PEOPLES FINANCIAL CORP /MS/
Form DEF 14A
March 14, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14 A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

**PEOPLES FINANCIAL CORPORATION**

**(Exact name of registrant as specified in its charter)**

**(Name of person(s) filing proxy statement, if other than the registrant)**

Payment of Filing Fee (check the appropriate box):

No fee requirement.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0 -11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price other or underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No:

(3) Filing Party:

(4) Date Filed:

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS GIVEN that, pursuant to a call of its Directors, the Annual Meeting of Shareholders of Peoples Financial Corporation (the Company ) will be held in The Swetman Building at The Peoples Bank, Suite 204, 727 Howard Avenue, Biloxi, Mississippi, 39530, on April 25, 2018, at 6:30 P.M., local time, for the purpose of considering and voting upon the following matters:

1. Election of five (5) Directors to hold office for a term of one (l) year, or until their successors are elected and shall have qualified.

2. Ratification of the appointment of Porter Keadle Moore, LLC, as the independent registered public accounting firm for the Company.

3. Transaction of such other business as may properly come before the meeting or any adjournments thereof.

Only those shareholders of record at the close of business on February 16, 2018, will be entitled to notice of, and to vote at, the meeting or any adjournments thereof.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of**

**Shareholders to be Held on April 25, 2018**

Pursuant to rules promulgated by the Securities and Exchange Commission (the SEC ), we are providing access to our proxy materials both by sending you this full set of proxy materials, including a notice of annual meeting, form of Proxy and 2017 Annual Report to Shareholders, and by notifying you of the availability of our proxy materials on the Internet. **The notice of annual meeting, proxy statement, the form of Proxy and the 2017 Annual Report to Shareholders are available at the following website address: https://www.shareholderaccountingsoftware.com/tspweb/peoples/pxsignon.asp**. In accordance with the SEC rules, the materials on the site are searchable, readable and printable and the site does not have cookies or other tracking devices which identify visitors.

**WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE DATE, SIGN AND RETURN PROMPTLY THE ACCOMPANYING PROXY. IF YOU DO ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON. THE PROXY ALSO MAY BE REVOKED AT ANY TIME PRIOR TO ITS EXERCISE BY WRITTEN NOTICE TO THE SECRETARY OF THE COMPANY OR BY EXECUTION OF A SUBSEQUENTLY DATED PROXY.**

By Order of the Board of Directors

Chevis C. Swetman
Chairman, President and Chief Executive Officer

March 20, 2018

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## PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

### I. General

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Peoples Financial Corporation (the Company ) of Proxies for the Annual Meeting of Shareholders (the Annual Meeting ) to be held in The Swetman Building at The Peoples Bank, Suite 204, 727 Howard Avenue, Biloxi, Mississippi, 39530, on April 25, 2018, at 6:30 P.M., local time, and any adjournment thereof, for the purposes stated in the foregoing Notice of Annual Meeting of Shareholders. The mailing address of the principal executive offices of the Company is P.O. Box 529, Biloxi, Mississippi 39533-0529. The notice of annual meeting, Proxy Statement, form of Proxy and 2017 Annual Report to Shareholders will be mailed to shareholders of record on or about March 20, 2018.

Shareholders of record of the Company s Common Stock (the Common Stock ), at the close of business on February 16, 2018 (the Record Date ), are entitled to receive notice of and to vote at the Annual Meeting or any adjournments thereof. On the Record Date, the Company had outstanding 5,083,186 shares entitled to vote at the Annual Meeting. A majority of the outstanding shares constitutes a quorum. Except in the election of directors, each share of Common Stock entitles the holder thereof to one vote on each matter presented at the Annual Meeting for shareholder approval. Action on a matter is approved if the votes cast in favor of the action exceed the votes cast opposing the action. Abstentions, which include broker non-votes, are counted for purposes of determining a quorum, but are otherwise not counted.

Any person giving a Proxy has the right to revoke it at any time before it is exercised. A shareholder may revoke his or her Proxy (l) by revoking it in person at the Annual Meeting, (2) by written notification to the Secretary of the Company which is received prior to the exercise of the Proxy, or (3) by a subsequent Proxy presented to the Company prior to the exercise of the Proxy. All properly executed Proxies, if not revoked, will be voted as directed. If the shareholder does not direct to the contrary, the shares will be voted FOR the nominees listed in Item 1 and FOR Item 2 described in the Notice of Annual Meeting of Shareholders. Solicitation of Proxies will be primarily by mail. Officers, directors, and employees of The Peoples Bank (hereinafter referred to as the Bank ) also may solicit Proxies personally. The Company will reimburse brokers and other persons holding shares in their names, or in the names of nominees, for the expense of transmitting Proxy materials. The cost of soliciting Proxies will be borne by the Company.

The Board of Directors is not aware of any matters other than as set forth herein which are likely to be brought before the meeting. If other matters do come before the meeting, the person named in the accompanying Proxy or his substitute will vote the shares represented by such Proxies in accordance with the recommendations of the Board of Directors.

### II. Management Proposals

**Item 1: Election of Directors**

The following nominees have been designated by the Nominating Committee and are proposed by the Board of Directors for election at the Annual Meeting. The shares represented by properly executed Proxies will, unless authority to vote is withheld, be voted in favor of these persons. In the election of directors, each shareholder may vote his shares cumulatively by multiplying the number of shares he is entitled to vote by the number of directors to be elected. This product shall be the number of votes the shareholder may cast for one nominee or by distributing this number of votes among any number of nominees. If a shareholder withholds authority for one or more nominees and does not direct otherwise, the total number of votes that the shareholder is entitled to cast will be distributed equally among the remaining nominees. Should any of these

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nominees be unable to accept the nomination, the shares voted in favor of the nominee will be voted for such other persons as the Board of Directors shall nominate. Each director is elected to hold office until the next Annual Meeting of Shareholders and until his successor is elected and qualified.

The persons who will be elected to the Board of Directors will be the five nominees receiving the largest number of votes.

A majority of the persons nominated are independent as defined in the OTCQX listing standards. No family relationship exists between any director, executive officer or person nominated to become a director of the Company.

None of the persons nominated held directorship at any time during the past five years at any public company, with the exception of the Company, or registered investment company.

**Drew Allen**

Mr. Allen, age 66, has served as an independent director of the Company since 1996 and of the Bank since 1993. He earned his Bachelor of Science degree with an emphasis in Marketing from Mississippi State University. Mr. Allen is President of Allen Beverages, Inc., a beverage distributor headquartered in Gulfport, MS. He holds numerous leadership positions in professional, civic and charitable organizations on both a local and state level and has received regional and local recognition for his service. The Company believes that Mr. Allen s qualifications to serve on the Board include his executive leadership and management experience.

**Rex E. Kelly**

Mr. Kelly, age 70, has served as an independent director of the Company since 2002 and of the Bank since 1996. Until his retirement in 2005, he was the Director of Corporate Communications of Mississippi Power Company, a subsidiary of The Southern Company, Gulfport, MS. Mr. Kelly earned his Bachelor of Science degree in American Studies from the University of Southern Mississippi and has held leadership positions in professional, civic and community organizations and has received national and regional recognition for outstanding leadership. He is currently a consultant in the area of strategic communications/corporate and public relations. The Company believes that Mr. Kelly s qualifications to serve on the Board include his corporate strategy, communications and organizational acumen.

**Dan Magruder**

Mr. Magruder, age 70, has served as an independent director of the Company since 2000 and of the Bank since 1993 and has also served as Vice Chairman of the Company board since 2003. Mr. Magruder earned his Bachelor of Engineering degree from Vanderbilt University. During his service in the U.S. Navy, he attended the Navy Nuclear Power School, Nuclear Submarine Prototype School and Submarine School. Subsequently, Mr. Magruder assumed executive positions with several organizations before joining Rex Distributing Co., Inc., a beverage distributor headquartered in Gulfport, MS, as president in 1987. He retired from Rex Distributing Co., Inc. in 2016.
Mr. Magruder has provided leadership to a variety of professional, civic and charitable organizations. The Company believes that Mr. Magruder s qualifications to serve on the Board include his executive leadership and management experience.

**Jeffrey H. O Keefe**

Mr. O Keefe, age 61, has served as an independent director of the Company since 2011 and of the Bank since

1986. Mr. O Keefe earned his Bachelor of Science in Business Administration from the University of Southern Mississippi. He has been with Bradford-O Keefe Funeral Homes, Inc. since 1970 and served as its President and Chief Executive Officer from 1983 until 2017, at which time he was named Chairman. During his career, he has held leadership positions with a number of professional, community and civic organizations. The Company believes that Mr. O Keefe s qualifications to serve on the Board include his executive leadership and management experience.

**Chevis C. Swetman**

Mr. Swetman, age 69, has served as a director of the Company since 1984 and of the Bank since 1975. He has served as Chairman of the Company since 1994. Mr. Swetman is President and Chief Executive Officer of the Company and the Bank and has been employed with the Bank since 1971. He earned a Bachelor of Science in Finance degree and a Master of Business Administration degree from the University of Southern Mississippi. In addition to his role with the Company, Mr. Swetman has been recognized numerous times for his leadership in professional, civic and community organizations. The Company believes that Mr. Swetman s qualifications to serve on the Board encompasses his 45 years of experience in banking, including serving as Chairman for more than 20 years.

**Item 2: Appointment of Independent Registered Public Accounting Firm**

Porter Keadle Moore, LLC, of Atlanta, Georgia, has served as the independent registered public accounting firm for the Company since 2006 and the Board of Directors has appointed the firm as auditors for the fiscal year ending December 31, 2018.

The Company has been advised that neither the firm nor any of its partners has any direct or any material indirect financial interest in the securities of the Company or any of its subsidiaries, except as auditors and consultants on accounting procedures and tax matters. The Board does not anticipate that representatives of Porter Keadle Moore, LLC, will attend the Annual Meeting.

Although not required to do so, the Board of Directors has chosen to submit its appointment of Porter Keadle Moore, LLC, for ratification by the Company s shareholders. It is the intention of the person named in the Proxy to vote such Proxy FOR the ratification of this appointment. If this proposal does not pass, the Board of Directors will reconsider the matter.

The Board of Directors unanimously recommends that shareholders vote FOR this appointment of Porter Keadle Moore, LLC.

## III. Corporate Governance

**General**

The Company has a long-standing commitment to strong corporate governance practices. The practices provide an important framework within which our Board of Directors and Management can pursue the strategic objectives of the Company and ensure long-term vitality for the benefit of our shareholders. The cornerstone of our practices is an independent and qualified board of directors. All directors are elected annually by the shareholders, and the membership of all board committees are composed entirely of independent directors. The Company s Code of Conduct, which is posted on its website, www.thepeoples.com, applies to all directors, officers and employees.

**Board Independence**

Messrs. Allen, Kelly, Magruder and O Keefe are independent as defined by OTCQX listing standards.

**Board Composition**

The Company s Nominating Committee Charter defines the process and criteria for selecting individuals to be nominated for election to the Board of Directors. It is the Company s intention that all nominees, including those recommended by shareholders, be considered using this same process and criteria.

In accordance with the by-laws of the Company, the Nominating Committee determines, subject to the Company s by-laws, the size of the Board and develops a slate of nominees to stand for election at the annual meeting of shareholders. In developing the slate, the Nominating Committee considers the qualifications set forth in its Charter. Minutes of all Nominating Committee meetings are maintained. The Nominating Committee reports its recommendations regarding the slate of nominees to the Board of Directors for their ratification. Once the slate is ratified, the Board of Directors instructs the President of the Company to take such actions as are required to distribute proxy materials to the shareholders in accordance with the Company s by-laws and applicable regulatory requirements.

Further, it is the Company s intention that the minimum qualifications for nominees be those individuals who have an understanding of the Company s role in the local economy and who have demonstrated integrity and good business judgment. The Committee is encouraged to consider geographic and demographic diversity among candidates with financial, regulatory and/or business experience, but not so as to compromise the goal of attracting the most qualified individual candidates.

**Director Nomination**

Since the Company was founded in 1984, there has never been a conflict or dispute regarding director nominations. Accordingly, the Company does not feel that it is necessary at this time to provide a process whereby nominations may be made directly to the Nominating Committee, and this committee does not have a policy for considering candidates recommended by shareholders. However, in accordance with the Company s by-laws, shareholders may make nominations for election to the Board by delivering written nominations to the Company s President not less than 14 days or not more than 50 days prior to the meeting when the election is to be held. If the Company does not give at least 21 days notice of the meeting, shareholders are allowed to make nominations by mailing or delivering same to the President not later than the close of business on the seventh day following the day on which the notice of meeting is mailed. The Company welcomes nominations from its shareholders; however, nominations not made in accordance with the by-laws may be disregarded by the Chairman of the meeting. The Company has never received nominations from shareholders.

Shareholder nominations shall include 1) the name, age, business address and residence address of the nominee, 2) the principal occupation or employment of the nominee, 3) the number of shares of the Company s common stock which are beneficially owned by the nominee, 4) written consent from the potential nominee, and 5) other information relating to the nominee that may be required under federal law and regulations governing such interests. The written notice shall also include the 1) name and address of the shareholder making the nomination, and 2) the number of shares of the Company s common stock which are beneficially owned by the shareholder making the nomination.

Of the five directors recommended for election at the 2018 Annual Meeting, all nominees were elected as directors at our 2017 Annual Meeting.

**Board Attendance**

There were six meetings of the Board of Directors of the Company held during 2017. All directors attended 75% or more of the total number of meetings of the Board of Directors and the total number of meetings held by the committees on which they served. The Board of Directors, at its discretion, meets on a periodic basis in executive session with only non-employee directors in attendance.

The Company does not have a written policy that members of the Board of Directors attend the Annual Meeting of Shareholders, but they are encouraged to do so. Three of the directors of the Company were in attendance at the 2017 Annual Meeting.

**Board Leadership**

The Chairman leads the Board of Directors and oversees board meetings and the delivery of information necessary for the Board of Directors informed decision-making. The Chairman also serves as the principal liaison between the Board of Directors and our Management. The Board of Directors determines whether the role of the Chairman and the Chief Executive Officer should be separated or combined based on its judgment as to the structure that best serves the interests of the Company. Currently, the Board of Directors believes that the positions of Chairman and Chief Executive Officer should be held by the same person as this combination has served and is serving the Company well by providing unified leadership and direction. The Vice Chairman of the Board of Directors is designated as the lead independent director and calls and presides over executive sessions of the Board of Directors.

**Board Committees**

The Company has the following standing committees: an Audit Committee, a Compensation Committee and a Nominating Committee.

The Company s Audit Committee is currently composed of independent directors Drew Allen, Rex E. Kelly, Dan Magruder and Jeffrey H. O Keefe. The Company s Board of Directors has determined that Drew Allen is an audit committee financial expert as that term is defined in pertinent SEC regulations. The Board based its determination on the experience of Mr. Allen as the chief executive officer of his company in analyzing and evaluating financial statements and consulting with his company s auditors as well as his long tenure on the Company s Audit Committee. Mr. Magruder serves as chairman of the Audit Committee, which met ten times during 2017. The Audit Committee may, from time to time, call upon certain advisors or consultants as it deems necessary. The Audit Committee acts pursuant to its Audit Committee Charter. The Audit Committee submits its report to the shareholders in Section X below. The Audit Committee s Charter is available for review on the Company s website at www.thepeoples.com.

The Compensation Committee s primary responsibility is to aid the Board of Directors in discharging its duties by recommending to the full Board the compensation of the Company s Chief Executive Officer and other named executive officers of the Company. The Chief Executive Officer may attend meetings of the Compensation Committee to discuss executive performance and compensation. The Executive Vice-President attends each meeting of the Compensation Committee and presents his insights and suggestions. The Executive Vice-President and Chief Financial Officer each provide information and analysis to the Compensation Committee that is used in determining the named executive officers compensation. The Compensation Committee has been authorized by the Board of Directors to engage consultants, experts, and/or other advisors that are knowledgeable regarding compensation practices within the financial services industry. The hiring of such consultants is at the discretion of the Committee. The Compensation Committee did not engage any consultants during 2017. The Committee, composed of independent directors Drew Allen, Rex E. Kelly, Dan Magruder and Jeffrey H. O Keefe, met one time during 2017 to review the executive

officers performance and consider bonuses for the preceding year and salaries for the upcoming year. Mr. Allen serves as chairman of the Compensation Committee. The Compensation Committee s Charter is available for review on the Company s website at www.thepeoples.com.

The Company s Nominating Committee is composed of independent directors Drew Allen, Rex E. Kelly, Dan Magruder and Jeffrey H. O Keefe. Mr. Kelly serves as chairman of the Nominating Committee. The Nominating Committee acts pursuant to its Nominating Committee Charter which is available on the Company s website at www.thepeoples.com. The Nominating Committee met seven times during 2017 to nominate individuals to stand for election as directors of the Company and to consider nominees to serve as directors of the Bank.

**Board s Role in Risk Management**

Risk is an integral part of the deliberations of the Board of Directors and its committees throughout the year. The Audit Committee and the Board of Directors annually review the Company s risk assessments, considering management s plan for mitigating these risks. The Board receives monthly written reports relating to the Company s risk management and meets frequently with the Chief Risk Officer and other members of Management. The Audit Committee at its discretion meets on a periodic basis with managers from the Audit, Compliance, Security, I/T Security and Loan Review Departments.

**Shareholder Communication**

The Company has implemented a shareholder communication process to facilitate communications between shareholders and the Board of Directors. Any shareholder of the Company who wishes to communicate with the Board of Directors, a committee of the Board, the independent directors as a group, or any individual member of the Board, may contact Greg M. Batia, Vice President and Auditor, P. O. Box 1172, Biloxi, MS 39533-1172, or at his e-mail address: gbatia@thepeoples.com. Mr. Batia will compile and submit on a periodic basis all shareholder correspondence to the entire Board of Directors, or, if and as designated in the communication, to a committee of the Board, the independent directors as a group or an individual Board member.

## IV. Voting Securities and Principal Holders Thereof

On February 16, 2018, the Company had outstanding 5,083,186 shares of its Common Stock, $1.00 par value, owned by 445 shareholders. The following is certain information about the shareholders beneficially owning more than five percent of the outstanding shares of the Company.

| Name and Address of Beneficial Owner | Amount of Beneficial Ownership | Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Jeffrey L. Gendell<br>1 Sound Shore<br>Suite 304<br>Greenwich, CT 06830 | 487,056 | (6) | 9.58% |
| Peoples Financial Corporation Employee Stock Ownership Plan<br>P. O. Box 529<br>Biloxi, MS 39533 | 267,945 | (1) | 5.27% |
| Thomas E. Quave<br>P. O. Box 529<br>Biloxi, MS 39533 | 502,054 | (2)(3) | 9.88% |
| A. Tanner Swetman<br>P. O. Box 529<br>Biloxi, MS 39533 | 867,069 | (2)(4) | 17.06% |
| Chevis C. Swetman<br>P. O. Box 529<br>Biloxi, MS 39533 | 409,672 | (2)(5) | 8.06% |

(1) Shares held by the Employee Stock Ownership Plan ( ESOP ) are allocated to the participants account. The participants retain voting rights and the trustee of the ESOP, The Asset Management and Trust Services Division of The Peoples Bank, Biloxi, Mississippi, has dispositive powers.

(2) Participants with shares allocated to their ESOP account have voting rights but no dispositive powers. Participants with shares allocated to their 401(k) account have voting rights and dispositive powers.

(3) Includes (i) shares allocated to Mr. Quave s ESOP account; (ii) shares allocated to Mr. Quave s 401(k) account; (iii) shares owned by Mr. Quave s wife, of which Mr. Quave has neither voting rights nor dispositive powers; (iv) shares owned by Mr. Quave and his wife jointly, of which Mr. Quave shares voting rights and dispositive powers with his wife; (v) shares owned by Mr. Quave s minor children, of which Mr. Quave has voting rights and dispositive powers and (vi) shares owned by trust accounts for which Mr. Quave s wife is trustee and of which Mr. Quave has neither voting rights nor dispositive powers.

(4) Includes (i) shares allocated to Mr. Swetman s ESOP account; (ii) shares allocated to Mr. Swetman s 401(k) account; (iii) shares owned by Mr. Swetman and his wife jointly, of which Mr. Swetman shares voting rights and dispositive powers with his wife; (iv) shares owned by Mr. Swetman s minor children, of which Mr. Swetman has voting rights and dispositive powers; (v) shares owned by Mr. Swetman s IRA account, of which Mr. Swetman has voting rights and dispositive powers; (vi) shares owned by the IRA account of Mr. Swetman s wife, of which

Mr. Swetman has neither voting rights nor dispositive powers and (vii) shares owned by a private company, in which Mr. Swetman has a 94% ownership interest, of which Mr. Swetman has both voting rights and dispositive powers.

(5) Includes (i) shares allocated to Mr. Swetman s ESOP account; (ii) shares allocated to Mr. Swetman s 401(k) account; (iii) shares owned by Mr. Swetman and his wife jointly, of which Mr. Swetman shares voting rights and dispositive powers with his wife; (iv) shares owned by Mr. Swetman s IRA account, of which Mr. Swetman has voting rights and dispositive powers; and (v) shares owned by the IRA account of Mr. Swetman s wife, of which Mr. Swetman has neither voting rights nor dispositive powers.

(6) According to Amendment No. 2 to Schedule 13G filed with the SEC on February 9, 2018, by Jeffrey L. Gendell, as of December 31, 2017, Jeffrey L. Gendell, through limited liability companies for which he serves as managing member, has shared voting power and shared dispositive power with respect to 487,056 shares of the Company s common stock. The forgoing information has been included solely in reliance upon the disclosures contained in the referenced amended Schedule 13G.

## V. Ownership of Equity Securities by Directors and Executive Officers

The table below sets forth the beneficial ownership of the Company s Common Stock as of February 16, 2018, by persons who are currently serving as directors, persons nominated for election at the Annual Meeting and all named executive officers. Also shown is the ownership by all directors and executive officers as a group. The persons listed have sole voting and dispositive power as to all shares except as indicated. Percent of outstanding shares of Common Stock owned is not shown where less than one percent.

**Beneficial Ownership of Equity Securities by Directors and Executive Officers**

| | Amount and Nature of Beneficial Ownership of Common Stock | | Percent of Outstanding Shares of Common Stock |
|---|---|---|---|
| Drew Allen | 5,440 | | |
| A. Wes Fulmer | 12,926 | (1)(2) | |
| Rex E. Kelly | 2,036 | | |
| Dan Magruder | 6,981 | (3) | |
| Jeffrey H. O Keefe | 32,238 | (4) | |
| Chevis C. Swetman | 409,672 | (1)(5) | 8.06% |
| Lauri A. Wood | 7,242 | (1)(6) | |
| All directors and executive officers of the Company | 499,636 | | 9.83% |

(1) Participants with shares allocated to their ESOP account have voting rights but no dispositive powers. Participants with shares allocated to their 401(k) account have voting rights and dispositive powers.
(2) Includes shares allocated to Mr. Fulmer s ESOP account and shares allocated to Mr. Fulmer s 401(k) account.
(3) Includes shares owned by a limited liability company of which Mr. Magruder and his wife are the only members and share voting rights and dispositive powers.
(4) Includes shares held by Mr. O Keefe s minor child of which Mr. O Keefe is the custodian and has voting rights and dispositive powers.
(5) See Note (5) at Section IV.
(6) Includes shares allocated to Miss Wood s ESOP account.

## VI. Compensation of Executive Officers and Directors

### Compensation Discussion and Analysis

The Compensation Committee determines the salaries, bonuses and all other compensation of the named executive officers identified in the Summary Compensation Table on page 15 of this Proxy Statement, including the Chief Executive Officer. The Committee is also charged with ensuring that policies and practices are in place to facilitate the development of the Company s management talent, ensure management succession and enhance the Company s corporate governance and social responsibility.

A. Guiding Philosophy and Objectives:

The Compensation Committee s guiding philosophy is to attract and retain highly qualified executives, to motivate them to maximize long-term shareholder value while balancing both short-term and long-term objectives, and to pay for performance. The following objectives serve as guiding principles for all compensation decisions:

Provide reasonable levels of total compensation that will enable the Company to attract, retain, and motivate high caliber executives who are capable of optimizing and maintaining the Company s performance for the benefit of its shareholders.

Maintain executive compensation that is fair and consistent with the Company s size and the compensation practices of the financial services industry.

Provide compensation plans that align with the objective of achieving the mission of being a community bank offering the highest quality products and services.

Align performance bonus opportunities with long-term shareholder interests by making the payment of performance bonuses dependent on the Company s performance with respect to Return on Assets ( ROA ).

Provide an incentive for personal performance by allocation of discretionary additional bonus opportunities dependent on the executive s individual performance.

B. Responsibility of the Compensation Committee:

The primary responsibility of the Compensation Committee is to aid the Board in discharging its duties by recommending to the full Board the compensation of the Company s Chief Executive Officer and other named executive officers of the Company.

C. Role of Executive Officers:

The Chief Executive Officer may attend the meetings of the Compensation Committee to discuss executive performance and compensation. The Executive Vice-President attends each meeting of the Compensation Committee and presents his insights and suggestions. The Executive Vice-President and Chief Financial Officer each provide information and analysis to the Compensation Committee that is used in determining the named executive officers compensation.

D. Consultants, Experts and/or Other Advisors:

The Compensation Committee has been authorized by the Board of Directors to engage consultants, experts, and/or other advisors that are knowledgeable regarding compensation practices within the financial services industry. The hiring of such consultants is at the discretion of the Committee. The Committee did not engage any consultants in 2017.

E. Factors used to Determine Compensation:

The Compensation Committee s considerations consist of, but are not limited to, analysis of the following factors: financial performance of the Company, including ROA, return on equity, and management of assets, liabilities, capital and risk. Additionally, the Compensation Committee uses annual compensation surveys to compare the compensation of positions in similar financial institutions of comparable asset size. Specifically, the Bank Administration Institute ( BAI ) Bank Cash Compensation Survey, which includes compensation data obtained from banks with assets between $500 million and $1 billion in a region that includes Alabama, Arkansas, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota and Tennessee and the Mississippi Bankers Association ( MBA ) Salary Survey, which includes compensation data obtained from banks in Mississippi with assets between $500 million and $1 billion, are used as reference material in evaluating the compensation of the named executive officers; however, the Company does not benchmark compensation to any specific company or companies. The Company does not have access to the identity of the specific companies included in these surveys.

In determining total compensation, the Committee also considers the performance of the individual named executive officers in areas such as: the scope of responsibility of the executive; leadership within the Company, the community and the financial services industry; achievement of work goals; and whether the Company, under the executive s leadership, has been a good corporate citizen while enhancing shareholder value.

All of these factors are considered in the context of the complexity and the difficulty of managing business risks in the prevailing economic conditions and regulatory environment. The analysis is conducted with respect to each of the named executive officers, including the Chief Executive Officer.

F. Compensation Components:

The named executive officers total compensation package includes several components. The Company rewards current performance and achievement of short-term goals primarily through salaries and bonuses. Other deferred compensation elements, including the Executive Supplemental Income Plan and Deferred Compensation Plan, are designed to meet long-term objectives including retaining high-performing executives and to plan for management succession as well as to reward loyalty.

Salaries

Salaries are the foundation of each named executive officer s total compensation package and are normally the largest single component. Salary is the only guaranteed cash payment a named executive officer receives. The Company s goal is to provide an assured level of cash compensation in the form of salary to attract and retain high caliber executives. Job specific knowledge and experience as well as leadership ability are recognized with salary.

In establishing the salary of the Chief Executive Officer for 2017, the Committee primarily considered Mr. Swetman s performance and the performance of the Company during 2016 and the compensation levels of chief executive officers of comparable financial institutions. In considering the performance of the Company, the Committee considered the Company s ROA, the change in problem assets and asset growth, but utilized no objective criteria. The Committee utilized asset size peer group compensation data as provided by the MBA and the BAI.

For other named executive officers, the Committee s recommendation concerning salaries was based upon the compensation levels of executive officers of comparable financial institutions, the performance of the Company during 2016 and the individual performance of these named executive officers. The performance of the Company for purposes of establishing salaries was evaluated based on ROA. Individual performance was measured using criteria such as level of job responsibility, achievement of work goals and management skills. Among the goals considered was the reduction of problem assets. The Committee also considered asset size peer group compensation data as provided by the MBA and BAI for executive officers with similar duties and responsibilities.

Bonuses

The Compensation Committee awards performance bonuses based upon pre-determined performance objectives in accordance with The Peoples Bank Bonus Plan ( The Bonus Plan ). Performance bonuses are generally the other cash component paid to named executive officers on an annual basis and may be determined by The Bonus Plan. The Chief Executive Officer and all other named executive officers are eligible to receive a bonus which is based on the financial performance of the Company. The specific formula and pre-determined goals under The Bonus Plan were established by the Compensation Committee using the Company s ROA. The performance bonus calculation, which is approved by the Compensation Committee, allows the named executive officer to earn up to a maximum percentage of their salary on established ROA targets. The targets and bonus calculations as a percentage of salary and targets are:

| | Base | Base + 1 | Base + 2 | Base + 3 | Maximum |
|---|---|---|---|---|---|
| ROA Target | .670% | .800% | .925% | 1.050% | 1.175% |
| Chief Executive Officer | 15.000% | 18.750% | 22.500% | 26.250% | 30.000% |
| Executive Vice- President | 12.500% | 15.630% | 18.750% | 21.880% | 25.000% |
| Other Named Executive Officer | 10.000% | 12.500% | 15.000% | 17.500% | 20.000% |

The Compensation Committee may, at its discretion, also recommend to the Board that the executive officers receive an additional bonus which is determined on a subjective basis. If this additional discretionary bonus is recommended, the Committee documents its actions in the minutes of their committee meetings. No performance based or discretionary bonuses were awarded to executive officers for 2017 due to the performance of the Company.

Executive Supplemental Income Plan

The Company maintains an Executive Supplemental Income Plan ( ESI ) which provides executives with salary continuation benefits upon their retirement, or death benefits to their named beneficiary in the event of their death. Executives of the Company and the Bank are selected to participate in the plan at the discretion of the Board of Directors. All named executive officers of the Company have been selected to participate in the plan. ESI benefits are based upon position and salary of the named executive officer at retirement, disability or death. Normal retirement benefits under the plan are equal to 67% of salary for the Chief Executive Officer, 58% of salary for the Executive Vice-President and 50% of salary for the other named executive officer at the time of normal retirement, and are payable monthly over a period of 15 years. The ESI is administered by Banc Consulting Partners, who also provide guidance to the Company relating to the valuation method and assumptions.

The ESI was established in 1988, at which time Mr. Swetman became a participant. Miss Wood and Mr. Fulmer became participants after their date of hire at the discretion of the Board.

Benefits are also available in the event of death, disability or early retirement. Under early retirement provisions, if separation from service occurs on or after the early retirement date and prior to the normal retirement date, the Company will pay the named executive officer a reduced benefit. The annual benefit set forth for normal retirement will be reduced by one-half percent (0.5%) for each month or partial month between separation from service and the normal retirement date. The benefit will be paid monthly over a period of 15 years. Benefits will commence on the last day of the month following the named executive officer s separation from service. The early retirement date means the date the named executive officer attains at least age 55, has at least 15 years of employment at the Company, and has participated in this plan for a minimum of five years. As of December 31, 2017, Miss Wood and Mr. Fulmer are the only named executive officers eligible to receive this benefit. The normal retirement date means the date the named executive officer attains age 65.

If separation from service occurs prior to the early retirement date or prior to the normal retirement date, the Company will pay the named executive officer his or her executive benefit accrual balance as of his or her separation from service. The benefit will be paid in a single lump-sum within 60 days of separation from service.

If a named executive officer becomes disabled prior to the normal retirement date, the Company will pay the named executive officer his or her annual benefit as defined under normal retirement. The benefit will begin the last day of the month commencing with the month following the named executive officer s normal retirement date and the benefits will be paid monthly over a period of 15 years.

If the named executive officer dies prior to early retirement, normal retirement or disability, the named executive officer s named beneficiary is entitled to full benefits under the ESI. If the named executive officer dies while receiving benefits, the named beneficiary is entitled to the remainder of any unpaid benefits.

Upon a change of control prior to separation from service, the Company will pay the named executive officer his or her annual benefit as defined under normal retirement. The benefit will begin the last day of the month commencing with the month following the named executive officer s normal retirement date, or, for named executive officers who have already attained their normal retirement date, their separation from service, and the benefits will be paid monthly over a period of 15 years.

Each named executive officer s agreement under the ESI may be terminated by the Company. In the event the named executive officer s agreement under the ESI is terminated, the Company will pay the named executive officer his or her executive accrual balance as of the termination of the agreement, or, if a change of control has occurred, the normal retirement benefit. The benefit will begin on the first date allowable under the ESI and the benefit will be paid over a period of 15 years, or, in some special circumstances, paid in one lump sum.

If any amount is required to be included in the income of a named executive officer due to a failure of his or her ESI agreement to meet the requirements of Section 409A of the Internal Revenue Code, the named executive officer may petition the plan administrator for a distribution of that portion of his or her executive benefit accrual that is required to be included in the named executive officer s income. Upon the grant of such a petition, which will not be unreasonably withheld, the Company will distribute to the named executive officer an amount equal to the portion of the executive benefit accrual required to be included in his or her income, which amount cannot exceed the named executive officer s unpaid executive benefit accrual. Any distribution will affect and reduce the named executive officer s benefits to be paid under his or her ESI agreement.

The benefits will be paid out of the general assets of the Company. The Company has elected to purchase life insurance contracts, more specifically Bank Owned Life Insurance ( BOLI ), each of which it may use as a source to fund these future benefits. The Company is the owner and beneficiary of these life insurance policies, which are a general asset of the Company.

Deferred Compensation Plan

The Company maintains a Deferred Compensation Plan for those executives of the Bank holding the title of vice-president, senior vice-president or executive vice-president and approved for participation in the plan by the Board of Directors. Except for the Chief Executive Officer, all named executive officers participated in the plan in 2017. The plan provides each named executive officer a fixed benefit upon his or her early retirement, normal retirement or disability, or a death benefit to a named beneficiary in the event of the named executive officer s death. The benefit under the plan is $100,000, payable monthly over a 15 year period, upon the named executive officer s early retirement, normal retirement or disability and, in the event of a named executive officer s death, the benefits will be paid to his or her beneficiary. Should the named executive officer separate from service prior to his or her early retirement, normal retirement, disability or death, he or she forfeits all benefits under the plan. In addition, if within three years following his or her separation from service, a named executive officer becomes engaged in the banking business within a certain geographic area around the Company, the named executive officer will forfeit all benefits under the plan.

The Company has purchased life insurance contracts which it may use as a source to fund these future benefits. The Company is the owner and beneficiary of these life insurance policies, which is a general asset of the Company.

The Deferred Compensation Plan was established in 1992, at which time Miss Wood became a participant. Mr. Fulmer became a participant upon his promotion to vice-president of the Bank.

If separation from service occurs prior to a named executive officer s normal retirement date, the named executive officer will be entitled to full benefits provided he or she has met the early retirement eligibility. The early retirement date means the first day of any month coincident with or following the month in which the named executive officer attains at least age 55 and has at least 10 years of employment at the Company. The normal retirement date means the date the named executive officer attains age 65. As of December 31, 2017, Miss Wood and Mr. Fulmer are the only named executive officers eligible to receive benefits under the Deferred Compensation Plan.

If a named executive officer becomes disabled, he or she is entitled to full benefits under the Deferred Compensation Plan.

If the named executive officer dies prior to early retirement, normal retirement or disability, the named executive officer s named beneficiary is entitled to full benefits under the Deferred Compensation Plan. If the named executive officer dies while receiving benefits, the named beneficiary is entitled to the remainder of any unpaid benefits.

In the event of a change of control, unless the Deferred Compensation Plan is terminated by the transferee, purchaser or successor entity within 120 days of the change of control, no named executive officer will be entitled to a distribution under this plan as a result of the change in control. If the Deferred Compensation Plan is terminated within 120 days of a change of control, then each named executive officer will become immediately eligible to receive the present value of his or her benefits under this plan. In addition, in the event the Deferred Compensation Plan is continued but a named executive officer is involuntarily terminated within 180 days of a change of control, the terminated named executive officer will be eligible to receive his or her benefits under this plan. Such benefits will be calculated by taking the present value of the benefits provided and such benefits will be paid in a lump sum within 180 days of the change in control.

Split-Dollar Agreement

The Company owns endorsement split-dollar policies, of which the Bank is the owner and beneficiary, which provide a guaranteed death benefit of $150,000 to the Chief Executive Officer s beneficiaries.

Employee Stock Ownership Plan

The Company maintains an Employee Stock Ownership Plan covering all eligible employees of the Company. The Board determines the total contribution to the Plan, which is allocated to all participants based on their compensation.

401(k) Plan

The Company maintains a 401(k) Plan in which eligible employees of the Company may choose to participate. The Board determines the formula for the matching contribution to the Plan, which is currently 75% of the employee s contribution (up to 6% of compensation).

G. Accounting and Tax Treatment:

While the Compensation Committee considers the accounting and tax implications in the design of the compensation program, these have not had a significant impact in their decision-making process.

H. Shareholder Approval of Compensation of Named Executive Officers:

At our 2016 annual meeting of shareholders, the Company held its second advisory (non-binding) vote on the compensation of the named executive officers. A majority of our shareholders voted in favor of the resolution approving the 2015 compensation of the named executive officers. The Compensation Committee considered these shareholders votes in determining the 2016 compensation of the named executive officers. Shareholders will be provided their next opportunity to cast an advisory (non-binding) vote on the compensation of the named executive officers at the 2019 annual meeting of shareholders, at which time the frequency of submitting the compensation of the named executive officers to the shareholders in the future will be submitted for an advisory (non-binding) vote as well.

There are no employment contracts with the executive officers.

**Summary Compensation Table**

The Summary Compensation Table below displays the total compensation awarded to, earned by or paid to the named executive officers for 2017 and 2016.

| Name and Principal Position | Year | Salary | Bonus | Change in Pension Value and Nonqualified Compensation Earnings | All Other Compensation (1) | Total |
|---|---|---|---|---|---|---|
| Chevis C. Swetman | 2017 | $ 275,000 | $ | $ 28,742 | $ 12,150 | $ 315,892 |
| President and Chief Executive Officer | 2016 | 285,577 | | 43,873 | 11,925 | 341,375 |
| A. Wes Fulmer | 2017 | 168,000 | | 78,917 | 7,560 | 254,477 |
| Executive Vice-President | 2016 | 174,462 | | 78,041 | 7,851 | 260,354 |
| Lauri A. Wood | 2017 | 138,769 | | 55,045 | 6,596 | 200,410 |
| Chief Financial Officer | 2016 | 142,788 | | 52,080 | 6,790 | 201,658 |

(1) Includes contributions and allocations pursuant to Employee Stock Ownership Plan and 401(k) Plan.

**Estimated Payments from the Executive Supplemental Income Plan**

The table below indicates the amount of compensation payable to each named executive officer under the Executive Supplemental Income Plan, as applicable upon different termination events. The amounts shown assume a termination date of December 31, 2017 and present total amounts for each scenario.

| Termination Event | | Early Termination | | Early Retirement | | Disability | | Change in Control | | Pre- Retirem Death Benefi |
|---|---|---|---|---|---|---|---|---|---|---|
| ethod of Payment (2) | | Lump Sum Benefit Amount Payable at Separation From Service | | Annual Benefit Amount Payable At Separation from Service | | Annual Benefit Amount Payable at Normal Retirement Age | | Annual Benefit Amount Payable at Normal Retirement Age | | Annua Benefi |
| Name and Principal Position | Benefit Level (1) | Vesting | Based On Accrual | Vesting | Based On Benefit | Vesting | Based On Benefit | Vesting | Based On Benefit | Based O Benefi |
| evis C. Swetman sident & Chief ecutive Officer | $ 184,250 | | $ | | $ | 100% | $ 184,250 | 100% | $ 184,250 | $ 184,2 |
| Wes Fulmer ecutive ce-President | 97,440 | | | 33.64% | 56,515 | 100% | 97,440 | 100% | 97,440 | 97,4 |
| uri A. Wood | 70,813 | | | 26,029 | 49,094 | | | | | |

| | | |
|---|---|---|
| in on settlement of yables | - | (176,268 ) |
| rrant modification pense | 10,000 | 30,128 |
| anges in operating ets and liabilities: | | |
| counts receivable | (50,982 ) | - |
| entories | (547 ) | 175 |
| paid expenses and er current assets | (13,485 ) | 2,648 |
| counts payable | 313,352 | (369,047 ) |
| crued interest, penses and other rent liabilities | 641,873 | 267,810 |
| ferred revenues | (50,231 ) | 224,975 |
| **tal Adjustments** | 1,696,030 | 1,242,890 |
| **t Cash Used In erating Activities** | (1,484,389) | (1,759,925) |

| | | |
|---|---|---|
| **sh Flows From vesting Activities** | | |
| rchases of property l equipment | (151,914 ) | - |
| oceeds from sale of perty and equipment | - | 980 |
| ense maintenance ts | (75,000 ) | - |
| **t Cash (Used In) ovided By Investing tivities** | (226,914 ) | 980 |
| **sh Flows From ancing Activities** | | |
| ferred offering costs | (8,050 ) | - |
| oceeds from notes vable | 515,000 | 670,000 |
| payments of notes vable | - | (53,000 ) |
| vances from ector, officer and nily member of icer | 274,085 | 15,015 |
| payment of advances m director and icer | (206,085 ) | (40,005 ) |
| oceeds from exercise warrants | - | 80,000 |
| es of common stock l warrants for cash | 1,051,000 | 945,000 |
| **t Cash Provided By ancing Activities** | 1,625,950 | 1,617,010 |
| **t Decrease In Cash** | (85,353 ) | (141,935 ) |
| **sh - Beginning** | 91,798 | 201,098 |
| **sh - Ending** | $6,445 | $59,163 |

See Notes to these Condensed Consolidated Financial Statements

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Condensed Consolidated Statements of Cash Flows — Continued**

**(unaudited)**

| | **For The Six Months Ended June 30,** | |
|---|---|---|
| | **2015** | **2014** |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid during the period for: | | |
| Interest | $ 46,161 | $ 43,821 |
| | | |
| Non-cash investing and financing activities: | | |
| Warrant modification in connection with extension or exchanges of notes payable | $ 5,900 | $ - |
| Shares and warrants issued in connection with issuance or extension of notes payable | $ 54,415 | $ 15,000 |
| Shares and warrants issued in exchange for notes payable and accrued interest | $ 5,116,036 | $ 343,026 |
| Conversion of notes payable and accrued interest into common stock | $ 170,065 | $ 166,768 |
| Shares issued in satisfaction of accrued consulting services | $ 8,481 | $ - |
| Accrued interest reclassified as principal in connection with note payable reissuance | $ - | $ 73,058 |
| Beneficial conversion features set up as debt discount | $ 10,690 | $ 41,384 |
| Accrued deferred offering costs | $ 144,117 | $ - |
| Shares and warrants issued in connection with settlement agreement | $ 152,000 | $ - |
| Accrued liabilities associated with purchases of property and equipment | $ 109,487 | $ - |
| Indebtedness satisfied via legal settlement | $ 5,000 | $ - |

See Notes to these Condensed Consolidated Financial Statements

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**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. (together with its subsidiaries, "BRT" or the "Company") develops therapeutic products and medical therapies using cell and tissue protocols, primarily involving adult stem cells. BRT's website is at www.biorestorative.com. BRT is currently pursuing a Disc/Spine Program. Its lead cell therapy candidate, brtxDISC™ (**D**isc **I**mplanted **S**tem **C**ells), is a product formulated from autologous (or a person's own) cultured mesenchymal stem cells collected from the patient's bone marrow. The product is intended to be used for the non-surgical treatment of protruding and bulging lumbar discs in patients suffering from chronic lumbar disc disease. BRT is also engaging in research efforts with respect to a platform technology utilizing brown adipose (fat) for therapeutic purposes and has labeled this initiative its ThermoStem® Program. Through the program, BRT is developing an allogeneic cell-based therapy to target obesity and metabolic disorders using brown adipose (fat) derived stem cells to generate brown adipose tissue ("BAT"). BAT is intended to mimic naturally occurring brown adipose depots that regulate metabolic homeostasis in humans. Further, 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 June 30, 2015 and for the three and six months ended June 30, 2015 and 2014. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the operating results for the full year ending December 31, 2015 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, 2014 and for the year then ended, which were filed with the Securities and Exchange Commission on Form 10-K on March 31, 2015.

Effective January 1, 2015, the Company changed its state of incorporation from the State of Nevada to the State of Delaware pursuant to a plan of conversion, dated December 22, 2014 (the "Plan of Conversion"). Pursuant to the Plan of Conversion, the Company also adopted new bylaws, which became effective on January 1, 2015.

Effective July 7, 2015, pursuant to authority granted by the stockholders of the Company, the Company implemented a 1-for-20 reverse split of the Company's issued and outstanding common stock (the "Reverse Split") and a reduction in the number of shares of common stock authorized to be issued by the Company from 200,000,000 to 30,000,000. All share and per share information has been retroactively adjusted to reflect the Reverse Split for all periods presented, unless otherwise indicated.

Note 2 – Going Concern and Management Plans

As of June 30, 2015, the Company had a working capital deficiency and a stockholders' deficiency of $4,673,421 and $2,880,523, respectively. During the three and six months ended June 30, 2015, the Company incurred net losses of $1,420,298 and $3,180,419, 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.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 2 – Going Concern and Management Plans - Continued**

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 June 30, 2015, the Company has raised an aggregate of $180,000 and $200,000 through equity financing and debt financing, respectively, and (b) $30,000 and $1,736 of debt and accrued interest, respectively, has been exchanged for or converted into common stock. The Company currently expects to be able to fund its operations through September 2015.  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 $275,000 which are past due. 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.

Note 3 – Summary of Significant Accounting Policies

<u>Principles of Consolidation</u>

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 the 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

Two pharmaceutical clients comprised substantially all of the Company's revenue during the three and six months ended June 30, 2015. See Revenue Recognition – Research and Development Agreements below.

Revenue Recognition

*Research and Development Agreements*

The Company's policy relating to research and development agreements is to recognize research and development revenues associated with such agreements either (a) on a straight-line basis over the term of the agreement, or (b) in accordance with the milestone method of revenue recognition, depending on the nature of the contract terms, subject to potential acceleration upon achievement of contractually specified deliverables.

On February 11, 2015, the term of the March 19, 2014 research and development agreement with a Japanese pharmaceutical company was extended by three months to June 19, 2015. During the three and six months ended June 30, 2015, the Company recognized revenue of $50,000 and $100,000, respectively, upon achievement of specified deliverables (milestone method). During the six months ended June 30, 2015, the final deliverable pursuant the research and development agreement was completed and delivered. Through June 30, 2015, $200,000 had been received under the agreement, $250,000 had been recognized as revenue and the unpaid $50,000 is recorded as accounts receivable.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 3 – Summary of Significant Accounting Policies - Continued**

Revenue Recognition – Continued

*Research and Development Agreements – Continued*

During the six months ended June 30, 2015, in connection with a March 24, 2014 research and development agreement with a U.S. pharmaceutical company, the Company received the third and fourth of four quarterly payments in the aggregate amount of $177,234. Through June 30, 2015, $605,359 had been received under the agreement, $491,241 had been recognized as revenue and $114,118 was recorded as deferred revenues on the condensed consolidated balance sheet.

During the three and six months ended June 30, 2015, the Company recognized revenue related to research and development agreements of $146,764 and $327,466. During the three and six months ended June 30, 2014, the Company recognized revenue related to research and development agreements of $175,025.

*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 six months ended June 30, 2015, the Company has recognized $2,000 and $6,000 respectively, of revenue related to the Company's sublicense agreement. During the three and six months ended June 30, 2014, the Company recognized no revenue related to the Company's sublicense agreement.

During the three and six months ended June 30, 2015, the Company recognized revenue related to sales of Stem Pearls® skincare products of $0 and $200, respectively. During the three and six months ended June 30, 2014, the Company recognized revenue related to sales of Stem Pearls® skincare products of $916 and $1,291, 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:

| | **June 30,** | |
|---|---|---|
| | **2015** | **2014** |
| Options | 789,200 | 435,450 |
| Warrants | 728,850 | 316,283 |
| Convertible notes | 65,719 | 74,100 |
| Total potentially dilutive shares | 1,583,769 | 825,833 |

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 3 – Summary of Significant Accounting Policies - Continued**

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 on the OTCQB market. 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.

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.

Note 4 – Accrued Expenses and Other Current Liabilities

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

| | **June 30, 2015 (unaudited)** | **December 31, 2014** |
|---|---|---|
| Credit card payable | $ 3,296 | $ 4,739 |
| Accrued payroll | 860,253 | 679,277 |
| Advances from related parties | 68,000 | - |
| Accrued purchases of property and equipment | 54,781 | 174,801 |
| Accrued research and development expenses | 401,175 | 292,395 |
| Accrued general and administrative expenses | 456,077 | 315,294 |
| Deferred rent | 43,902 | - |
| Total | $ 1,887,484 | $ 1,466,506 |

During the six months ended June 30, 2015, the Company received an aggregate of $274,085 in non-interest bearing advances from an officer of the Company and a family member of an officer of the Company and made aggregate repayments of $206,085, such that the Company had a liability to the officer and the family member of an officer of $68,000 at June 30, 2015, which was due on demand. During the six months ended June 30, 2014, the Company received an aggregate of $15,015 in non-interest bearing advances from an officer of the Company and made aggregate repayments to a director of the Company, an officer of the Company and a family member of an officer of the Company of $40,005 of advances (plus accrued interest).

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 5 – Notes Payable**

A summary of the notes payable activity during the six months ended June 30, 2015 is presented below:

| | Bermuda Lender (defined below) | Convertible Notes | Other Notes | Debt Discount | Total |
|---|---|---|---|---|---|
| Outstanding, December 31, 2014 | $ 4,410,937 | $ 175,000 | $ 1,265,559 | $ (113,257) | $ 5,738,239 |
| Issuance | - | 315,000 | 244,000 | - | 559,000 |
| Indebtedness satisfied via settlement | - | - | (5,000) | - | (5,000) |
| Exchanges to equity | (4,410,937) | (16,667) | (592,874) | - | (5,020,478) |
| Conversion to equity | - | (158,333) | - | - | (158,333) |
| Recognition of debt discount | - | - | - | (115,005) [1] | (115,005) |
| Accretion of interest expense | - | - | - | 6,012 [1] | 6,012 |
| Amortization of debt discount | - | - | - | 140,884 | 140,884 |
| Outstanding, June 30, 2015 | $ - | $ 315,000 [2] | $ 911,685 | $ (81,366) | $ 1,145,319 |

[1] During the six months ended June 30, 2015, a note in the principal amount of $244,000 bears no interest and was issued for cash consideration of $200,000. The $44,000 difference between the principal amount of the note and the cash received was recorded as debt discount and is being amortized to interest expense over the term of the note.

[2] As of June 30, 2015, convertible notes with an aggregate principal balance of $315,000 were convertible into shares of common stock at the election of the Company. Of such aggregate principal balance, under certain circumstances, the holder has the right to convert $75,000 in principal into shares of common stock.

<u>Bermuda Lender</u>

On May 11, 2015, Cayman and a lender to Cayman (the “Bermuda Lender”) agreed to extend the maturity date of a note with a principal balance of $410,938 from May 7, 2015 to June 30, 2015 (the “New Maturity Date”). The Bermuda Lender waived any and all defaults under the note, including with respect to the failure by the Company to pay to the Bermuda Lender pursuant to the note the aggregate amount of $316,297 (the “Unpaid Amount”) received by the Company from its research and development agreements (see Note 3 – Summary of Significant Accounting Policies – Revenue Recognition – Research and Development Agreements). The Unpaid Amount was payable on the New Maturity Date together with all other amounts then payable pursuant to the note.

On May 27, 2015, the Company and the Bermuda Lender agreed to exchange five notes (including the note referred to in the above paragraph) with an aggregate principal amount of $4,410,937 and aggregate accrued interest of $69,436 for 746,730 shares of common stock and an immediately vested five-year warrant to purchase 186,682 shares of common stock at an exercise price of $15.00 per share with a grant date fair value of $672,056. In connection with the exchange, the Company extended the expiration date of a previously outstanding warrant to purchase 40,000 shares of common stock from December 31, 2015 to December 31, 2017. During the three and six months ended June 30, 2015, the Company recognized a $5,327 loss on the extinguishment of notes payable in connection with the exchange for the shares of common stock and a warrant.

As of June 30, 2015, the Bermuda Lender is a related party as a result of the size of its ownership interest in the Company’s common stock.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 5 – Notes Payable - Continued**

Convertible Notes and Other Notes

*Issuances*

During the six months ended June 30, 2015, the Company issued convertible notes with an aggregate principal balance of $315,000 which mature between July 2015 and December 2015 and accrue interest at rates ranging from 10% to 12% per annum payable at maturity. The convertible notes are convertible into shares of the Company's common stock during the five days prior to maturity and ending on the day immediately prior to maturity at a conversion price equal to the greater of (a) a range of 62% to 65% of the fair value of the Company's common stock or (b) $3.00 per share. In connection with the issuance of the convertible notes, the Company issued five-year, immediately vested warrants to purchase an aggregate of 17,700 shares of common stock at an exercise price of $10.00 per share. The aggregate relative fair value of the warrants of $54,415 has been recorded as debt discount and will be amortized over the term of the convertible notes.

During the six months ended June 30, 2015, the Company issued a six-month note payable with a principal amount of $244,000 for cash consideration of $200,000. The note bears no interest. The $44,000 difference between the principal amount of the note and the cash received was recorded as debt discount and is being amortized to interest expense over the term of the note.

*Conversions, Exchanges and Other*

During the six months ended June 30, 2015, pursuant to the original conversion terms of the convertible notes, the Company elected to convert convertible notes with an aggregate principal balance of $158,333 and aggregate accrued interest of $11,732 into an aggregate of 34,869 shares of common stock at conversion prices ranging from $4.44 to $5.16 per share.

During the six months ended June 30, 2015, the Company exchanged a convertible note in the principal amount of $16,667 and accrued interest of $827 for 3,600 shares of common stock. During the three and six months ended June 30, 2015, the Company recognized a $504 loss on extinguishment of notes payable in connection with the exchange.

During the six months ended June 30, 2015, the Company elected to exchange notes payable with an aggregate principal balance of $592,874 and aggregate accrued interest of $25,296 for an aggregate of 103,030 shares of common stock and five-year, immediately vested warrants to purchase an aggregate of 25,756 shares of common stock at an exercise price of $15.00 per share with an aggregate grant date value of $92,725. In connection with the exchange, the Company extended the expiration date of previously issued warrants to purchase an aggregate of 15,249 shares of common stock from December 31, 2015 to December 31, 2017. During the three and six months ended June 30, 2015, the Company recognized a $20,197 loss on extinguishment of notes payable in connection with the exchange.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 5 – Notes Payable – Continued**

Convertible Notes and Other Notes - Continued

*Conversions, Exchanges and Other - Continued*

During the six months ended June 30, 2015, the contingently adjustable conversion ratio associated with a certain convertible note was resolved. The Company estimated the intrinsic value of the embedded conversion option based upon the difference 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 six months ended June 30, 2015, the Company recognized $0 and $10,690, respectively, of intrinsic value related to the beneficial conversion feature as debt discount which was amortized immediately. During the three and six months ended June 30, 2014, the Company recognized $41,384 of intrinsic value related to these beneficial conversion features as debt discount and the entire amount was amortized immediately.

**Note 6 – Commitments and Contingencies**

Operating Lease

During the three and six months ended June 30, 2015, the Company recognized approximately $29,000 and $64,000, respectively, of rent expense. Rent expense amounted to approximately $4,000 and $14,000 during the three and six months ended June 30, 2014, respectively.

Litigations, Claims and Assessments

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business.

In November 2013, an action was commenced against the Company in the Circuit Court of Palm Beach County, Florida by an alleged former consultant. The action was associated with an alleged $5,000 loan made in 2009 and an alleged consulting/employment agreement entered into with the Company effective in 2009. Pursuant to the action, the plaintiff was seeking to recover an unspecified amount of damages as well as the repayment of the alleged loan with interest, reimbursement for certain out-of-pocket fees and expenses, two weeks vacation pay per year, and the issuance of shares of the Company's common stock (or alternatively the market value of such securities). On April 27, 2015, the Company and the plaintiff entered into a settlement agreement for an amount which had been accrued as of March 31, 2015. In connection with the legal settlement agreement, during the six months ended June 30, 2015, the Company issued the plaintiff 4,230 shares of common stock and five-year, immediately vested warrants to purchase an aggregate of 30,000 shares of common stock at exercise prices ranging from $7.60 to $12.00 per share. The aggregate value of the issuances of $152,000 was recognized immediately.

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

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 6 – Commitments and Contingencies - Continued**

Employment Agreements

On February 9, 2015, the Company hired a President for its Disc/Spine Division (“Division President”) pursuant to an at-will employment agreement which entitles him to a specified salary and a discretionary bonus. In the event the Company terminates the Division President without cause, the Division President is entitled to cash severance payments of $150,000 paid over nine months. As additional compensation, the Company granted the Division President a ten-year option to purchase 25,000 shares of common stock at an exercise price of $9.20 per share, pursuant to the Plan. The shares vest over three years on the grant date anniversaries. The grant date value of $200,400 will be recognized proportionate to the vesting period.

On March 9, 2015, the Company and its Chief Executive Officer (“CEO”) agreed to extend the term of his employment agreement to December 31, 2017. Pursuant to the employment agreement, the CEO is entitled to receive a salary of $400,000 per annum. The CEO is entitled to receive an annual bonus for 2015 equal to 50% of his annual base salary and an annual bonus for the years 2016 and 2017 equal to 50% of his annual base salary in the event certain performance goals, as determined by the Company’s Compensation Committee, are satisfied. Pursuant to the employment agreement, in the event that the CEO’s employment is terminated by the Company without cause, or the CEO terminates his employment for “good reason” (each as defined in the employment agreement), the CEO would be entitled to receive severance in an amount equal to his then annual base salary and certain benefits, plus $100,000 (in lieu of bonus). In addition, pursuant to the employment agreement, the CEO would also be entitled to receive such severance in the event that the term of his employment agreement is not extended beyond December 31, 2017 and, within three months of such expiration date, his employment is terminated by the Company without “cause” or the CEO terminates his employment for any reason. Further, in the event that the CEO’s employment is terminated by the Company without cause, or the CEO terminates his employment for “good reason”, following a “change in control” (as defined in the employment agreement), the CEO would be entitled to receive severance in an amount equal to one and one-half times his then annual base salary and certain benefits, plus $300,000 (in lieu of bonus).

On March 9, 2015, the Company agreed to amend the at-will employment agreement with its Vice President of Research and Development (“VP of R&D”). Pursuant to the employment agreement, as amended, in the event that the VP of R&D’s employment with the Company is terminated without cause, the VP of R&D would currently be entitled to receive a cash severance payment equal to one-half of his base annual salary (such one-half amount currently $125,000).

Board of Directors

On April 6, 2015, the Company elected a new director to replace a director who had previously resigned. Concurrent with the election, the Company granted a ten-year option to purchase 15,000 shares of common stock at an exercise price of $8.00 per share, pursuant to the Plan. The shares vest ratably over three years on the grant date anniversaries and the grant date fair value of $104,100 will be recognized proportionate to the vesting period.

Note 7 – Stockholders’ Deficiency

Authorized Capital

On December 19, 2014, effective January 1, 2015, the Company’s shareholders approved the reincorporation of the Company from the State of Nevada to the State of Delaware and in connection therewith (i) approved an amendment to the Company’s Articles of Incorporation to increase the number of shares of common stock authorized to be issued by the Company from 100,000,000 to 200,000,000; and (ii) approved an amendment to the Company’s Articles of Incorporation to increase the number of shares of preferred stock authorized to be issued by the Company from 1,000,000 to 5,000,000. See Note 1 – Business Organization, Nature of Operations and Basis of Presentation for common stock Reverse Split information. See Note 8 – Subsequent Events.

Common Stock and Warrant Offerings

During the six months ended June 30, 2015, the Company issued an aggregate of 180,167 shares of common stock at prices ranging from $5.00 to $6.00 per unit to investors for aggregate gross proceeds of $1,051,000. In connection with the purchases, the Company issued warrants to purchase an aggregate of 56,290 shares of common stock at exercise prices ranging from $8.00 to $15.00 per share of common stock. The warrants have a term of five years and an aggregate grant date fair value of $188,883.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 7 – Stockholders' Deficiency - Continued**

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 six months ended June 30, 2015 and 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.

Stock Warrants

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

| | **For The Three Months Ended June 30,** | | **For The Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Risk free interest rate | 1.32% - 1.71 % | 1.55% - 1.74 % | 1.22% - 1.71 % | 0.39% - 2.20 % |

| | | | | |
|---|---|---|---|---|
| Expected term (years) | 5.00 | 5.00 | 5.00 | 1.96 - 5.00 |
| Expected volatility | 121% - 122 % | 120% -129 % | 121% - 122 % | 120% - 129 % |
| Expected dividends | 0.00 % | 0.00 % | 0.00 % | 0.00 % |

The weighted average estimated fair value of the warrants granted during the three and six months ended June 30, 2015 was $3.76 and $3.60 per share, respectively. The weighted average estimated fair value of the warrants granted during the three and six months ended June 30, 2014 was $3.20 and $3.80 per share, respectively.

On May 29, 2015, the Company extended the expiration date of previously outstanding warrants to purchase an aggregate of 5,000 shares of common stock from December 31, 2015 to December 31, 2017. During the three and six months ended June 30, 2015, the Company recognized $10,000 of incremental expense related to the modification of the warrants which is reflected in general and administrative expense in the condensed consolidated statements of operations.

The Company recorded stock–based compensation expense of $0 and $0 during the three and six months ended June 30, 2015, respectively, and expense of $113,400 and $167,126 during the three and six months ended June 30, 2014, respectively, related to stock warrants issued as compensation, which is reflected as consulting expense in the condensed consolidated statements of operations. As of June 30, 2015, there was no unrecognized stock-based compensation expense related to stock warrants.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 7 – Stockholders' Deficiency – Continued**

Stock Warrants – Continued

A summary of the stock warrant activity during the six months ended June 30, 2015 is presented below:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, December 31, 2014 | 412,422 | $ 17.97 | | |
| Granted | 316,428 | 13.82 | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Outstanding, June 30, 2015 | 728,850 | $ 16.17 | 3.8 | $ 45,500 |
| Exercisable, June 30, 2015 | 693,850 | $ 15.47 | 3.9 | $ 45,500 |

The following table presents information related to stock warrants at June 30, 2015:

| Warrants Outstanding | | Warrants Exercisable | |
|---|---|---|---|
| | Outstanding | Weighted Average | Exercisable |

| Exercise Price | Number of Warrants | Remaining Life In Years | Number of Warrants |
|---|---|---|---|
| $6.00 | 32,500 | 3.9 | 32,500 |
| 7.60 | 25,000 | 4.8 | 25,000 |
| 8.00 | 12,500 | 4.5 | 12,500 |
| 10.00 | 56,554 | 4.6 | 56,554 |
| 10.60 | 19,000 | 2.9 | 19,000 |
| 11.60 | 2,500 | 4.3 | 2,500 |
| 12.00 | 5,000 | 4.8 | 5,000 |
| 15.00 | 454,638 | 4.0 | 454,638 |
| 18.80 | 2,500 | 4.3 | 2,500 |
| 20.00 | 27,500 | 3.9 | 27,500 |
| 30.00 | 43,140 | 2.0 | 43,140 |
| 35.00 | 1,000 | 1.8 | 1,000 |
| 40.00 | 6,176 | 3.4 | 6,176 |
| 50.00 | 1,000 | 2.1 | 1,000 |
| 60.00 | 1,842 | 2.8 | 1,842 |
| 80.00 | 3,000 | 2.3 | 3,000 |
| Variable [1] | 35,000 | - | - |
| | 728,850 | 3.9 | 693,850 |

[1] Warrants to purchase 35,000 shares of common stock have an exercise price which is the greater of $30.00 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 six months ended June 30, 2015.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 7 – Stockholders' Deficiency – Continued**

Stock Options

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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Risk free interest rate | 1.49 % | 1.64% - 2.54 % | 1.33% - 1.64 % | 1.50% - 2.54 % |
| Expected term (years) | 6.00 | 5.00 - 10.00 | 5.00 - 6.00 | 5.00 - 10.00 |
| Expected volatility | 121 % | 120 % | 121% - 122 % | 120% - 121 % |
| Expected dividends | 0.00 % | 0.00 % | 0.00 % | 0.00 % |

The weighted average estimated fair value of the options granted during the three and six months ended June 30, 2015 was $6.94 and $7.64 per share, respectively. The weighted average estimated fair value of the options granted during the three and six months ended June 30, 2014 was $5.00 and $4.80 per share, respectively.

See Note 6 – Commitments and Contingencies – Employment Agreements for details associated with the grant of stock options in connection with employment agreements.

On January 23, 2015, the Company granted five-year options to consultants to purchase an aggregate of 5,000 shares of common stock at an exercise price of $9.40 per share, pursuant to the Plan. The shares vest as follows: (i) 3,750 shares vest ratably over three months from the date of grant, (ii) 625 shares vest immediately and (iii) 625 shares vest on the one-year anniversary of the date of grant. The aggregate grant date value of $39,200 will be recognized proportionate to the vesting period.

The following table presents information related to stock option expense:

| | For the Three Months Ended June 30, 2015 | 2014 | For The Six Months Ended June 30, 2015 | 2014 | Unrecognized at June 30, 2015 | | Weighted Average Remaining Amortization Period (Years) |
|---|---|---|---|---|---|---|---|
| Consulting | $ 21,427 | $ 150,962 | $ 118,230 | $ 251,575 | $ 476,246 | | 2.3 |
| Research and development | 104,720 | 32,324 | 233,152 | 153,714 | 643,481 | [1] | 2.2 |
| General and administrative | 63,859 | 21,280 | 133,144 | 104,979 | 764,074 | | 2.2 |
| | $ 190,006 | $ 204,566 | $ 484,526 | $ 510,268 | $ 1,883,801 | | 2.2 |

[1] Includes $266,096 of unrecognized 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 six months ended June 30, 2015 is presented below:

| | **Number of Options** | **Weighted Average Exercise Price** | **Weighted Average Remaining Life In Years** | **Aggregate Intrinsic Value** |
|---|---|---|---|---|
| Outstanding, December 31, 2014 | 779,200 | $ 12.18 | | |
| Granted | 45,000 | 8.82 | | |
| Exercised | - | - | | |
| Forfeited | (35,000 ) | 6.34 | | |
| Outstanding, June 30, 2015 | 789,200 | $ 12.25 | 8.0 | $ 317,000 |
| Exercisable, June 30, 2015 | 365,327 | $ 17.49 | 7.2 | $ 28,500 |

The following table presents information related to stock options at June 30, 2015:

| **Options Outstanding** | | **Options Exercisable** | |
|---|---|---|---|
| | **Outstanding** | **Weighted Average Remaining** | **Exercisable** |
| **Exercise** | **Number of** | **Life** | **Number of** |
| **Price** | **Options** | | **Options** |

| | | **In Years** | |
|---|---|---|---|
| $ 5.70 | 35,000 | 9.0 | 15,000 |
| 6.40 | 25,000 | - | - |
| 6.60 | 281,250 | 4.2 | 3,750 |
| 6.80 | 12,500 | - | - |
| 7.80 | 3,000 | 4.0 | 3,000 |
| 8.00 | 15,000 | - | - |
| 9.20 | 25,000 | - | - |
| 9.40 | 5,000 | 4.6 | 4,375 |
| 10.00 | 17,250 | 4.4 | 17,250 |
| 10.60 | 2,000 | 8.7 | 2,000 |
| 12.00 | 49,000 | 8.3 | 49,000 |
| 13.00 | 133,750 | 8.3 | 92,502 |
| 20.00 | 6,550 | 7.5 | 6,550 |
| 21.00 | 113,500 | 6.6 | 113,500 |
| 22.00 | 250 | 2.0 | 250 |
| 24.00 | 500 | 0.9 | 500 |
| 25.00 | 2,150 | 1.4 | 2,150 |
| 28.00 | 17,500 | 4.1 | 10,500 |
| 30.00 | 45,000 | 7.4 | 45,000 |
| | 789,200 | 7.2 | 365,327 |

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 7 – Stockholders' Deficiency – Continued**

Compensatory Common Stock Issuances

During the six months ended June 30, 2015, the Company issued an aggregate of 19,198 shares of common stock valued at $99,147 to consultants pursuant to consulting agreements for services rendered during the period.

During the six months ended June 30, 2015, the Company issued 943 shares of common stock valued at $8,481 in satisfaction of previously accrued professional services.

The following table presents information related to compensatory common stock expense:

| | **For the Three Months Ended June 30,** | | **For The Six Months Ended June 30,** | | **Unrecognized at June 30,** |
|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** |
| Consulting | $ 22,500 | $ 224,500 | $ 90,300 | $ 234,500 | $ - |
| Research and development | - | 1,827 | 8,847 | 5,898 | - |
| | $ 22,500 | $ 226,327 | $ 99,147 | $ 240,398 | $ - |

Note 8 - Subsequent Events

Stock-based Compensation

Subsequent to June 30, 2015, the Company issued an aggregate of 6,500 shares of immediately vested common stock to a consultant and the Company’s legal counsel.

Subsequent to June 30, 2015, the Company granted ten-year options to employees and advisors to purchase an aggregate of 19,750 shares of common stock at an exercise price of $8.75 per share, pursuant to the Plan. The shares vest as follows: (i) 12,250 shares vest ratably over three years on the grant date anniversaries and (ii) 7,500 shares vest pursuant to the satisfaction of certain performance conditions.

Common Stock and Warrant Offerings

Subsequent to June 30, 2015, the Company issued an aggregate of 26,430 shares of common stock at prices ranging from $6.00 to $7.00 per share to investors for gross proceeds of $180,000. In connection with the purchases, the Company issued five-year warrants to purchase an aggregate of 22,680 shares of common stock at exercise prices ranging from $10.00 to $15.00 per share of common stock. In connection with these issuances previously outstanding warrants to purchase an aggregate of 24,500 shares of common stock had their exercise prices reduced to $10.00 per share from exercise prices ranging from $11.60 to $50.00 per share.

Short Term Advances

Subsequent to June 30, 2015, the Company received an aggregate of $55,000 in non-interest bearing advances from a director of the Company and an officer of the Company.

**BIORESTORATIVE THERAPIES, INC. & SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**Note 8 – Subsequent Events – Continued**

Notes Payable

On July 7, 2015, pursuant to the provisions of a convertible note with a principal balance of $30,000, the Company elected to convert $30,000 of principal, together with accrued interest of $1,736, into 6,490 shares of common stock at a conversion price of $4.89 per share.

On July 9, 2015, the Company issued a convertible note in the principal amount of $100,000 which bears interest at a rate of 10% per annum payable on maturity. The convertible note is payable as follows: (i) $25,000 of the principal and the respective accrued interest on such principal is payable six months from the issuance date (the "July Note First Maturity Date"), (ii) $25,000 of principal and the respective accrued interest on such principal is payable two weeks following the July Note First Maturity Date, (iii) $25,000 of principal and the respective accrued interest on such principal is payable four weeks following the July Note First Maturity Date and (iv) $25,000 of principal and the respective accrued interest on such principal is payable six weeks following the July Note First Maturity Date. Each $25,000 of principal and the respective accrued interest on such principal is convertible into shares of the Company's common stock at the election of the Company during the period beginning five days prior to each maturity date and ending on the day immediately prior to each maturity date at a conversion price equal to the greater of (a) 62% of the fair value of the Company's stock or (b) $3.00 per share. In the event that the Company elects to effect a conversion, then, during the five day period following the conversion, the holder shall have the right to convert the then outstanding principal amount of the convertible note, together with accrued and unpaid interest thereon, into shares of the Company's common stock at a conversion price equal to the conversion price in the Company-effected conversion. In connection with the financing, a five-year warrant to purchase 3,300 shares of common stock at an exercise price of $10.00 per share was issued to the lender.

On July 27, 2015, the Company issued a six-month convertible note in the principal amount of $50,000 which bears interest at a rate of 10% per annum payable on maturity. This note and the accrued interest is convertible into shares of the Company's common stock at the election of the Company during the period beginning five days prior to the maturity date and ending on the day immediately prior to the maturity date at a conversion price equal to 65% of the fair market value of the Company's stock or $3.00 per share, whichever is greater. In connection with the financing, a five-year warrant to purchase 1,500 shares of common stock at an exercise price of $10.00 per share was issued to the lender.

On August 13, 2015, the Company issued a convertible note in the principal amount of $60,000 for cash consideration of $50,000 which bears interest at a rate of 1% per annum payable on maturity. The convertible note is payable as follows: (i) $20,000 of the principal and the respective accrued interest on such principal is payable six months from the issuance date (the "August Note First Maturity Date"), (ii) $20,000 of principal and the respective accrued interest on such principal is payable two weeks following the August Note First Maturity Date, and (iii) $20,000 of principal and the respective accrued interest on such principal is payable one month following the August Note First Maturity Date. Each $20,000 of principal and the respective accrued interest on such principal is convertible into shares of the Company's common stock at the election of the Company during the period beginning five days prior to each maturity date and ending on the day immediately prior to each maturity date at a conversion price equal to the greater of (a) 62% of the fair value of the Company's stock or (b) $3.00 per share. In the event that the Company elects to effect a conversion, then, during the five day period following the conversion, the holder shall have the right to convert the then outstanding principal amount of the convertible note, together with accrued and unpaid interest thereon, into shares of the Company's common stock at a conversion price equal to the conversion price in the Company-effected conversion.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of the results of operations and financial condition of BioRestorative Therapies, Inc. (together with its subsidiaries, "BRT") for the three and six months ended June 30, 2015 and 2014 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Quarterly Report on Form 10-Q. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "us," "we," "our," and similar terms refer to BRT. This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions, are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors That May Affect Results and Financial Condition") of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission (the "SEC") on March 31, 2015.*

*Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.*

**Overview**

We develop therapeutic products and medical therapies using cell and tissue protocols, primarily involving adult (non-embryonic) stem cells. We are currently pursuing our Disc/Spine Program with our initial therapeutic product being called brtxDISC™ (Disc Implanted Stem Cells). We have obtained a license to use technology for adult stem cell treatment of disc and spine conditions, including protruding and bulging lumbar discs. The technology is an advanced stem cell injection procedure that may offer relief from lower back pain, buttock and leg pain, and numbness and tingling in the legs and feet. We are also developing our ThermoStem® Program. This pre-clinical program involves the use of brown fat in connection with the cell-based treatment of type 2 diabetes and obesity as well as hypertension, other metabolic disorders and cardiac deficiencies.

We are also developing a curved needle device ("CND") that is a needle system to allow access to difficult to locate regions for the delivery or removal of fluids and other substances.

We also offer stem cell derived cosmetic and skin care products.

We have relocated our offices to Melville, New York where we have established a new laboratory facility in order to increase our capabilities for the further development of possible cellular-based treatments, products and protocols, stem cell-related intellectual property and translational research applications.

As of June 30, 2015, our accumulated deficit was $28,580,445, our stockholders’ deficiency was $2,880,523 and our working capital deficiency was $4,673,421. While we have recently begun to generate a modest amount of revenue, our losses have principally been operating expenses incurred in research and development, marketing and promotional activities in order to commercialize our products and services, plus costs associated with meeting the requirements of being a public company. We expect to continue to incur substantial costs for these activities over at least the next year.

Based upon our working capital deficiency as of June 30, 2015 and our forecast for continued operating losses, we require equity and/or debt financing to continue our operations. As of June 30, 2015, our outstanding debt of $1,226,685, together with interest at stated rates ranging between 10% and 15% per annum, was due on various dates through February 2016. Subsequent to June 30, 2015, we have received aggregate equity and debt financing of $180,000 and $200,000, respectively, and $30,000 and $1,736 of debt and accrued interest, respectively, has been exchanged for common stock. Giving effect to the above actions, we currently have notes payable aggregating $275,000 which are past due. Based upon our working capital deficiency and outstanding debt, we expect to be able to fund our operations through September 2015. We are currently in the process of negotiating extensions or discussing conversions to equity with respect to these notes. We are currently considering several different financing alternatives to support our operations thereafter. If we are unable to obtain such additional financing on a timely basis and, notwithstanding any request we may make, our debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, we may have to curtail our development, marketing and promotional activities, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately we could be forced to discontinue our operations and liquidate. See “Liquidity and Capital Resources” below.

**Recent Developments**

**Board of Directors**

On April 6, 2015, our Board of Directors elected a new director to replace a director who had previously resigned. Concurrent with the election, we granted to such new director a ten-year option to purchase 15,000 shares of common stock at an exercise price of $8.00 per share, pursuant to the Plan. The shares vest ratably over three years on the grant date anniversaries.

**Consolidated Results of Operations**

**Three Months Ended June 30, 2015 Compared With Three Months Ended June 30, 2014**

The following table presents selected items in our unaudited condensed consolidated statements of operations for the three months ended June 30, 2015 and 2014, respectively:

| | For The Three Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Revenues** | $148,764 | $175,941 |
| Cost of sales | 74,645 | 42,366 |
| Gross Profit | 74,119 | 133,575 |
| **Operating Expenses** | | |
| Marketing and promotion | 49,091 | 15,535 |
| Consulting | 138,991 | 557,565 |
| Research and development | 452,488 | 293,330 |
| General and administrative | 696,353 | 548,632 |
| Total Operating Expenses | 1,336,923 | 1,415,062 |
| Loss From Operations | (1,262,804) | (1,281,487) |
| **Other (Expense) Income** | | |
| Interest expense | (60,096) | (72,390) |
| Amortization of debt discount | (71,369) | (145,930) |
| Loss on extinguishment of notes payable, net | (26,029) | - |
| Gain on settlement of payables | - | 166,668 |
| Total Other Expense | (157,494) | (51,652) |
| **Net Loss** | $(1,420,298) | $(1,333,139) |

***Revenues***

For the three months ended June 30, 2015, we generated $148,764 of aggregate revenues, consisting of $146,764 of revenues through the services provided pursuant to our research and development agreements and $2,000 of royalty revenue in connection with our sublicense agreement. For the three months ended June 30, 2014, we generated $175,025 of revenues through the services provided pursuant to our research and development agreements and $916 of sales of Stem Pearls® skincare products.

***Cost of sales***

For the three months ended June 30, 2015, cost of sales was $74,645 as compared to $42,366 for the comparable 2014 period, primarily due to increased research and development activities related to our research and development agreements. For the three months ended June 30, 2015, cost of sales consisted solely of costs related to our research and development agreements. For the three months ended June 30, 2014, cost of sales consisted primarily of costs related to our research and development agreements.

For the three months ended June 30, 2015, gross profit was $74,119 (50% of revenues) as compared to $133,575 (76% of revenues) for the comparable 2014 period, primarily due to increased research and development costs related to our research and development agreements. The Company incurred additional costs in the current period relating to its research agreements as a result of the increased usage of a third-party lab.

***Marketing and promotion***

Marketing and promotion expenses include advertising and promotion, marketing and seminars, meals, and entertainment and travel expenses. For the three months ended June 30, 2015, marketing and promotion expenses increased by $33,556, or 216%, to $49,091 from $15,535 in the comparable 2014 period. The increase is primarily due to increased travel expenses of approximately $9,000 and increased hotel expenses of approximately $8,000.

We expect that marketing and promotion expenses will increase in the future as we increase our marketing activities following full commercialization of our products and services.

***Consulting***

Consulting expenses consist of consulting fees and stock-based compensation to consultants. For the three months ended June 30, 2015, consulting expenses decreased $418,574, or 75%, to $138,991 from $557,565 in the comparable 2014 period. The decrease is primarily due to an approximate $445,000 decrease in non-cash stock-based compensation to directors, consultants and advisors, partially offset by an increase of approximately $34,000 in cash compensation to consultants.

***Research and development***

Research and development expenses include cash and non-cash compensation of our Chief Executive Officer (in part) along with employee, consultant and other costs related to our brown fat and disc/spine initiatives. Research and development expenses are expensed as they are incurred. For the three months ended June 30, 2015, research and development expenses increased by $159,158, or 54%, to $452,488 from $293,330 in the comparable 2014 period. The increase is primarily attributable to an increase in payroll of approximately $111,000 due to hiring of new staff, an increase in stock-based compensation to directors, consultants and advisors in the amount of approximately $70,000, the costs incurred related to operating our Melville laboratory of approximately $68,000, all partially offset by a decrease in cash compensation to consultants of approximately $62,000 and a decrease in compensation to our Chief Executive Officer of approximately $26,000.

We expect that our research and development expenses will increase with the continuation of the aforementioned initiatives.

***General and administrative***

General and administrative expenses consist primarily of salaries, bonuses, payroll taxes, severance costs and stock-based compensation to employees (excluding any cash or non-cash compensation of our Chief Executive Officer or employees attributable to research and development) as well as corporate support expenses such as legal and professional fees, investor relations and occupancy related expenses. For the three months ended June 30, 2015, general and administrative expenses increased by $147,721, or 27%, to $696,353 from $548,632 in the comparable 2014 period. The increase is primarily due to increased professional fees of approximately $76,000 primarily due to additional accounting costs associated with the relocation to our Melville location, an increase in stock-based compensation to employees in the amount of approximately $42,000 due to awards granted during the second half of 2014, and increased salary and payroll expenses associated with hiring additional personnel of approximately $26,000.

We expect that our general and administrative expenses will increase as we expand our staff, develop our infrastructure and incur additional costs to support the growth of our business.

***Interest expense***

For the three months ended June 30, 2015, interest expense decreased $12,294, or 17%, to $60,096 from $72,390 in the comparable 2014 period. The decrease was due to a lower average debt balance as compared to the second quarter of 2014.

***Amortization of debt discount***

For the three months ended June 30, 2015, amortization of debt discount decreased by $74,561, or 51%, to $71,369 from $145,930 in the comparable 2014 period. The decrease was primarily due to the decrease to note issuances and timing.

***Loss on extinguishment of notes payable, net***

For the three months ended June 30, 2015, we recorded a loss on extinguishment of notes payable, net of $26,029, which is associated with investors' exchange of debt into equity securities. For the three months ended June 30, 2014, there was no loss on extinguishment of notes payable, net.

***Gain on settlement of payables***

For the three months ended June 30, 2015, we recognized a gain on settlement of payables of $0. For the three months ended June 30, 2014, we recorded a $166,668 gain on the settlement amendment of our University of Utah Research Agreement regarding our brown fat and disc/spine initiatives, whereby a portion of the fees payable to the University of Utah were cancelled.

**Six Months Ended June 30, 2015 Compared With Six Months Ended June 30, 2014**

The following table presents selected items in our unaudited condensed consolidated statements of operations for the six months ended June 30, 2015 and 2014, respectively:

| | **For The Six Months Ended June 30,** | |
|---|---|---|
| | **2015** | **2014** |
| **Revenues** | $333,666 | $176,316 |
| Cost of sales | 151,077 | 42,426 |
| Gross Profit | 182,589 | 133,890 |
| **Operating Expenses** | | |
| Marketing and promotion | 94,028 | 47,329 |
| Consulting | 504,060 | 824,763 |
| Research and development | 859,344 | 787,071 |
| General and administrative | 1,613,927 | 1,184,632 |

| | | |
|---|---|---|
| Total Operating Expenses | 3,071,359 | 2,843,795 |
| Loss From Operations | (2,888,770) | (2,709,905) |
| **Other (Expense) Income** | | |
| Interest expense | (124,736) | (145,521) |
| Amortization of debt discount | (140,884) | (244,435) |
| Loss on extinguishment of notes payable, net | (26,029) | (49,094) |
| Warrant modification expense | - | (30,128) |
| Gain on settlement of payables | - | 176,268 |
| Total Other Expense | (291,649) | (292,910) |
| **Net Loss** | $(3,180,419) | $(3,002,815) |

***Revenues***

For the six months ended June 30, 2015, we generated $327,466 of revenues through the services provided pursuant to our research and development agreements, $6,000 from royalty revenue and $200 from sales of Stem Pearls® skincare products. For the six months ended June 30, 2014, we generated $175,025 of revenues through the services provided pursuant to our research and development agreements and $1,291 of sales of Stem Pearls® skincare products.

***Cost of sales***

For the six months ended June 30, 2015, cost of sales was $151,077 as compared to $42,426 for the comparable 2014 period. For the six months ended June 30, 2015, cost of sales consisted almost entirely of costs related to our research and development agreements. For the six months ended June 30, 2014, cost of sales consisted primarily of costs related to our research and development agreements.

For the six months ended June 30, 2015, gross profit was $182,589 (55% of revenues) as compared to $133,890 (76% of revenues) for the comparable 2014 period, primarily due to increased research and development costs related to our research and development agreements. The Company incurred additional costs in the current period relating to its research agreements as a result of the increased usage of a third-party lab.

***Marketing and promotion***

Marketing and promotion expenses include advertising and promotion, marketing and seminars, meals, and entertainment and travel expenses. For the six months ended June 30, 2015, marketing and promotion expenses increased by $46,699, or 99%, to $94,028 from $47,329 in the comparable 2014 period. The increase is primarily due to increased travel expenses of approximately $14,000 and increased hotel expenses of approximately $12,000.

We expect that marketing and promotion expenses will increase in the future as we increase our marketing activities following full commercialization of our products and services.

***Consulting***

Consulting expenses consist of consulting fees and stock-based compensation to consultants. For the six months ended June 30, 2015, consulting expenses decreased $320,703, or 39%, to $504,060 from $824,763 in the comparable 2014 period. The decrease is primarily due to an approximate $445,000 decrease in non-cash stock-based compensation to directors, consultants and advisors, partially offset by an increase cash compensation to consultants of approximately $124,000.

***Research and development***

Research and development expenses include cash and non-cash compensation of our Chief Executive Officer (in part) along with employee, consultant and other costs related to our brown fat and disc/spine initiatives. Research and development expenses are expensed as they are incurred. For the six months ended June 30, 2015, research and development expenses increased by $72,273, or 9%, to $859,344 from $787,071 in the comparable 2014 period. The increase is primarily attributable to an increase in payroll of approximately $165,000 due to hiring of new staff, the costs incurred related to operating our Melville laboratory of approximately $88,000, an increase in stock-based compensation to directors, consultants and advisors in the amount of approximately $82,000, all partially offset by a decrease in cash compensation to consultants of approximately $118,000, the amendment of our University of Utah Research Agreement resulting in a reduction of expense related to our brown fat and disc/spine initiatives as compared to the prior period of approximately $90,000 and the reduction of our Chief Executive Officer’s salary which resulted in approximately $53,000 less expense.

We expect that our research and development expenses will increase with the continuation of the aforementioned initiatives.

***General and administrative***

General and administrative expenses consist primarily of salaries, bonuses, payroll taxes, severance costs and stock-based compensation to employees (excluding any cash or non-cash compensation of our Chief Executive Officer or employees attributable to research and development) as well as corporate support expenses such as legal and professional fees, investor relations and occupancy related expenses. For the six months ended June 30, 2015, general and administrative expenses increased by $429,295, or 36%, to $1,613,927 from $1,184,632 in the comparable 2014 period. The increase is primarily due to increased professional fees of approximately $314,000 primarily due to a legal settlement, an increase in salary and payroll expenses associated with hiring additional personnel of approximately $63,000, an increase in expenses related to furnishing and operating our Melville offices of approximately $37,000 and an increase in stock-based compensation to employees in the amount of approximately $28,000 due to awards granted during the second half of 2014.

We expect that our general and administrative expenses will increase as we expand our staff, develop our infrastructure and incur additional costs to support the growth of our business.

***Interest expense***

For the six months ended June 30, 2015, interest expense decreased $20,785, or 14%, to $124,736 from $145,521 in the comparable 2014 period. The decrease was due to a lower average debt balance as compared to the comparable 2014 period.

***Amortization of debt discount***

For the six months ended June 30, 2015, amortization of debt discount decreased by $103,551, or 42%, to $140,884 from $244,435 in the comparable 2014 period. The decrease was primarily due to the decrease in note issuances and timing.

***Loss on extinguishment of notes payable, net***

For the six months ended June 30, 2015, we recorded a loss on extinguishment of notes payable of $26,029, as compared to a net loss on extinguishment of notes payable of $49,094 for the comparable 2014 period, which is associated with investors’ exchange of debt into equity securities

***Warrant modification expense***

For the six months ended June 30, 2015, we recorded warrant modification expense of $0. For the six months ended June 30, 2014, we recorded expense of $30,128 related to the modification of outstanding investor warrants.

***Gain on settlement of payables***

For the six months ended June 30, 2015, we recognized a gain on settlement of payables of $0. For the six months ended June 30, 2014, we recorded a $176,268 gain primarily related to the settlement amendment of our University of Utah Research Agreement regarding our brown fat and disc/spine initiatives whereby a portion of the fees payable to the University of Utah were cancelled.

**Liquidity and Capital Resources**

**Liquidity**

We measure our liquidity in a number of ways, including the following:

| | **June 30, 2015 (unaudited)** | **December 31, 2014** |
|---|---|---|
| Cash | $6,445 | $ 91,798 |
| Working Capital Deficiency | $(4,673,421) | $ (8,410,686) |
| Notes Payable (Gross - Current) | $1,196,685 | $ 5,851,496 |

**Availability of Additional Funds**

Based upon our working capital deficiency and stockholders' deficiency of $4,673,421 and $2,880,523, respectively, as of June 30, 2015, we require additional equity and/or debt financing to continue our operations. These conditions raise substantial doubt about our ability to continue as a going concern.

As of June 30, 2015, our outstanding debt of $1,226,685, together with interest at stated rates ranging between 10% and 15% per annum, was due on various dates through February 2016. Subsequent to June 30, 2015, we have received aggregate equity and debt financing of $180,000 and $200,000, respectively, and $30,000 and $1,736 of debt and accrued interest, respectively, has been exchanged for common stock. Giving effect to the above actions, we currently have notes payable aggregating $275,000 which are past due. As of the date of filing, our outstanding debt was as follows:

| Maturity Date | Principal Amount |
|---|---|
| Past Due | $275,000 |
| QE 12/31/15 | 921,685 |
| QE 3/31/16 | 210,000 |
| | $1,406,685 |

While we are actively pursuing a meaningful capital raise, there were no closings thereon prior to the submission of this filing. Based upon our working capital deficiency, outstanding debt and forecast for continued operating losses we expect that the cash we currently have available will fund our operations through September 2015. Thereafter, we will need to raise further capital, through the sale of additional equity or debt securities, to support our future operations and to repay our debt (unless, if requested, the debt holders agree to convert their notes into equity or extend the maturity dates of their notes). Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

We may be unable to raise sufficient additional capital when we need it or raise capital on favorable terms. Debt financing may require us to pledge certain assets and enter into covenants that could restrict certain business activities or our ability to incur further indebtedness, and may contain other terms that are not favorable to our stockholders or us. If we are unable to obtain adequate funds on reasonable terms, we may be required to significantly curtail or discontinue operations or obtain funds by entering into financing agreements on unattractive terms.

Our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation 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 financial statements do not include any adjustment that might result from the outcome of this uncertainty.

During the six months ended June 30, 2015 and 2014, our sources and uses of cash were as follows:

**Net Cash Used in Operating Activities**

We experienced negative cash flow from operating activities for the six months ended June 30, 2015 and 2014 in the amounts of $1,484,389 and $1,759,925, respectively. The net cash used in operating activities for the six months ended June 30, 2015 was primarily due to cash used to fund a net loss of $3,180,419, adjusted for net non-cash expenses in the aggregate amount of $856,050 partially offset by $839,980 of net cash provided by changes in the levels of operating assets and liabilities, primarily as a result of increases in accrued interest, expenses and other current liabilities and deferred revenues. The net cash used in operating activities for the six months ended June 30, 2014 was primarily due to cash used to fund a net loss of $3,002,815, adjusted for non-cash expenses in the aggregate amount of $1,116,329 partially offset by $126,561 of net cash provided primarily as a result of increases in accounts payable plus accrued expenses and other current liabilities, due to cash constraints during the period.

**Net Cash (Used in) Provided by Investing Activities**

During the six months ended June 30, 2015, $151,914 of cash was used to purchase fixed assets and $75,000 was used to retain exclusivity of our disc/spine license. During the six months ended June 30, 2014, $980 was provided by investing activities from the sale of fixed assets.

**Net Cash Provided by Financing Activities**

Net cash provided by financing activities during the six months ended June 30, 2015 and 2014 was $1,625,950 and $1,617,010, respectively. During the six months ended June 30, 2015, $583,000 of net proceeds were from debt financings and $1,051,000 of proceeds were from equity financings. During the six months ended June 30, 2014, $592,010 of proceeds were from debt financings and $1,025,000 of proceeds were from equity financings (including proceeds received in connection with the exercise of common stock purchase warrants).

**Critical Accounting Policies and Estimates**

There are no material changes from the critical accounting policies set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 31, 2015. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

**Off-Balance Sheet Arrangements**

None.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4: Controls and Procedures

**Disclosure Controls and Procedures**

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Principal Executive and Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our condensed consolidated financial statements in conformity with United States generally accepted accounting principles.

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, management, with the participation of our Principal Executive and Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Principal Executive and Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

**Changes in Internal Controls**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f)) during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations of the Effectiveness of Control**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations of any control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

Not applicable. See, however, Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results and Financial Condition") of our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended June 30, 2015, we issued the following securities in transactions not involving any public offering. For each of the following transactions, we relied upon Section 4(a)(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving any public offering. For each such transaction, we did not use general solicitation or advertising to market the securities, the securities were offered to a limited number of persons, the investors had access to information regarding us (including information contained in our Annual Report on Form 10-K for the year ended December 31, 2014, in some cases our Quarterly Report on Form 10-Q for the period ended March 31, 2015, and Current Reports on Form 8-K filed with the Securities and Exchange Commission and press releases made by us), and we were available to answer questions from prospective investors. We reasonably believe that each of the investors is an accredited investor. The proceeds were used to reduce our working capital deficit.

| | | **Warrants** | | | | | |
|---|---|---|---|---|---|---|---|
| **Date Issued** | **Common Stock** | **Shares** | **Exercise Price** | **Term (Years)** | **Purchaser(s)** | **Consideration (1)** | |
| 4/7/15 | 25,000 | 6,250 | $ 15.00 | 5 | (2) | $ 150,000 | |
| 4/23/15 - 6/23/15 | 4,500 | - | - | - | (3) | $ 19,800 | (4) |
| 4/29/15 | 4,230 | - | - | - | (3) | $ 33,000 | (5) |
| 5/8/15 | 10,000 | 2,500 | $ 15.00 | 5 | (2) | $ 50,000 | |
| 5/11/15 | 5,903 | - | - | - | (2) | $ 26,205 | (6) |
| 5/14/15 - 5/27/15 | 849,760 | 212,438 | $ 15.00 | 5 | (2) | $ 5,098,543 | (7) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5/21/15 | 5,098 | - | - | - | (2) | $ 26,301 | (6) |
| 6/4/15 | 3,600 | - | - | - | (2) | $ 17,494 | (7) |
| 6/8/15 | 5,243 | - | - | - | (2) | $ 26,425 | (6) |
| 6/11/15 - 6/27/15 | 7,512 | - | - | - | (2) | $ 35,150 | (6) |
| 6/24/15 | 10,000 | 5,000 | $ 10.00 | 5 | (2) | $ 50,000 | |

(1) The value of the non-cash consideration was estimated to be the fair value of our restricted common stock. Since our shares are thinly traded in the open market, the fair value of our equity instruments was estimated by management based on observations of the cash sales prices of both restricted shares and freely tradable shares.

(2) Accredited investor.

(3) Consultant.

(4) Issued in consideration of consulting services.

(5) Issued in consideration of legal settlement agreement.

(6) Issued in connection with the conversion of convertible notes payable.

(7) Issued in connection with the exchange of convertible notes payable.

Item 3. Defaults Upon Senior Securities.

See "Liquidity and Capital Resources" within "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

**Item 6. Exhibits.**

| **Exhibit** | **Description** |
|---|---|
| 3.1 | Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 included with our Current Report on Form 8-K for an event dated July 7, 2015 filed with the Securities and Exchange Commission) |
| 31.1 | Chief Executive Officer Certification * |
| 31.2 | Chief Financial Officer Certification * |
| 32 | Section 1350 Certification ** |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Schema Document * |
| 101.CAL | XBRL Calculation Linkbase Document * |
| 101.DEF | XBRL Definition Linkbase Document * |
| 101.LAB | XBRL Label Linkbase Document * |
| 101.PRE | XBRL Presentation Linkbase Document * |

| | |
|---|---|
| * | Filed herewith |
| ** | Furnished herewith |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 14, 2015 **BIORESTORATIVE THERAPIES, INC.**

By: /s/ Mark Weinreb
Mark Weinreb
Chief Executive Officer
(Principal Executive and Financial Officer)