

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS
JUNE 30, 2018

HEMACARE CORPORATION

CONTENTS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM REVIEW REPORT	1
BALANCE SHEETS	2
STATEMENTS OF OPERATIONS	3
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 15



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of HemaCare Corporation
Van Nuys, California

Results of Review of Interim Financial Information

We have reviewed the balance sheet of HemaCare Corporation (the "Company") as of June 30, 2018, and the related statements of operations, changes in shareholders' equity, and cash flows for the six months ended June 30, 2018 and 2017, and the related notes (collectively referred to as the interim financial statements). Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and the auditing standards generally accepted in the United States of America (U.S. GAAS), the balance sheet of the Company as of December 31, 2017, and the related statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 5, 2018, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We conducted our review in accordance with the standards of the PCAOB and U.S. GAAS. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the PCAOB and the U.S. GAAS, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. 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.

Rose, Snyder & Jacobs LLP

Rose, Snyder & Jacobs LLP

Encino, California
August 16, 2018

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
BALANCE SHEETS

ASSETS

	<u>(unaudited)</u> <u>June 30, 2018</u>	<u>(audited)</u> <u>December 31, 2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,282,000	\$ 9,251,000
Accounts receivable, net	4,154,000	2,959,000
Product inventories and supplies, net	3,045,000	2,520,000
Prepaid expenses and other current assets	<u>255,000</u>	<u>162,000</u>
TOTAL CURRENT ASSETS	<u>17,736,000</u>	<u>14,892,000</u>
OTHER ASSETS		
Property and equipment, net	1,650,000	1,358,000
Deferred Income Taxes	612,000	1,128,000
Other assets	<u>43,000</u>	<u>70,000</u>
TOTAL NONCURRENT ASSETS	<u>2,305,000</u>	<u>2,556,000</u>
TOTAL ASSETS	<u>\$ 20,041,000</u>	<u>\$ 17,448,000</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 946,000	\$ 682,000
Accrued payroll and payroll taxes	1,370,000	1,658,000
Other accrued expenses	190,000	210,000
Current portion of deferred rent	-	9,000
Current portion of capital lease obligations	<u>220,000</u>	<u>99,000</u>
TOTAL CURRENT LIABILITIES	2,726,000	2,658,000
LONG-TERM LIABILITIES		
Long-term portion of capital lease obligation	<u>269,000</u>	<u>93,000</u>
TOTAL LIABILITIES	<u>2,995,000</u>	<u>2,751,000</u>
COMMITMENTS AND CONTINGENCIES, note 9		
SHAREHOLDERS' EQUITY		
Common stock, no par, 40,000,000 shares authorized, 12,139,045 and 12,011,545 shares issued and outstanding	21,368,000	21,149,000
Accumulated deficit	<u>(4,322,000)</u>	<u>(6,452,000)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>17,046,000</u>	<u>14,697,000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 20,041,000</u>	<u>\$ 17,448,000</u>

See accompanying notes and
review report of independent registered
public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF OPERATIONS (unaudited)

	<u>Six months ended June 30, 2018</u>	<u>Six months ended June 30, 2017</u>
REVENUE	\$ 13,070,000	\$ 8,657,000
COST OF REVENUE	<u>5,638,000</u>	<u>4,160,000</u>
GROSS PROFIT	7,432,000	4,497,000
GENERAL AND ADMINISTRATIVE EXPENSES	4,509,000	3,917,000
OTHER INCOME (EXPENSE)	<u>(3,000)</u>	<u>(6,000)</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	2,920,000	574,000
Provision for income taxes	<u>(790,000)</u>	<u>(22,000)</u>
NET INCOME	<u>\$ 2,130,000</u>	<u>\$ 552,000</u>

See accompanying notes and
review report of independent registered
public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Common Stock, no par value			Total Shareholders' Equity
	Shares	Amount	Accumulated Deficit	
Beginning Balance, January 1, 2018	12,011,545	\$ 21,149,000	\$ (6,452,000)	\$ 14,697,000
Option exercises	127,500	39,000	-	39,000
Share-based compensation expense - stock options	-	129,000	-	129,000
Share-based compensation expense - restricted stock	-	51,000	-	51,000
Net income			2,130,000	2,130,000
Ending Balance, June 30, 2018	12,139,045	\$ 21,368,000	\$ (4,322,000)	\$ 17,046,000

See accompanying notes and
review report of independent registered
public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF CASH FLOWS (unaudited)

	Six months ended June 30, 2018	Six months ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,130,000	\$ 552,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for inventory obsolescence	242,000	310,000
Depreciation and amortization	202,000	197,000
Share-based compensation expense	180,000	81,000
Bad debt expense	63,000	45,000
Gain on sale of equipment	(5,000)	
(Increase) decrease in assets:		
Accounts receivable	(1,258,000)	(550,000)
Product inventories and supplies	(767,000)	(312,000)
Prepaid expenses and other current assets	(93,000)	(23,000)
Deferred Income Taxes	516,000	
Other assets	27,000	(6,000)
Increase (decrease) in liabilities:		
Accounts payable	263,000	143,000
Accounts payable - service agreement	-	-
Accrued payroll and payroll taxes	(287,000)	(156,000)
Other accrued expenses	(29,000)	64,000
Deferred rent	-	(64,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,184,000	281,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(103,000)	(224,000)
Proceeds received from sale of equipment	8,000	-
NET CASH USED IN INVESTING ACTIVITIES	(95,000)	(224,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(97,000)	(26,000)
Proceeds from sale of common stock	-	2,500,000
Proceeds from exercise of stock options	39,000	1,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(58,000)	2,475,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,031,000	2,532,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,251,000	2,271,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 10,282,000	\$ 4,803,000
<u>Supplemental Disclosures:</u>		
Cash paid for income taxes	\$ 350,000	\$ -
Cash paid for interest	\$ 18,000	\$ 5,000
Capital expenditures funded by capital lease borrowing	\$ 394,000	\$ 152,000

See accompanying notes and
review report of independent registered
public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION AND NATURE OF BUSINESS

HemaCare Corporation (“HemaCare” or the “Company”) is a leading blood products and services company serving the scientific 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.

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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-9, “Revenue from Contracts with Customers (Topic 606)”. ASU 2014-9 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”. ASU 2014-9 requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB finalized the delay of the effective date by one year, making the new standard effective for interim periods and annual periods beginning after December 15, 2018. Early adoption is permitted, but it is not permitted earlier than the original effective date. ASU 2014-9 provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. While the Company has not finalized the impact of the adoption of ASU 2014-9 on its financial statements, the Company does not expect the adoption to have a material impact.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash. 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 \$10,072,000 at June 30, 2018. 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.

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 \$154,000 and \$91,000 reserved for doubtful accounts as of June 30, 2018 and December 31, 2017, 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. The Company had expenses relating to excess and obsolete inventory of \$242,000, and \$310,000 during the six months ended June 30, 2018 and 2017, respectively.

The Company had \$966,000 and \$724,000 reserved for inventory obsolescence as of June 30, 2018 and December 31, 2017, respectively.

Shipping and Handling

Shipping and handling costs are recorded as part of cost of revenue. For the six months ended June 30, 2018 and 2017, shipping and handling costs totaled \$485,000 and \$291,000, 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
Buildings and improvements	Lesser of useful life or lease term

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 during the six months ended June 30, 2018 and 2017.

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 in 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. For the six months ended June 30, 2018 and 2017, the Company had no uncertain tax positions and did not incur any interest or penalties related to uncertain tax positions.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based Compensation

Pursuant to ASC Topic Nos. 505, Equity, and 718, Compensation— Stock Compensation, the Company 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 utilizes 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. 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;
- d. Risk free interest rates; and
- e. Expected forfeitures.

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 hierarchical 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, product inventories and supplies, 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.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

The Company sells bioresearch products and services to the scientific community to advance cellular and immunotherapy research. During the six months ended June 30, 2018, sales to three customers represented 15% of the Company's total revenue. During the six months ended June 30, 2017, sales to one customer represented 7% of the Company's total revenue.

During the six months ended June 30, 2018 purchases from one vendor represented 11% of the Company's total purchases. At June 30, 2018, accounts payable from one vendor represented 14% of the Company's total accounts payable.

3. PRODUCT INVENTORIES AND SUPPLIES

Product inventories and supplies consisted of the following:

	<u>June 30,2018</u>	<u>December 31, 2017</u>
Supplies	\$ 380,000	\$ 417,000
Bioresearch and blood products	<u>3,631,000</u>	<u>2,827,000</u>
	4,011,000	3,244,000
Less allowance for obsolescence	<u>(966,000)</u>	<u>(724,000)</u>
Total	<u>\$ 3,045,000</u>	<u>\$ 2,520,000</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>June 30,2018</u>	<u>December 31, 2017</u>
Computers and software	\$ 1,467,000	\$ 1,424,000
Furniture, fixtures and equipment	2,724,000	3,043,000
Vehicles	35,000	35,000
Buildings and improvements	2,205,000	2,205,000
Construction in progress	<u>5,000</u>	<u>-</u>
	6,436,000	6,707,000
Less accumulated depreciation	<u>(4,786,000)</u>	<u>(5,349,000)</u>
Total	<u>\$ 1,650,000</u>	<u>\$ 1,358,000</u>

Depreciation and amortization of property and equipment amounted to \$202,000 and \$197,000 during the six months ended June 30, 2018 and 2017, respectively.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

5. 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 the renewed terms. Effective August 1, 2017, per the terms of the lease, the letter of credit was reduced to \$309,000 and will expire upon expiration of the lease December 31, 2018.

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.

As of June 30, 2018, the Company had \$2,500,000 available under the revolving credit facility and no restricted cash.

At June 30, 2018 and December 31, 2017, the letter of credit was for \$309,000. As of June 30, 2018, no amounts have been withdrawn against the letter of credit.

6. INCOME TAXES

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 June 30, 2018, the Company achieved two 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 \$612,000 are fully realizable, and therefore, reduced the valuation allowance to \$0.

As of June 30, 2018, there were no remaining federal and state net operating loss carryforwards.

7. SHAREHOLDERS' EQUITY

Stock Options

On May 21, 2015, the shareholders approved the 2015 Stock Incentive Plan ("2015 Plan") and a total of 1,000,000 shares of Common Stock was authorized for issuance. The 2015 Plan shall serve 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 the Company to provide the same opportunity to consultants, agents, advisors and independent contractors.

On June 7, 2018, the shareholders approved to increase the total number of shares authorized for issuance under the HemaCare corporation 2015 Stock Incentive Plan from 1,000,000 to 2,000,000 shares. 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.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

7. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

As of June 30, 2018, the Company had utilized 834,820 of the shares reserved under the 2015 Plan and 1,165,180 shares remain available.

The fair value of share options vested, and related share-based compensation recognized, during the six months ended June 30, 2018 amounted to \$129,000 and was included in general and administrative expenses. Share-based compensation recognized during the six months ended June 30, 2017 amounted to \$54,000.

The table below summarizes stock option activity for the six months ended June 30, 2018:

	Shares	Weighted- Average Exercise Price	Average Remaining Contractual Term
Outstanding at January 1, 2018	2,350,625	\$ 0.51	5.30
Granted	226,695	6.55	
Exercised	(127,500)	0.30	
Forfeited	(39,375)	1.32	
Expired	-	-	
Outstanding at June 30, 2018	<u>2,410,445</u>	<u>\$ 1.08</u>	<u>5.50</u>
Vested at June 30, 2018	<u>1,865,002</u>	<u>\$ 0.45</u>	<u>4.60</u>
Expected to vest	<u>545,443</u>	<u>\$ 3.25</u>	

Stock Options

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 June 30, 2018:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Shares</u>	<u>Life (in years)</u>	<u>Price</u>	<u>Shares</u>	<u>Prices</u>
\$0.15 to \$0.21	615,000	5.80	\$ 0.18	565,000	\$ 0.18
\$0.22 to \$0.31	405,000	3.60	\$ 0.27	405,000	\$ 0.27
\$0.32 to \$0.50	265,000	2.30	\$ 0.38	265,000	\$ 0.38
\$0.51 to \$0.64	560,000	5.90	\$ 0.57	365,000	\$ 0.57
\$0.65 to \$6.63	565,445	7.70	\$ 3.47	265,002	\$ 1.17

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

7. SHAREHOLDERS' EQUITY (Continued)

The Black-Scholes option pricing model is used by the Company to determine the weighted-average fair value of share-based payments. For the six months ended June 30, 2018, the weighted average grant date fair value was estimated at \$4.98 per option using the following weighted-average assumptions:

Risk-free interest rate	2.87%
Expected stock price volatility	77.8%
Expected dividend yield	-
Expected option term	8.06

As of June 30, 2018, the unrecognized compensation cost related to nonvested awards was \$1,110,000, which will be recognized as compensation over a weighted-average period of approximately 3.1 years. Our expected forfeiture rate is estimated at 7%.

Restricted Stock

Under the 2015 Plan, restricted stock may be granted with the approval of the Board of Directors. In March 2017, the Company awarded 185,000 share of restricted common stock to certain members of management at a fair market value of \$2.36 per share that vest over four years. There were no new issuances of restricted stock in 2018.

During the six months ended June 30, 2018 and 2017, the Company recorded \$51,000 and \$27,000, respectively, of expense related to the issuance of shares of restricted stock. Such expense was included in general and administrative expenses.

As of June 30, 2018, the pre-tax compensation expense for all unvested shares of restricted stock in the amount of approximately \$263,000 will be recognized by the Company over a weighted-average period of 2.7 years.

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.

There were no repurchases of shares during the six months ended June 30, 2018.

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

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 (\$18,500 for calendar year 2018). The Company recognized an expense of \$65,000 and \$45,000 for a discretionary match of 401(k) contributions for the six months ended June 30, 2018 and 2017, respectively.

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 expires on December 31, 2018.

Total rent expense under all operating leases was \$313,000 and \$324,000 for the six months ended June 30, 2018 and 2017, respectively.

The future estimated minimum lease payments required under this noncancelable operating lease agreement at June 30, 2018 is \$299,000 for the remaining six month term.

On July 7, 2017, the Company entered into a commercial building lease agreement. The eleven year lease, estimated to begin in November 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. The Company expects to pay approximately \$4 million for leasehold improvements, net of the tenant improvement allowance in the second half of 2018. 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.

<u>Years ending December 31,</u>	
2018	\$ 174,000
2019	989,000
2020	1,313,000
2021	1,352,000
2022	1,393,000
Thereafter	<u>11,415,000</u>
Total	<u>\$ 16,636,000</u>

See review report of independent registered public accounting firm.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(unaudited)

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, with principal and interest 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.

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.

The total cost of assets under capitalized leases was \$688,000 and \$294,000 at June 30, 2018 and December 31, 2017, respectively.

The future estimated minimum lease payments required under these noncancellable capital lease agreements at June 30, 2018 are as follows:

<u>Years Ending December 31,</u>	
2018 (six months)	\$ 127,000
2019	220,000
2020	170,000
2021	<u>12,000</u>
	529,000
Less: Amount representing interest	<u>40,000</u>
	489,000
Less: Current portion	<u>220,000</u>
	<u>\$ 269,000</u>

Legal Contingencies

From time to time, the Company may be 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.

Investment by Third Party

On January 6, 2017, the Company also entered into a Sales and Distribution Agreement with a supplier in which both parties will collaborate globally in the sales and distribution of blood-derived products. The initial term of the agreement will continue until December 31, 2020, with automatic annual renewal periods, unless terminated by either party.

10. SUBSEQUENT EVENTS

Management has evaluated significant events through August 16, 2018, the date that the financial statements were available to be issued. Management determined that there were no other subsequent events requiring disclosure or recognition in the Company's financial statements.

See review report of independent registered public accounting firm.