May 7, 2018

To Our Shareholders,

2017 was another productive year of substantial progress for the company. HemaCare's revenue grew 46% and net income improved 467% year over year due not only to HemaCare's operating leverage and improved product mix but also due to recognition of a one-time tax benefit[1]. In addition, we have seen continued strong growth from our distributors in Europe, Japan, and China, resulting in a 116% increase in international revenue over prior year. HemaCare also significantly expanded its offering of Disease State products and services resulting in 651% growth over prior year.

The continued growth in revenue and earnings further validates HemaCare's strategic focus on providing clients with superior purity, viability and functionality of the human biological cells they purchase from HemaCare in comparison to their previous sources. These customers also compliment the outstanding technical support, customer service, flexibility, and reliability HemaCare provides.

Quality starting material is the basis of any successful cell therapy, as the number of healthy therapeutic cells present in precursor material is directly related to the "live" drug efficacy. Best practices for allogeneic cell therapy and autologous process development rely on highly coordinated donor supply and management. HemaCare has been building and maintaining reliable and recallable donor relationships for 40 years, longer than anyone else in the industry.

Our customers have an expectation of consistently receiving validated high-quality source material, for example that apheresis collections meet FDA, current Good Manufacturing Practices, and current Good Tissue Practices (cGMP and cGTP) requirements, with American Association of Blood Banking (AABB), and/or European Medicines Agency (EMA – the European counterpart to our FDA) accredited donors. Extensive donor testing and qualification is expected, including HLA type, serological and infectious testing, medical history, and any other laboratory results specific to the therapeutic drug under development. In addition to these requirements, availability and reliability of donor sourcing are of preeminent concern to HemaCare customers.

HemaCare's best practices regarding starting material are considered by our customers to be of paramount importance to cell therapy success. Donor sourcing and product quality and consistency are most often cited by our customers as criteria critical to downstream efficacy.

[1] See Note 6 Income Taxes in Notes to Financial Statements

From the very beginning when HemaCare was founded in 1978, we have focused on building long-term relationships with a large demographically diverse donor pool. Today, 40 years later, HemaCare still has ongoing relationships with donors that began decades ago. These long-term relationships are matchless in our industry, and highly valued by our customers, since they allow our customers access to well-characterized and extensively tested starting material that match patient profiles as closely as possible. This freedom to specify donor criteria from reliable and recallable donors is critical to final therapeutic cell counts.

On July 13, 2017 HemaCare signed a long term lease to relocate its operations and corporate headquarters to a larger nearby site in the San Fernando Valley (City of Los Angeles). The new single story 40,000 square foot complex will be two times larger than our current space and offers a more efficient workflow. The new facility will allow HemaCare to optimize process flow, utilize flexible production environments to serve HemaCare customers' increasingly complex requirements, and provide sufficient scalability to support the increasing demand of our global customer base. Given the sustained positive feedback from our customers, it is important that HemaCare continues to build capacity to keep up with our customers' needs for advanced vertically integrated solutions. We anticipate moving into the new facility towards the end of 2018.

As such, we will be making meaningful and far-reaching investments on this endeavor in 2018. This relocation represents a momentous investment for HemaCare on many levels. Beyond the substantial tenant improvement capital investment, we will be purchasing a large amount of new state-of-the-art equipment to facilitate increased technical capabilities and scalability. In addition, a multitude of meaningful personnel additions will be made strategically throughout the organization. This combination of physical, technical and human capital investment may slow HemaCare's growth in 2018 compared to previous years as we focus on a successful transition to our new facility. Our key priorities will be to minimize any disruption to sales, operations and our donor pool and ensure we are positioned for sustainable growth and new opportunities going forward.

On December 28, 2017 OneBlood (OBF Investments, LLP) exercised its option to make its second tranche investment of $1.25 million in shares of HemaCare's common stock. The third closing for $1.25 million in shares may occur at the option of the OneBlood on or before December 31, 2018. The new capital will be used to invest in product innovation, order fulfillment, and fund strategic initiatives.

During 2017, collaboration discussions resulted in a strategic partnership with Charles River Laboratories International, Inc. whereby HemaCare's peripheral blood mononuclear cells (PBMCs) will be integrated into Charles River's NCG/PBMC Select Humanization Kit. This kit is the first of its kind in the industry and provides both the NCG mouse and vials of pre-selected human PBMCs, allowing the researcher to efficiently develop the humanized mouse model.

Today HemaCare specializes in customized collection, isolation, and testing of primary human blood cells and other biological products for research protocols and cellular therapy.

HemaCare's extensive registry of well-characterized reliable, recallable, repeat donors, and controlled procedures, ensure a readily-available inventory of high-quality, consistent primary human cells and biological products for advanced biomedical research and cellular therapy.

HemaCare is the only vertically integrated provider in the industry. No competitor has HemaCare's ability to fully support process development, clinical trials, and commercialization with our unique combination of:

- FDA-registered donor collection
- GMP compliant donor collection under Institutional Review Board (IRB) approval
- Multi-decade relationships with pedigreed donors
- Clinical grade apheresis collection expertise
- Rigorously controlled, consistent, high quality, purified human biological products
- Highly customizable cell processing project services
- Access to an extensive apheresis collection network
- Cold chain logistics services
- Cryopreservation and Biopreservation services
- Clinical patient collection services

This combination of certifications, expertise, and services positions HemaCare as an integrated global total solution supporting immunotherapy research, cell therapy, and regenerative medicine. This, in conjunction with GMP compliant apheresis collection services, and FDA-registered collection centers, presents a significant barrier to entry for competition.

Biopharma and biotechnology companies focusing on cellular and immunotherapy appreciate these critical differentiators since utilizing HemaCare's products and services provides them with the ease of one-stop shopping and the confidence associated with highly controlled, regulatory compliant, consistent primary human cells and biological products. They value how this translates into significantly lowering their product development and subsequent FDA approval risk.

Biopharma and biotechnology companies are racing to bring their cellular and immuno therapies to market. HemaCare is uniquely positioned to facilitate the research, development, and commercialization of impending autologous and allogeneic cellular and immuno therapies. By using our products and services, our customers significantly reduce their risk of FDA problems associated with Investigational New Drug (IND) applications seeking approval to proceed to clinical trials and eventual commercialization. Unlike our competitors, which are merely commodity sources of raw human biological material, HemaCare offers a vertically integrated global total solution supporting immunotherapy research, cell therapy, and regenerative medicine, thereby enabling industry to expedite getting their approved therapies to market.

Our recent revenue growth has been accomplished without the benefit of several additional initiatives that will further accelerate HemaCare's growth. In 2018, we will continue to build

our sales and marketing team, boost our operational talent and capabilities, increase our offering of fresh and frozen, healthy and disease-state products, enlarge our menu of isolated cells, and expand into additional strategic international markets.

As HemaCare celebrates its 40th birthday this year, we take pride in the quality of our team, and the significant contribution we are making in supporting cellular therapy and the scientific community to improve lives. HemaCare's longevity is a testament to the value our customers place on the positive impact we make supporting their efforts to cure diseases.

HemaCare is in the right place, at the right time, with the right skill sets that are in high demand to profit from the billions biopharma and biotechnology companies are investing in the globally emerging immunotherapy, cell therapy, and regenerative medicine markets.

Thank you for your continued interest as we continue transforming HemaCare to become the preferred supplier of human biological materials supporting immunotherapy, cell therapy, and regenerative medicine worldwide. We look forward to maximizing the future of the company and all the potential it holds.

Sincerely,

/s/ Pete van der Wal

FORWARD LOOKING STATEMENTS

This Annual Report and Letter to Shareholders contain forward-looking statements. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. Forward-looking statements in this press release address the following subjects, among others: plans to develop, market, and expand current and future products; expectations of revenue growth; plans for facility relocation; and plans to hire and retain critical personnel. Forward-looking statements are inherently subject to risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements, including, without limitation, the following: the ability of our donors to provide sufficient quality source material; our ability and the ability of our suppliers to maintain compliance with cGMP and other regulatory obligations; the results of regulatory inspections; adverse developments in our customer-base or the markets we serve; results of the Company's collaboration with strategic partners; adverse changes in regulatory, social and political conditions affecting our industry; our ability to timely and effectively implement 2018 staffing, operations, and product menu changes; our ability to manage growth; and general market, economic and business conditions. Forward-looking statements are made as of the date of this Annual Report and Letter to Shareholders, and we expressly disclaim any obligation or undertaking to update forward-looking statements.

2017 ANNUAL REPORT

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CORPORATE OVERVIEW

General

In 2017, HemaCare produced $20.2 million in revenue. We continue to see strong growth from all our geographic regions as well as our distributors in Europe, Japan, and China.

Business development negotiations produced the January 6, 2017 transaction with OneBlood whereby they purchased an equity stake in HemaCare and signed a Sales and Distribution Agreement with HemaCare in which both parties will collaborate globally in the sales and distribution of blood-derived products. On December 28, 2017 OneBlood exercised its option to make its second tranche investment in shares of HemaCare's common stock. The third closing for additional shares may occur, at the option of OneBlood, on or before December 31, 2018. The new capital will be used to invest in product innovation, order fulfillment, and fund strategic initiatives.

During 2017, collaboration discussions resulted in a strategic partnership with Charles River Laboratories International, Inc. whereby HemaCare's peripheral blood mononuclear cells (PBMCs) will be integrated into Charles River's NCG/PBMC Select Humanization Kit. This kit is the first of its kind in the industry and provides both the NCG mouse and vials of pre-selected human PBMCs, allowing the researcher to efficiently develop the humanized mouse model.

On July 13, 2017 HemaCare signed a long term lease to relocate its operations and corporate headquarters to a larger nearby site in the San Fernando Valley (City of Los Angeles). The new single story 40,000 square foot facility will allow HemaCare to optimize process flow, utilize flexible production environments to serve HemaCare customers' increasingly complex requirements, and provide sufficient scalability to support the increasing demand of our global customer base. It is important that HemaCare continues to build capacity to keep up with our customers' needs for advanced vertically integrated solutions. We anticipate moving into the new facility towards the end of 2018.

The Company's current strategy is to increase our scalability so that we can continue increasing the Company's exemplary product quality, customer service, expertise, and infrastructure to support growth from developing cellular therapy technologies and research organizations. This infrastructure and expertise enable the Company to collect, process, and distribute various healthy and disease state human cellular components for cellular therapy research, manufacturing, and future personalized patient therapies. Ultimately, the Company believes these specialized collections will enable high margin revenue through the support of advanced autologous and allogeneic therapies and research activities.

The Company was incorporated in the state of California in 1978 and has operated in Southern California since 1979.

Bioresearch and Cellular Therapy Products & Services

HemaCare is rapidly becoming the leading global provider of human blood cellular components, supplying controlled, consistent, customized primary cells and blood components derived from peripheral blood, bone marrow, and cord blood. Biotech, biopharma, and academic customers rely on our specialized selection of high-quality, consistent, viable human primary cells and blood components

for preclinical and clinical applications in biologics, immunotherapy, cell therapy, assay development, and medical devices.

HemaCare's extensive, unique registry of well-characterized reliable, recallable, repeat donors, and controlled procedures ensure a readily-available inventory of high-quality, consistent primary human cells and biological products for advanced biomedical research and cellular therapy. Our customers greatly value our ability to supply repetitive collection materials from our recallable pedigreed donor base, with whom, in many cases, we have a multi-decades relationship.

Due to our stringent quality management systems, and devoted regulatory and quality assurance personnel dedicated to process development and regulatory compliant cell isolation and manufacturing, we are able to support researchers and the cellular therapy community with the highest quality products and services. We are proud to support the scientific community from basic research, through clinical trials, and ultimately patient care.

The Company operates a FDA registered donor and patient collection center in California, where both apheresis donor and patient collections, as well as whole blood donor collections, are performed.

Blood products revenue depends on a number of factors, including the success of the Company's research and cellular therapy marketing, and the success of the Company's donor recruitment efforts. HemaCare continues to invest in these critical functions.

We apply our apheresis expertise towards facilitating our customers' development and qualification of novel cell and gene therapies, assays, and medical devices. We specialize in collecting primary hematopoietic and immune cells from peripheral blood with high-yield cell counts and cell viability.

Summary

The Company intends to continue leveraging its core infrastructure and expanding capabilities to enable collection of various healthy and disease-state cellular components for biotech and biopharmaceutical research, commercialization, manufacturing, cellular therapy protocols, and personalized patient therapies.

In addition, the Company intends to leverage its apheresis collection expertise as contract consultants to its biotech and biopharma customers, in support of their respective unique clinical trial apheresis protocols. Having successfully performed over 250,000 apheresis collections, the Company is internationally respected for its apheresis collections expertise.

By continuing to develop domestic and international relationships with biotech and biopharma companies and research organizations, management is positioning the Company to increase access to global markets. We are rapidly becoming the supplier of choice with these customers because of our excellence as a provider of products and services critical to their research, clinical trials, and commercialization.

RELATED PARTY TRANSACTIONS

For the years ended December 31, 2017 and 2016, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company, its parent or a subsidiary was or will be a party (a) in which the amount involved exceeds $40,000 and (b) in which any director or officer of the Company or of a subsidiary or (if known to the Company or its parent or a subsidiary) any holder of more than 10% of the outstanding voting shares of the Company had a direct or indirect material interest.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Since January 1, 2017, the Company has not indemnified or advanced more than $10,000, in the aggregate, to any officer or director of the Company pursuant to Section 317 of the California Corporations Code.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 and 2016

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

HEMACARE CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
HemaCare Corporation

Opinion on the Financial Statements

We have audited the accompanying balance sheets of HemaCare Corporation (the "Company") as of December 31, 2017 and 2016, and the related statements of income, changes in shareholders' equity, and cash flows for each of the years ended December 31, 2017 and 2016, and the related notes to the financial statements (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Rose, Snyder & Jacobs LLP

We have served as the Company's auditor since 2015.

Encino, California
March 5, 2018

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HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 9,251,000	$ 2,271,000
Accounts receivable, net	2,959,000	2,269,000
Product inventories and supplies, net	2,520,000	1,935,000
Prepaid expenses and other current assets	162,000	158,000
Current portion of restricted cash	-	119,000
TOTAL CURRENT ASSETS	14,892,000	6,752,000
OTHER ASSETS		
Property and equipment, net	1,358,000	1,038,000
Restricted cash, net of current portion	-	309,000
Deferred income taxes	1,128,000	-
Other assets	70,000	64,000
TOTAL NONCURRENT ASSETS	2,556,000	1,411,000
TOTAL ASSETS	$ 17,448,000	$ 8,163,000

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 682,000	$ 437,000
Accrued payroll and payroll taxes	1,658,000	1,252,000
Other accrued expenses	210,000	103,000
Current portion of deferred rent	9,000	77,000
Current portion of capital lease obligations	99,000	47,000
TOTAL CURRENT LIABILITIES	2,658,000	1,916,000
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	-	7,000
Long-term portion of capital lease obligations	93,000	66,000
TOTAL LONG-TERM LIABILITIES	93,000	73,000
TOTAL LIABILITIES	2,751,000	1,989,000
COMMITMENTS AND CONTINGENCIES, note 9		
SHAREHOLDERS' EQUITY		
Common stock, no par, 40,000,000 shares authorized, 12,011,545 and 10,698,312 shares issued and outstanding, respectively	21,149,000	17,058,000
Accumulated deficit	(6,452,000)	(10,884,000)
TOTAL SHAREHOLDERS' EQUITY	14,697,000	6,174,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 17,448,000	$ 8,163,000

See report of independent registered public accounting
firm and notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUE	$ 20,212,000	$ 13,876,000
COST OF REVENUE	9,594,000	7,459,000
GROSS PROFIT	10,618,000	6,417,000
GENERAL AND ADMINISTRATIVE EXPENSES	7,195,000	5,618,000
INCOME BEFORE INCOME TAX BENEFIT (EXPENSE)	3,423,000	799,000
Income tax benefit (expense)	1,009,000	(18,000)
NET INCOME	$ 4,432,000	$ 781,000

See report of independent registered public accounting firm and notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock, no par value			
	Shares issued and outstanding	Amount	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2016	10,747,828	$ 16,963,000	$ (11,665,000)	$ 5,298,000
Issuance from employee stock purchase plan	135,000	100,000	-	100,000
Common stock repurchased	(184,516)	(90,000)	-	(90,000)
Share-based compensation expense	-	85,000	-	85,000
Net income	-	-	781,000	781,000
Balance, December 31, 2016	10,698,312	17,058,000	(10,884,000)	6,174,000
Issuance of shares for cash	1,091,358	3,750,000	-	3,750,000
Exercise of stock options	36,875	95,000	-	95,000
Issuance of restricted stock	185,000	-	-	-
Share-based compensation expense - stock options	-	164,000	-	164,000
Share-based compensation expense - restricted stock	-	82,000	-	82,000
Net income	-	-	4,432,000	4,432,000
Balance, December 31, 2017	12,011,545	$ 21,149,000	$ (6,452,000)	$ 14,697,000

See report of independent registered public accounting firm and notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,432,000	$ 781,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for bad debts	(36,000)	(54,000)
Provision for inventory obsolescence	397,000	186,000
Depreciation and amortization for assets used in operations	375,000	403,000
Deferred income taxes	(1,128,000)	-
Share-based compensation expense	246,000	85,000
(Increase) decrease in assets:		
Accounts receivable	(654,000)	(364,000)
Product inventories and supplies	(982,000)	(55,000)
Prepaid expenses and other current assets	(4,000)	46,000
Other assets	(7,000)	-
Increase (decrease) in liabilities:		
Accounts payable	246,000	(188,000)
Accounts payable - service agreement	-	(1,101,000)
Accrued payroll and payroll taxes	406,000	293,000
Other accrued expenses	39,000	14,000
Deferred rent	(7,000)	(120,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,323,000	(74,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(543,000)	(257,000)
Release of Restricted Cash	428,000	107,000
NET CASH USED IN INVESTING ACTIVITIES	(115,000)	(150,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(74,000)	(30,000)
Proceeds from sale of common stock	3,750,000	100,000
Proceeds from exercise of stock options	96,000	-
Payment for the repurchase of common stock	-	(90,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	3,772,000	(20,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,980,000	(244,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,271,000	2,515,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,251,000	$ 2,271,000
Supplemental Disclosures:		
Cash paid for income taxes	$ 34,000	$ 35,000
Cash paid for interest	$ 11,000	$ 6,000
Capital expenditures funded by capital lease borrowing	$ 152,000	$ 141,000

See report of independent registered public accounting firm and notes to financial statements.

1. ORGANIZATION AND NATURE OF BUSINESS

HemaCare Corporation ("HemaCare" or the "Company") is a leading bioresearch products and services company serving the scientific and medical community for over 40 years. HemaCare provides healthy and disease state human-derived primary blood cells and tissues derived from normal and mobilized peripheral blood, bone marrow and cord blood for advanced biomedical research, supports cell therapy clinical trials and commercialization with apheresis collections, and provides a wide range of consulting services in Standard Operating Procedure (SOP) development, personnel training, and quality and regulatory compliance. HemaCare's products and services address several key markets, including immune therapy research, cell manufacturing for clinical therapy, and clinical laboratory development.

HemaCare specializes in custom cell collections for customers who may require donors with specific attributes (for example, phenotypic or disease state, or sub-sets of immune cells that can be selected in HemaCare's laboratory using the latest technology. HemaCare's extensive registry of well characterized repeat donors, and controlled procedures ensure a readily-available inventory of high quality, consistent primary human cells and biological products for advanced biomedical research.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Reclassifications

Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, accruals, share-based compensation, impairment of long-lived assets, deferred taxes, estimates used in the determination of fair value of stock options, inventory obsolescence and the provision for doubtful accounts.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash. The Company maintains cash balances at various financial institutions. At times, such deposits may be in excess of amounts insured by the Federal Deposit Insurance Corporation (the "FDIC"). Deposits are insured by the FDIC up to $250,000. Deposits in excess of federally insured limits total $9,290,000 at December 31, 2017. To date, the Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk on its cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Trade accounts receivable are carried at original invoice amounts, less estimates made for doubtful receivables. The Company makes ongoing estimates on the collectability of accounts receivable based on historical level of credit losses and judgments about the creditworthiness of significant customers. Generally, the Company recognizes an allowance for doubtful accounts for any balances owed that are 90 days or more past due, unless substantial evidence exists that the receivable is collectable, such as subsequent cash collection. Balances less than 90 days past due are reserved based on the Company's bad debt experience. The Company had $91,000 and $127,000 reserved for doubtful accounts as of December 31, 2017 and 2016, respectively.

Product Inventories and Supplies

Inventories consist of Company-manufactured bioresearch and other blood products; supplies consist primarily of medical and scientific supplies used to manufacture and process research and blood products. Inventories are stated at the lower of cost or net realizable value and are accounted for on a first-in, first-out basis.

The Company maintains a reserve for excess and obsolete inventory. The Company specifically identifies and separates inventories that have become obsolete, or whose quantities are deemed to be in excess of anticipated future sales. During the years ended December 31, 2017 and 2016, the company recorded additional reserves of $397,000 and $186,000 respectively.

The Company had $724,000 and $327,000 reserved for inventory obsolescence as of December 31, 2017 and 2016, respectively.

Shipping and Handling

Shipping and handling costs are recorded as part of cost of revenue. For the years ended December 31, 2017 and 2016, shipping and handling costs were $624,000 and $395,000, respectively.

Property and Equipment

Property and equipment are stated at original cost less accumulated depreciation and amortization and impairment charges. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the related assets, as follows:

Computers and software	5 to 7 years
Furniture, fixtures and equipment	5 to 7 years
Vehicles	7 to 10 years
Leasehold improvements	Lesser of useful life or lease term

Accounting for the Impairment of Long-lived Assets

The Company accounts for its long-lived assets with definite useful lives in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 360, Property, Plant and Equipment ("ASC 360"). ASC 360 requires impairment losses to be recorded on long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Pursuant to ASC 360, an impairment loss is to be recorded when the net book value of the assets exceeds its fair value. If the asset is determined to be impaired, the asset is written down to its realizable value, and the loss is recognized in income from continuing operations in the period when determination is made. No impairment charges have been recorded as of December 31, 2017 and 2016, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes revenue on its blood and bioresearch products upon shipment of its products to its customers, provided that the Company either has a contract with the customer, or received a purchase order, and the price is fixed, collection of the resulting receivable is reasonably assured and transfer of title and risk of loss has occurred.

Income Taxes

The Company accounts for income taxes under FASB ASC Topic No. 740, Income Taxes ("ASC 740"). Under the provisions of ASC 740, 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 statement of operations.

ASC 740 prescribes a two-step process for the financial statement measurement and recognition of a tax position. The first step involves the determination of whether it is more likely than not (greater than 50 percent likelihood) that a tax position will be sustained upon examination, based on the technical merits of the position. The second step requires that any tax position that meets the more-likely-than not recognition threshold be measured and recognized in the financial statements at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on the accounting for related interest and penalties, financial statement classification and disclosure. Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2017 and 2016, the Company had no uncertain tax positions and did not incur any interest or penalties related to uncertain tax positions. As of December 31, 2017, the Company's federal and state tax returns subject to examination were for years 2014 through 2017 and 2013 to 2017, respectively.

Share-based Compensation

Pursuant to ASC Topic Nos. 505, Equity, and 718, Compensation— Stock Compensation, the Company accounts 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based Compensation (Continued)

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. Expected volatility of the common stock price;
b. Expected dividends, which are not anticipated;
c. Expected life, which is estimated based on the simplified method; and
d. Risk free interest rates

Fair Value of Financial Instruments

The Company has adopted the provisions of FASB ASC Topic No. 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 clarifies fair value as an exit price, establishes a hierarchal disclosure framework for measuring fair value and requires extended disclosures about fair value measurements. The provisions of ASC 820 apply to all financial assets and liabilities measured at fair value.

As defined in ASC 820, fair value, clarified as an exit price, represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering these assumptions, ASC 820 defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 – Unadjusted quoted prices in active, accessible market for identical assets or liabilities.
Level 2 – Other inputs that are directly or indirectly observable in the marketplace.
Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's only financial assets or liabilities measured at fair value are cash and cash equivalents and restricted cash, which have been valued based on quoted prices utilizing unadjusted quoted prices in active accessible markets for identical assets (Level 1). The carrying amounts of accounts receivable, prepaid expenses and other current receivables, accounts payable, accrued payroll and payroll taxes, factor borrowing, and other accrued expenses, and deferred rent approximate their fair value because of the short maturity.

Concentrations of Credit Risk

During 2017, purchases from one vendor represented 13% of the Company's total purchases. At December 31, 2017, accounts payable from two vendors represented 31% of the Company's total accounts payable.

During 2016, sales to one customer represented 10% of the Company's total revenue.

3. PRODUCT INVENTORIES AND SUPPLIES

Product inventories and supplies consisted of the following at December 31:

	2017	2016
Supplies	$ 417,000	$ 345,000
Bioresearch and blood products	2,827,000	1,917,000
	3,244,000	2,262,000
Less allowance for obsolescence	(724,000)	(327,000)
Total	$ 2,520,000	$ 1,935,000

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Computers and software	$ 1,424,000	$ 1,862,000
Furniture, fixtures and equipment	3,043,000	2,770,000
Vehicles	35,000	35,000
Buildings and improvements	2,205,000	2,196,000
Construction in progress	-	181,000
	6,707,000	7,044,000
Less accumulated depreciation	(5,349,000)	(6,006,000)
Total	$ 1,358,000	$ 1,038,000

Depreciation and amortization of property and equipment amounted to $375,000 and $403,000 during the years ended December 31, 2017 and 2016, respectively.

5. RESTRICTED CASH AND CREDIT FACILITY

California Bank and Trust has issued a letter of credit that the Company uses as security for lease obligations associated with its Van Nuys facility. The Company is required to maintain a letter of credit under the lease, which was initially $815,000 and was subsequently reduced to $428,000 in March 2016 under renewed terms. Effective August 1, 2017, per the terms of the lease, the letter of credit was reduced to $309,000. The letter of credit, with an initial maturity date of December 1, 2017, was renewed subsequent to year end, and is set to expire on December 1, 2018. As of December 31, 2017 and 2016, no amounts have been drawn against the letter of credit.

On July 10, 2017, the Company obtained a commitment of $2.5 million for a revolving line of credit capital facility. The revolving line of credit facility removed the restricted cash as security for a letter of credit as required as part of the lease obligation at the Company's Van Nuys facility and the new Northridge facility as disclosed in Note 9.

5. RESTRICTED CASH AND CREDIT FACILITY (Continued)

As of December 31, 2017, the Company has $2,500,000 available under the revolving credit facility and no restricted cash.

At December 31, 2016, short-term restricted cash was $119,000 and long-term restricted cash was $309,000.

6. INCOME TAXES

The components of the income tax benefit (expense) were as follows for the years ended December 31:

	2017	2016
Federal	$ 818,000	$ -
State	191,000	(18,000)
	$ 1,009,000	$ (18,000)

A reconciliation of the difference between income taxes computed at the statutory federal rate and the income tax benefit (expense) is as follows:

	2017	2016
Income tax expense at federal statutory rate	$ (1,166,000)	$ (269,000)
State income taxes, net of federal benefit	(202,000)	(51,000)
Change in valuation allowance	2,973,000	453,000
Change in expected future statutory rate	(543,000)	-
Other	(38,000)	(140,000)
Permanent difference	(15,000)	(11,000)
Income tax benefit (expense)	$ 1,009,000	$ (18,000)

As of December 31, 2017 and 2016, the significant components of the Company's net deferred tax asset are as follows:

	2017	2016
Accounts receivable reserve and other	$ 243,000	$ 195,000
Accrued expenses and other	116,000	157,000
Net operating loss carryforward	589,000	2,319,000
Depreciation and amortization	(110,000)	59,000
Tax credit carryforward	42,000	63,000
Stock compensation	279,000	342,000
Other	(31,000)	(162,000)
Valuation allowance	-	(2,973,000)
Total deferred tax asset	$ 1,128,000	$ -

See report of independent registered public accounting firm.

6. INCOME TAXES (Continued)

A valuation allowance of $2.97 million was recorded against its gross deferred tax asset balance as of December 31, 2016. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2017, in part because in the current year, the Company achieved three years of cumulative pre-tax income, management determined that sufficient positive evidence exists to conclude that it is more likely than not that the Company's deferred taxes of $1.1 million are fully realizable, and therefore, reduced the valuation allowance to $0.

As of December 31, 2017 the Company had federal net operating loss carryforwards of $2.8 million. As of December 31, 2017 there were no remaining state net operating loss carryforwards.

The ability of the Company to utilize the available federal net operating loss carryforward is scheduled to expire over time starting in 2023 and ending in 2034. Utilization of the net operating loss may be subject to substantial annual limitation as a result of a change in ownership as provided by the Internal Revenue Code (the "Code"). Such a limitation could result in the expiration of the net operating loss before utilization.

7. SHAREHOLDERS' EQUITY

Stock Options

On May 21, 2015, the shareholders approved the 2015 Stock Incentive Plan ("2015 Plan"), which serves to attract, retain and motivate our employees, officers and directors by providing them with the opportunity to acquire a proprietary interest in the Company and to align their interests and efforts to the long-term interests of our shareholders. The 2015 Plan also allows us to provide the same opportunity to consultants, agents, advisors and independent contractors.

A total of 1,000,000 shares of Common Stock shall be authorized for issuance pursuant to awards granted under the 2015 Plan. Any shares that are subject to awards granted under the 2015 Plan shall be counted against the plan share limit on a 1-for-1 basis for every such share subject to appreciation awards. Shares that cease to be subject to awards under the 2015 Plan, to the extent such shares again become available for awards under the 2015 Plan, will increase the shares available for issuance under the 2015 Plan on a 1-for-1 basis. If any award granted under the 2015 Plan expires or is terminated, surrendered or cancelled without having been fully exercised, is forfeited in whole or in part (including as a result of the Company's contractual repurchase right), is settled in cash or otherwise results in any shares being forfeited or not being issued, the unused shares covered by such award are added back into the reserve of shares available for future awards under the 2015 Plan.

As of December 31, 2017, the Company had utilized 802,000 of the shares reserved under the 2015 Plan and 198,000 shares remain available.

The fair value of share options vested, and related share-based compensation, recognized, during the years ended December 31, 2017 and 2016 amounted to $164,000 and $85,000, respectively and was included in general and administrative expenses.

7. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

The table below summarizes stock option activity for the years ended December 31, 2017 and 2016:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2016	2,400,000	$ 0.59	3.84
Granted	110,000	0.72	
Exercised	-	-	
Forfeited	(45,000)	0.57	
Expired	(125,000)	2.42	
Outstanding at December 31, 2016	2,340,000	$ 0.50	5.75
Granted	165,000	2.59	
Exercised	(36,875)	2.60	
Forfeited	(27,500)	2.01	
Expired	(90,000)	2.71	
Outstanding at December 31, 2017	2,350,625	$ 0.51	5.30
Vested at December 31, 2017	1,894,375	$ 0.39	4.61
Vested and expected to vest	456,250	$ 1.01	

The following table summarizes the range of exercise price, weighted average remaining contractual life ("Life") and weighted average exercise price ("Price") for all stock options outstanding as of December 31, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Life (in years)	Price	Shares	Price
$0.15 to $0.21	615,000	6.27	$ 0.18	515,000	$ 0.18
$0.22 to $0.31	530,000	3.16	$ 0.27	530,000	$ 0.27
$0.32 to $0.50	265,000	2.79	$ 0.38	265,000	$ 0.38
$0.51 to $0.58	500,625	6.99	$ 0.56	288,125	$ 0.57
$0.59 to $3.09	440,000	6.13	$ 1.30	296,250	$ 0.84

7. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

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 of options on the grant date were determined using the following weighted-average assumptions:

	2017	2016
Risk-free interest rate	2.14%	1.34%
Expected stock price volatility	99.3%	69.1%
Expected dividend yield	-	-
Expected option term	7.92	5.80

As of December 31, 2017, the unrecognized compensation cost related to nonvested awards was $305,000, which will be recognized as compensation over a weighted-average period of 2.4 years. Our expected forfeiture rate is estimated at 6%.

Restricted Stock

Under the 2015 Plan, restricted stock may be granted with the approval of the Board of Directors. As of December 31, 2017 the Company awarded 185,000 shares of restricted common stock to certain members of management at a fair market value of $2.36 per share, which vest over four years.

For the year ended December 31, 2017, the Company recorded $82,000 of expense related to the issuance of shares of restricted stock. Such expense was included in general and administrative expenses.

As of December 31, 2017, the pre-tax compensation expense for all unvested shares of restricted stock in the amount of approximately $349,000 will be recognized by the Company over a weighted-average period of 3.2 years.

As of December 31, 2017, the restricted stock is considered issued and outstanding as the stockholders can still vote and receive dividends on their full shares granted.

Investment by Third Party

On January 6, 2017, the Company entered into a Common Stock Purchase Agreement that set forth terms and conditions to offer and sell to a buyer, up to $5 million of shares of the Company's common stock, which will be offered and closed in three installments at a fixed price per share. The first closing for $2.5 million occurred on January 6, 2017, with the issuance of 727,572 shares of the Company's common stock at a per share price of $3.44. The second closing for $1.25 million of shares occurred on December 28, 2017, with the issuance of 363,786 shares of the Company's common stock at a per share price of $3.44. A third closing for $1.25 million may occur, at the option of the Purchaser, on or before December 31, 2018.

Stock Repurchase Plan

The Board of Directors of the Company approved a plan on November 15, 2012 to purchase and retire up to 2,000,000 shares of the Company's common stock. The Company anticipates that these stock repurchases will be made from time to time, depending on market prices, from cash on hand.

The Company purchased 39,474 shares for $26,000 during the year ended December 31, 2016. These shares have been retired. There were no purchases during the year ended December 31, 2017.

8. 401(K) PROFIT SHARING PLAN

The HemaCare Corporation 401(k) Profit Sharing Plan qualifies, in form, under Section 401(k) of the Internal Revenue Code. Under the 401(K) Plan, participating employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limit ($18,000 for calendar year 2017). The company provided a discretionary match of $91,000 and $45,000 for employee 401(k) contributions for the years ended December 31, 2017 and 2016, respectively.

On January 11, 2016 the Company's Board of Directors unanimously approved to repurchase the Company's common shares from the HemaCare Corporation 401(k) Profit Sharing Plan. On March 7, 2016, the Company completed the repurchase of 145,042 shares, of which the related cash proceeds of $64,000 was deposited into the Plan account and allocated to each participant as defined by the Plan. The Company retired the common shares.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space, a blood component manufacturing lab, donor center and supply warehouse in Van Nuys, California. The rent for this facility started at approximately $48,000 per month with annual 3% rent escalation upon the annual anniversary of the beginning of the lease term. The lease on this space expired on July 31, 2017; however, subsequent to year end the Company amended their lease to extend the lease term to December 31, 2018.

On July 7, 2017, the Company entered into a commercial building lease agreement. The eleven year lease, estimated to begin in October 2018, provides for the lease of approximately 39,846 square feet of space in Northridge, California. Base annual rent is initially set at approximately $116,000 per month. As part of the lease agreement, the Company received approximately $2,400,000 in tenant improvement allowances from the landlord. Under the terms of this lease, the Company is required to post a standby letter of credit in favor of the lessor. The amount of the letter of credit is $800,000, which will be reduced by approximately $114,000 per annum beginning in year four over the remaining lease term. The Company has one option to extend the term of the lease for an additional ten year period.

Total rent expense under all operating leases was $625,000 and $665,000 for the years ended December 31, 2017 and 2016, respectively.

The future estimated minimum lease payments required under these noncancelable operating lease agreements at December 31, 2017 are as follows:

Years ending December 31,	
2018	$ 736,000
2019	989,000
2020	1,313,000
2021	1,352,000
2022	1,393,000
Thereafter	11,724,000
Total	$ 17,507,000

9. COMMITMENTS AND CONTINGENCIES (Continued)

Capital Lease Obligation

In May 2016, the Company entered into a capital lease obligation with Terumo BCT for the lease of equipment used in processing in the Company's Van Nuys donor room facility. The initial value of the lease was $142,000, and bears interest at 6% per annum, which is payable monthly in the amount of $4,300 and expires in April 2019.

In May 2017, the Company entered into a capital lease obligation with Terumo BCT for the lease of equipment used in processing in the Company's Van Nuys donor room facility. The initial value of the lease was $152,000, and bears interest at 6% per annum, with principal and interest payable monthly in the amount of $4,700 and expires in April 2020. As of December 31, 2017, the present value of the capital lease obligations was $192,000 (net of imputed interest of $12,000).

The total cost of assets under capitalized leases was $294,000 and $142,000 at December 31, 2017 and December 31, 2016, respectively.

The future estimated minimum lease payments required under this non-cancellable capital lease agreement at December 31, 2017 are as follows:

Years ending December 31,	
2018	$ 108,000
2019	73,000
2020	23,000
	204,000
Less: Amount representing interest	(12,000)
	192,000
Less: Current portion	99,000
	$ 93,000

Amortization of assets under capital lease is included in depreciation and amortization expense.

Legal Contingencies

From time to time, the Company is involved in legal matters which arise in the normal course of operations. Management believes that the final resolution of such matters will not have a material adverse effect on the Company's financial position or results of operations.

10. SUBSEQUENT EVENTS

Management has evaluated significant events through March 5, 2018, the date that the financial statements were available to be issued.

In January 2018, the Company entered into a capital lease obligation with Terumo BCT for the lease of equipment used in processing in the Company's Van Nuys donor room facility. The initial value of the lease was $394,000, and bears interest at 7% per annum, which is payable monthly in the amount of $12,200 and expires in February 2021.