HemaCare®

Advancing Discoveries

May 10, 2019

To Our Shareholders,

2018 was a transformative year for HemaCare. We celebrated the company's 40th birthday, successfully relocated the company to a state-of-the-art much larger facility, all while simultaneously exceeding our financial growth targets.

HemaCare's Revenue grew approximately 41% and income before tax benefit and expenses improved approximately 82% year over year as a result of increasing both the depth and breadth of our customer base as well as continued improvement of product mix. Our plan to enlarge our sales team, expand our marketing initiatives, grow our global distributor network, and continue developing our collaboration relationships all contributed to strengthening and improving our market leadership position.

The multi-year sustained growth in revenue and earnings continues to validate HemaCare's strategic focus on providing clients with superior purity, viability, and functionality of the human biological cells they purchase from HemaCare. Our clients are eager to access HemaCare's new GMP Clean Room capabilities so that they can benefit from HemaCare's unique ability to collect and process human biological cells all in the same day, at the same site, resulting in a superior product with higher cell counts and greater functionality as compared to a less vertically integrated approach elsewhere.

On November 14, 2018, HemaCare announced its involvement as a provider of leukapheresis process development material for 100% of the current FDA-approved immunocellular therapies, Kymriah® (Novartis; Switzerland), Yescarta® (Kite, a Gilead Company; CA, USA), and Provenge® (sipuleucel-T) (Dendreon Pharmaceuticals LLC; CA, USA). During the development process, HemaCare worked collaboratively with each company to source healthy donors per project requirements. All leukapheresis material was collected and shipped following stringent standards as developed by the AABB and accepted by the FDA.

On November 19, 2018, HemaCare successfully relocated its global headquarters to Northridge, California. HemaCare's new state-of-the-art facility is expertly designed to enable a seamless transition from donor recruitment and collection to the downstream processing, storage, and subsequent transport of the cell therapy starting materials. The additional space in the new facility positions HemaCare for scalability and significantly increases technical capabilities necessary to meet the rapidly growing number of requests for high-quality, consistent cell therapy starting material.

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With four GMP Clean Rooms, the facility is designed to accommodate HemaCare's specialized cell collection and processing equipment to support clinical and commercial drug development. HemaCare's on-site GMP facility processing capabilities include cell collection, cell washing and isolation/separation, controlled-rate freezing for cryopreservation, and biorepository services for controlled storage. Adding expanded GMP capabilities to HemaCare's industry-leading knowledge and experience further propels our ability to partner with regenerative medicine and cell therapy companies.

In our new facility, HemaCare more than doubles its donor collection capacity and on-site cell processing capabilities. Our new headquarters reflects HemaCare's mission to continue to supply the best-in-class portfolio of high-quality, customizable human cellular material and services to the scientific research and cell therapy industries.

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.

From the very beginning when HemaCare Corporation was founded in 1978, HemaCare has 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.

The cell therapy industry continues to see a rapid increase in demand for high-quality starting material. HemaCare has become the number one most trusted supplier of human biological material for cell therapy customers around the world. This trust was earned by consistently maintaining the highest quality standards, a consultative approach, and customization to meet unique process development needs.

On November 26, 2018, HemaCare signed a distribution agreement with Charles River Laboratories' subsidiary, Vital River, to provide the scientific community in China with direct access to healthy and disease-state human primary cells. Beijing Vital River Laboratory Animal Technology Co., Ltd. is a subsidiary of Charles River Laboratories and the premier commercial provider of research models and related services to the scientific community in China. Vital River was chosen as a partner to expand China distribution because of HemaCare's successful and growing global relationship with Charles River Laboratories.

On December 20, 2018, OneBlood (OBF Investments, LLP) exercised its option to make its third tranche investment of $1.25 million in shares of HemaCare's common stock. The new capital will be used to invest in product innovation, order fulfillment, and fund strategic initiatives.

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. To date, no competitor has HemaCare's ability to fully support process development, clinical trials, and commercialization with our unique combination of:

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

HemaCare's donor room staff has over 300 years of clinical experience and over 100 years of donor center operations experience. 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, FDA-registered collection centers, and GMP Clean Rooms presents a significant barrier to entry for competition.

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.

In 2019, 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.

Having celebrated HemaCare's 40th birthday in 2018, we take pride in the quality of our team, and the excellent 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 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 remain 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.

2018 Annual Report

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CORPORATE OVERVIEW

General

In 2018, HemaCare produced $28.5 million in revenue. We continue to see strong growth from all our geographic regions as well as our distributors in Europe, Japan, and China.

The cell therapy industry continues to see a rapid increase in demand for high-quality starting material. HemaCare has become a trusted supplier of human biological material for cell therapy customers around the world. This trust was earned by consistently maintaining the highest quality standards, a consultative approach, and customization to meet unique process development needs.

On November 19, 2018, HemaCare successfully relocated its global headquarters to Northridge, California. In this new facility, HemaCare more than doubles its donor collection capacity and on-site cell processing capabilities. Located at the 44-acre Harman Campus, in the heart of the San Fernando Valley, the 40,000-square-foot newly renovated facility reflects the company's accelerated growth.

The new state-of-the-art facility is expertly designed to enable a seamless transition from donor recruitment and collection to the downstream processing, storage, and subsequent transport of the cell therapy starting materials. The additional space positions HemaCare for scalability and delivery of the significantly increased technical capabilities necessary to meet the rapidly growing number of requests for high-quality, consistent cell therapy starting material.

With four GMP Clean Rooms, the facility is designed to accommodate HemaCare's specialized cell collection and processing equipment to support clinical and commercial drug development. HemaCare's on-site GMP facility processing capabilities include cell collection, cell washing and isolation/separation, controlled-rate freezing for cryopreservation, and biorepository services for controlled storage. Adding expanded GMP capabilities to HemaCare's industry-leading knowledge and experience further enables us to partner with regenerative medicine and cell therapy companies.

Our new headquarters reflects HemaCare's mission to continue to supply the best-in-class portfolio of high-quality, customizable human cellular material and services to the scientific research and cell therapy industries.

The Company's current strategy to increase our scalability is 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.

On November 26, 2018, HemaCare signed a distribution agreement with Charles River Laboratories' subsidiary, Vital River, to provide the scientific community in China with direct access to healthy and disease-state human primary cells. Beijing Vital River Laboratory Animal Technology Co., Ltd. is a subsidiary of Charles River Laboratories and the premier commercial provider of research models and related services to the scientific community in China. Vital River was chosen as a partner to expand China distribution because of HemaCare's successful and growing global relationship with Charles River Laboratories.

On December 20, 2018, OneBlood (OBF Investments, LLP) exercised its option to make its third tranche investment of $1.25 million for shares of HemaCare's common stock. The new capital will be used for product innovation, and order fulfillment, and to fund strategic initiatives.

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

Bioresearch and Cellular Therapy Products and 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, and 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 can 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 several 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 300,000 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

On January 6, 2017, the Company entered into a Sales and Distribution Agreement with Clinical Discovery Institute, a wholly-owned subsidiary of OneBlood, Inc., a not-for-profit blood center based in Florida, in which both parties collaborate globally in the sales and distribution of blood-derived products. The term of the agreement will continue until December 31, 2020, with automatic annual renewal periods, unless terminated by either party. As of December 31, 2018, the amount due to OneBlood, Inc. per the Sales & Distribution agreement was $338,000.

In addition, on January 6, 2017, the Company entered into a Common Stock Purchase Agreement with OBF Investments, LLC, a Florida Limited Liability Company (OBF) 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 occurred on December 28, 2017. A third and final closing for $1.25 million of shares occurred on December 20, 2018.

In connection with entering into the Sales and Distribution Agreement and the Common Stock Purchase Agreement, the Company entered into an Investment Agreement, dated as of January 6, 2017, with the OBF Investments, LLC, "Investors", pursuant to which the Investors have the right to designate one member (subject to adjustment for changes in board size) for election or appointment to our board of directors and certain information rights, veto rights, pre-emptive rights and sale rights, among others. For the year ended December 31, 2018, George Scholl, President and CEO of OneBlood Inc. served on the Board of Directors of the Company and will continue to serve into 2020, if re-elected, at the Annual Meeting of the Shareholders to be held June 13, 2019.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Since January 1, 2018, 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, 2018 AND 2017

HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, and the related statements of income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, 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, CA

March 12, 2019

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HEMACARE CORPORATION
(A CALIFORNIA CORPORATION)
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 10,274,000	$ 9,251,000
Accounts receivable, net	4,776,000	2,959,000
Product inventories and supplies, net	3,299,000	2,520,000
Prepaid expenses	239,000	162,000
Other current assets	141,000	-
TOTAL CURRENT ASSETS	18,729,000	14,892,000
OTHER ASSETS		
Property and equipment, net	9,502,000	1,358,000
Deferred income taxes	-	1,128,000
Other assets	-	70,000
TOTAL NONCURRENT ASSETS	9,502,000	2,556,000
TOTAL ASSETS	$ 28,231,000	$ 17,448,000

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 2,184,000	$ 682,000
Accrued payroll and payroll taxes	1,979,000	1,658,000
Other accrued expenses	123,000	210,000
Current portion of deferred rent	-	9,000
Current portion of capital lease obligations	201,000	99,000
TOTAL CURRENT LIABILITIES	4,487,000	2,658,000
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	2,409,000	-
Deferred income taxes	35,000	-
Long-term portion of capital lease obligations	176,000	93,000
TOTAL LONG-TERM LIABILITIES	2,620,000	93,000
TOTAL LIABILITIES	7,107,000	2,751,000
COMMITMENTS AND CONTINGENCIES, note 10		
SHAREHOLDERS' EQUITY		
Common stock, no par, 40,000,000 shares authorized, 12,860,956 and 12,011,545 shares issued and outstanding, respectively	23,060,000	21,149,000
Accumulated deficit	(1,936,000)	(6,452,000)
TOTAL SHAREHOLDERS' EQUITY	21,124,000	14,697,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 28,231,000	$ 17,448,000

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, 2018 AND 2017

	2018	2017
REVENUE	$ 28,506,000	$ 20,212,000
COST OF REVENUE	12,840,000	9,594,000
GROSS PROFIT	15,666,000	10,618,000
GENERAL AND ADMINISTRATIVE EXPENSES	9,434,000	7,195,000
INCOME BEFORE INCOME TAX BENEFIT (EXPENSE)	6,232,000	3,423,000
Income tax benefit (expense)	(1,716,000)	1,009,000
NET INCOME	$ 4,516,000	$ 4,432,000

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, 2018 AND 2017

	Common Stock, no par value			
	Shares issued and outstanding	Amount	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2017	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
Share-based compensation expense - stock options	-	164,000	-	164,000
Share-based compensation expense - restricted stock	185,000	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
Issuance of shares for cash	363,786	1,250,000	-	1,250,000
Exercise of stock options	500,625	155,000	-	155,000
Cancellation of unvested restricted stock	(15,000)	-	-	-
Share-based compensation expense - stock options	-	406,000	-	406,000
Share-based compensation expense - restricted stock		100,000		100,000
Net income	-	-	4,516,000	4,516,000
Balance, December 31, 2018	12,860,956	$ 23,060,000	$ (1,936,000)	$ 21,124,000

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,516,000	$ 4,432,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	233,000	(36,000)
Provision for inventory obsolescence	162,000	397,000
Depreciation and amortization	471,000	375,000
Gain from sale of equipment	(13,000)	
Deferred income taxes	1,164,000	(1,128,000)
Share-based compensation expense	506,000	246,000
(Increase) decrease in assets:		
Accounts receivable	(2,050,000)	(654,000)
Product inventories and supplies	(941,000)	(982,000)
Prepaid expenses and other current assets	(77,000)	(4,000)
Other assets	(71,000)	(7,000)
Increase (decrease) in liabilities:		
Accounts payable	1,501,000	246,000
Accrued payroll and payroll taxes	321,000	406,000
Other accrued expenses	(87,000)	39,000
Deferred rent	2,400,000	(7,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,035,000	3,323,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of equipment	23,000	-
Purchases of property and equipment	(8,231,000)	(543,000)
Release of restricted cash	-	428,000
NET CASH USED IN INVESTING ACTIVITIES	(8,208,000)	(115,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(209,000)	(74,000)
Proceeds from sale of common stock	1,250,000	3,750,000
Proceeds from exercise of stock options	155,000	96,000
Payment for the repurchase of common stock	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,196,000	3,772,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,023,000	6,980,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,251,000	2,271,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,274,000	$ 9,251,000
Supplemental Disclosures:		
Cash paid for income taxes	$ 692,000	$ 34,000
Cash paid for interest	$ 33,000	$ 11,000
Capital expenditures funded by capital lease borrowing	$ 394,000	$ 152,000

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

1. ORGANIZATION AND NATURE OF BUSINESS

HemaCare is a global leader in the customization of human-derived biological products and services for biomedical research, drug discovery and cellular therapy process development. The Company's network of FDA-registered, GMP/GTP-compliant collection centers ensure fresh donor material is available to customers and for use within HemaCare's isolation laboratory. Human biological material including peripheral blood, bone marrow, and cord blood is isolated into various primary cells types for fresh and frozen distribution. For 40 years, HemaCare has developed an extensive registry of repeat donors and provides human-derived primary blood cells and tissues for biomedical and drug discovery research and cell therapy clinical trials, and supports commercialization with apheresis collections, directly enabling customers to advance both autologous and allogeneic cellular therapies.

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.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers (Topic 606)*, which will supersede nearly all existing revenue recognition guidance under GAAP. ASU No. 2014-09 provides that an entity 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 in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption and will become effective for the Company in the first quarter of fiscal year 2019. In April 2016, the FASB issued an amendment to ASU No. 2014-09 with update ASU 2016-10 which provided more specific guidance around the identification of performance obligations and licensing arrangements. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. Under ASU 2016-02, lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). ASU 2016-02 becomes effective for the Company in the first quarter of fiscal year 2020. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which outlines new provisions intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements. The standard is effective for the Company beginning December 15, 2016 and for interim periods within those annual periods. The Company adopted this standard on January 1, 2018. The adoption of these provisions did not have a material effect on the Company's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $8,126,000 at December 31, 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. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the collectability of the Company's trade accounts receivable balances. If the Company determines that the financial condition of any of its customers has deteriorated, whether due to customer specific or general economic issues, an increase in the allowance may be made. After all attempts to collect a receivable have failed, the receivable is written off. The Company had $319,000 and $91,000 reserved for doubtful accounts as of December 31, 2018 and 2017, respectively.

Product Inventories and Supplies

Inventories consist of company-manufactured bioresearch and other blood products; supplies consist primarily of scientific supplies used to manufacture and process research and blood products. Inventories are stated at the lower of cost or market 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, 2018 and 2017, the Company recorded additional reserves of $162,000 and $397,000, respectively.

The Company had $886,000 and $724,000 reserved for inventory obsolescence as of December 31, 2018 and 2017, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shipping and Handling

Shipping and handling costs are recorded as part of cost of revenue. As of December 31, 2018 and 2017, shipping and handling costs were $1,010,000 and $624,000, 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, 2018 and 2017, respectively.

Revenue Recognition

The Company recognizes revenue on its 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (continued)

Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2018 and 2017, the Company had no uncertain tax positions and did not incur any interest or penalties related to uncertain tax positions. As of December 31, 2018, the Company's open federal and state tax returns subject to examination were for years 2015 through 2018 and 2014 to 2018, respectively.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (continued)

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, 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, other assets, accounts payable, accrued payroll and payroll taxes, and other accrued expenses, and deferred rent approximate their fair value because of the short maturity.

Concentrations of Credit Risk

The Company sells bioresearch products and services to the scientific community to advance cellular and immunotherapy research. During 2018, sales to one distributor represented 6% and sales to three individual customers represented 13% of the Company's total revenue. During 2017, sales to one customer represented 10% of the Company's total revenue.

Accounts receivable from one distributor represented 12% of total accounts receivable at December 31, 2018.

During 2018, purchases from two vendors represented 17% of the Company's total purchases. At December 31, 2018, accounts payable to one vendor represented 15% of the Company's total accounts payable. During 2017, purchases from one vendor represented 13% of the Company's total purchases. At December 31, 2017, accounts payable to two vendors represented 31% of the Company's total accounts payable.

3. PRODUCT INVENTORIES AND SUPPLIES

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

	2018	2017
Bioresearch and blood products	$ 3,615,000	$ 2,827,000
Supplies	570,000	417,000
	4,185,000	3,244,000
Less allowance for obsolescence	(886,000)	(724,000)
Total	$ 3,299,000	$ 2,520,000

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	December 31, 2018	December 31, 2017
Computers and software	$ 1,460,000	$ 1,424,000
Furniture, fixtures and equipment	3,915,000	3,043,000
Vehicles	35,000	35,000
Leasehold improvements	6,288,000	2,205,000
Construction-in-progress	22,000	-
	11,720,000	6,707,000
Less accumulated depreciation and amortization	(2,218,000)	(5,349,000)
Total	$ 9,502,000	$ 1,358,000

Disposals of property and equipment amounted to $3.6 million and $1 million for fully depreciated assets during the year ended December 31, 2018 and 2017, respectively.

Depreciation and amortization of property and equipment amounted to $471,000 and $375,000 during the years ended December 31, 2018 and 2017, respectively. The following table summarizes the depreciation and amortization expense breakdown as of December 31:

	2018	2017
Cost of revenue	$ 358,000	$ 231,000
General and administrative	113,000	144,000
Total	$ 471,000	$ 375,000

5. CREDIT FACILITY

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 10.

As of December 31, 2018, the Company has $2.5 million available under the revolving credit facility and no restricted cash. The letter of credit matures on July 10, 2020, and management expects it to be renewed.

6. INCOME TAXES

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

	2018	2017
Federal	$ (1,167,000)	$ 818,000
State	(549,000)	191,000
Total	$ (1,716,000)	$ 1,009,000

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

	December 31, 2018	December 31, 2017
Income tax expense at federal statutory rate	$ (1,309,000)	$ (1,166,000)
State income taxes, net of federal benefit	(398,000)	(202,000)
Change in valuation allowance	-	2,973,000
Change in statutory rate	(19,000)	(543,000)
Other	26,000	(38,000)
Permanent differences	(16,000)	(15,000)
Total	$ (1,716,000)	$ 1,009,000

As of December 31, 2018 and 2017 the significant components of the Company's net deferred tax asset are as follows:

	December 31, 2018	December 31, 2017
Current:		
Accounts receivable reserve and other	$ -	$ 243,000
Accrued expenses and other	-	116,000
Total current deferred tax assets (liabilities)	-	359,000
Noncurrent:		
Net operating loss carryforward	241,000	589,000
Depreciation and amortization	(2,011,000)	(110,000)
Tax credit carryforward	74,000	42,000
Deferred rent	700,000	-
Accounts receivable	93,000	-
Inventory reserve	257,000	-
Stock compensation	435,000	279,000
Other	177,000	(31,000)
Valuation allowance	-	-
Total noncurrent deferred tax assets (liabilities)	(34,000)	769,000
Total deferred tax asset (liability)	$ (34,000)	$ 1,128,000

See report of independent registered public accounting firm.

6. INCOME TAXES (Continued)

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 the Company achieved three years of cumulative pre-tax income, and management determined that sufficient positive evidence existed to conclude that it was more likely than not that additional deferred taxes of $1.1 million were realizable, and therefore, reduced the valuation allowance accordingly.

As of December 31, 2018 the value of the Company's federal net operating loss carryforwards were $1.15 million versus stand-alone income tax returns. As of December 31, 2018 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 2019 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.

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. Under the 2015 Plan the Board of Directors may award performance-based stock options, nonqualified stock options (NQs), incentive stock options (ISOs) and certain stock purchase rights ("Restricted Stock"). Performance-based stock options include a one-year performance period with vesting based on achievement of internal performance targets. All stock options granted under the 2015 Plan generally vest in equal annual installments over four years and are exercisable for a period up to ten years from the grant date. All stock options are exercisable at a price equal to the market value of the common shares underlying the option on the grant date. 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.

As of December 31, 2018, the Company had utilized 1,210,000 of the shares reserved under the 2015 Plan and 790,000 shares remain available for future awards.

The fair value of share options vested, and related share-based compensation recognized, during the year ended December 31, 2018 and 2017 amounted to $406,000 and $164,000, 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, 2018 and 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2017	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
Granted	477,699	8.16	
Exercised	(500,625)	0.31	
Forfeited	(60,625)	1.60	
Expired	-	-	
Outstanding at December 31, 2018	2,267,074	$ 2.15	5.53
Vested at December 31, 2018	1,612,820	$ 0.58	
Expected to vest December 31, 2018	574,427	$ 6.02	

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, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Life (in years)	Price	Shares	Prices
$0.15 to $0.27	473,750	5.2	$ 0.20	423,750	$ 0.20
$0.28 to $0.50	490,000	2.1	$ 0.34	490,000	$ 0.34
$0.51 to $0.58	447,500	5.9	$ 0.56	354,375	$ 0.56
$0.59 to $6.19	400,250	4.9	$ 1.44	322,195	$ 1.03
$6.20 to $11.98	455,574	9.7	$ 8.30	22,500	$ 6.63

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 was determined using the following weighted-average assumptions:

	December 31, 2018	December 31, 2017
Risk-free interest rate	2.8%	2.1%
Expected stock price volatility	78.2%	99.3%
Expected dividend yield	-	-
Expected option term (years)	7.99	7.92

As of December 31, 2018, the unrecognized compensation cost related to non-vested awards was $2,361,000 which will be recognized as compensation over a weighted-average period of 3.5 years. Our expected forfeiture rate of 7% is based on historical forfeiture rates since the Plan has been in place.

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 shares of restricted common stock to certain members of management at a fair market value of $2.36 per share that vest in equal annual installments over four years. There were no new issuances of restricted stock in 2018. For the year ended December 31, 2018 the Company cancelled 15,000 shares of unvested restricted stock related to a certain member no longer in service with the Company.

During the years ended December 31, 2018 and 2017, the Company recorded $100,000 and $82,000, respectively, of expense related to the issuance of shares of restricted stock. Such expense was included in general and administrative expenses. As of December 31, 2018, the pre-tax compensation expense for all unvested shares of restricted stock in the amount of approximately $214,000 will be recognized by the Company over a weighted-average period of 2.2 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.

There were no purchases during the year ended December 31, 2018 and 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 ($18,500 for calendar year 2018). The company provided a discretionary match of $108,000 and $91,000 for employee 401(k) contributions for the years ended December 31, 2018 and 2017, respectively.

9. RELATED PARTY TRANSACTIONS

On January 6, 2017, the Company entered into a Sales and Distribution Agreement with Clinical Discovery Institute, a wholly-owned subsidiary of OneBlood, Inc., a not-for-profit blood center based in Florida, in which both parties collaborate globally in the sales and distribution of blood-derived products. The term of the agreement will continue until December 31, 2020, with automatic annual renewal periods, unless terminated by either party. As of December 31, 2018, the amount due to OneBlood, Inc. per the Sales & Distribution agreement was $338,000.

In addition, on January 6, 2017, the Company entered into a Common Stock Purchase Agreement with OBF Investments, LLC, a Florida Limited Liability Company (OBF) 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 occurred on December 28, 2017. A third and final closing for $1.25 million of shares occurred on December 20, 2018.

In connection with entering into the Sales and Distribution Agreement and the Common Stock Purchase Agreement, the Company entered into an Investment Agreement, dated as of January 6, 2017, with OBF Investments, LLC, "Investors", pursuant to which the Investors have the right to designate one member (subject to adjustment for changes in board size) for election or appointment to the Company's Board of Directors. For the year ended December 31, 2018, George Scholl, President and CEO of OneBlood Inc., served on the Board of Directors of the Company and will continue to serve until the annual meeting of the shareholders to be held in 2019, and may continue to serve if re-elected by the shareholders.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

On July 7, 2017, the Company entered into a commercial building lease agreement. The eleven year lease which began in November 2018, provides for the lease of approximately 39,862 square feet of space in Northridge, California. The Company has one option to extend the term of the lease for an additional ten year period. The lease contains an escalation clause that adjusts the annual base rentals and it includes a rent abatement $343,000 rent during the first lease year and the full monthly base rent for the thirteenth month during the second lease year. Both the rent escalations and the rent abatement have been recorded on a basis to achieve straight-line rent expense over the life of the lease. 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 tenant improvement allowance will be amortized over the life of the lease as a reduction of rent expense. Accordingly, the Company has recorded a liability for deferred rent and lease incentive totaling $2,409,000 at December 31, 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 a seven-year period.

10. COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases (continued)

Prior to relocating to the new Northridge facility, the Company leased space in Van Nuys, California. The Company was required to maintain a letter of credit as security under the lease, which was reduced to $309,000 in August 2017 under renewed terms. This letter of credit expired in December 2018 in conjunction with the expiration of the Van Nuys lease on December 31, 2018.

At December 31, 2018 and 2017, the total letters of credit were $800,000 and $1,109,000 respectively.

The future estimated minimum lease payments required under these noncancelable operating lease agreements at December 31, 2018 are as follows:

Years ending December 31,		
2019	$	958,000
2020		1,310,000
2021		1,349,000
2022		1,390,000
2023		1,431,000
Thereafter		10,055,000
Total	$	16,493,000

Total rent expense under all operating leases was $755,000 and $625,000 for the years ended December 31, 2018 and 2017, respectively.

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 May 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 December 31, 2018 and December 31, 2017, respectively. As of December 31, 2018, the present value of total capital lease obligations was $351,000 (net of imputed interest of $26,000).

10. COMMITMENTS AND CONTINGENCIES (Continued)

Capital Lease Obligation (continued)

The future estimated minimum lease payments required under this non-cancellable capital lease agreement at December 31, 2018 are as follows:

Years ending December 31,		
2019	$	220,000
2020		170,000
2021		12,000
		402,000
Less: Amount representing interest		(25,000)
		377,000
Less: Current portion		201,000
	$	176,000

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 12, 2019, the date that the financial statements were available to be issued, and determined that there have been no events that have occurred that would require disclosure or recognition in the Company's financial statements.