HemaCare
CORPORATION
Providing Solutions • Improving Lives

May 12, 2017

To Our Shareholders,

2016 was a pivotal year of substantial progress for the company. HemaCare's BioResearch Products & Services revenues grew 43%, and net income from continuing operations improved from a loss the prior year. In addition, we have seen strong growth from our top distributors in Europe and Japan, and further expanded our international distributor relationships into China and South Korea, resulting in a 240% increase in international revenues.

This rapid revenue growth gives management a high level of confidence that our customers value the quality of HemaCare's products and services. Customer feedback consistently cites the 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.

On January 6, 2017, HemaCare Corporation entered into an agreement with OneBlood (OBF Investments, LLP) to invest up to $5 million in shares of HemaCare's common stock at $3.44 per share in three installments. The first closing for $2.5 million occurred on January 6, 2017, with the issuance of 727,572 shares of HemaCare's common stock. The second closing for $1.25 million in shares will occur, at the option of OneBlood, on or before December 31, 2017, and the third closing for $1.25 million in shares will 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.

On January 6, 2017, HemaCare also entered into a Sales and Distribution Agreement with OneBlood, Inc. 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.

OneBlood is an industry-leading blood center that is known for its innovative and progressive approaches. Partnering with OneBlood provides HemaCare with an East Coast presence and simultaneously brings validation of our evolution as a leading provider of a wide array of specialized blood products to the high growth biotechnology, pharmaceutical and academic research markets. We are excited to be a part of an initiative that helps provide scientists and clinical researchers with what they need to find the next generation of medical cures.

HemaCare Corporation • 15350 Sherman Way, Suite 423 • Van Nuys, CA 91406
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Today HemaCare specializes in customized collection, isolation, and testing of primary human blood cells and other biological products for research protocols. 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.

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
- Good Manufacturing Practices compliant donor collection under 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 Good Manufacturing Practices 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. Industry reports suggest this market will triple over the next 10 years, as additional biopharma and biotechnology companies: (1) enter the immunotherapy, cell

therapy, and regenerative medicine markets, (2) expand their research pipelines, and (3) receive approval of their therapies for clinical use.

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 competition, which are merely sources of raw human biological material, HemaCare offers an integrated global total solution supporting immunotherapy research, cell therapy, and regenerative medicine, thereby enabling industry to expedite getting to market.

The current revenue growth has been accomplished without the benefit of several additional initiatives that will further accelerate HemaCare's growth. In 2017, we will continue to build our sales and marketing team, boost our operational talent and capabilities, increase our offering of fresh and frozen disease-state products, and expand into additional strategic international markets.

HemaCare is in the right place, at the right time, with the right skill sets that are in high demand to profit from the multi-billion dollars 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

Pete van der Wal
President & CEO

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HemaCare
CORPORATION

2016 Annual Report

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CORPORATE OVERVIEW

General

In 2016, HemaCare produced $13.8 million in revenues. We have seen strong growth from our top distributors in Europe and Japan, and further expanded our international distributor relationships into China and South Korea. Collaboration discussions progressed with several key customer relationships resulting in increased access to international markets. Business development negotiations also produced the January 6, 2017 transaction with OneBlood whereby they purchased an equity stake in HemaCare, as well as signing a Sales and Distribution Agreement with HemaCare in which both parties will collaborate globally in the sales and distribution of blood-derived products.

The first year HemaCare pursued the BioResearch Products & Services market, in 2013, the Company generated $1.7 million in revenues.

The following year, in 2014, HemaCare produced $4.5 million in revenues. Having achieved this significant revenue growth focusing on healthy donor specimens in the U.S. market, HemaCare launched a non-healthy donor sample product line, and expanded into international markets including Europe and Japan in Q4 2014. HemaCare accelerated this expansion by leveraging a network of best in class partners already well-established in these regions.

In 2015, HemaCare produced $9.7 million in revenues. Further expansion into international markets included signing distribution agreements with companies in Canada, Taiwan, India, Singapore, and Malaysia; as well as additional distributors in Europe and Japan.

In March, 2015, the last remaining asset not germane to HemaCare's BioResearch Products & Services business, our Los Angeles based Therapeutic Apheresis Services business, was sold to an affiliate of Fresenius Medical Care Holdings, Inc. for $4.6 million. This transaction completed the transformation of HemaCare from a company previously focused on blood banking and therapeutic apheresis services, to a company now entirely focused on becoming the only vertically integrated global total solution supporting immunotherapy research, cell therapy, and regenerative medicine.

The Company's current strategy is to continue increasing the Company's exemplary product quality, customer service, expertise, and infrastructure to support 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 Products & Services

HemaCare is rapidly becoming the leading 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. 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 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 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, 2016 and 2015, 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.

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INDEMNIFICATION OF OFFICERS AND DIRECTORS

Since January 1, 2016, 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.

HemaCare
CORPORATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 and 2015

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

HEMACARE CORPORATION

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Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of HemaCare Corporation (a California corporation) as of December 31, 2016 and 2015, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HemaCare Corporation as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rose, Snyder & Jacobs LLP

Rose, Snyder & Jacobs LLP

Encino, California
March 9, 2017

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HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 2,271,000	$ 2,515,000
Accounts receivable, net	2,269,000	1,851,000
Product inventories and supplies, net	1,935,000	2,066,000
Prepaid expenses and other current assets	158,000	192,000
Current portion of restricted cash	119,000	107,000
TOTAL CURRENT ASSETS	6,752,000	6,731,000
OTHER ASSETS		
Property and equipment, net	1,038,000	1,043,000
Restricted cash, net of current portion	309,000	428,000
Other assets	64,000	64,000
TOTAL NONCURRENT ASSETS	1,411,000	1,535,000
TOTAL ASSETS	$ 8,163,000	$ 8,266,000

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 437,000	$ 615,000
Accounts payable - service agreement	-	1,101,000
Accrued payroll and payroll taxes	1,252,000	974,000
Other accrued expenses	103,000	74,000
Current portion of deferred rent	77,000	120,000
Current portion of capital lease obligations	47,000	-
TOTAL CURRENT LIABILITIES	1,916,000	2,884,000
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	7,000	84,000
Long-term portion of capital lease obligations	66,000	-
TOTAL LONG-TERM LIABILITIES	73,000	84,000
TOTAL LIABILITIES	1,989,000	2,968,000
COMMITMENTS AND CONTINGENCIES, note 10		
SHAREHOLDERS' EQUITY		
Common stock, no par, 40,000,000 shares authorized, 10,698,312 and 10,747,828 shares issued and outstanding, respectively	17,058,000	16,963,000
Accumulated deficit	(10,884,000)	(11,665,000)
TOTAL SHAREHOLDERS' EQUITY	6,174,000	5,298,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 8,163,000	$ 8,266,000

See independent auditors' report and
notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUE		
Bioresearch products and services	$ 13,876,000	$ 9,702,000
COST OF REVENUE		
Bioresearch products and services	6,751,000	5,292,000
GROSS PROFIT	7,125,000	4,410,000
GENERAL AND ADMINISTRATIVE EXPENSES	6,326,000	5,790,000
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX	799,000	(1,380,000)
Provision for income taxes	(18,000)	(22,000)
INCOME (LOSS) FROM CONTINUING OPERATIONS, NET OF TAXES	781,000	(1,402,000)
DISCONTINUED OPERATIONS, NET OF TAX:		
Therapeutic apheresis division	-	4,638,000
NET INCOME	$ 781,000	$ 3,236,000

See independent auditors' report and
notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock, no par value			
	Shares issued and outstanding	Amount	Accumulated Deficit	Total Shareholders' Equity
Beginning Balance, January 1, 2015	10,747,828	$ 16,913,000	$ (14,901,000)	$ 2,012,000
Share-based compensation expense	-	50,000	-	50,000
Net income	-	-	3,236,000	3,236,000
Balance, December 31, 2015	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
Ending Balance, December 31, 2016	10,698,312	$ 17,058,000	$ (10,884,000)	$ 6,174,000

See independent auditors' report and
notes to financial statements.

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 781,000	$ 3,236,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Income from discontinued operations	-	(4,638,000)
Provision for bad debts	(54,000)	34,000
Provision for inventory obsolescence	186,000	36,000
Depreciation and amortization for assets used in operations	403,000	400,000
Gain on sale of property and equipment	-	(10,000)
Share-based compensation expense	85,000	50,000
(Increase) decrease in assets:		
Accounts receivable	(364,000)	(313,000)
Product inventories and supplies	(55,000)	(526,000)
Prepaid expenses and other current assets	46,000	(45,000)
Other assets	-	3,000
Increase (decrease) in liabilities:		
Accounts payable	(188,000)	(1,110,000)
Accounts payable - service agreement	(1,101,000)	1,101,000
Accrued payroll and payroll taxes	293,000	316,000
Other accrued expenses	14,000	(36,000)
Deferred rent	(120,000)	(97,000)
NET CASH USED IN OPERATING ACTIVITIES OF CONTINUING OPERATIONS	(74,000)	(1,599,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	-	110,000
NET CASH USED IN OPERATING ACTIVITIES	(74,000)	(1,489,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of California Therapeutics Apheresis Division	-	4,566,000
Proceeds from sale of property and equipment	-	10,000
Purchases of property and equipment	(257,000)	(200,000)
Release of Restricted Cash	107,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(150,000)	4,376,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(30,000)	(16,000)
Factor borrowing	-	(419,000)
Repayments on related party payable	-	(150,000)
Proceeds from sale of common stock	100,000	-
Payment for repurchase of common stock	(90,000)	-
NET CASH USED IN FINANCING ACTIVITIES	(20,000)	(585,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(244,000)	2,302,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,515,000	213,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,271,000	$ 2,515,000
Supplemental Disclosures:		
Cash paid for income taxes	$ 35,000	$ 31,000
Cash paid for interest	$ 6,000	$ 5,000
Capital expenditures funded by capital lease borrowing	$ 141,000	$ -

See independent auditors' report and
notes to financial statements.

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 39 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 responsive, cost-effective, Good Manufacturing Practice (GMP)/ Good Tissue Practice (GTP)-compliant apheresis collection services leverage its decades of experience in apheresis collection, quality systems, fully integrated support infrastructure, and network of FDA-registered collection centers. HemaCare supports industry and academic organizations with apheresis collection services for preclinical research, clinical trials from Phase I through Phase III, and clinical cell therapy applications.

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

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 $2,633,000 at December 31, 2016. 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.

Restricted Cash

The Company holds restricted cash as security for a letter of credit as required as part of the lease obligation at the Company's Van Nuys facility.

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 $127,000 and $169,000 reserved for doubtful accounts as of December 31, 2016 and 2015, 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, 2016 and 2015, the company recorded additional reserves of $186,000 and $36,000 respectively.

The Company had $327,000 and $141,000 reserved for inventory obsolescence as of December 31, 2016 and 2015, respectively.

Shipping and Handling

Shipping and handling costs are recorded as part of cost of revenue. As of December 31, 2016 and 2015, shipping and handling costs were $395,000 and $326,000, 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, 2016 and 2015, 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 income.

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, 2016 and 2015, the Company had no uncertain tax positions and did not incur any interest or penalties related to uncertain tax positions.

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 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;
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 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, and other current receivables, accounts payable, accrued payroll and payroll taxes, and other accrued expenses, approximate their fair value because of the short maturity.

Concentrations of Credit Risk

The Company sells research and cellular therapy products to research and cellular therapy related organizations. During 2016, sales to one customer represented 10% of the Company's total revenue.

3. DISCONTINUED OPERATIONS

California Therapeutic Apheresis Division

During 2014, the Company entered into an agreement to sell the Company's California Therapeutic Apheresis ("TA") division. The TA division generally operates under contract with hospitals as an outside purchased service. The purchase agreement was signed in January 2015 with a closing date of March 3, 2015 and included an estimated sales price of $5,000,000, less the value of certain contracts and assets and liabilities. As part of the agreement, $3,000,000 was advanced to the Company at the closing date, with the remaining $2,000,000 of the conditional sales price transferred to an escrow account. Under the terms of the purchase agreement, the final purchase price was determined by the number of contracts that are successfully transferred to the buyer through a year ended December 31, 2014, multiplied by the initial sales price of $5,000,000 (the "computed sales price"). This computed sales price was then further adjusted for certain assets and liabilities purchased under the terms of the agreement. A total of 160 days from the closing date was provided for the buyer to contract the customers of the division and transfer the relationships. As of December 31, 2015, a total of $4,118,562 out of the $4,510,000 of the contracts has successfully been transferred and recognized as income from discontinued operations. The 160-day period ended August 10, 2015 and the final net purchase price was $4,566,000.

The following are the components of operations reported as income from discontinued operations on the statements of income for the year ended December 31, 2015:

	2015
Revenues	$ 864,000
Operating expenses	(622,000)
Gross profit	242,000
General and administrative expenses	-
Gain on sale	4,396,000
Income from discontinued operations	4,638,000
Provision for income taxes	-
Income from discontinued operations from TA division, net of taxes	$ 4,638,000

Accounts Payable – Service Agreement

Under the terms of the purchase agreement, the Company entered into a "transitional administrative services agreement" with the Buyer, where the Company was to provide billing, collecting and other administrative or management services requested for a period of up to 120 days after the Closing Date. The Buyer advanced the Company funds in connection with costs to be incurred by the Company. As of December 31, 2015, the amount due to the Buyer as a result of excess funds received over costs incurred was $1,101,000, which was presented as a liability on the balance sheet at December 31, 2015. This balance was fully paid as of December 31, 2016.

4. PRODUCT INVENTORIES AND SUPPLIES

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

	2016	2015
Supplies	$ 345,000	$ 328,000
Bioresearch and blood products	1,917,000	1,879,000
	2,262,000	2,207,000
Less allowance for obsolescence	(327,000)	(141,000)
Total	$ 1,935,000	$ 2,066,000

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2016	2015
Computers and software	$ 1,862,000	$ 1,842,000
Furniture, fixtures and equipment	2,770,000	2,575,000
Vehicles	35,000	35,000
Buildings and improvements	2,196,000	2,194,000
Construction in progress	181,000	-
	7,044,000	6,646,000
Less accumulated depreciation	(6,006,000)	(5,603,000)
Total	$ 1,038,000	$ 1,043,000

Depreciation and amortization of property and equipment amounted to $403,000 and $400,000 during the years ended December 31, 2016 and 2015, respectively.

6. RESTRICTED CASH

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. The letter of credit allows the restricted cash balance to reduce by 10% each year starting 2010 through 2012. The letter of credit, with an initial maturity date of December 1, 2016, was renewed subsequent to year end, and is set to expire on December 1, 2017.

At December 31, 2016 and 2015, the letter of credit was for $428,000 and $535,000, respectively. At December 31, 2016 and 2015, short-term restricted cash was $119,000 and $107,000, respectively, and long-term restricted cash was $309,000 and $428,000, respectively. As of December 31, 2016 and 2015, no amounts have been drawn against the letter of credit.

7. INCOME TAXES

In 2016, the Company recorded an $18,000 provision for income taxes from continuing operations and a $0 provision for income taxes from discontinued operations. In comparison, the Company recorded a $22,000 provision for income taxes from continuing operations and a $0 provision for income taxes from discontinued operations in 2015. The components of the provision for income taxes were as follows for the years ended December 31:

	2016	2015
Federal	$ -	$ -
State - continuing operations	18,000	22,000
State - discontinued operations	-	-
	$ 18,000	$ 22,000

A reconciliation of the difference between income taxes computed at the statutory federal rate and the provision for income taxes is as follows:

	2016	2015
Income tax expense at federal statutory rate	$ 269,000	$ 1,030,000
State income taxes, net of federal benefit	51,000	181,000
Change in valuation allowance	(453,000)	(1,100,000)
Change in statutory rate	-	(108,000)
Other	140,000	6,000
Permanent difference	11,000	13,000
Income tax provision	$ 18,000	$ 22,000

7. INCOME TAXES (Continued)

The Company recognized no net deferred tax assets as of December 31, 2016 and 2015. The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

	2016	2015
Current:		
Accounts receivable and inventory reserves	$ 195,000	$ 133,000
Accrued expenses and other	157,000	234,000
Total current deferred tax assets	352,000	367,000
Noncurrent:		
Net operating loss carryforward	2,319,000	2,764,000
Depreciation and amortization	59,000	125,000
Tax credit carryforward	63,000	63,000
Stock compensation	342,000	313,000
Other	(162,000)	(206,000)
Valuation allowance	(2,973,000)	(3,426,000)
Total noncurrent deferred tax assets	(352,000)	(367,000)
Total deferred tax asset	$ -	$ -

A valuation allowance is recorded if the weight of available evidence suggests it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

The Company determined at the end of 2016 and 2015 that, based on recent operating results, it was unlikely that the Company would realize any of the deferred tax assets. Therefore, the Company recorded a 100% valuation reserve against all of the net deferred tax assets as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the value of the Company's federal and state net operating loss carryforwards were $6.0 million and $2.9 million, and $7.0 million and $4.3 million, respectively combined versus stand-alone income tax returns.

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. The ability for the Company to utilize the available state net operating loss is scheduled to expire over time starting in 2017 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") and similar state provisions. Such a limitation could result in the expiration of the net operating loss before utilization.

8. 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.

On May 24, 2006, the shareholders approved the 2006 Equity Incentive Plan ("2006 Plan").

As of December 31, 2015, the Company had utilized 2,085,085 of the shares reserved under the 2006 Plan. The Plan expired in May 2016 and no shares remain available.

As of December 31, 2016, the Company had utilized 482,000 of the shares reserved under the 2015 Plan and 518,000 shares remain available.

The fair value of share options vested, and related share-based compensation, recognized, during the years ended December 31, 2016 and 2015 amounted to $85,000 and $50,000, respectively and was included in general and administrative expenses.

8. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

The table below summarizes stock option activity for the years ended December 31, 2016 and 2015:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2015	1,760,000	$ 0.71	
Granted	850,000	0.41	
Exercised	-	-	
Forfeited	(87,500)	0.22	
Expired	(122,500)	1.21	
Outstanding at December 31, 2015	2,400,000	$ 0.59	
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
Vested at December 31, 2016	1,750,000	$ 0.52	4.80
Expected to vest	590,000	$ 0.46	

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, 2016:

Options Outstanding			Options Exercisable	
Shares	Life (in years)	Price	Shares	Prices
615,000	7.27	$ 0.18	421,250	$ 0.17
530,000	4.16	$ 0.27	530,000	$ 0.27
265,000	3.79	$ 0.38	265,000	$ 0.38
435,000	8.88	$ 0.56	108,750	$ 0.56
495,000	3.88	$ 1.17	425,000	$ 1.24

8. 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:

	2016	2015
Grant date fair value	$ 0.72	$ 0.41
Risk-free interest rate	1.34%	3.14%
Expected stock price volatility	69.1%	91.9%
Expected dividend yield	-	-
Expected forfeitures	6%	0%
Expected option term	5.80	5.89

As of December 31, 2016, the unrecognized compensation cost related to nonvested awards was $227,000, which will be recognized as compensation over a weighted-average period of 2.7 years.

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, 2015.

9. 401(K) PROFIT SHARING PLAN

The HemaCare Corporation 401(k) Profit Sharing Plan qualifies, in form, under Section 401(k) of the Code. The company provided a discretionary match of $45,000 for employee 401(k) contributions for the year ended December 31, 2016. The Company did not match any 401(k) contributions for the plan year 2015.

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.

10. 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 July 31, 2017; however, subsequent to year end the Company amended their lease to extend the lease term to December 31, 2018. As part of the lease agreement, the Company received approximately $508,000 in tenant improvement allowance from the landlord.

For continuing operations, total rent expense under all operating leases was $665,000 and $642,000 for the years ended December 31, 2016 and 2015, respectively.

The future estimated minimum lease payments required under these non-cancelable operating lease agreements at December 31, 2016 (including the January 2017 amendment) are as follows:

Years ending December 31,	
2017	$ 691,000
2018	460,000
Total	$ 1,151,000

During 2015, the Company amended its lease to reduce its office space and sublease a portion of the original lease space to an unrelated party. The term of the original lease and the term of the sublease are scheduled to expire in July 2017. The Company estimates that it will receive $112,000 in future minimum receipts through 2017.

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 $141,000, and bears interest at 6% per annum, which is payable monthly in the amount of $4,300 and expires in April 2019. As of December 31, 2016, the present value of the capital lease obligation was $113,000 (net of imputed interest of 8,000)

The future estimated minimum lease payments required under this non-cancellable capital lease agreement at December 31, 2016 are as follows:

Years ending December 31,	
2017	$ 52,000
2018	52,000
2019	17,000
	121,000
Less: Amount representing interest	(8,000)
	113,000
Less: Current portion	47,000
	$ 66,000

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

10. COMMITMENTS AND CONTINGENCIES (Continued)

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.

11. SUBSEQUENT EVENTS

Management has evaluated significant events through March 9, 2017, the date that the financial statements were available to be issued.

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. The second closing for $1.25 million of shares will occur, at the option of the Buyer, on or before December 31, 2017, and the third closing for $1.25 million will occur, at the option of the Buyer, provided that the second closing occurred in full, on or before December 31, 2018.

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.

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