BioRestorative Therapies, Inc.
Form 10-Q
November 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 000-54402

BIORESTORATIVE THERAPIES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**91-1835664**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
555 Heritage Drive **Jupiter, Florida**	**33458**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (561) 904-6070

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 11, 2014, there were 31,457,869 shares of the issuer's common stock outstanding.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current Assets:		
Cash	$ 373,970	$ 201,098
Inventories	17,385	17,965
Prepaid expenses and other current assets	30,160	20,739
Total Current Assets	421,515	239,802
Property and equipment, net	73,575	35,568
Intangible assets, net	1,055,186	1,107,545
Security deposit	45,900	-
Total Assets	$ 1,596,176	$ 1,382,915
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable	$ 774,054	$ 1,269,970
Accrued expenses and other current liabilities	1,220,282	1,176,662
Accrued interest	107,308	65,909
Current portion of notes payable, net of debt discount of $76,518 and $237,381 at September 30, 2014 and December 31, 2013, respectively	5,171,355	4,990,009
Deferred revenues	154,662	-
Total Current Liabilities	7,427,661	7,502,550
Accrued interest, non-current portion	3,955	41,434
Notes payable, non-current portion, net of debt discount of $0 and $3,110 at September 30, 2014 and December 31, 2013, respectively	622,685	524,000
Total Liabilities	8,054,301	8,067,984
Commitments and contingencies		
Stockholders' Deficiency:		
Preferred stock, $0.01 par value;	-	-

Authorized, 1,000,000 shares; none issued and outstanding at September 30, 2014 and December 31, 2013		
Common stock, $0.001 par value;		
Authorized, 100,000,000 shares; Issued 31,577,549 and 19,633,173 shares at September 30, 2014 and December 31, 2013, respectively;		
Outstanding 31,018,928 and 19,074,552 shares at September 30, 2014 and December 31, 2013, respectively	31,578	19,633
Additional paid-in capital	17,457,980	13,139,712
Accumulated deficit	(23,915,683)	(19,812,414)
Treasury stock, at cost, 558,621 shares at September 30, 2014 and December 31, 2013	(32,000)	(32,000)
Total Stockholders' Deficiency	(6,458,125)	(6,685,069)
Total Liabilities and Stockholders' Deficiency	$ 1,596,176	$ 1,382,915

See Notes to these Condensed Consolidated Financial Statements

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Condensed Consolidated Statements of Operations

(unaudited)

	For The Three Months Ended September 30, 2014	For The Three Months Ended September 30, 2013	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013
Revenues	$159,930	$125	$336,246	$1,680
Cost of sales	66,115	10	108,541	208
Gross Profit	93,815	115	227,705	1,472
Operating Expenses				
Marketing and promotion	41,840	17,391	89,169	82,983
Consulting	154,492	182,899	979,255	553,404
Research and development	290,707	414,918	1,077,778	1,188,276
General and administrative	502,783	513,909	1,687,415	1,719,270
Total Operating Expenses	989,822	1,129,117	3,833,617	3,543,933
Loss From Operations	(896,007)	(1,129,002)	(3,605,912)	(3,542,461)
Other (Expense) Income				
Interest expense	(74,780)	(56,036)	(220,301)	(285,939)
Amortization of debt discount	(137,167)	(117,970)	(381,602)	(284,601)
Loss on extinguishment of notes payable, net	-	-	(49,094)	(7,200)
Warrant modification expense	-	-	(30,128)	-
Gain on settlement of notes and payables	7,500	-	183,768	-
Total Other Expense	(204,447)	(174,006)	(497,357)	(577,740)
Net Loss	$(1,100,454)	$(1,303,008)	$(4,103,269)	$(4,120,201)
Net Loss Per Share - Basic and Diluted	$(0.04)	$(0.08)	$(0.18)	$(0.25)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	27,043,758	16,937,376	23,402,779	16,255,317

See Notes to these Condensed Consolidated Financial Statements

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders' Deficiency

For the Nine Months Ended September 30, 2014

(unaudited)

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance - December 31, 2013	19,633,173	$19,633	$13,139,712	$(19,812,414)	(558,621)	$(32,000)	$(6,685,069)
Shares and warrants issued for cash	6,871,983	6,872	2,098,129	-	-	-	2,105,001
Shares issued for consulting services	956,078	956	258,431	-	-	-	259,387
Shares issued in satisfaction of accrued consulting services	300,000	300	74,700	-	-	-	75,000
Shares and warrant issued to satisfy lease obligation	284,200	284	70,766	-	-	-	71,050
Exercise of warrants into common stock	266,667	267	79,733	-	-	-	80,000
Conversion of notes payable and accrued interest into common stock	1,613,995	1,615	326,331	-	-	-	327,946
Shares and warrants issued in exchange of note payable and accrued interest	1,101,453	1,101	341,925	-	-	-	343,026
	550,000	550	135,450	-	-	-	136,000

Shares and warrants issued in connection with extension of notes payable							
Warrant modification	-	-	30,128	-	-	-	30,128
Beneficial conversion features related to convertible notes payable	-	-	86,563	-	-	-	86,563
Stock-based compensation	-	-	816,112	-	-	-	816,112
Net loss	-	-	-	(4,103,269)	-	-	(4,103,269)
Balance - September 30, 2014	31,577,549	$31,578	$17,457,980	$(23,915,683)	(558,621)	$(32,000)	$(6,458,125)

See Notes to these Condensed Consolidated Financial Statements

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For The Nine Months Ended September 30,	
	2014	2013
Cash Flows From Operating Activities		
Net loss	$ (4,103,269)	$ (4,120,201)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount	381,602	284,601
Depreciation and amortization	73,889	79,064
Loss on sale of property and equipment	1,009	-
Stock-based compensation	1,075,499	582,061
Loss on extinguishment of note and payables, net	49,094	7,200
Gain on settlement of notes and payables	(183,768)	-
Warrant modification expense	30,128	-
Changes in operating assets and liabilities:		
Inventories	580	(5,481)
Prepaid expenses and other current assets	11,629	(29,273)
Security deposit	(45,900)	-
Accounts payable	(488,416)	384,843
Accrued interest, expenses and other current liabilities	449,668	908,535
Deferred revenues	154,662	-
Total Adjustments	1,509,676	2,211,550
Net Cash Used in Operating Activities	(2,593,593)	(1,908,651)
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,526)	-
Proceeds from sale of property and equipment	980	-
Net Cash Used In Investing Activities	(546)	-
Cash Flows From Financing Activities		
Proceeds from notes payable	670,000	979,000
Repayments of notes payable	(53,000)	(4,000)
Advances from director and officer	35,539	119,255
Repayment of advances from director and officer	(60,529)	(90,325)

Proceeds from exercise of warrants	80,000	-
Sales of common stock and warrants for cash	2,095,001	905,000
Net Cash Provided by Financing Activities	2,767,011	1,908,930
Net Increase In Cash	172,872	279
Cash - Beginning	201,098	363
Cash - Ending	$ 373,970	$ 642

See Notes to these Condensed Consolidated Financial Statements

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows — Continued

(unaudited)

	For The Nine Months Ended September 30, 2014		2013	
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	76,060	$	36,925
Non-cash investing and financing activities:				
Shares and warrants issued in connection with issuance or extension of notes payable	$	136,000	$	548,235
Shares issued in satisfaction of accrued interest	$	-	$	213,000
Shares and warrants issued in exchange for notes payable and accrued interest	$	343,026	$	379,554
Shares and warrant issued to satisfy lease obligation and leasehold improvements	$	71,050	$	-
Conversion of notes payable and accrued interest into common stock	$	327,946	$	-
Shares issued in satisfaction of	$	75,000	$	-

accrued consulting services				
Accrued interest reclassified as principal in connection with note payable reissuance	$	73,058	$	68,100
Beneficial conversion features set up as debt discount	$	86,563	$	-

See Notes to these Condensed Consolidated Financial Statements

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 – Business Organization, Nature of Operations, and Basis of Presentation

BioRestorative Therapies, Inc. (and including its subsidiaries, "BRT" or the "Company") develops medical procedures using cell and tissue protocols, primarily involving adult stem cells designed for patients to undergo minimally invasive cellular-based treatments. BRT's website is at www.biorestorative.com. BRT's "brtxDISC™ Program" (Disc Implanted Stem Cells) is designed to offer a non-surgical cellular therapy for the treatment and relief of protruding and bulging lumbar discs. BRT's "ThermoStem® Program" (Brown Fat Stem Cells) focuses on treatments for metabolic disorders, specifically targeting type 2 diabetes and obesity by using brown fat stem cells. BRT has developed an ingredient derived from human adult stem cells, which can be used by third party companies in the development of their own skin care products. The ingredient was developed pursuant to BRT's "brtx-C Cosmetic Program". BRT's Stem Pearls® brand offers plant stem cell-based cosmetic skincare products that are available for purchase online at www.stempearls.com.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the full year ending December 31, 2014 or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures of the Company as of December 31, 2013 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on April 11, 2014.

Note 2 – Going Concern and Management Plans

As of September 30, 2014, the Company had a working capital deficiency and a stockholders' deficiency of $7,006,146 and $6,458,125, respectively. During the three and nine months ended September 30, 2014, the Company incurred net losses of $1,100,454 and $4,103,269, respectively. These conditions raise substantial doubt about the

Company’s ability to continue as a going concern.

The Company's primary source of operating funds since inception has been equity and debt financings. The Company intends to continue to raise additional capital through debt and equity financings. There is no assurance that these funds will be sufficient to enable the Company to fully complete its development activities or attain profitable operations. If the Company is unable to obtain such additional financing on a timely basis and, notwithstanding any request the Company may make, the Company’s debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, the Company may have to curtail its development, marketing and promotional activities, which would have a material adverse effect on the Company’s business, financial condition and results of operations, and ultimately the Company could be forced to discontinue its operations and liquidate.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The unaudited condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Subsequent to September 30, 2014, (a) the Company has raised an aggregate of $50,000 and $75,000 through equity financing and debt financing, respectively, (b) the Company has received research and development payments of $89,063, (c) the Company has extended the due date for the repayment of $392,685 of debt, (d) $139,063 of debt has been repaid and (e) $30,000 and $1,765 of debt and accrued interest, respectively, has been converted into common stock. As a result, the Company expects to be able to fund its operations through December 2014. While there can be no assurance that it will be successful, the Company is in active negotiations to raise additional capital. As of the filing date of this report, the Company has notes payable with an aggregate principal balance of $344,063 which are either past due or payable on demand. The Company is currently in the process of negotiating extensions or discussing conversions to equity with respect to these notes. However, there can be no assurance that the Company will be successful in extending or converting these notes. See Note 8 – Subsequent Events for additional details.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 3 – Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited condensed consolidated financial statements of the Company include the accounts of Stem Cell Cayman Ltd. (“Cayman”) and Stem Pearls, LLC. All significant intercompany transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at dates of the financial statements and the reported amounts of revenue and expenses during the periods. The Company’s significant estimates and assumptions include the recoverability and useful lives of long-lived assets, the fair value of the Company’s stock, stock-based compensation, warrants issued in connection with notes payable and the valuation allowance related to the Company’s deferred tax assets. Certain of the Company’s estimates, including the carrying amount of the intangible assets, could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company’s estimates and could cause actual results to differ from those estimates.

Concentrations and Credit Risk

As of September 30, 2014, approximately 77% of the face value of the Company’s outstanding notes payable were received from a single entity (the “Bermuda Lender”). See Note 5 – Notes Payable for additional discussion of the Bermuda Lender.

Two pharmaceutical clients comprised substantially all of our revenue during the three and nine months ended September 30, 2014. See Revenue Recognition – Research and Development Agreements below.

Revenue Recognition

Research and Development Agreements

The Company's policy is to recognize research and development revenues on a straight-line basis over the term of the agreement, regardless of the payment structure, subject to potential acceleration upon achievement of contractually specified deliverables.

On March 19, 2014, the Company entered into a one-year agreement with a Japanese pharmaceutical company to perform specified research and development activities related to stem cells. The agreement may be terminated earlier or extended, as provided for in the agreement. Payment terms are (1) $150,000 at commencement; (2) $50,000 upon achievement of a specified deliverable; and (3) $50,000 upon achievement of the final specified deliverable. As of September 30, 2014, the initial $150,000 payment had been received and $16,781 was recorded as deferred revenues on the condensed consolidated balance sheet.

On March 24, 2014, the Company entered into a two-year agreement with a U.S. pharmaceutical company to perform specified research and development activities related to brown fat. The agreement may be terminated earlier or extended, as provided for in the agreement. Payment terms are (1) $250,000 at commencement; (2) $356,250 payable in four equal quarterly installments, subject to acceleration upon achieving a specified deliverable; and (3) $168,750 payable in two equal bi-annual installments, subject to acceleration upon achieving a specified deliverable. As of September 30, 2014, the initial $250,000 payment and the first quarterly payment of $89,063 related to (2) above had been received and $137,881 was recorded as deferred revenues on the condensed consolidated balance sheet. See Note 8 – Subsequent Events for additional payments received subsequent to September 30, 2014.

During the three and nine months ended September 30, 2014, the Company recognized revenue related to research and development agreements of $159,376 and $334,401, respectively. The Company did not recognize any revenue related to research and development agreements during the three and nine months ended September 30, 2013.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 3 – Summary of Significant Accounting Policies - Continued

Revenue Recognition – Continued

Other

The Company’s policy is to recognize product sales when the risk of loss and title to the product transfers to the customer, after taking into account potential returns. The Company recognizes sublicensing and royalty revenue when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) the service is completed without further obligation, (iii) the sales price to the customer is fixed or determinable, and (iv) collectability is reasonably assured.

During the three and nine months ended September 30, 2014, the Company recognized revenue related to sales of Stem Pearls® skincare products of $554 and $1,845, respectively. During the three and nine months ended September 30, 2013, the Company recognized revenue related to sales of Stem Pearls® skincare products of $125 and $1,680, respectively.

Net Loss Per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding during the period. Diluted loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding, plus the impact of common shares, if dilutive, resulting from the exercise of outstanding stock options and warrants, plus the conversion of convertible notes.

The following securities are excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

	September 30,	
	2014	2013
Options	8,784,000	4,063,000
Warrants	7,408,683	4,545,890
Convertible notes	424,425	-
Total potentially dilutive shares	16,617,108	8,608,890

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Since the shares underlying the Company's 2010 Equity Participation Plan (the "Plan") were registered on May 27, 2014, the Company estimates the fair value of the awards granted under the Plan based on the market value of its freely tradable common stock as reported by the OTC Bulletin Board. The fair value of the Company's restricted equity instruments was estimated by management based on observations of the cash sales prices of both restricted shares and freely tradable shares. Awards granted to directors are treated on the same basis as awards granted to employees.

Convertible Instruments

GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable GAAP.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 3 – Summary of Significant Accounting Policies - Continued

Convertible Instruments – Continued

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments (the beneficial conversion feature) based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements, except as disclosed in Note 8.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-10, “Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation,” (“ASU 2014-10”). ASU 2014-10 removes the definition of a development stage entity from the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, ASU 2014-10 eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and stockholders’ equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. ASU 2014-10 is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The Company elected to adopt ASU 2014-10 effective with the Quarterly Report on Form 10-Q for the period ended June 30, 2014 and its adoption resulted in the removal of previously required development stage disclosures. The Company’s planned principal operations are to develop technology using cell and tissue regenerative therapy protocols, primarily involving adult stem cells, allowing patients to undergo cellular-based treatments. The Company is currently seeking to establish a new laboratory facility and increase its capabilities for the further development of possible cellular-based treatment protocols, stem cell-related intellectual property and research applications. The Company’s activities are subject to significant risks and uncertainties, which are detailed in Note 2 – Going Concern and Management’s Plans.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 3 – Summary of Significant Accounting Policies – Continued

Recently Issued Accounting Pronouncements - Continued

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period," ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC Topic No. 718, "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not anticipate that the adoption of ASU 2014-12 will have a material impact on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15,"Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15, which is effective for annual reporting periods ending after December 15, 2016, extends the responsibility for performing the going-concern assessment to management and contains guidance on how to perform a going-concern assessment and when going-concern disclosures would be required under U.S. GAAP. The Company elected to adopt ASU 2014-15 effective with this Quarterly Report on Form 10-Q. Management's evaluations regarding the events and conditions that raise substantial doubt regarding the Company's ability to continue as a going concern have been disclosed in Note 2.

Note 4 – Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are comprised of the following:

	September 30, 2014 (unaudited)	December 31, 2013
Credit card payable	$ 4,163	$ 6,000
Accrued payroll and payroll taxes	796,666	672,535
Other accrued expenses	419,453	495,817
Deferred rent	-	2,310
Total	$ 1,220,282	$ 1,176,662

During the nine months ended September 30, 2014, the Company received an aggregate of $35,539 in non-interest bearing advances from an officer of the Company and made aggregate repayments to a director, an officer and a family member of an officer of $60,529 of advances (plus accrued interest), including the outstanding balance of $24,990 of advances as of December 31, 2013, such that the Company had no remaining liability at September 30, 2014.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 5 – Notes Payable

A summary of the notes payable activity during the nine months ended September 30, 2014 is presented below:

	Bermuda Lender	Convertible Notes	Other Notes	Debt Discount	Total
Outstanding, December 31, 2013	$4,000,000	$ 281,000	$1,473,500	$(240,491)	$5,514,009
Issuances	500,000	175,000	-	-	675,000 [1]
Exchanges for equity	-	(71,000)	(203,000)	-	(274,000)
Conversions to equity	-	(312,500)	-	-	(312,500)
Repayments	-	-	(53,000)	-	(53,000)
Setup of debt discount	-	-	-	(227,563)	(227,563) [1]
Amortization of debt discount	-	-	-	381,602	381,602
Accretion of interest expense	-	15,000 [2]	73,058 [3]	9,934 [1]	97,992
Settlement of accreted interest	-	(7,500) [2]	-	-	(7,500)
Outstanding, September 30, 2014	$4,500,000	$80,000 [4]	$1,290,558	$(76,518)	$5,794,040

[1] On March 10, 2014, a note with a principal amount of $30,000 was issued for cash consideration of $25,000 and bears no interest. The $5,000 difference was recorded as debt discount and was accreted as interest expense over the term of the note. During the nine months ended September 30, 2014, the Company accreted interest expense of $9,934 related to notes issued for cash consideration less than the principal amounts.

[2] During the nine months ended September 30, 2014, pursuant to the terms of certain notes payable with maturity dates ranging from January 8, 2014 to June 10, 2014, the aggregate principal balance of the notes was increased from $90,000 to $105,000. The aggregate $15,000 of principal increases was accreted as interest expense. During the nine months ended September 30, 2014, $7,500 of the principal increases were settled during the conversion of a convertible note with a maturity date of January 8, 2014 and an original principal balance of $30,000 into shares of the Company's common stock.

[3] On April 1, 2014, in connection with the extension of certain notes payable with a maturity dates ranging from August 8, 2013 to December 6, 2013, an aggregate $73,058 of accrued interest was added to the principal balance of the notes, increasing the aggregate principal balance from $652,500 to $725,558.

[4] As of September 30, 2014, Convertible Notes with an aggregate principal balance of $80,000 was convertible at the election of the Company.

On May 8, 2014, Cayman issued the Bermuda Lender a one-year note payable in the principal amount of $500,000 which bears interest at 15% per annum payable at maturity. The note also provides for the mandatory prepayment of the principal amount to the extent of any monies received by the Company pursuant to the research and development agreements discussed in Note 3 – Summary of Significant Accounting Policies – Revenue Recognition – Research and Development Agreements. Interest on the entire principal amount of the note is payable until such time as the principal amount is paid in full. On July 15, 2014, the Company received $89,063 pursuant to the research and development agreements which triggered a mandatory principal prepayment of $89,063, which was paid on October 7, 2014. See Note 8 – Subsequent Events for details regarding monies received pursuant to the research and development agreements. On August 13, 2014, Cayman and the Bermuda Lender agreed to extend the maturity date of certain notes issued by Cayman to the Bermuda Lender in the aggregate principal amount of $4,000,000 from July 31, 2014 to December 31, 2014. In consideration of the extension, the Company issued to the Bermuda Lender 550,000 shares of common stock. The $121,000 fair value of the common stock was recorded as debt discount and will be amortized over the remaining term of the notes. As of the filing date of this report, 77% of the face value of the Company's outstanding notes payable were received from the Bermuda Lender and the maturity dates associated with these notes range from December 31, 2014 to May 7, 2015.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 5 – Notes Payable - Continued

Between January 17, 2014 and May 2, 2014, the Company issued Convertible Notes with an aggregate principal amount of $175,000, in consideration of $170,000 of new proceeds (a Convertible Note with a principal amount of $30,000 bears no interest and was issued for cash consideration of $25,000 and the $5,000 difference was recorded as debt discount and was accreted as interest over the term of the note resulting in a weighted average effective interest rate of 79%). Convertible Notes with an aggregate principal amount of $145,000 bear interest at a rate of 12% per annum payable upon maturity. The Convertible Notes were initially payable 3-12 months from the date of issuance. Of the $175,000 of Convertible Notes, $145,000 is convertible into shares of the Company's common stock at the election of the Company during the period beginning five days prior to maturity and ending on the day immediately prior to maturity at the greater of (a) 55%-60%, depending on the particular note, of the fair value of the Company's stock or (b) $0.05 per share. The remaining $30,000 is convertible into shares of the Company's common stock at the election of the holder any time after September 10, 2014 at the lesser of (a) $0.50 per share or (b) 65% of the fair value of the Company's common stock, but with a floor of $0.05 per share.

During the nine months ended September 30, 2014, the Company and certain lenders agreed to convert Convertible Notes and Other Notes with an aggregate principal balance of $274,000 and aggregate accrued interest of $19,932 for an aggregate of 1,101,453 shares of common stock and an immediately vested, two-year warrant to purchase 100,000 shares of common stock at an exercise price of $0.75 per share. The stock and warrants had an aggregate issuance date value of $330,436 and $12,590, respectively, and, as a result, the Company recorded a loss on extinguishment of $49,094. The lenders received piggyback registration rights related to the stock and the stock issuable pursuant to the warrants.

During the nine months ended September 30, 2014, the Company elected to convert certain Convertible Notes with an aggregate principal balance of $195,000 and aggregate accrued interest of $11,799 into an aggregate of 1,031,962 shares of common stock at conversion prices ranging from $0.14 to $0.28 per share.

During the nine months ended September 30, 2014, the holders of certain convertible notes elected to exchange Convertible Notes with an aggregate principal balance of $117,500 and aggregate accrued interest of $3,647 for an aggregate of 582,033 shares of common stock at conversion prices ranging from $0.19 to $0.22 per share.

During the nine months ended September 30, 2014, the Company repaid certain Other Notes with an aggregate principal balance of $53,000 and accrued interest of $11,219.

During the nine months ended September 30, 2014, the maturity dates of certain Other Notes with an aggregate principal balance of $1,062,500 and interest rates ranging from 8% to 15% per annum were extended from maturity dates ranging from August 8, 2013 to December 31, 2013 to new maturity dates ranging from March 1, 2014 to April 1, 2015. In connection with the extensions, (a) the amount of interest due at maturity for a certain note was increased to $35,000 from $20,000, (b) an aggregate $73,058 of accrued interest was converted into the principal balance of the certain notes, (c) immediately vested, five-year warrants to purchase an aggregate of 100,000 shares of common stock at an exercise price of $0.75 per share were issued to the lenders, (d) previously outstanding warrants to purchase an aggregate of 90,000 shares of common stock had their exercise prices reduced to $0.75 per share from exercise prices ranging from $1.75 to $2.50 per share and (e) in the event a certain note is not paid in full on or before maturity, the Company agreed to issue to the lender a five-year warrant to purchase 50,000 shares of common stock at an exercise price equal to 175% of the then fair market value of the Company's common stock. As of the filing date of this report, one of the extended notes was past due.

During the nine months ended September 30, 2014, the contingently adjustable conversion ratios associated with certain Convertible Notes were resolved. The Company estimated the intrinsic value of the embedded conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the Convertible Note. During the three and nine months ended September 30, 2014, the Company recognized $45,179 and $86,563, respectively, of intrinsic value related to these beneficial conversion features as debt discount which was immediately amortized.

During the three and nine months ended September 30, 2014, the Company recognized amortization of debt discount in the amount of $91,988 and $295,039, respectively, related to the issuance of common stock and warrants in connection with certain notes payable and excluding amounts recognized related to the beneficial conversion features of Convertible Notes.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 5 – Notes Payable - Continued

During the three and nine months ended September 30, 2014, the Company recognized interest expense of $74,780 and $220,301, respectively, related to the Company’s outstanding notes payable.

See Note 8 - Subsequent Events for additional details regarding notes payable.

Note 6 – Commitments and Contingencies

Operating Lease

On February 4, 2014, the Company and the landlord agreed to the surrender of a portion of the Jupiter, Florida leased premises and also extended the term of the lease to July 31, 2014. The amended lease provides for a base rent of $962 per month. On July 29, 2014, the Company and the landlord further amended the lease agreement such that, commencing on July 31, 2014, the lease shall automatically renew for successive three calendar month periods; provided, however, that both parties shall have the right to terminate the lease effective at the end of any such renewal term by providing written notice to the other party at least 30 days prior to the expiration of the applicable renewal term.

On February 11, 2014, the Company executed a Facility Use Agreement with a stem cell treatment company (“SCTC”) which permits the Company to utilize the SCTC’s laboratory facility and one office for research associated with its culturing and medical device license. Payment terms are $3,750 through March 31, 2014 and $100 per day for usage beyond that date. The Company ceased using the SCTC’s laboratory facility on March 31, 2014.

On August 25, 2014, the Company entered into a lease for 6,800 square feet of space located in Melville, New York (the "Melville Lease"). The Company will be relocating its corporate and laboratory operations from Jupiter, Florida to such location. The Melville Lease provides for a 63 month term (subject to extension at the option of the Company for a period of five years) and an annual base rental during the initial term ranging between $132,600 and $149,260. The lease will commence upon the completion of certain improvements at the facility, which has yet to occur as of September 30, 2014. In connection with the Melville Lease, the Company has paid the landlord a security deposit of $45,900, which is reflected on the condensed consolidated balance sheet as of September 30, 2014. Additionally, in connection with the execution of the Melville Lease, the Company has issued an aggregate of 284,200 shares of its common stock and five-year warrants to purchase an aggregate of 142,100 shares of its common stock at an exercise price of $0.50 per share to the landlord as consideration for: (i) a waiver of the Company's requirement to contribute $60,000 towards the leasehold improvements of the leased premises and (ii) a waiver of the requirement to pay $11,050 of rent for the fifth month of the lease. During the nine months ended September 30, 2014, the Company has (i) recorded a credit to equity for the $71,050 value of the common stock and warrants, (ii) capitalized $60,000 of leasehold improvements which is included within property and equipment, net on the condensed consolidated balance sheet as of September 30, 2014, and will be amortized over the term of the lease and (iii) recorded prepaid rent of $11,050 within prepaid expenses and other current assets on the condensed consolidated balance sheet as of September 30, 2014, which will be expensed following the fifth month of the lease.

Rent expense amounted to approximately $3,000 and $17,000 during the three and nine months ended September 30, 2014, respectively, and $23,000 and $76,000 during the three and nine months ended September 30, 2013, respectively. Rent expense is reflected in general and administrative expenses in the condensed consolidated statements of operations.

<u>Consulting Agreements</u>

On February 20, 2014, the Company executed a two-year consulting agreement with the Physiatrist-In-Chief Emeritus for the Hospital for Special Surgery in New York City to become the Company's Chief Medical Advisor for Spine Medicine pursuant to which he oversees the clinical aspects of the brtxDISC™ Program. The agreement may be terminated earlier or extended, as provided for in the agreement. Pursuant to the agreement, the consultant is entitled to receive $10,000 per month, escalating to $20,000 per month upon the FDA approval of the Company's Investigational New Drug or Investigational Device Exemption application with respect to its brtxDISC™ Program. In addition, the Company granted the consultant a five-year option to purchase 300,000 shares of common stock at an exercise price of $0.65 per share, pursuant to the Plan. The option vests ratably over three years on the grant date anniversaries and the grant date value of $67,830 will be recognized proportionate to the vesting period. See Note 8 – Subsequent Events for details regarding an amendment to the consulting agreement.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 6 – Commitments and Contingencies - Continued

Consulting Agreements - Continued

On March 12, 2014, as additional compensation for consulting services, the Company granted to a consultant an immediately vested, five-year warrant to purchase 100,000 shares of common stock at an exercise price of $0.53 per share. In addition, warrants to purchase an aggregate of 280,000 shares of common stock had their exercise prices reduced to $0.53 per share from $1.50 per share and such warrants, as well as a warrant to purchase 20,000 shares of common stock, had their term extended to March 12, 2019. The grant date value of the issued warrant of $23,360 along with the incremental value related to the modification of the outstanding warrants of $30,366 was recognized during the nine months ended September 30, 2014 as stock-based compensation expense, which is reflected as consulting expense in the condensed consolidated statements of operations.

On March 14, 2014, the Company executed an agreement, which will continue until terminated by either party, appointing a new Scientific Advisory Board member. Pursuant to the agreement, the Company immediately granted the new Advisor a five-year option to purchase 25,000 shares of common stock at an exercise price of $0.50 per share, pursuant to the Plan. The option vests as follows: (i) 12,500 shares immediately and (ii) 12,500 shares on the first anniversary of the grant date. In addition, on each annual anniversary date of the agreement, the Advisor is entitled to a new five-year option to purchase 5,000 shares of the Company's common stock at an exercise price equal to the then fair market value of the common stock. The option grant date value of $5,860 will be recognized proportionate to the vesting period.

On June 27, 2014, a February 17, 2011 agreement for marketing consulting services that had expired on December 31, 2013 was further amended. Pursuant to the amendment, the agreement was reinstated effective as of April 1, 2014 and will continue in effect until December 31, 2014 (the "New Term"). In consideration of services rendered during the New Term and the cancellation of the Company's obligation to pay $65,000 to the consultant, the Company issued to a designee of the consultant 500,000 shares of common stock and issued to the consultant an immediately vested five-year warrant to purchase 250,000 shares of common stock at an exercise price of $1.00 per share. The common stock and warrant had grant date values of $110,000 and $37,500, respectively, which were recognized immediately.

On June 27, 2014, a February 17, 2011 agreement for business advisory services that had expired on December 31, 2013 was further amended. Pursuant to the amendment, the agreement was reinstated effective as of April 1, 2014 and will continue in effect until December 31, 2014 (the "New Term"). In consideration of services rendered during the New Term, the Company agreed to pay a cash fee of $16,667 per month and the Company granted an immediately vested five-year warrant to purchase 250,000 shares of common stock at an exercise price of $1.00 per share. The warrant had a grant date value of $37,500 which was recognized immediately. On August 27, 2014, the Company and the consultant entered into an agreement pursuant to which (i) the consultant would waive the Company's obligation to pay $75,000 of accrued compensation to the consultant and (ii) as consideration the Company would issue to the consultant 300,000 shares of the Company's common stock. The $75,000 grant date value of the common stock was previously recognized when the services were performed.

On June 27, 2014, an August 16, 2012 agreement for scientific advisory services was further extended to August 16, 2016 such that the consultant will continue to serve as Chairman of the Company's Scientific Advisory Board, will earn $10,000 per month and will be entitled to specified expense reimbursements. In addition, the Company granted a ten-year option to purchase 300,000 shares of common stock at an exercise price of $0.285 per share, pursuant to the Plan. The option vests as follows: (i) 150,000 shares on August 16, 2015 and (ii) 150,000 shares on August 16, 2016. The option grant date value of $81,000 will be recognized proportionate to the vesting period.

On July 23, 2014, the Company entered into a one-year agreement with a consultant to provide services related to the introduction to potential strategic partners and other alliance candidates with regard to research and development arrangements and other business transactions. In exchange for services provided by the consultant during the term, the Company agreed to issue 30,000 shares of common stock of the Company for each complete month during the term. During the nine months ended September 30, 2014, the Company has issued to the consultant an aggregate 60,000 shares of common stock and the aggregate grant date value of $13,200 was recognized immediately.

See Note 8 – Subsequent Events for details regarding additional consulting agreements and amendments.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 6 – Commitments and Contingencies - Continued

Research Agreement

On May 9, 2014, the Company entered into an amendment to its Research Agreement, dated June 15, 2012, with the University of Utah (the "University") (the "Utah Agreement"). Pursuant to the amendment, the parties agreed that (i) no fees are payable by the Company to the University pursuant to the Utah Agreement for the first five monthly payments in 2014 ($208,335 of fees in total were cancelled, of which, $104,168 was accrued for as of March 31, 2014), (ii) effective with the payment due on June 15, 2014, the monthly fee payable by the Company to the University pursuant to the Utah Agreement will be reduced from $41,667 to $20,000 and (iii) the scope of the work to be performed by the University pursuant to the Utah Agreement will be reduced. The Utah Agreement is scheduled to expire on June 14, 2015. Concurrently with the execution of the amendment, the Company paid $323,336 to the University, representing the balance of all fees payable by the Company to date pursuant to the Utah Agreement. As a result, the Company recorded an immediate gain on settlement in the amount of $166,668.

Board of Directors

On June 27, 2014, a director of the Company resigned due to other business commitments. In consideration of director services performed to date, the Company agreed to pay an aggregate of $80,000 (of which, $50,000 was previously earned and accrued for), payable as follows: (i) $30,000 immediately and (ii) the $50,000 balance in six equal monthly installments commencing on July 31, 2014. In addition, all outstanding options held by the director which were not exercisable as of the date of resignation shall become exercisable on the earlier of (i) the date on which such options are scheduled to become exercisable or (ii) December 31, 2014, and all outstanding options shall remain exercisable until their respective expiration dates notwithstanding the director's resignation. As a result of the modification of the options, the Company recorded incremental stock-based compensation expense of $96,250.

On June 27, 2014, the Company elected two new directors. Concurrently with the election, the Company granted the directors ten-year options to purchase an aggregate of 600,000 shares of common stock at an exercise price of $0.285

per share, pursuant to the Plan. The options vest as follows: (i) an aggregate of 200,000 shares on the date of grant; (ii) an aggregate of 200,000 shares on the first anniversary of the date of grant; and (iii) an aggregate of 200,000 shares on the second anniversary of the date of grant. The options have an aggregate grant date value of $144,000 which will be recognized proportionate to the vesting period.

See Note 8 – Subsequent Events for details of additional option awards.

Claims

In November 2013, an action was commenced in the Circuit Court of Palm Beach County, Florida by an alleged former consultant against the Company. The action is associated with an alleged loan made in 2009 and an alleged consulting/employment agreement entered into with the Company effective in 2009. Pursuant to the action, the plaintiff is seeking to recover an unspecified amount of damages but at least approximately $193,000 of cash and warrants for the purchase of 80,000 shares of the Company's common stock. During March 2014, the Company filed its answer to the complaint wherein it denied the allegations and entered thirteen affirmative defenses. Procedural hearings commenced in July 2014. The Company has not accrued for a loss associated with this matter as it believes that the claims are without merit and it intends to vigorously defend this matter.

The Company records legal costs associated with loss contingencies as incurred and accrues for all probable and estimable settlements.

Note 7 – Stockholders' Deficiency

2010 Equity Participation Plan

On February 18, 2014, the Board of Directors of the Company approved an increase in the number of shares of common stock authorized to be issued pursuant to the Plan from 6,000,000 to 12,000,000. See Note 8 – Subsequent Events for additional developments.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Stockholders' Deficiency – Continued

Common Stock and Warrant Offerings

During the nine months ended September 30, 2014, the Company issued an aggregate of 6,871,983 shares of common stock at prices ranging from $0.25 to $0.45 per share to investors for aggregate gross proceeds of $2,105,001, $10,000 of which was received subsequent to September 30, 2014. In connection with the purchases, the Company issued warrants to purchase an aggregate of 1,680,693 shares of common stock with exercise prices ranging from $0.30 to $0.75 per share. The warrants have terms ranging from two to five years.

See Note 5 – Notes Payable for details associated with common stock and warrants issued in conjunction with the conversion and exchange of notes payable. See Note 6 – Commitments and Contingencies for details associated with common stock and warrants issued pursuant to consulting agreements and in connection with operating leases. See Note 7 – Stockholders' Deficiency – Warrant Exchange and Reload Program for details associated with common stock and warrants issued pursuant to warrant exercises. See Note 8 – Subsequent Events for details regarding additional issuances of common stock and warrants for cash.

Warrant and Option Valuation

The Company has computed the fair value of warrants and options granted using the Black-Scholes option pricing model. Option forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate will be adjusted periodically based on the extent to which actual option forfeitures differ, or are expected to differ, from the previous estimate, when it is material. The Company estimated forfeitures related to option grants at annual rates ranging from 0% to 5% for options granted during the nine months ended September 30, 2014. The expected term used for warrants and options issued to non-employees is the contractual life and the expected term used for options issued to employees is the estimated period of time that options granted are expected to be outstanding. The Company utilizes the "simplified" method to develop an estimate of the expected term of "plain vanilla" employee option grants. Since the Company's stock has not been publicly traded for a sufficiently long period of time, the Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

Warrant Exercise and Reload Program

On November 27, 2013, the Company initiated a limited time program (the "Warrant Exercise and Reload Program") which, at the election of any warrant holder, would permit them to immediately exercise their outstanding exercisable warrants at an exercise price of $0.30 per share. In connection with the exercise of the warrant, in addition to having received the number of shares pursuant to such exercise, each holder would receive a new warrant for the same number of shares purchased with an exercise price of $0.75 per share and an expiration date of December 31, 2015. The terms of the newly issued warrant permit the Company to redeem the new warrant for a total of $1.00 if the common stock of the Company trades above $1.25 for five consecutive trading days. Under the Warrant Exercise and Reload Program, warrants to purchase an aggregate of 266,667 shares of common stock were exercised during the nine months ended September 30, 2014 for aggregate gross proceeds of $80,000. The Company recognized a warrant modification charge of $0 and $30,128 during the three and nine months ended September 30, 2014, respectively, which represents the incremental value of the modified warrant and new warrant combined, as compared to the original warrant value, all valued as of the respective modification dates.

Stock Warrants

See Note 5 – Notes Payable for details associated with the issuance of warrants in connection with note issuances and the exchange of notes payable. See Note 6 – Commitments and Contingencies – Consulting Agreements for details associated with the issuance of warrants as compensation. See Note 7 – Stockholders' Deficiency – Common Stock and Warrant Offerings for details associated with the issuance of warrants in connection with common stock and warrant offerings. See Note 8 – Subsequent Events for details associated with the issuance of warrants as compensation.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Stockholders' Deficiency – Continued

Stock Warrants - Continued

In applying the Black-Scholes option pricing model to warrants granted, the Company used the following weighted average assumptions:

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2014		2013		2014		2013	
Risk free interest rate	1.71	%	1.57	%	1.63	%	0.92	%
Expected term (years)	5.00		5.00		4.87		4.98	
Expected volatility	116	%	135	%	119	%	135	%
Expected dividends	0.00	%	0.00	%	0.00	%	0.00	%

The weighted average estimated fair value of the warrants granted during the three and nine months ended September 30, 2014 was $0.15 and $0.17 per share, respectively. The weighted average estimated fair value of the warrants granted during the three and nine months ended September 30, 2013 was $0.32 and $0.54 per share, respectively.

During the nine months ended September 30, 2014, the Company granted a consultant an immediately vested five-year warrant to purchase 10,000 shares of common stock at an exercise price of $0.75 per share. The aggregate grant date value of $1,500 was recognized immediately.

The Company recorded stock–based compensation expense of $1,500 and $168,626 during the three and nine months ended September 30, 2014, respectively, and $26,701 and $47,305 during the three and nine months ended September 30, 2013, respectively, related to stock warrants issued as compensation, which is reflected as consulting expense in the condensed consolidated statements of operations. As of September 30, 2014, there was no unrecognized stock-based compensation expense related to stock warrants.

A summary of the stock warrant activity during the nine months ended September 30, 2014 is presented below:

	Number of Warrants	Weighted Average Exercise Price		Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, December 31, 2013	4,795,890	$ 1.39			
Granted	2,899,460	0.73			
Exercised	(266,667)	0.30	[1]		
Forfeited	(20,000)	0.50			
Outstanding, September 30, 2014	7,408,683	$ 0.99		3.2	$ -
Exercisable, September 30, 2014	6,708,683	$ 0.93		3.3	$ -

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Stockholders' Deficiency – Continued

Stock Warrants - Continued

The following table presents information related to stock warrants at September 30, 2014:

Warrants Outstanding			Warrants Exercisable
Exercise Price	Number of Warrants	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
$0.30	650,000	4.7	650,000
0.50	162,100	4.8	162,100
0.53	380,000	3.6	380,000
0.75	3,683,389	2.9	3,683,389
0.94	50,000	4.2	50,000
1.00	550,000	4.7	550,000
1.50	862,800	2.7	862,800
1.75	20,000	2.5	20,000
2.00	123,530	4.1	123,530
2.50	20,000	2.8	20,000
3.00	36,864	3.6	36,864
4.00	170,000	3.3	170,000
Variable [2]	700,000	-	-
	7,408,683	3.3	6,708,683

[1] Warrants to purchase an aggregate of 266,667 shares of common stock had their exercise prices reduced to $0.30 per share pursuant to the Warrant Exercise and Reload Program. The warrants previously had exercise prices that

ranged from $1.50 to $4.00 per share.

[2] Warrants to purchase 700,000 shares of common stock have an exercise price which is the greater of $1.50 per share or the fair market value of the common stock on the date certain performance criteria are met. Exercisability of warrants is subject to satisfaction of certain performance criteria which did not occur during the nine months ended September 30, 2014.

Stock Options

See Note 6 – Commitments and Contingencies for details associated with the issuance and modification of options to consultants and directors.

In applying the Black-Scholes option pricing model to stock options granted, the Company used the following weighted average assumptions:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2014		2013		2014		2013	
Risk free interest rate	1.82	%	2.48	%	1.62	%	2.22	%
Expected term (years)	5.00		10.00		5.79		9.85	
Expected volatility	116	%	135	%	120	%	135	%
Expected dividends	0.00	%	0.00	%	0.00	%	0.00	%

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Stockholders' Deficiency – Continued

Stock Options – Continued

The weighted average estimated fair value of the options granted during the three and nine months ended September 30, 2014 was $0.27 and $0.24 per share, respectively. The weighted average estimated fair value of the options granted during the three and nine months ended September 30, 2013 was $0.48 and $0.58 per share, respectively.

Between February 18, 2014 and March 12, 2014, the Company granted ten-year options to employees and directors to purchase an aggregate of 2,415,000 shares of common stock at exercise prices ranging from $0.53 to $0.65 per share, pursuant to the Plan. The shares vest as follows: (i) 831,669 shares immediately and (ii) 1,589,331 shares ratably over two years on the grant date anniversaries. The aggregate grant date value of $566,483 will be recognized proportionate to the vesting period.

On June 16, 2014, the Company granted a five-year option to a consultant to purchase 60,000 shares of common stock at an exercise price of $0.39 per share, pursuant to the Plan. The shares vest ratably over three months on the grant date anniversaries. The grant date value of $18,600 will be recognized proportionate to the vesting period.

On September 24, 2014, the Company granted a five-year option to a consultant to purchase 75,000 shares of common stock at an exercise price of $0.33 per share, pursuant to the Plan. The shares vest ratably over three months on the grant date anniversaries. The grant date value of $20,100 will be recognized proportionate to the vesting period.

The following table presents information related to stock option expense:

	For The Three Months Ended September 30, 2014	2013	For The Nine Months Ended September 30, 2014	2013	Unrecognized at September 30, 2014		Weighted Average Amortization Period (Years)
Consulting	$ 35,662	$ 19,125	$ 287,237	$ 83,375	$ 138,034	[1]	1.6
Research and development	80,275	80,640	233,989	204,499	193,329	[2]	1.5
General and administrative	21,280	52,681	126,259	159,112	121,324		1.4
	$ 137,217	$ 152,446	$ 647,485	$ 446,986	$ 452,687		1.6

[1] Contains $ 16,436 of expense that is subject to non-employee mark-to-market adjustments.
[2] Contains $ 150,737 of expense that is subject to non-employee mark-to-market adjustments.

BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Stockholders' Deficiency – Continued

Stock Options – Continued

A summary of the stock option activity during the nine months ended September 30, 2014 is presented below:

Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value