$	-	$	70,000
Income taxes refunded	$	(10,000)	$	(10,000)

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

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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, 2009, which has been derived from audited financial statements, and (b) the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2010 and 2009, include all adjustments (consisting of normal recurring accruals) which management considers necessary to present fairly the financial position of the Company as of June 30, 2010 and December 31, 2009, the results of its operations for the three and six months ended June 30, 2010 and 2009, and its cash flows for the six months ended June 30, 2010 and 2009 in conformity with accounting principles generally accepted in the United States ("GAAP").

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, 2009, as filed with the Securities and Exchange Commission ("SEC") on March 23, 2010 which should be read in conjunction with this Quarterly Report on Form 10-Q. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the consolidated results of operations to be expected for the full fiscal year ending December 31, 2010. The above 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 GAAP 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 GAAP 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.

Revenue and Accounts Receivable: Revenue is recognized upon acceptance of the blood products or the performance of therapeutic 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. Therapeutic services revenue consists primarily of mobile therapeutic procedure fees, while blood services revenue consists 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 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 as of June 30, 2010 or as of December 31, 2009.

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

Financial Instruments: On January 1, 2009, the Company adopted all of the provisions of Financial Accounting Standards Board Accounting Standards Codification, ("ASC"). ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820") which provides guidance on how to measure assets and liabilities that use fair value. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The full adoption of ASC 820 did not have a material impact on the Company's financial statements.

Share-Based Compensation: Pursuant to ASC Topics 505 and 718, Equity and Stock Based Compensation, an entity shall account for share-based compensation transactions with employees in accordance with the fair-value-based method, that is, the cost of services received from employees in exchange for awards of share-based compensation generally shall be measured based on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred.

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. Valuation techniques used for employee share options and similar instruments estimate the fair value of those instruments at a single point in time (for example, at the grant date). The assumptions used in a fair value measurement are based on expectations at the time the measurement is made, and those expectations reflect the information that is available at the time of measurement.

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 11, 2010 meeting of the Board of Directors, the non-employee directors were awarded, pursuant to the Company's director compensation policy, their 2010 annual stock option grants utilizing the closing stock price on March 11, 2010, 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 $16,000 and $36,000 of share-based compensation for the three and six months ended June 30, 2010 and $9,000 and $20,000 for the three and six months ended June 30, 2009, utilizing the Black-Scholes valuation model.

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

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. Pursuant to ASC Topic 740, Income Taxes, the Company utilizes 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 assets 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.

Based on management's analysis of the Company's recent performance, management determined that there was insufficient evidence of guaranteed future profitability to insure that the Company would be more likely than not to realize no benefit from the deferred tax assets. Therefore, as of June 30, 2010, the Company continued to record a 100% valuation reserve against all of the deferred tax assets.

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at various financial institutions. Cash balances up to $250,000 for each institution are insured by the Federal Deposit Insurance Corporation. At June 30, 2010, excluding cash included in assets held for sale, the Company had uninsured cash and cash equivalents of $1,749,000. On December 31, 2009, the Company's uninsured cash and cash equivalents were $754,000.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2010-17, Revenue Recognition-Milestone Method (Topic 605). The amendments in this ASU offer guidance on recognizing deliverable consideration or unit of accounting consideration that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This is effective prospectively for interim and annual periods beginning on or after June 15, 2010. The adoption of this standard will not materially impact the Company's financial position, results of operations or cash flows.

The FASB issued ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. All of the amendments in the ASU were effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of this standard did not materially impact the Company's financial position, results of operations or cash flows.

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HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

The FASB issued ASU 2010-08, Technical Corrections to Various Topics. This ASU resulted from a review by the FASB of its standards to determine if any provisions are outdated, contain inconsistencies, or need clarifications to reflect the FASB's original intent. The FASB believes the amendments do not fundamentally change U.S. GAAP. This ASU contains various effective dates. The clarifications of the guidance on embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009. The amendments to the guidance on accounting for income taxes in a reorganization (Subtopic 852-740) applies to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. All other amendments are effective as of the first reporting period (including interim periods) beginning after the date this ASU was issued (February 2, 2010). The adoption of this standard did not materially impact the Company's financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements, which amends FASB codification Subtopic 820-10, Fair Value Measurements and Disclosures. The amendments in this update require separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for fair value measurements using significant unobservable inputs (Level 3), as well as disclosure of the level of disaggregation and valuation techniques and inputs. This update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (FASB Codification Subtopic 715-20). These amendments are effective for annual reporting periods beginning after December 15, 2009. The adoption of this standard did not materially impact the Company's financial position, results of operation or cash flows.

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:

	June 30, 2010	December 31, 2009
Supplies	$ 815,000	$ 691,000
Blood products	315,000	179,000
Total	$ 1,130,000	$ 870,000

Note 3 – Resignation of Chief Executive Officer and Chief Financial Officer

On February 26, 2010, John Doumitt resigned as the Company's Chief Executive Officer, and as a member of the Company's Board of Directors. In exchange for a release of any employment-related claims Mr. Doumitt could assert against the Company, the Company agreed to pay Mr. Doumitt $63,000 on April 9, 2010. On February 27, 2010, the Company's Board of Directors promoted Pete van der Wal, then serving as the Company's Vice President of Sales and Marketing, to serve as President and Chief Executive Officer, and appointed Mr. van der Wal to serve on the Company's Board of Directors.

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HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

Effective March 26, 2010, Robert S. Chilton resigned as the Company's Chief Financial Officer, and as a member of the Company's Board of Directors. In exchange for a release of any employment-related claims Mr. Chilton could assert against the Company, the Company agreed to pay Mr. Chilton $115,000 on April 26, 2010. On March 11, 2010, the Company's Board of Directors named Pete van der Wal, then serving as the Company's President and Chief Executive Officer, as Chief Financial Officer.

In the first quarter of 2010, the Company recognized a charge to general and administrative expenses including payroll taxes of $184,000 as the total cost of the separation obligation to Mr. Doumitt and Mr. Chilton.

Note 4 – Discontinued Operations

On November 5, 2007, the Board of Directors of the Company's wholly owned subsidiary, HemaCare BioScience, Inc. ("HemaBio"), in consultation with, and with the approval of, the Board of Directors of the Company, decided that it was in the best interest of HemaBio's creditors to close all operations of HemaBio. 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 complete a final distribution of all proceeds to HemaBio's creditors.

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.

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%, which totaled $12,000 and $25,000 for the three and six months ended June 30, 2010.

As of June 30, 2010, HemaBio's default on the notes to Drs. Feldman and Raben remains unresolved. In accordance with GAAP, the results of operations of HemaBio, along with an estimate of all closure related costs were recorded in 2007. The following is the breakdown of the assets held for sale and the liabilities related to the assets held for sale for the discontinued operations as of June 30, 2010 and December 31, 2009:

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

HEMACARE BIOSCIENCE, INC
Discontinued Operations

	June 30, 2010	December 31, 2009
Assets held for sale		
Cash and cash equivalents	$ 210,000	$ 215,000
Total assets held for sale	$ 210,000	$ 215,000
Liabilities related to assets held for sale		
Accounts payable	$ 774,000	$ 779,000
Accrued payroll and payroll taxes	603,000	603,000
Accrued interest	192,000	167,000
Notes payable	500,000	500,000
Total liabilities related to assets held for sale	$ 2,069,000	$ 2,049,000

When the Board of Directors of HemaBio authorized the execution of the Assignment, HemaBio conveyed all of its assets, defined as “all real property, fixtures, goods, stock inventory, equipment, furniture, furnishings, accounts receivable, bank deposits, cash, promissory notes, cash value and proceeds of insurance policies, claims and demands”, to the Assignee. The Assignee is then responsible for liquidating any non-monetary assets, for the purpose of eventually satisfying any and all creditor claims against HemaBio. Unlike a federal bankruptcy proceeding, the Florida Assignment process does not stay any legal action the creditors might choose to force HemaBio to pay claims. Therefore, management concluded that given the liabilities remain outstanding throughout the Assignment, it was appropriate to keep these liabilities on the books of HemaBio as outstanding until such time as the Assignee pays these claims, the assignment is finalized, or the claimants’ rights to pursue claims expires pursuant to the Florida statute of limitations. Therefore, management concluded that none of the claims against HemaBio can be removed as of June 30, 2010.

Note 5—Line of Credit and Notes Payable

On December 9, 2009, the Company, together with the Company’s subsidiary Coral Blood Services, Inc., entered into a new Credit Agreement (the “New Wells Agreement”), and related security agreements, with Wells Fargo to replace a former credit agreement entered into with Wells Fargo in April 2008. The New Wells Agreement provides that the Company may borrow the lesser of 80% of eligible accounts receivable, or $5 million with respect to the revolving line of credit with a maturity date of December 1, 2011. Most of the terms in the New Wells Agreement are similar to those in the former credit agreement with Wells Fargo; however, the New Wells Agreement provides that the Company pay interest on a monthly basis on any outstanding balance at 0.25% above the Bank’s Prime Rate, but eliminates the minimum monthly interest requirement that was present in the former credit agreement with Wells Fargo. On June 30, 2010, the interest rate on this line of credit was 3.5%. The New Wells Agreement also grants Wells Fargo a first priority security interest in all of the assets of the Company and Coral Blood Services, Inc. Based on eligible accounts receivable on June 30, 2010, the Company’s borrowing base on this line of credit was $2.5 million. The Company had no outstanding borrowings on June 30, 2010. Wells Fargo previously issued an $815,000 Letter of Credit on behalf of the Company as security for lease obligations

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associated with the Company's Van Nuys facility. Although no amounts have been drawn against the Letter of Credit, the amount available to borrow is reduced by the value of this Letter of Credit. Therefore, on June 30, 2010, the amount available from this line of credit for the Company to borrow was $1.7 million. The New Wells Agreement requires the Company pay a fee of .125% annually on any unused portion of the line of credit, calculated and paid on a quarterly basis. The New Wells Agreement also requires the Company maintain certain financial covenants, including minimum tangible net worth, maximum total liabilities and minimum net income over a rolling two quarter basis. On June 30, 2010, the Company was in compliance with all of the financial covenants except the minimum income requirement. The Company requested and Wells Fargo has issued a waiver of this covenant violation.

Note 6—Shareholders' Equity

Pursuant to ASC Topics 505 and 718, Equity and Stock Based Compensation, the cost resulting from all share-based payment transactions must be recognized in the Company's consolidated financial statements. For 2010, 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 June 30, 2010, based on the grant date fair value estimated in accordance with ASC Topics 505 and 718. For the three and six months ended June 30, 2010, the Company recognized $24,000 and $83,000 in share-based compensation costs, including $16,000 and $36,000 of share-based compensation for non-employee director options. See Note 1 of Notes to Consolidated Financial Statements.

The following summarizes the activity of the Company's stock options for the six months ended June 30, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Number of shares under option:			
Outstanding at January 1, 2010	1,815,000	$ 1.14	
Granted	165,000	0.62	
Exercised	(12,500)	0.53	
Cancelled or expired	(353,750)	1.35	
Forfeited	(133,750)	0.64	
Outstanding at June 30, 2010	1,480,000	$ 1.08	6.1
Exercisable at June 30, 2010	1,187,500	$ 1.20	5.3

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

The following summarizes the activity of the Company’s stock options that have not yet vested as of June 30, 2010:

	Shares	Weighted Average Fair Value
Nonvested at January 1, 2010	361,750	$ 0.61
Granted	165,000	0.54
Vested	(100,500)	0.77
Forfeited	(133,750)	0.58
Nonvested at June 30, 2010	292,500	$ 0.54

As of June 30, 2010, there was $107,000 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 2.9 years. The total fair value of shares vested during the six months ended June 30, 2010 was $77,000.

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 June 30, 2010	Six Months Ended June 30, 2010
Weighted average fair value at date of grant for share-based payments awarded during the period	N/A	$ 0.54
Weighted average fair value at date of grant for share-based payments vested during the period	$0.58	$ 0.77
Risk-free interest rates	2.6%	2.6%
Expected stock price volatility	134.4%	134.4%
Expected dividend yield	0%	0%
Expected forfeitures	29.5%	29.5%

The Company does not assume 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.

The Company uses the 2006 Plan 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 2,200,000 shares of the Company’s common stock have been reserved for issuance under the 2006 Plan. As of June 30, 2010, the Company had utilized 935,085 of the shares reserved under the 2006 Plan, and 1,264,915 shares remain available. Awards may be granted to any employee, director or consultant, or those of the Company's affiliates.

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

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 remained outstanding that were originally issued under this plan.

Note 7—Earnings per Share

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

Continuing Operations	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 237,000	$ 369,000	$ 45,000	$ 450,000
Weighted average shares outstanding	10,049,000	10,028,000	10,049,000	9,966,000
Net effect of dilutive options	185,000	81,000	183,000	64,000
Diluted shares outstanding	10,234,000	10,109,000	10,232,000	10,030,000
Earnings per share continuing operations - diluted	$ 0.02	$ 0.04	$ 0.00	$ 0.04

Discontinued Operations	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net loss	$ (13,000)	$ (12,000)	$ (25,000)	$ (25,000)
Weighted average shares outstanding	10,049,000	10,028,000	10,049,000	9,966,000
Net effect of dilutive options	185,000	81,000	183,000	64,000
Diluted shares outstanding	10,234,000	10,109,000	10,232,000	10,030,000
Earnings per share continuing operations - diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

Options outstanding representing 970,000 shares of common stock for the three and six months ended June 30, 2010, have been excluded from the above calculation because their effect would have been anti-dilutive.

Options outstanding representing 1,385,000 and 1,395,000 shares of common stock for the three and six months ended June 30, 2009, respectively, have been excluded from the above calculation because their effect would have been anti-dilutive.

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

Note 8—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 ASC 740-10, 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.

Based on management's analysis of the Company's recent performance, management determined that there was insufficient evidence of guaranteed future profitability to insure that the Company would realize any benefit from the deferred tax assets. Therefore, as of June 30, 2010, the Company continued to record a 100% valuation reserve against all of the deferred tax assets.

Note 9—Business Segments

HemaCare operates two business segments as follows:

Blood services—Collection, processing, purchasing and distribution of blood products.
Therapeutic services—Therapeutic apheresis, stem cell collection procedures and other therapeutic services.

There were no intersegment revenues for the three month period ended June 30, 2010.

Note 10—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.

HemaCare Corporation
Notes to Unaudited Condensed Consolidated Financial Statements -- Continued

Note 11—Subsequent Events

On August 11, 2010, the Registrant's Board of Directors appointed Lisa Bacerra, the Company's Corporate Controller, as Chief Financial Officer.

On August 11, 2010, the Registrant's Board of Directors appointed Anna Stock, the Company's Vice President of Operations, as Chief Operating Officer.

In accordance with the provisions of ASC 855-10, management evaluated all material events occurring subsequent to the balance sheet date through the time of filing of this Form 10-Q for events requiring disclosure or recognition in the Company’s consolidated financial statements. Management determined that there were no subsequent events other than the above requiring disclosure or recognition in the Company’s consolidated financial statements.

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

The information contained in this Form 10-Q is intended to update the information contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 and presumes that readers have access to, and will have read, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other information contained in such Form 10-K. 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,” “int “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 under Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. 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 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.

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.

In May 2010, HemaCare entered into an agreement with Dendreon Corporation (NASDAQ: DNDN) to provide cellular collection services in Los Angeles and Maine for their new autologous cellular immunotherapy, PROVENGE® (sipuleucel-T). This personalized medicine is Dendreon’s lead product and is the first autologous cellular immunotherapy specifically designed to engage patients’ own immune systems to treat cancer. HemaCare currently leverages its expertise in automated cell collection (apheresis) and processing of blood products to provide specialty collection services to Dendreon and other organizations conducting cell therapy research and clinical trials. This agreement with Dendreon is the first commercial cell therapy collection agreement for HemaCare.

The Company has operated in Southern California since 1979. In 1998, the Company expanded operations to include portions of the eastern United States. 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. Due to ongoing losses, and the resignation of the senior managers at HemaBio, the Board of Directors of HemaBio, in consultation with, and with the approval of, the Board of Directors of the Company, closed all operations of HemaBio, effective November 5, 2007. With the closure of HemaBio, the Company reports the financial results for 2009 and 2010 of HemaBio, as well as the impact of the closure activities, as “Discontinued Operations” on the income statement.

The Company's current strategy is to profitably grow the core business of providing blood and therapeutic services to hospital customers, in addition to leveraging the Company's expertise and infrastructure to support developing cellular therapy technologies and research organizations. Central to this effort is a new focus on sales and marketing to differentiate the Company from the competition by clearly communicating the Company's unique value to customers. Examples of this effort include introduction of a new service mark, The Service DifferenceSM, and hiring of sales professionals to support all business segments. The Company also plans to expand its service offerings in the Mid-Atlantic market to include blood services to complement the existing therapeutic services business.

The Company renamed its two business segments at the beginning of 2010 to reflect its increased emphasis on customer service. The historically named blood products segment has been renamed the "blood services" segment, and the historically named blood services segment has been renamed the "therapeutic services" segment.

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.

In the future, the Company intends to leverage its core-business infrastructure to enable collection of various cellular components for cellular therapy manufacturing and future personalized patient therapies. The Company already collects allogeneic, whole-blood derived stem cells for hospital customers, research organizations and biotech companies to support their cellular therapy research and manufacturing. In doing so, the Company directly leverages its equipment, facilities, licensure, current good manufacturing ("cGMP") protocols, and hospital relationships. Ultimately, the Company believes these specialized collections will generate high margin revenue through the support of advanced therapies and research activities.

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

Results of Operations

Three months ended June 30, 2010 compared to the three months ended June 30, 2009

Overview

The Company's continuing operations generated $8,144,000 in revenue for the three months ended June 30, 2010, compared to $10,029,000 in revenue in the same period of 2009, representing a decrease of $1,885,000, or 19%. Blood services revenue decreased $1,970,000, or 24%, while therapeutic services revenue increased $85,000, or 5%.

Gross profit from continuing operations for the three months ended June 30, 2010 decreased $599,000, or 29%, to $1,435,000 compared to $2,034,000 for the same period of 2009. This decrease is comprised of a $661,000, or 42%, decrease in gross profit for the blood services business segment, and a $62,000, or 13%, increase in gross profit for the therapeutic services business segment. The gross profit as a percentage of revenue decreased to 18% in the second quarter of 2010 compared to 20% for the same period of 2009.

General and administrative expenses decreased 27% to $1,188,000 for the second quarter of 2010 from $1,617,000 in the same period of 2009.

The Company recorded $10,000 to the provision for income taxes for the three month period ended June 30, 2010, whereas the Company recorded $48,000 to the provision for the same three month period of 2009.

Income from continuing operations decreased $132,000 or 36% to $237,000 in the second quarter of 2010, compared to $369,000 for the same period of 2009.

Discontinued operations generated a loss of $13,000 in the second quarter of 2010 compared to a loss of $12,000 in the second quarter of 2009.

Net income for the three months ended June 30, 2010 decreased $133,000, or 37%, to $224,000 compared to $357,000 for the same period of 2009.

Blood Services

The following table summarizes the revenue and gross profit for the blood services business segment for the three months ended June 30, 2010 and 2009:

Blood Services
For the Three Months Ended June 30,

	2010	2009	Variance $	Variance %
Revenues	$ 6,197,000	$ 8,167,000	($1,970,000)	(24%)
Gross Profit	$896,000	$ 1,557,000	($ 661,000)	(42%)
Gross Profit %	14%	19%		

The 24% decrease in revenue is attributable a substantial reduction in the number of red blood cell purchases by one of the Company’s high volume, low priced customers. Gross profit also was negatively impacted by an increase in testing fees that took effect on March 1, 2010. As a result, the Company’s gross profit decreased by 42% as compared to the prior year quarter, and the Company’s gross profit percentage decreased to 14% during the second quarter of 2010 from 19% during the same period of 2009. The Company’s addition of sales professionals and the advent of its cellular therapy collection arrangements were initiated to address these sales decreases.

Therapeutic Services

Revenue and gross profit for the Company's therapeutic services business segment for the three months ended June 30, 2010 and 2009 is summarized on the following table:

Therapeutic Services
For the Three Months Ended June 30,

	2010	2009	Variance $	Variance %
Revenue	$1,947,000	$1,862,000	$85,000	5%
Gross Profit	$539,000	$477,000	$62,000	13%
Gross Profit %	28%	26%		

The 5% increase in revenue was primarily due to new customers added in the California region. The larger increase in gross profit than in revenue is the result of the Company's success in leveraging fixed costs while increasing utilization.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2010 and 2009 are summarized on the following table:

General and Administrative Expenses
For the Three Months Ended June 30,

2010	2009	Variance $	Variance %
$1,188,000	$1,617,000	($429,000)	(27%)

The 27% decrease in general and administrative expenses in the current quarter compared to the same period one year ago was the result of a major cost cutting initiative which began in April 2010. The decrease in general and administrative expenses in the current quarter was due to decreases in the cost of outside services and temporary labor of $80,000, bank charges of $14,000, officer salaries of $50,000, interest expense of $42,000, bad debt of $10,000, investor relations of $16,000 and management bonuses of $160,000.

The decrease in outside services and temporary labor was a result of the efforts to contain costs in this area by taking on additional work in house with the Company's existing workforce. The decrease in bank charges resulted from the less expensive line of credit agreement with Wells Fargo that the Company entered into in December 2009. Without the necessity to draw from the line of credit, interest expense was reduced to zero for continuing operations in the 2010 period. Officer salaries decreased with the changes in executive management in the first quarter of 2010, bad debt expense decreased due to improvements in collections, and investor relations costs decreased as the Company began to perform more investor relations services internally. Finally, the management bonus accrual in 2009 was based on income in the second quarter whereas no management bonus was accrued in the second quarter of 2010.

General and administrative expenses represented 15% of revenue for the second quarter of 2010, as compared to 16% of revenue for the second quarter 2009.

Six months ended June 30, 2010 compared to the six months ended June 30, 2009

Overview

The Company's continuing operations generated $15,992,000 in revenue in the first six months of 2010, compared to $19,739,000 in the same period of 2009, representing a decrease of $3,747,000, or 19%. Blood services revenue decreased $3,757,000, or 23%, while therapeutic services revenue increased $10,000.

Gross profit from continuing operations in the first half of 2010 decreased $745,000, or 21%, to $2,826,000 compared to $3,571,000 for the same period of 2009. This decrease was comprised of a $786,000, or 30%, decrease in gross profit for the blood services business segment, partially offset by a $41,000, or 4%, increase in gross profit for the therapeutic services business segment. The gross profit percentage remained steady at 18% for both the first half of 2010 and 2009.

General and administrative expenses decreased $300,000, or 10%, from $3,071,000 in the first six months of 2009, to $2,771,000 during the first six months of 2010.

The Company recorded $10,000 in the provision for income taxes for the six month period ended June 30, 2010, whereas the Company recorded $50,000 in the provision for the same six month period of 2009.

Income from continuing operations decreased $405,000, or 90%, to $45,000 in the first six months of 2010 compared to $450,000 for the same period in 2009.

Discontinued operations generated a loss of $25,000 in the first six months of 2010 as well as 2009.

Net income for the six month period ended June 30, 2010 decreased $405,000, or 95%, to $20,000, compared to $425,000 for the same period of 2009.

Blood Services

The following table summarizes the revenue and gross profit for the blood services business segment for the six months ended June 30, 2010 and 2009:

Blood Services
For the Six Months Ended June 30,

	2010	2009	Variance $	Variance %
Revenues	$ 12,268,000	$16,025,000	($3,757,000)	(23%)
Gross Profit	$ 1,842,000	$ 2,628,000	($ 786,000)	(30%)
Gross Profit %	15%	16%		

A reduction in the number of red blood cells purchased by one of the Company's high volume, low priced customers was a large factor in the 23% decrease in revenue overall. Increased competition and supply has also contributed to the revenue decline. In addition, as of March 1, 2010, testing fees have increased. All of this contributed to a decline in gross profit of 30% and a reduction in gross profit percentage to 15% during the second quarter of 2010 as compared to 16% during the same period of 2009. The Company's addition of sales professionals and the advent of cellular therapy collection arrangements were initiated to address these sales decreases.

Therapeutic Services

Revenue and gross profit for the therapeutic services business segment for the six months ended June 30, 2010 and 2009 is summarized on the following table:

Therapeutic Services
For the Six Months Ended June 30,

	2010	2009	Variance $	Variance %
Revenue	$3,724,000	$3,714,000	$10,000	0%
Gross Profit	$984,000	$943,000	$41,000	4%
Gross Profit %	26%	25%		

Although there was little change in revenue, the 4% increase in gross profit was the result of the Company's success in implementing stringent cost controls and leveraging fixed costs while increasing utilization.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2010 and 2009 are summarized on the following table:

General and Administrative Expenses
For the Six Months Ended June 30,

2010	2009	Variance$	Variance %
$2,771,000	$3,071,000	($300,000)	(10%)

The 10% decrease in general and administrative expenses between the first six months of 2010 and the same period of 2009 was a result of the Company's expense reduction initiatives offset by severance paid to the Company's former Chief Executive Officer and former Chief Financial Officer during the first half of 2010. The decrease in general and administrative expense is primarily made up of decreases in the cost of outside services and temporary labor of $223,000, bank charges of $43,000, interest expense of $84,000, and management bonus accrual of $160,000. These decreases were partially offset by $121,000 of additional officer salaries and $95,000 of additional office salaries.

The decrease in outside services and temporary labor is a result of the Company's efforts to contain costs in this area by taking on additional work in house with its existing workforce. Bank charges are lower under the new Wells Fargo credit agreement signed in December 2009 as compared to the former Wells Fargo agreement that was in effect during the first half of 2009. Interest expense was reduced to zero in 2010 as the Company has not borrowed funds under the line of credit in 2010. There was a management bonus accrual made in the first half of 2009 and none in the first half of 2010. The increase in officer salaries was the result of severance payments made during the first quarter of 2010 of $184,000 to the former Chief Executive Officer and former Chief Financial Officer, offset by the then resulting decrease in officer salaries during the quarter. Finally, office salaries increased as a result of the creation of a sales department and additions to staffing in the quality and regulatory areas.

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For the first six months of 2010 and 2009, general and administrative expenses represented 17% and 16% of 2010 and 2009 revenues, respectively.

Income Taxes

The Company recorded $10,000 to the provision for income taxes for the six month period ended June 30, 2010, whereas the Company recorded a $50,000 provision for the same six month period of 2009.

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 on the balance sheet. As per the ASC Topic 740, Income Taxes, the Company utilizes 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.

Discontinued Operations

On November 5, 2007, the Board of Directors of the Company's wholly owned subsidiary, HemaCare BioScience, Inc. ("HemaBio"), in consultation with, and with the approval of, the Board of Directors of the Company, decided that it was in the best interest of HemaBio's creditors to close all operations of HemaBio. 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 complete a final distribution of all proceeds to HemaBio's creditors.

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 GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue 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

Share-Based Compensation: As per the ASC Topics 505 and 718, Equity and Stock Based Compensation, an entity shall account for share-based compensation transactions with employees in accordance with the fair-value-based method, that is, the cost of services received from employees in exchange for awards of share-based compensation generally shall be measured based on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred. [FAS 123(R), paragraph 1]] 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 utilized the Black-Scholes model to estimate the fair value of share-based payments granted. Valuation techniques used for employee share options and similar instruments estimate the fair value of those instruments at a single point in time (for example, at the grant date). The assumptions used in a fair value measurement are based on expectations at the time the measurement is made, and those expectations reflect the information that is available at the time of measurement.

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 of the stock option, which is estimated based on the historical stock option exercise behavior of employees; and
(d) expected forfeitures.

The Company does not assume 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 determined it was inappropriate to assign a forfeiture rate to these options.

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 collectability 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 was 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 was 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 on 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 assets and liabilities and any valuation allowance recorded against deferred tax assets. Management continually evaluates whether or not 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.

Off-Balance Sheet Arrangements

At June 30, 2010, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market or credit risk that could arise if it had engaged in such relationships.

Liquidity and Capital Resources

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. See Note 4 of Notes to Condensed Consolidated Financial Statements.

As of June 30, 2010, the Company's cash and cash equivalents for continuing operations were $2,002,000, and the Company's working capital for continuing operations was $4,214,000.

On December 9, 2009, the Company, together with the Company's subsidiary Coral Blood Services, Inc., entered into a new Credit Agreement (the "New Wells Agreement"), and related security agreements, with Wells Fargo to replace a former credit agreement entered into with Wells Fargo in April 2008. The New Wells Agreement provides that the Company may borrow the lesser of 80% of eligible accounts receivable, or $5 million with respect to the revolving line of credit with a maturity date of December 1, 2011. Most of the terms in the New Wells Agreement are similar to those in the former Wells Fargo credit agreement; however, the New Wells Agreement provides that the Company pay interest on a monthly basis on any outstanding balance at 0.25% above the Bank's Prime Rate, but eliminates the minimum monthly interest requirement that was present in the former credit agreement with Wells Fargo. On June 30, 2010, the interest rate on this line of credit was 3.5%. The New Wells Agreement also grants the Bank a first priority security interest in all of the assets of the Company and Coral Blood Services, Inc. Based on eligible accounts receivable on June 30, 2010, the Company's borrowing base on this line of credit was $2.5 million. The Company had no outstanding borrowings on June 30, 2010. Wells Fargo previously issued an $815,000 letter of credit on behalf of the Company as security for lease obligations associated with the Company's Van Nuys facility. Although no amounts have been drawn against the letter of credit, the amount available to borrow is reduced by the value of this letter of credit. Therefore, on June 30, 2010, the amount available from this line of credit for the Company to borrow was $1.7 million. The New Wells Agreement requires that the Company pay a fee of .125% annually on any unused portion of the line of credit, calculated and paid on a quarterly basis. The New Wells Agreement also requires that the Company maintain certain financial covenants, including minimum tangible net worth, maximum total liabilities and minimum net income over a rolling two quarter basis. On June 30, 2010, the Company was in compliance with all of the financial covenants except the minimum income requirement. The Company requested and Wells Fargo has issued a waiver of this covenant violation.

Future minimum payments, including amounts in discontinued operations, 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	$ 4,544,000	$ 612,000	$ 1,474,000	$ 1,131,000	$ 1,327,000
Notes Payable	500,000	500,000	-	-	-
Totals	$ 5,044,000	$ 1,112,000	$ 1,474,000	$ 1,131,000	$ 1,327,000

For the six months ended June 30, 2010, cash provided by operating activities was $1,221,000, compared to $2,199,000 for the six months ended June 30, 2009. The decrease of $978,000 in cash provided between the two periods was primarily due to a decrease in accounts receivable of $249,000 in the first six months of 2010 compared with a decrease of $1,206,000 for the same period of 2009. HemaCare's days sales outstanding stood at 38 days as of June 30, 2010, compared to 41 days as of December 31, 2009. Management's continued focus on collections and monitoring the financial health of the Company's customers contributed to the improvement in days sales outstanding during the first six months of 2010. An increase in inventories, supplies and prepaid expenses of $449,000 in the period, compared to a decrease of $32,000 in the same period of 2009 was also a component of the decrease in cash provided by operating activities in the first six months of 2010.

For the six months ended June 30, 2010, net cash used in investing activities was $229,000, compared to $321,000 for the same period in 2009. The use of cash was attributable to continuing investments in the ongoing software development and implementation project which will automate the donation, processing and distribution functions of the Company's blood products business.

For the six months ended June 30, 2010, net cash provided by financing activities was $3,000, compared to cash used of $1,887,000 for the same period of 2009. The decrease in cash used of $1,890,000 was due to the Company paying down $1,887,000 of the senior secured line of credit in the first six months of 2009.

For discontinued operations, there was a $5,000 increase in cash used which was paid for legal expenses in 2010, whereas no cash was used in the same period of 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Intentionally Omitted

Item 4T. Controls and Procedures

Evaluation of Controls and Procedures

Members of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15 or 15d-15, as of June 30, 2010, the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2010.

Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ItemLegal Proceedings
1.

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.

ItemRisk Factors
1A.

This Quarterly Report on Form 10-Q contains forward-looking statements, which are subject to a variety of risks and uncertainties. Actual results could differ materially from those anticipated in those forward-looking statements as a result of various factors, including those set forth in Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes to such risk factors during the six months ended June 30, 2010.

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

The Board of Directors of the Company approved a plan on February 26, 2010 to purchase and retire up to 1,000,000 shares of the Company's common stock, or approximately 10% of current shares outstanding, over a twelve month period. The Company anticipates that these stock repurchases will be made from time to time, depending on market prices, from cash on hand, During the second quarter of 2010, the Company purchased 5,000 shares of common stock under the repurchase plan which is held as treasury stock.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

None.

Item 5. Other Information

Item 5.02. Departure of Directors or Certain Officers; Election of Directors;

Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On August 11, 2010, the Registrant's Board of Directors appointed Lisa Bacerra, the Company's Corporate Controller, as Chief Financial Officer.

Ms. Bacerra, 52, has been Corporate Controller for HemaCare since May, 2007. Ms Bacerra is an experienced financial professional with more than 20 years of experience in accounting and finance management, primarily in the health care industry.

Prior to joining HemaCare, from 2001 through May 2007, Ms. Bacerra was Chief Financial Officer for Natren, Inc., a privately owned probiotic manufacturing company. Ms Bacerra also held senior management and management positions at Prudential Healthcare of California, General Office Environments, Inc., and Haagen Dazs Inc. She received her Bachelor of Science degree from the University of Phoenix.

The terms of Ms. Bacerra’s employment are:

- base salary of $160,000 per annum;
- eligibility to receive a discretionary bonus of up to 40% of her base salary;
- a stock option to purchase up to 25,000 shares of the Company's common stock at an exercise price of $0.59 per share, which vests 20% annually starting August 11, 2011 and expires on August 10, 2020; and
- participation in all benefit plans offered to similarly positioned employees.

Except as disclosed herein, Ms. Bacerra was not selected pursuant to any arrangement or understanding between Ms. Bacerra or any other person. There are no family relationships between Ms. Bacerra and the directors or executive officers of the Registrant.

On August 11, 2010, the Registrant's Board of Directors appointed Anna Stock, the Company's Vice President of Operations, as Chief Operating Officer.

Ms. Stock, 55, has held numerous senior management positions throughout the organization during her 24 year career at HemaCare.

Most recently, Ms. Stock held the position of Vice President of Operations and was instrumental in the successful entry of HemaCare into the cellular therapy and research markets.

In her new role, Ms. Stock will be responsible for all operations in California, Maine and New York. She will be heading up the development and implementation of strategic plans for regional growth and expansion for the Company. The terms of Ms. Stock's employment are:

- base salary of $160,000 per annum;
- eligibility to receive a discretionary bonus of up to 40% of her base salary;
- a stock option to purchase up to 25,000 shares of the Company's common stock at an exercise price of $0.59 per share, which option vests 20% annually starting August 11, 2011 and expires on August 10, 2020; and
- participation in all benefit plans offered to similarly positioned employees.

Except as disclosed herein, Ms. Stock was not selected pursuant to any arrangement or understanding between Ms. Stock or any other person. There are no family relationships between Ms. Stock and the directors or executive officers of the Registrant.

Item 6. Exhibits

a. Exhibits

Exhibit Number	Exhibit Description
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.
4.1	Rights Agreement between the Registrant and U.S. Stock Transfer Corporation dated March 3, 1998, incorporated by reference to Exhibit 4 to Form 8-K of the Registrant dated March 5, 1998.
4.1.1	Amendment and Extension of Rights Agreement dated as of March 3, 1998, between HemaCare Corporation and Computershare Trust Company, N.A., incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on March 24, 2008.
4.2	Form of Common Stock Certificate, incorporated by reference to Exhibit 4.4 to Form S-8 of the Registrant dated July 10, 2006.

10.1*	Amended and Restated HemaCare Corporation 2006 Equity Incentive Plan, dated May 11, 2010, incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 14, 2010.
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 August 13, 2010	Hemacare Corporation (Registrant)	
	By:	/s/ Peter van der Wal Peter van der Wal, Chief Executive Officer
	By:	/s/ Lisa Bacerra Lisa Bacerra Chief Financial Officer

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