
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: **001-33718**

U.S. STEM CELL, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

65-0945967

(I.R.S. Employer Identification No.)

13794 NW 4th Street, Suite 212, Sunrise, Florida 33325

(Address of principal executive offices) (Zip Code)

(954) 835-1500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-Accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 7, 2018, there were 374,576,977 outstanding shares of the Registrant's common stock, par value \$0.001 per share.

Transitional Small Business Disclosure Format Yes No

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1.	Financial Statements	3
	Condensed balance sheets as of September 30, 2018 (unaudited) and December 31, 2017	4
	Condensed statements of operations for the three and nine months ended September 30, 2018 and 2017 (unaudited)	5
	Condensed statement of stockholders' deficit for the nine months ended September 30, 2018 (unaudited)	6
	Condensed statements of cash flows for the nine months ended September 30, 2018 and 2017 (unaudited)	7
	Notes to condensed financial statements (unaudited)	8-27
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28-37
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	37
ITEM 4.	Controls and Procedures	38

PART II. OTHER INFORMATION

ITEM 1.	Legal Proceedings	39
ITEM 1A.	Risk Factors	39
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
ITEM 3.	Defaults Upon Senior Securities	39
ITEM 4.	Mine Safety Disclosures	39
ITEM 5.	Other Information	39
ITEM 6.	Exhibits	40

	SIGNATURES	43
--	----------------------------	----

EX 31.01	Management Certification	
EX 32.01	Sarbanes-Oxley Act	

PART I—FINANCIAL INFORMATION

Item 1.

Interim Condensed Financial Statements and Notes to Interim Financial Statements

General

The accompanying reviewed condensed interim financial unaudited statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that can be expected for the year ending December 31, 2018.

U.S. STEM CELL, INC.
CONDENSED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	<i>(unaudited)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,448,153	\$ 986,799
Accounts receivable, net	32,542	42,959
Inventory	72,648	70,364
Prepaid and other	38,128	3,128
Total current assets	1,591,471	1,103,250
Property and equipment, net	294,267	449,747
Other assets		
Investments	170,798	34,926
Deposits	10,160	10,160
Total assets	\$ 2,066,696	\$ 1,598,083
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, including \$130,461 and \$201,973 to related parties, respectively	\$ 1,259,638	\$ 1,378,124
Accrued expenses	1,171,123	929,119
Advances, related party	204,901	104,901
Deferred revenue	430,330	211,042
Deferred gain on sale of equipment	128,845	128,845
Deposits	465,286	465,286
Notes payable, related party	2,158,555	1,901,526
Notes and capital leases payable, net of debt discount of \$58,202 and \$61,729, respectively	392,470	1,344,594
Total current liabilities	6,211,148	6,463,437
Long term debt:		
Deferred revenue	66,250	68,500
Deferred gain on sale of equipment	53,686	150,320
Long term deposits	100,000	100,000
Promissory note, long term portion, net of debt discount of \$116,799 and \$169,072, respectively	1,280,963	1,228,690
Notes and capital lease payable, long term portion, net of debt discount of \$16,418 and \$33,138, respectively	1,393,588	687,453
Total long term debt	2,894,487	2,234,963
Total liabilities	9,105,635	8,698,400
Commitments and contingencies	-	-
Stockholders' deficit:		
Preferred stock, par value \$0.001; 20,000,000 shares authorized, -0- issued and outstanding as of September 30, 2018 and December 31, 2017	-	-
Common stock, par value \$0.001; 2,000,000,000 shares authorized, 368,318,188 and 342,113,098 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	368,318	342,113
Additional paid in capital	121,935,624	120,185,821
Accumulated deficit	(129,342,881)	(127,628,251)
Total stockholders' deficit	(7,038,939)	(7,100,317)
Total liabilities and stockholders' deficit	\$ 2,066,696	\$ 1,598,083

See the accompanying notes to these unaudited condensed financial statements

U.S. STEM CELL, INC.
CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue:				
Products	\$ 276,281	\$ 527,015	\$ 1,414,571	\$ 1,523,004
Services	1,227,603	979,503	3,622,671	2,524,411
Total revenue	<u>1,503,884</u>	<u>1,506,518</u>	<u>5,037,242</u>	<u>4,047,415</u>
Cost of sales	<u>544,398</u>	<u>534,584</u>	<u>1,615,431</u>	<u>1,348,647</u>
Gross profit	959,486	971,934	3,421,811	2,698,768
Cost and operating expenses:				
Research and development	599	3,753	4,527	12,242
Marketing, general and administrative	1,177,638	2,023,986	4,468,121	3,638,705
Depreciation and amortization	-	1,230	524	4,463
Total operating expenses	<u>1,178,237</u>	<u>2,028,969</u>	<u>4,473,172</u>	<u>3,655,410</u>
Loss from operations	(218,751)	(1,057,035)	(1,051,361)	(956,642)
Other income (expenses):				
Gain (loss) on settlement of debt	80,200	245,662	45,013	(137,198)
Gain on sale of equipment	32,211	32,212	96,634	75,160
Loss on change of fair value of derivative liability	-	-	-	(1,891,205)
Income from equity investment	160,216	39,400	263,322	178,409
Loss on litigation settlement	-	-	-	(316,800)
Interest expense	(384,813)	(191,933)	(1,068,238)	(780,092)
Total other income (expenses)	<u>(112,186)</u>	<u>125,341</u>	<u>(663,269)</u>	<u>(2,871,726)</u>
Net loss before income taxes	(330,937)	(931,694)	(1,714,630)	(3,828,368)
Income taxes (benefit)	-	-	-	-
NET LOSS	<u>\$ (330,938)</u>	<u>\$ (931,694)</u>	<u>\$ (1,714,630)</u>	<u>\$ (3,828,368)</u>
Net loss per common share, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>368,188,089</u>	<u>337,417,859</u>	<u>362,461,973</u>	<u>298,041,880</u>

See the accompanying notes to these unaudited condensed financial statements

U.S. STEM CELL, INC.
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT
NINE MONTHS ENDED SEPTEMBER 30, 2018

	Common stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2017	342,113,098	\$ 342,113	\$ 120,185,821	\$ (127,628,251)	\$ (7,100,317)
Common stock issued in settlement of accounts payable	8,988,508	8,988	397,111	-	406,099
Common stock issued for services	7,866,274	7,866	391,665	-	399,531
Fair value of warrants issued for compensation	-	-	24,986	-	24,986
Proceeds from issuance of common stock	9,350,508	9,351	358,349	-	367,700
Related party contribution to equity investment	-	-	189,909	-	189,909
Stock based compensation	-	-	387,783	-	387,783
Net loss	-	-	-	(1,714,630)	(1,714,630)
Balance, September 30, 2018 (unaudited)	<u>368,318,388</u>	<u>\$ 368,318</u>	<u>\$ 121,935,624</u>	<u>\$ (129,342,881)</u>	<u>\$ (7,038,939)</u>

See the accompanying notes to these unaudited condensed financial statements

U.S. STEM CELL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,714,630)	\$ (3,828,368)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	155,480	124,984
Bad debt (recoveries)	32,546	(1,327)
Amortization of discount on debt	164,312	341,306
Change in fair value of derivative liability	-	1,891,205
(Gain) loss on settlement of debt	(45,013)	137,198
Gain on sale of equipment	(96,634)	(75,160)
Common stock issued in settlement of litigation	-	316,800
Income on equity investments	(263,322)	(178,409)
Related party notes payable issued for services rendered	800,000	800,000
Stock based compensation	812,300	562,928
Changes in operating assets and liabilities:		
Receivables	(22,129)	(97,639)
Inventory	(2,284)	(16,774)
Prepaid and other current assets	(35,000)	-
Accounts payable	332,577	519,352
Accrued expenses	242,004	372,360
Deferred revenue	217,038	157,673
Net cash provided by operating activities	<u>577,245</u>	<u>1,026,129</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (payments to) equity investments	214,200	190,000
Proceeds from sale of property and equipment	-	400,000
Proceeds from long term deposits	-	100,000
Acquisition of property and equipment	-	(1,162)
Net cash provided by investing activities	<u>214,200</u>	<u>688,838</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	126,402	154,785
Proceeds from sale of common stock	367,700	250,000
Proceeds from related party advance	100,000	-
Equity contribution by related party	103,159	-
Repayments of related party notes	(542,971)	(1,083,559)
Repayments of notes payable	(484,381)	(350,298)
Net cash (used in) provided in financing activities	<u>(330,091)</u>	<u>(1,029,072)</u>
Net increase in cash and cash equivalents	<u>461,354</u>	<u>685,895</u>
Cash and cash equivalents, beginning of period	986,799	270,720
Cash and cash equivalents, end of period	<u>\$ 1,448,153</u>	<u>\$ 956,615</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 808,243	\$ 151,228
Income taxes paid	\$ -	\$ -
Non cash financing activities:		
Common stock issued in settlement of notes payable	\$ -	\$ 111,972
Common stock issued in settlement of accounts payable	\$ 406,099	\$ 692,431
Common stock issued in settlement of note, related party	\$ -	\$ 58,601
Common stock issued or issuable in settlement of litigation	\$ -	\$ 316,800
Sale and leaseback of equipment	\$ -	\$ 619,825
Reclassify derivative liability to equity	\$ -	\$ 185,505
Equity contributed to investment by related party	\$ 86,750	\$ -

See the accompanying notes to these unaudited condensed financial statements

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the presentation of the accompanying unaudited condensed financial statements follows:

General

The accompanying unaudited condensed financial statements of U.S. Stem Cell, Inc. (the “Company”) have been prepared in accordance with the rules and regulations (Regulation S-X) of the Securities and Exchange Commission (the “SEC”) and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results from operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018. The unaudited condensed financial statements should be read in conjunction with the December 31, 2017 audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K.

Basis and business presentation

U.S. Stem Cell, Inc. was incorporated under the laws of the State of Florida in August, 1999. The Company is in the cardiovascular sector of the cell technology industry delivering cell therapies and biologics that help address congestive heart failure, lower limb ischemia, chronic heart ischemia, acute myocardial infarctions and other issues. The primary business includes the development of proprietary cell therapy products as well as revenue generating physician and patient based regenerative medicine/cell therapy training services, revenues realized from an Asset Sale and Lease Agreement related to the segment of the Company business involving collecting, growing and banking cell cultures and treatment kits for humans and animals, and the operation of a cell therapy clinic. To date, the Company has not generated significant sales revenues in that they remain less than their total operating expenses, has incurred expenses, and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a research and development business enterprise.

Revenue Recognition

Effective January 1, 2018, the Company recognizes revenue in accordance with Accounting Standards Codification 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. The updated guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers.

At the time of each transaction, management assesses whether the fee associated with the transaction is fixed or determinable and whether or not collection is reasonably assured. The assessment of whether the fee is fixed or determinable is based upon the payment terms of the transaction. Collectability is assessed based on a number of factors, including past transaction history with the client and the creditworthiness of the client.

The Company’s primary sources of revenue are from the sale of test kits and equipment, training services, patient treatments, laboratory services and cell banking.

Revenues for kits and equipment sold are not recorded until kits and equipment are received by the customer. Revenues from in-person trainings are recognized when the training occurs and revenues from on demand online trainings are recognized when the customer purchases the rights to the training course. Any cash received as a deposit for trainings are recorded by the Company as a liability.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Patient treatments and laboratory services revenue are recognized when those services have been completed or satisfied.

Revenues for cell banking sales are accounted for as multiple performance obligations as described in ASC 606 and addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Because the Company sells its services separately, on more than a limited basis and at a price within a narrow range, the Company was able to allocate revenue based on stand-alone pricing. The multiple performance obligations include stem cell banking, dose retrieval and yearly storage fees. Revenues for stem cell banking and dose retrieval is recognized at the point of service and revenues for the yearly storage fees is recognized over the term of the banking contract, which is typically one year with annual renewals.

At September 30, 2018 and December 31, 2017, the Company had deferred revenues of \$496,580 and \$279,542, respectively, which includes \$69,250 and \$71,500, respectively, to the Intellectual Property Licensing Agreement.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the fair value of the Company's stock, stock-based compensation, debt discounts and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

Accounts Receivable

Trade receivables are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest. Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition.

Allowance for Doubtful Accounts

Any charges to the allowance for doubtful accounts on accounts receivable are charged to operations in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and the current status of accounts receivable. Accounts receivable are charged off against the allowance when collectability is determined to be permanently impaired. As of September 30, 2018 and December 31, 2017, allowance for doubtful accounts was \$1,147 and \$12,298, respectively.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on a first-in, first-out (FIFO) basis. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. During the periods presented, there were no inventory write-downs.

Investments

The Company follows Accounting Standards Codification subtopic 323-10, Investments-Equity Methods and Joint Ventures ("ASC 323-10) which requires the accounting for investments where the Company can exert significant influence, but not control of a joint venture or equity investment. The Company accounted for its 33 percent member interest ownerships of U.S. Stem Cell Clinic, LLC and Regenerative Wellness Clinic, LLC respectively and its 49 percent member interest ownership of U.S. Stem Cell Clinic of the Villages utilizing the equity method of accounting (See Note 3).

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 15 years. Equipment under capital leases are recorded at the estimated present value of the minimum lease payments. Equipment under capital leases are amortized over the term of the lease, which is three years.

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 and directors, 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. Stock-based compensation expense is recorded by the Company in the same expense classifications in the statements of operations, as if such amounts were paid in cash.

Net Loss per Common Share, basic and diluted

The Company computes earnings (loss) per share under Accounting Standards Codification subtopic 260-10, Earnings Per Share ("ASC 260-10"). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable.

The computation of basic and diluted income (loss) per share as of September 30, 2018 and 2017 excludes potentially dilutive securities when their inclusion would be anti-dilutive, or if their exercise prices were greater than the average market price of the common stock during the period.

Potentially dilutive securities excluded from the computation of basic and diluted net loss per share are as follows:

	September 30, 2018	September 30, 2017
Options to purchase common stock	103,970,693	71,630,770
Warrants to purchase common stock	1,118,019	135,996
Totals	105,088,712	71,766,766

Concentrations of Credit Risk

The Company's financial instruments that are exposed to a concentration of credit risk are cash and accounts receivable. Generally, the Company's cash and cash equivalents in interest-bearing accounts does not exceed FDIC insurance limits. The financial stability of these institutions is periodically reviewed by senior management.

As of September 30, 2018, three customers represented 35%, 25% and 11%, respectively, representing an aggregate of 71% of the Company's accounts receivable. As of December 31, 2017, three customers represented 27%, 15% and 13% respectively, representing an aggregate of 55% of the Company's accounts receivable.

For the three months ended September 30, 2018, the Company's revenues earned from sale of products and services were \$1,503,884, of which two customers represented 12% and 10%, respectively, one of which is a related party (US Stem Cell Clinic LLC, a partly owned investment in which the Company holds a 33% interest) represented 12% of Company's revenue. For the three months ended September 30, 2017, the Company's revenues earned from the sale of products and services were \$1,506,518, of which one customer represented 10%, of which is a related party (US Stem Cell Clinic LLC).

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

For the nine months ended September 30, 2018, the Company's revenues earned from sale of products and services were \$5,037,242, of which two customers represented 11% and 8% respectively, of Company's revenue, one of which is a related party (US Stem Cell Clinic LLC, a partly owned investment in which the Company holds a 33% interest) represented 11%. For the nine months ended September 30, 2017, the Company's revenues earned from the sale of products and services were \$4,047,415, of which two customers represented 11% and 10% respectively, of Company's revenue, one of which is a related party (US Stem Cell Clinic LLC), represented 11% of the Company's revenues.

Research and Development

The Company accounts for research and development costs in accordance with Accounting Standards Codification subtopic 730-10, Research and Development ("ASC 730-10"). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved as defined under the applicable agreement. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company incurred research and development expenses of \$599 and \$4,527 for the three and nine months ended September 30, 2018, respectively; and \$3,753 and \$12,242 for the three and nine months ended September 30, 2017, respectively.

Fair Value

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

The Company follows Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value.

Long Term Deposits

Long term deposits are comprised of the following:

On March 3, 2017, the Company entered into a customer purchase agreement with General American Capital Partners (GACP), whereby the Company agreed to sell, for \$50,000, the first 5,000 customers of the cell banking business after the effective date of the equipment sale/leaseback agreement with rights to purchase additional customers at a price of \$20 per customer. There is no reduction in the selling price should the new customers be fewer than 5,000. The effective date of the sale is upon the expiry or early termination of the related equipment lease transaction (See Notes 4 and 6).

On March 3, 2017, the Company entered into an asset purchase agreement of intellectual property with GACP whereby the Company agreed to sell all of the Company's worldwide rights, title or interest in certain intellectual and other property (as defined) associated with the cell banking business for \$50,000. The effective date of the sale is upon the expiry or early termination of the related equipment lease transaction (See Notes 4, 6, and 7).

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Income Taxes

The Company follows Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC 740-10”) for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change. Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse and are considered immaterial.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers” to supersede previous revenue recognition guidance under current U.S. GAAP. The guidance presents a single five-step model for comprehensive revenue recognition that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Two options are available for implementation of the standard which is either the retrospective approach or cumulative effect adjustment approach. The guidance becomes effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2014-09 using the modified retrospective transition method in the first quarter of 2018.

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842), requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases except for short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the effect that the updated standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance for eight specific cash flow issues with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. The effective date for ASU 2016-15 is for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2016-15 in the first quarter of 2018 and such adoption did not have a material impact on the Company.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting this guidance on our financial statements.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted ASU 2017-01 in the first quarter of 2018 and such adoption did not have a material impact on the Company.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments.

As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value because of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception.

Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently reviewing the impact of adoption of ASU 2017-11 on its financial statements.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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.

NOTE 2 – GOING CONCERN AND MANAGEMENT'S LIQUIDITY PLANS

The accompanying condensed financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during nine months ended September 30, 2018, the Company incurred net losses of \$1,714,630 and has a working capital deficit (current liabilities in excess of current assets) of \$4,619,677. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's primary source of operating funds in 2017 and 2018 has been from revenue generated from sales and cash proceeds from the sale of common stock and the issuance of convertible and other debt. The Company has experienced net losses and negative cash flows from operations since inception, but expects these conditions to improve in 2018 and beyond as it develops its business model. The Company has stockholders' deficiencies at September 30, 2018 and requires additional financing to fund future operations.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

The Company's existence is dependent upon management's ability to develop profitable operations and to obtain additional funding sources. There can be no assurance that the Company's financing efforts or revenues realized from the Asset Sale and Lease Agreement will result in profitable operations or the resolution of the Company's liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

NOTE 3 — INVESTMENTS

U.S. Stem Cell Clinic, LLC

The investment in U.S. Stem Cell Clinic, LLC is comprised of a 33% member interest ownership and is accounted for using the equity method of accounting. The Company's 33% income earned by U.S. Stem Cell Clinic, LLC member interests was \$82,950 and \$171,740 for the three and nine months ended September 30, 2018, respectively; and \$39,400 and \$178,409 for the three and nine months ended September 30, 2017, respectively (inception to date income of \$546,952) which was recorded as other income/expense in the Company's Statement of Operations in the appropriate periods. In addition, during the nine months ended September 30, 2018 and 2017, the Company received distributions totaling \$154,000 and \$190,000 from U.S. Stem Cell Clinic, LLC, respectively (inception to date of \$554,000). The carrying value of the investment at September 30, 2018 and December 31, 2017 is \$52,666 and \$34,926, respectively.

At September 30, 2018 and December 31, 2017, accounts receivable for sales of product and services to U.S. Stem Cell Clinic, LLC was \$30,975 and \$8,449 respectively; revenues earned from sales to U.S. Stem Cell Clinic, LLC for the three and nine months ended September 30, 2018 were \$183,832 and \$529,880, respectively; and for the three and nine months ended September 30, 2017 were \$152,779 and \$438,344, respectively.

An affiliate of one of the Company's officers is a minority investor in the U.S. Stem Cell Clinic, LLC.

Regenerative Wellness Clinic, LLC

The investment in Regenerative Wellness Clinic, LLC is comprised of a 33% member interest ownership and is accounted for using the equity method of accounting. The Company has provided technical expertise, but no cash investment with Regenerative Wellness Clinic, LLC's startup in 2017. The Company's 33% loss incurred by Regenerative Wellness Clinic, LLC member interests was \$(12,765) for year ended December 31, 2017. However the recorded other income/expense in the Company's Statement of Operations was limited to \$0.

The carrying value was \$0 at December 31, 2017. For the three and nine months ended September 30, 2018, the Company's 33% income earned by Regenerative Wellness Clinic, LLC member interests was \$58,931 and \$73,247 reported, after effects of 2017 loss, of \$9,695. In addition, during the nine months ended September 30, 2018, the Company received distributions totaling \$21,000 from Regenerative Wellness Clinic, LLC. The carrying value of the investment at September 30, 2018 and December 31, 2017 is \$52,247 and \$0, respectively.

At September 30, 2018 and December 31, 2017, accounts receivable for sales of products and services to Regenerative Wellness Clinic, LLC was \$2,345 and \$15,115, respectively; revenues earned from sales to Regenerative Wellness Clinic, LLC for the three and nine months ended September 30, 2018 was \$64,945 and \$149,469, respectively, and \$0 for the three and nine months ended September 30, 2017.

An affiliate of one of the Company's officers is an investor in the Regenerative Wellness Clinic, LLC.

U.S. Stem Cell of the Villages LLC

On January 30, 2018, Greg Knutson, a director of the Company ("Knutson") and the Company agreed to open and operate a regenerative medicine/cell therapy clinic providing cellular treatments for patients afflicted with neurological, autoimmune, orthopedic and degenerative diseases in Florida. To that end, U.S. Stem Cell of The Villages LLC (the "LLC") was formed January 30, 2018. Knutson provided the Company with the sum of Three Hundred Thousand Dollars (\$300,000) (the "Investment") to be utilized for the formation and initial operation of the LLC. Currently, Knutson holds a 51% member interest in the LLC and the Company holds a 49% member interest. The Company will provide operating assistance as well as management services, the latter to be compensated at fee of five percent (5%) of the LLC net revenues.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

As of September 30, 2018, upon completion of U.S. Stem Cell of the Villages LLC, the Company was credited with investment equity of \$189,909 from Greg Knutson, the holder of the 51% member interest. The Company then recorded the investment equity as contributed capital by the Company. The Company's 49% income (loss) incurred by U.S. Stem Cell of the Villages LLC member interests was \$18,335 for three and nine months ended September 30, 2018. The carrying value was \$65,884 at September 30, 2018.

At September 30, 2018, accounts receivable for sales of products and services to U.S Stem Cell of the Villages LLC was \$9,626; revenues earned from sales to U.S Stem Cell of the Villages LLC for the three and nine months ended September 30, 2018 was \$64,074 and \$143,550, respectively.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment are recorded on the basis of cost. For financial statement purposes, property, plant and equipment are depreciated using the straight-line method over their estimated useful lives.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations. Management periodically reviews the carrying value of its property and equipment for impairment in accordance with the guidance for impairment of long lived assets.

Property and equipment as of September 30, 2018 and December 31, 2017 is summarized as follows:

	September 30, 2018	December 31, 2017
Laboratory and medical equipment	\$ 5,590	\$ 5,590
Furniture, fixtures and equipment	125,633	125,633
Computer equipment	49,951	49,951
Equipment under capital lease	624,602	624,602
Leasehold improvements	362,046	362,046
	<u>1,167,822</u>	<u>1,167,822</u>
Less accumulated depreciation and amortization	(873,555)	(718,075)
	<u>\$ 294,267</u>	<u>\$ 449,747</u>

On March 3, 2017, the Company entered into an asset sale and lease agreement (sale/leaseback transaction, the "Asset Sale and Lease Agreement") with GACP, whereby the Company sold certain lab, medical and other equipment relating to the cell banking business for \$400,000 and leased back the sold equipment over a three year term.

The Company determined that the transaction was a capitalized lease and accordingly recorded the leased assets and liability based on the estimated present value of the minimum lease payments.

Included in net property are assets under capital leases of \$624,602, less accumulated depreciation of \$327,130 as of September 30, 2018 and \$624,602, less accumulated depreciation of \$174,120 December 31, 2017, respectively.

In connection with the sale of the lab, medical and other equipment, the Company realized a gain on sale of equipment of \$386,535. The gain is recognized ratably over the term of the lease to operations. During the three and nine months ended September 30, 2018, the Company recognized \$32,211 and \$96,634; and \$32,212 and \$75,160 for the three and nine months ended September 30, 2017, as the gain on sale of equipment, respectively. As of September 30, 2018 and December 31, 2017, deferred gain on sale of equipment was \$182,531 and \$279,165, respectively.

Property and equipment are recorded on the basis of cost. For financial statement purposes, property, plant and equipment are depreciated using the straight-line method over their estimated useful lives.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Depreciation expense was \$51,652 and \$155,480 of which \$51,652 and \$154,956 were included in cost of sales for the three and nine months ended September 30, 2018, respectively.

Depreciation expense was \$52,882 and \$124,984 of which \$51,652 and \$120,521 were included in cost of sales for the three and nine months ended September 30, 2017, respectively.

NOTE 5 — ACCRUED EXPENSES

Accrued expenses consisted of the following as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Interest and fees payable to the Guarantors of the Company's loan agreement with Seaside Bank	\$ 313,579	\$ 248,746
Interest payable on notes payable-related party (See Note 7)	478,774	381,667
Vendor accruals and other	146,420	146,421
Marketing obligation	193,700	141,560
Employee commissions, compensation, etc.	38,650	10,725
	<u>\$ 1,171,123</u>	<u>\$ 929,119</u>

During the nine months ended September 30, 2018, the Company issued an aggregate of 8,988,508 shares of its common stock in settlement of outstanding accounts payable and accrued expenses. In connection with the issuance, the Company incurred a \$14,625 net loss in settlement of debt.

NOTE 6 — NOTES AND CAPITAL LEASE PAYABLE

Notes and capital lease payable were comprised of the following as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Seaside Bank note payable.	\$ 980,000	\$ 980,000
Hunton & Williams note(s) payable	484,000	584,000
Power Up Lending Group notes payable	79,123	94,448
Lab and medical equipment capitalized leases	317,555	468,465
Total notes payable	1,860,678	2,126,913
Less unamortized debt discount	(74,620)	(94,866)
Total notes payable net of unamortized debt discount	1,786,058	2,032,047
Less current portion	(392,470)	(1,344,594)
Long term portion	<u>\$ 1,393,588</u>	<u>\$ 687,453</u>

Seaside Bank

On October 25, 2010, the Company entered into a Loan Agreement with Seaside National Bank and Trust for a \$980,000 loan at 4.25% per annum interest that was used to refinance the Company's loan with Bank of America. The obligation is guaranteed by certain shareholders of the Company. The Company renewed the loan with Seaside National Bank and Trust during the first quarter of 2018 to extend the maturity date to May 18, 2020.

Hunton & Williams Notes

At December 31, 2016, the Company has two outstanding notes payable with interest at 8% per annum due at maturity. The two notes, \$61,150 and \$323,822, are payable in one balloon payment upon the date the Noteholder provides written demand, however the Company is not obligated to make payments until the Northstar Biotech Group, LLC (or successor) Loan is paid off.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

On August 31, 2017, the Company and the note holder entered into a Note Forbearance, Modification and Repayment Agreement (“Agreement”). The two notes, \$61,150 and \$323,822, were payable in one balloon payment upon the date of a written demand and upon certain triggering events occurring. The total of unpaid principal and accumulated interest for both notes as of August 31, 2017 was \$747,680 and an accounts payable of \$40,596, for an aggregate total of \$788,276.

The note holder agreed to accept full payment of their obligation of over a four (4) year period in 48 monthly installments on an adjusted debt obligation in aggregate of \$624,000 (reducing the outstanding balance), with such payments staggered in amounts such that the Company will pay \$10,000 monthly the first year, \$12,000 monthly the second year, \$14,000 monthly the third year, and \$16,000 monthly the final year. In addition, the note holder agreed to suspend accrual interest on the notes commencing September 1, 2017.

The Agreement remains in full force and effect provided the Company continues to make the monthly payments, there is no event of default as defined in the notes, and an agreement to a subordination agreement by Northstar Biotech Group, LLC, which has been provided.

The Company imputed an interest rate of 5% and discounted the note accordingly. The imputed debt discount of \$69,700 is amortized to interest expense using the effective interest method. For three and nine months ended September 30, 2018, the Company amortized \$6,343 and \$22,426 of debt discounts to current period operations as interest expense. The unamortized debt discount at September 30, 2018 is \$37,098.

PowerUp Lending Group, Ltd

On September 12, 2017, the Company entered into a revenue based factoring agreement and received an aggregate of \$137,200 (less origination fees of \$2,800) in exchange for \$187,600 of future receipts relating to monies collected from customers or other third party payors. Under the terms of the factoring agreement, the Company is required to make daily payments equal to \$1,276 for 147 business days. The Company received net proceeds of \$103,085 along with cancellation of the previous revenue based factoring agreement issued in February 2017. In connection with the cancellation of the February 2017 revenue based factoring agreement, the Company incurred a gain in settlement of debt of \$2,734 in 2017.

On January 2, 2018, the Company entered into a revenue based factoring agreement and received an aggregate of \$137,200 (less origination fees of \$2,800) in exchange for \$187,600 of future receipts relating to monies collected from customers or other third party payors. Under the terms of the factoring agreement, the Company is required to make daily payments equal to \$1,276 for 147 business days. The Company received net proceeds of \$47,907 along with cancellation of the previous revenue based factoring agreement issued in September 2017. In connection with the cancellation of the September 2017 revenue based factoring agreement, the Company incurred a gain in settlement of debt of \$5,154 in 2018.

On May 29, 2018, the Company entered into a revenue based factoring agreement and received an aggregate of \$137,200 (less origination fees of \$2,800) in exchange for \$187,600 of future receipts relating to monies collected from customers or other third party payors. Under the terms of the factoring agreement, the Company is required to make daily payments equal to \$1,276 for 147 business days. The Company received net proceeds of \$78,495 along with cancellation of the previous revenue based factoring agreement issued in January 2018. In connection with the cancellation of the January 2018 revenue based factoring agreement, the Company incurred a loss in settlement of debt of \$5,105 in 2018.

The remaining principle balance of the PowerUp Lending Group promissory note payable at September 30, 2018 is \$79,124, net of unamortized discount of \$37,523.

Lab and Medical Equipment Capitalized Lease

On March 3, 2017, the Company entered into an asset sale and lease agreement (sale/leaseback transaction; “Asset Sale and Lease Agreement”) with GACP, whereby the Company sold certain lab, medical and other equipment relating to the cell banking business for \$400,000 and leased back the sold equipment over a three year term. The Company recognized the arrangement as a capital lease. The Company initially recorded the equipment and the capitalized lease liability at the estimated present value of the minimum lease payments of \$619,825.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

The lease includes a base monthly rental payment of \$20,000, due the first day of each calendar month plus contingent rent equal to 2.3%, 22.5%, and 31.6% of revenues collected on deposits arising from cell banking business for years 1, 2 and 3, respectively. The contingent rent is recognized as a period expense and as interest expense at the time of collection. At the expiration of the lease, the Company is required to return all leased equipment and along with any maintenance records, logs, etc. in the Company's possession to the lessor with no right of repurchase.

The Company determined that the present value of the minimum lease payments exceeded 90% of the estimated fair value of the equipment and therefore classified the equipment sale/lease as a capitalized lease. The effective interest rate of the capitalized lease is estimated at 10.00% based on the Company estimated incremental borrowing rate.

The following summarizes the assets under capital leases:

	September 30, 2018	December 31, 2017
Classes of property		
Lab, medical and other equipment	\$ 619,825	\$ 619,825
Office equipment	4,777	4,777
Less: accumulated depreciation	(331,907)	(174,120)
	\$ 292,695	\$ 450,482

The following summarizes the current and long-term portion of capital leases:

	September 30, 2018	December 31, 2017
Current leases payable	\$ 219,549	\$ 203,875
Long-term leases payable	98,006	264,590
Total	\$ 317,555	\$ 468,465

The following summarizes total future minimum lease payments at September 30, 2018:

Period ending December 31,	
Three months ended December 31, 2018	\$ 60,349
2019	241,396
2020	60,000
Total minimum lease payments	361,745
Amount representing interest	(44,190)
Present value of minimum lease payments	317,555
Current portion of capital lease obligations	219,549
Capital lease obligation, less current portion	\$ 98,006

Promissory note

On June 1, 2015, the Company issued an amended and restated promissory note of \$1,697,762 in settlement of the \$1,500,000 outstanding subordinated debt, related accrued interest of \$373,469 and accumulated and unpaid guarantor fees of \$624,737.

The note is unsecured and non-interest bearing with four semi-annual payments of \$75,000 beginning on December 31, 2015 with the remaining unpaid balance due June 1, 2020.

The Company imputed an interest rate of 5% and discounted the promissory note accordingly. The imputed debt discount of \$368,615 is amortized to interest expense using the effective interest method. For the three and nine months ended September 30, 2018, the Company amortized \$17,616 and \$52,273 of debt discounts to current period operations as interest expense, respectively. The unamortized debt discount at September 30, 2018 is \$116,799.

As of September 30, 2018, the remaining principle due was \$1,397,762.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

NOTE 7 — RELATED PARTY TRANSACTIONS

Advances

As of September 30, 2018 and December 31, 2017, the Company's officers and directors have provided advances in the aggregate of \$204,901 and \$104,901 respectively, for working capital purposes. The advances are unsecured, due on demand, and non-interest bearing.

Notes payable-related party

Northstar Biotechnology Group, LLC

On February 29, 2012, a promissory note issued to BlueCrest Master Fund Limited was assigned to Northstar Biotechnology Group, LLC ("Northstar"), owned partly by certain directors and existing shareholders of the Company at the time, including Dr. William P. Murphy Jr., Dr. Samuel Ahn and Charles Hart. At the date of the assignment, the principal amount of the BlueCrest note was \$544,267 the ("Note").

On March 30, 2012, the Company and Northstar agreed to extend until May 1, 2012 the initial payment date for any and all required monthly under the Note, such that the first of the four monthly payments required under the Note will be due and payable on May, 2012 and all subsequent payments will be due on a monthly basis thereafter commencing on June 1, 2012, and to waive any and all defaults and/or events of default under the Note with respect to such payments. The Company did not make the required payment, and as a result, was in default of the revised agreement. The Company renegotiated the terms of the Note and Northstar agreed to suspend the requirement of principal payments by the Company and allow payment of interest-only in common stock.

On September 21, 2012, the Company issued 5,000 common stock purchase warrants to Northstar that was treated as additional interest expense upon issuance.

On October 1, 2012, the Company and Northstar entered into a limited waiver and forbearance agreement providing a recapitalized new note balance comprised of all sums due Northstar with a maturity date extended perpetually. The Company agreed to issue 5,000,000 shares of Series A Convertible Preferred Stock and 10,000 shares of common stock in exchange for \$210,000 as payment towards outstanding debt, default interest, penalties, professional fees outstanding and due Northstar. In addition, the Company executed a security agreement granting Northstar a lien on all patents, patent applications, trademarks, service marks, copyrights and intellectual property rights of any nature, as well as the results of all clinical trials, know-how for preparing Myoblasts, old and new clinical data, existing approved trials, all right and title to Myoblasts, clinical trial protocols and other property rights.

In addition, the Company granted Northstar a perpetual license on products as described for resale, relicensing, and commercialization outside the United States. In connection with the granted license, Northstar shall pay the Company a royalty of up to 8% on revenues generated.

Effective October 1, 2012, the effective interest rate was 12.85% per annum. The parties agreed, as of February 28, 2013, to reduce the interest rate to 7% per annum.

In connection with the consideration paid, Northstar waived, from the effective date through the earlier of termination or expiration of the agreement, satisfaction of the obligations as described in the forbearance agreement.

In 2012, 5,000,000 shares of Series A Convertible Preferred Stock were approved to be issued, which was subsequently increased to 20,000,000 shares of preferred stock as Series A Convertible Preferred Stock. In addition, the Company was obligated to issue additional preferred stock equal in lieu of payment of cash of accrued and unpaid interest on each six month anniversary of the effective date (October 1, 2012). In lieu of the initial two payments in preferred stock, the parties agreed to modify the voting rights of the subsequently cancelled Series A Convertible Preferred Stock from 20 votes per share on matters to be voted on by the common stock holders to 25 votes per share on matters to be voted on by the common stock holders and all prior and subsequent payments of interest will be in common stock. The Company is required to issue additional shares of its common stock (as amended), in lieu of cash, each six month anniversary of the effective date for any accrued and unpaid interest.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

On March 1, 2017, Northstar and the Company entered into a settlement agreement (“Settlement Agreement”) related to then pending litigation (See Note 11). Pursuant to the terms and conditions of the Settlement Agreement, Northstar converted its outstanding Series A Convertible preferred stock, into twenty million (20,000,000) shares of common stock according to the original conversion terms. In addition, and separate and apart from the conversion, Northstar received Eleven Million (11,000,000) shares of the Company’s common stock. Northstar will receive ten percent (10%) of all Company international sales (based on a gross sales basis). There was no effect of the 10% obligation as there were no international sales in 2017 or, to date, in 2018. Furthermore, a Northstar designee, Greg Knutson, was appointed as a member of the Board of Directors of the Company and two Company directors, Michael Tomas and Kristin Comella, each exercised their prior Northstar options to each receive a Five percent (5%) Member Interest in Northstar. The parties agreed to a mutual release and Northstar agreed to terminate any UCC lien on the Company assets previously filed for the benefit of Northstar. On March 9, 2017 and April 1, 2017, the Company issued 30,000,000 and 1,000,000 shares of its common stock, respectively, as described above. In connection with the settlement, the Company recorded a loss on litigation settlement of \$316,800.

On September 30, 2013, the Company issued 8,772 shares of its common stock as payment of \$100,000 towards cash advances.

On December 24, 2013, the Company issued 3,916 shares of its common stock as payment of accrued interest through June 30, 2013 of \$85,447.

On April 2, 2014, the Company issued 275 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,635 due April 1, 2014 per the forbearance agreement.

On September 17, 2014, the limited waiver and forbearance agreement entered into on October 1, 2012 to provide that the perpetual license on products as described for resale, relicensing and commercialization outside the United States was amended as such on the condition that Northstar provide certain financing, which financing the Company, in its sole discretion, could decline and retain the license.

On October 3, 2014, the Company issued 515 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,705 due October 1, 2014 per the forbearance agreement.

On April 3, 2015, the Company issued 1,363 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,635 due April 1, 2015 per the forbearance agreement.

On October 2, 2015, the Company issued 4,156 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,705 due October 1, 2015 per the forbearance agreement.

On October 7, 2015, the Company issued 34,522 shares of its common stock in settlement of \$100,000 principal payment towards the outstanding debt.

On April 7, 2016, the Company issued 57,778 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,705 due April 1, 2016 per the forbearance agreement.

On October 6, 2016, the Company issued 848,490 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,705 due October 1, 2016 per the forbearance agreement.

On April 1, 2017, the Company issued 286,315 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,703 due October 1, 2016 per the forbearance agreement.

On October 2, 2017, the Company issued 559,187 shares of its common stock in lieu of payment in cash of accrued and unpaid interest of \$12,705 due October 1, 2016 per the forbearance agreement.

As of September 30, 2018 and December 31, 2017, the principal of this note was \$262,000.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Officer and Director Notes

	September 30, 2018	December 31, 2017
Note payable, Mr. Tomas	\$ -	\$ 101,729
Note payable, Mr. Tomas	143,260	500,000
Note payable, Mr. Tomas	500,000	500,000
Note payable, Mr. Tomas	500,000	-
Note payable, Dr. Comella	153,295	237,797
Note payable, Dr. Comella	300,000	300,000
Note payable, Dr. Comella	300,000	-
Total	<u>\$ 1,896,555</u>	<u>\$ 1,639,526</u>

Notes payable, Mr. Tomas

On July 1, 2014, the Company issued a \$500,000 promissory note in settlement of compensation earned. The promissory note bears interest of 5% per annum and was due on January 1, 2015. During the nine months ended September 30, 2018, the Company paid off \$101,729 of the outstanding promissory note. The principal outstanding balance of this note as of September 30, 2018 and December 31, 2017 is \$0 and \$101,729, respectively.

On September 6, 2016, the Company issued a \$500,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and is due upon demand. During the nine months ended September 30, 2018, the Company paid off \$356,740 of the outstanding promissory note. The principal outstanding balance of this note as of September 30, 2018 and December 31, 2017 is \$143,260 and \$500,000, respectively.

On August 7, 2017, the Company issued a \$500,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and is due one year from date of issuance. The principal outstanding balance of this note as of September 30, 2018 and December 31, 2017 is \$500,000.

On May 7, 2018, the Company issued a \$500,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and is due six months from date of issuance. The principal outstanding balance of this note as of September 30, 2018 is \$500,000.

At September 30, 2018 and December 31, 2017, the Company has recorded accrued interest on the outstanding and past notes to Mr. Tomas in the amount of \$325,601 and \$281,903, respectively, which is included in the accrued expenses on the balance sheet.

Notes payable, Dr. Comella

On September 6, 2016, the Company issued a \$300,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and was due upon demand. During the nine months ended September 30, 2018, the Company paid off \$84,502 of the outstanding promissory note. The principal outstanding balance of this note as of September 30, 2018 and December 31, 2017 is \$153,295 and \$237,797, respectively.

On August 7, 2017, the Company issued a \$300,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and is due one year from date of issuance. The principal outstanding balance of this note as of September 30, 2018 and December 31, 2017 is \$300,000.

On May 7, 2018, the Company issued a \$300,000 promissory note in exchange for compensation earned. The promissory note bears interest of 5% per annum and is due six months from date of issuance. The principal outstanding balance of this note as of September 30, 2018 is \$300,000.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

At September 30, 2018 and December 31, 2017, the Company has recorded accrued interest on the outstanding notes to Dr. Comella in the amount of \$93,480 and \$69,108, respectively, which is included in the accrued expenses on the balance sheet.

Transactions with Pavillion

On May 1, 2016, the Company entered into a consulting agreement with Pavillion, Inc., whose owner is related to an officer of the Company. The agreement is for 12 months and renewable for 6 month periods. Compensation is at \$250 per hour or, at the Company's discretion, in shares of the Company's common stock. For the three and nine months ended September 30, 2018, the Company has incurred \$30,000 and \$90,000 of expense under the agreement, respectively. As of September 30, 2018 and December 31, 2017, the Company had \$116,909 and \$187,409, respectively, in accounts payable owed to Pavillion.

Transactions with GACP

On March 3, 2017, the Company entered into an asset sale and lease agreement (sale/leaseback transaction, the "Asset Sale and Lease Agreement") with GACP, whereby the Company sold certain lab, medical and other equipment relating to the cell banking business for \$400,000 and leased back the sold equipment over a three year term (See "*Lab and Medical Equipment Capitalized Lease*" below). The Company determined that the transaction was a capitalized lease and accordingly recorded the leased assets and liability based on the estimated present value of the minimum lease payments (see Notes 4 and 6).

In connection with the asset sale and lease agreement, the Company is obligated to accrue 10% of banking revenue as for marketing, offset by any incurred costs of the Company. At September 30, 2018 and December 31, 2017, the outstanding accrued marketing obligation is \$193,700 and \$141,560, respectively (see Note 5).

On March 3, 2017, the Company also entered into a customer purchase agreement with GACP, whereby the Company agreed to sell, for \$50,000, the first 5,000 customers of the cell banking business after the effective date of the equipment sale/leaseback agreement with rights to purchase additional customers at a price of \$20 per customer. There is no reduction in the selling price should the new customers be fewer than 5,000. The effective date of the sale is upon the expiry or early termination of the related equipment lease transaction.

On March 3, 2017, the Company also entered into an asset purchase agreement of intellectual property with GACP whereby the Company agreed to sell all of the Company's worldwide rights, title or interest in certain intellectual and other property (as defined) associated with the cell banking business for \$50,000. The effective date of the sale is upon the expiry or early termination of the related equipment lease transaction.

In connection with the March 3, 2017 asset purchase agreement, the CEO and CSO of U.S. Stem Cell, Inc. were also retained as CEO and CSO of American Stem Cell Centers of Excellence, which is owned by General American Capital Partners (GACP), to help with scientific and successful operational deployment of clinics. Subsequently, the CSO of U.S. Stem Cell, Inc. has vacated her position but retained her positions with U.S. Stem Cell, Inc. and subsidiaries.

On April 3, 2017, U.S. Stem Cell received a commitment to invest up to \$5,000,000 from GACP with the intent for GACP to receive up to 63,873,275 shares of common stock. To date, GACP has invested, pursuant to this commitment, \$250,000 in return for 858,281 shares. Subsequent to this investment, GACP has informed the Company that they will make no further investments pursuant to this agreement and has entered into a new agreement to invest \$3,000,000 to open their own clinics (branded American Stem Cell) using the US Stem Cell Inc. protocols, procedures, products and technologies. As of September 30, 2018 (effective May 9, 2018), pursuant to an Amendment to Asset Sale and Lease Agreement, dated June 18, 2018, GACP has suspended their obligation to open additional clinics (tolling such obligation to a mutually agreeable date in the future) and has suspended the monthly aggregate number of stem cell kits set forth for purchase in a given month arising from such clinics. All other terms and conditions of the agreements between U.S. Stem Cell, Inc. and GACP remain in full force and effect. As of September 30, 2018 and December 31, 2017, GACP owns 4,021,945 shares of the Company's common stock.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

NOTE 8—STOCKHOLDERS' EQUITY

During the nine months ended September 30, 2018, the Company issued an aggregate of 8,988,508 shares of its common stock in settlement of outstanding accounts payable and accrued expenses. In connection with the issuance, the Company incurred a \$14,625 net loss in settlement of debt.

During the nine months ended September 30, 2018, the Company issued an aggregate of 7,866,274 shares of its common stock for services.

During the nine months ended September 30, 2018, the Company issued an aggregate of 9,350,508 shares of its common stock for \$367,700.

Stock Options

In December 1999, the Board of Directors and shareholders adopted the 1999 Officers and Employees Stock Option Plan, or the Employee Plan, and the 1999 Directors and Consultants Stock Option Plan, or the Director Plan. The Employee Plan and the Director Plan are collectively referred to herein as the "Plans". The Plans are administered by the Board of Directors and the Compensation Committee. The objectives of the Plans include attracting and retaining key personnel by encouraging stock ownership in the Company by such persons. In February 2010, the Directors & Consultants Plan was amended to extend the termination date of the Plan to December 1, 2011.

On April 1, 2013, the Board of Directors approved, subject to subsequently received shareholder approval, the establishment of the Bioheart 2013 Omnibus Equity Compensation Plan, or the "2013 Omnibus Plan". The 2013 Omnibus Plan initially reserved up to fifty thousand (50,000) shares of common stock for issuance. On August 4, 2014, the Board of Directors approved to set the reserve to one hundred thousand (100,000) shares of common stock for issuance and to close the 1999 Officers and Employees Stock Option Plan. On February 2, 2015, at the annual meeting of shareholders, the majority of shareholders approved the 2013 Omnibus Equity Compensation Plan. On November 2, 2015, the Board of Directors approved the increase of the reserve under the 2013 Omnibus Plan to five hundred million (500,000,000) shares of common stock for issuance, effective September 16, 2016, approved an addition of twenty five million (25,000,000) shares of common stock to the reserve, effective April 21, 2017, approved an addition of twenty five million (25,000,000) shares of common stock to the reserve, effective August 7, 2017, approved an addition of thirty million (30,000,000) shares of common stock to the reserve and effective May 7, 2018, approved an addition of one hundred million (100,000,000) shares of common stock to reserve.

A summary of options at September 30, 2018 and activity during the nine months then ended is presented below:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term (in years)</u>
Options outstanding at January 1, 2018	71,630,763	\$ 0.0280	9.2
Granted	32,340,000	\$ 0.03598	10.0
Exercised	—		
Forfeited/Expired	(70)	\$ 2,625.080	
Options outstanding at September 30, 2018	<u>103,970,693</u>	<u>\$ 0.03362</u>	<u>8.8</u>
Options exercisable at September 30, 2018	34,085,519	\$ 0.02842	8.4
Available for grant at September 30, 2018	<u>84,068,070</u>		

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

The following information applies to options outstanding and exercisable at September 30, 2018:

Exercise Price	Number Outstanding	Option Outstanding Options Average Remaining Contractual Life (years)	Weighted Average Exercise price	Number Exercisable	Options Exercisable Weighted Average Exercise price
\$ 0.0043	16,200,000	8.36	\$ 0.0043	4,050,000	\$ 0.0043
0.0196	22,850,000	7.98	0.0196	15,350,000	0.0196
0.02576	2,340,000	9.86	0.02576	-	0.02576
0.03626	31,865,000	8.86	0.03626	14,060,000	0.03626
0.03680	10,000	8.86	0.03680	2,500	0.03680
0.0536	30,000,000	9.61	0.0536	-	0.0536
0.15402	705,363	7.00	0.15402	622,726	0.15402
19.32	150	6.10	19.32	113	19.32
70.00	100	2.92	70.00	100	70.00
210.00	40	2.87	210.00	40	210.00
680.00	40	1.36	680.00	40	680.00
Total	103,970,693	8.8	\$ 0.03362	34,085,519	\$ 0.02842

The aggregate intrinsic value of the issued and exercisable options of \$519,037 and \$195,825, respectively, represents the total pretax intrinsic value, based on options with an exercise price less than the Company's stock price of \$0.0265 as of September 30, 2018, which would have been received by the option holders had those option holders exercised their options as of that date.

On May 7, 2018, the Company granted an aggregate 30,000,000 options to purchase the Company's common stock at \$0.0536 per share to key employees, vesting over 4 years, at grant date anniversary and exercisable over 10 years. The aggregate fair value of \$1,438,473, determined using the Black Scholes option pricing model with the following assumptions: Dividend yield: 0%; Volatility: 261.13% and Risk free rate: 2.90%.

On August 8, 2018, the Company granted an aggregate 2,340,000 options to purchase the Company's common stock at \$0.02576 per share to key employees, vesting over 4 years, at grant date anniversary and exercisable over 10 years. The aggregate fair value of \$91,988, determined using the Black Scholes option pricing model with the following assumptions: Dividend yield: 0%; Volatility: 217.72% and Risk free rate: 2.83%.

The fair value of all options vesting during the three and nine months ended September 30, 2018 of \$168,159 and \$387,783, respectively, was charged to current period operations.

As of September 30, 2018, the Company had approximately \$2,142,697 of total unrecognized compensation cost related to non-vested awards granted under the 2013 Omnibus Plan, which the Company expects to recognize over a weighted average period of 1.76 years.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Warrants

A summary of common stock purchase warrants at September 30, 2018 and activity during the nine months ended September 30, 2018 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2018	133,591	\$ 126.26	4.7
Issued	1,000,000	0.02713	10.0
Exercised	-		
Expired	(15,572)	\$ 26.72	
Outstanding at September 30, 2018	1,118,019	\$ 14.739	9.3
Exercisable at September 30, 2018	116,474	\$ 39.24	4.4

The following information applies to common stock purchase warrants outstanding and exercisable at September 30, 2018:

Warrants Outstanding			Warrants Exercisable		
Exercise Price	Shares	Weighted-Average Remaining Contractual Term	Exercise Price	Shares	Weighted-Average Exercise Price
\$ 0.01 – 20.00	1,090,536	9.5	\$ 1.312	90,536	\$ 15.60
\$ 20.01 – 30.00	19,543	5.4	\$ 25.06	19,543	\$ 25.06
\$ 40.01 - 50.00	2,253	4.0	\$ 48.83	2,253	\$ 48.83
\$ 50.01 – 60.00	543	2.8	\$ 60.00	543	\$ 60.00
> \$60.00	\$ 5,144	3.0	\$ 2,800.69	3,599	\$ 701.78
	<u>1,118,019</u>	9.3	\$ 14.74	<u>116,474</u>	\$ 39.240

On August 27, 2018, the Company issued 1,000,000 warrants to purchase the Company's common stock at \$0.02713 per share for services rendered, vesting 6 months from issuance and exercisable over 10 years. The aggregate fair value of \$24,986, determined using the Black Scholes option pricing model with the following assumptions: Dividend yield: 0%; Volatility: 217.01% and Risk free rate: 2.85%.

The aggregate intrinsic value of the issued and exercisable warrants of \$-0- represents the total pretax intrinsic value, based on warrants with an exercise price less than the Company's stock price of \$0.0265 as of September 30, 2018, which would have been received by the warrant holders had those warrants holders exercised their warrants as of that date.

NOTE 9 — COMMITMENTS AND CONTINGENCIES

Litigation

On December 12, 2017, a product liability lawsuit was filed in Broward County, specifically Jeannine Mallard v. U.S. Stem Cell, Inc., US Stem Cell Clinics LLC., Regenestem, LLC., Regenestem Network, LLC., and Kristin C. Comella. The Company will continue to defend it vigorously.

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

On September 17, 2015, a product liability lawsuit was filed in Broward County, specifically Patsy Bade v. Bioheart, Inc. US Stem Cell Clinics LLC, Alejandro Perez, ARNP, and Shareen Greenbaum, M.D., and on November 30, 2015, a product liability lawsuit was filed in Broward County, specifically Elizabeth Noble v. Bioheart, Inc. US Stem Cell Clinics LLC, Alejandro Perez, ARNP, and Shareen Greenbaum, M.D. During the year ended December 31, 2016, both matters settled by the Company's insurance policy with no additional cost to the Company, excluding the Company payment of the \$100,000 insurance company deductible of which \$11,000 was paid in fiscal 2017. As a result of the final settlement and determination of insurance coverage, the Company recognized \$100,000 of expense due to litigation for the year ended December 31, 2017, of which \$89,000 is included in accrued expenses at September 30, 2018 and December 31, 2017.

The Company is subject at times to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of September 30, 2018 other than that described above.

SEC Investigation

On or about March 1, 2018, the U.S. Securities and Exchange Commission ("Commission"), Miami Regional Office ("Commission Staff"), served a subpoena upon U.S. Stem Cell, Inc., which seeks the production of certain documents and communications. The Commission Staff is conducting a formal non-public, fact-finding inquiry of U.S. Stem Cell, Inc ("Investigation"). The Investigation is neither an allegation of wrongdoing nor a finding that any violation of law has occurred. The Company is cooperating with, and has provided information and documents to, the Commission Staff.

As part of the Investigation, on or about May 14, 2018, the Commission Staff served subpoenas upon Kristin Comella and Mike Tomas, respectively, seeking the production of certain documents and communications. Ms. Comella and Mr. Tomas responded to the respective subpoenas and provided information and documents to the Commission Staff.

At this juncture, the Company is not able to predict the duration, scope, results, or consequences of the investigation. No further inquiry or request for documents from the Commission Staff has been received by the Company or its management since May 14, 2018. There can be no assurance that the Investigation will be resolved in a manner that is not adverse to the Company.

Government Claim

On May 9, 2018, the U.S. Department of Justice filed an injunctive action, specifically United States of America v. U.S. Stem Clinic, LLC, U.S. Stem Cell, Inc., Kristin C. Comella, and Theodore Gradel. The Complaint was filed at the request of the U.S. Food and Drug Administration (FDA) and alleges that the respective defendants manufacture "stromal vascular fraction" (SVF) products from patient adipose (fat) tissue, which the companies then market as stem cell-based treatments without first obtaining necessary FDA approvals. The Company has retained counsel to defend in this action. The Company has had discussions with the U.S. Department of Justice to explore a favorable settlement. Court ordered mediation is now set for February 20, 2019, during which the parties will explore a mutually agreeable resolution. The Company is not able to predict the duration, scope, results, or consequences of the U.S. Department of Justice discussion or the injunctive actions. There can be no assurance that this matter will be resolved in a manner that is not adverse to the Company.

NOTE 10 — FAIR VALUE MEASUREMENT

The Company adopted the provisions of Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") on January 1, 2008. ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

U.S. STEM CELL, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

All items required to be recorded or measured on a recurring basis are based upon level 3 inputs.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed and is determined based on the lowest level input that is significant to the fair value measurement.

Upon adoption of ASC 825-10, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements.

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

As of September 30, 2018 and December 31, 2017, the Company did not have any items that would be classified as level 1, 2 or 3 disclosures.

As of September 30, 2018 and December 31, 2017, the Company did not have any derivative instruments that were designated as hedges.

NOTE 11 — SUBSEQUENT EVENTS

In October 2018, the Company issued an aggregate of 6,094,265 shares of common stock for services rendered.

In October 2018, the Company issued 164,523 shares of common stock as payment of \$12,704 Northstar interest.

In October 2018, the Company issued 526,918 shares of common stock as payment of past director costs.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references in this Quarterly Report on Form 10-Q to “we,” “us,” and “our” are to the Company, unless the context requires otherwise. The following discussion and analysis by our management of our financial condition and results of operations should be read in conjunction with our unaudited condensed interim financial statements and the accompanying related notes included in this quarterly report and our audited financial statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, and we intend that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Any such forward-looking statements would be contained principally in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors.” Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of regulation. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “hopes,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions.

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, and we intend that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Any such forward-looking statements would be contained principally in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors.” Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of regulation. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “hopes,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail in “Risk Factors.” Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Additional information concerning these and other risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Unless otherwise indicated or the context otherwise requires, all references in this Form 10-Q to “we,” “us,” “our,” “our company,” “U. S. Stem Cell, Inc.” or the “Company” refer to U.S. Stem Cell, Inc. and its subsidiaries.

Our Ability to Continue as a Going Concern

Our independent registered public accounting firm has issued its report dated April 16, 2018, in connection with the audit of our annual financial statements as of December 31, 2017, that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern and Note 2 to the unaudited financial statements for the period ended September 30, 2018 also describes the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

Overview

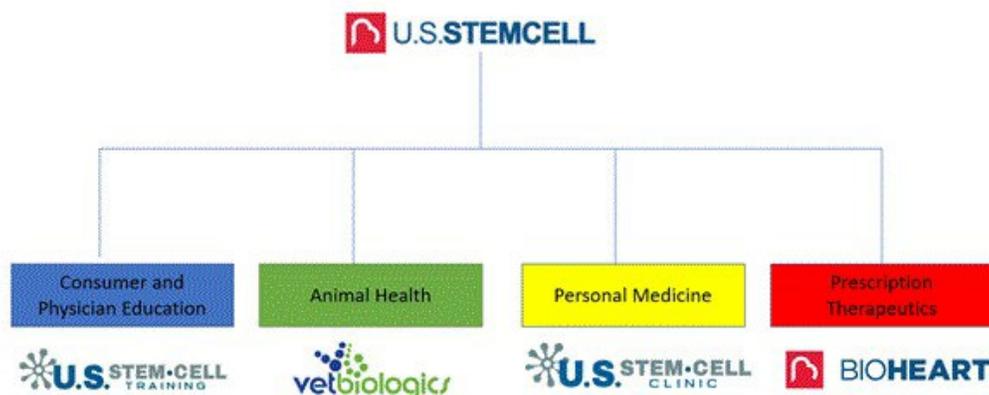
We are an enterprise in the regenerative medicine/cellular therapy industry. We are focused on the discovery, development, and commercialization of cell based therapeutics that prevent, treat or cure disease by repairing and replacing damaged or aged tissue, cells and organs, and restoring their normal function. Our business includes the development of proprietary cell therapy products as well as revenue generating physician and patient based regenerative medicine/cell therapy training services, revenues realized from an Asset Sale and Lease Agreement (See Notes 3 and 6 of the Financial Statements and description below) related to the segment of our company business involving collecting, growing and banking cell cultures treatment kits for humans and animals, and the operation of a cell therapy clinic.

US Stem Cell Training, Inc. (“SCT”), an operating division of our company, is a content developer of regenerative medicine/cell therapy informational and training materials for physicians and patients. SCT also provides in-person and online training courses which are delivered through in-person presentations at SCT’s state of the art facilities and globally at university, hospital and physician’s office locations as well as through online webinars. Additionally, SCT provides hands-on clinical application training for physicians and health care professionals interested in providing regenerative medicine / cell therapy procedures.

Vet biologics, (“VBI”), an operating division of our company, is a veterinary regenerative medicine company committed to providing veterinarians with the ability to deliver the highest quality regenerative medicine therapies to dogs, cats and horses. VBI provides veterinarians with extensive regenerative medicine capabilities including the ability to isolate regenerative stem cells from a patient’s own adipose (fat) tissue directly on-site within their own clinic or stall-side.

US Stem Cell Clinic, LLC, (“SCC”), Regenerative Wellness Clinic, LLC, and US Stem Cell Clinic of the Villages, LLC are partially owned investment of our company (in which we have a 33%, 33% and 49% respectively member interests), are physician run regenerative medicine/cell therapy clinics providing cellular treatments for patients afflicted with neurological, autoimmune, orthopedic and degenerative diseases. They are operating in compliance with the FDA 1271s which allow for same day medical procedures to be considered the practice of medicine. We isolate stem cells from bone marrow and adipose tissue and also utilize platelet rich plasma.

Our comprehensive map of products and services:



All living complex organisms start as a single cell that replicates, differentiates (matures) and perpetuates in an adult organism through its lifetime. Cellular therapy is the process that uses cells to prevent, treat or cure disease, or regenerate damaged or aged tissue. To date, the most common type of cell therapy has been the replacement of mature, functioning cells such as through blood and platelet transfusions. Since the 1970s, first bone marrow and then blood and umbilical cord-derived stem cells have been used to restore bone marrow, as well as blood and immune system cells damaged by the chemotherapy and radiation that are used to treat many cancers. These types of cell therapies are standard of practice world-wide and are typically reimbursed by insurance.

Within the field of cell therapy, research and development using stem cells to treat a host of diseases and conditions has greatly expanded. Stem cells (in either embryonic or adult forms) are primitive and undifferentiated cells that have the unique ability to transform into or otherwise affect many different cells, such as white blood cells, nerve cells or heart muscle cells. Our cell therapy development efforts are focused on the use of adult stem cells; those cells which are found in the muscle, fat tissue and peripheral blood.

[Table of Contents](#)

There are two general classes of cell therapies: Patient Specific Cell Therapies (“PSCTs”) and Off-the-Shelf Cell Therapies (“OSCTs”). In PSCTs, cells collected from a person (“donor”) are transplanted, with or without modification, to a patient (“recipient”). In cases where the donor and the recipient are the same individual, these procedures are referred to as “autologous”. In cases in which the donor and the recipient are not the same individual, these procedures are referred to as “allogeneic.” Autologous cells offer a low likelihood of rejection by the patient and we believe the long-term benefits of these PSCTs can best be achieved with an autologous product. In the case of OSCT, donor cells are expanded many fold in tissue culture, and large banks of cells are frozen in individual aliquots that may result in treatments for as many as 10,000 people from a single donor tissue. By definition, OSCTs are always allogeneic in nature.

Various adult stem cell therapies are in clinical development for an array of human diseases, including autoimmune, oncologic, neurologic and orthopedic, among other indications. While no assurances can be given regarding future medical developments, we believe that the field of cell therapy holds the promise to better the human experience and minimize or ameliorate the pain and suffering from many common diseases and/or from the process of aging.

According to the Scalar Market Research Stem Cell Therapy Analysis Global Revenue, Trends, Growth, Share, Size and Forecast to 2022, the stem cell therapy market is worth USD 11.99 billion in 2016 and is expected to reach USD 60.94 billion by 2022, growing at a CAGR of 31.1% from 2016 to 2022.

Specific to cellular therapy, we are focused on the discovery, development and commercialization of autologous cellular therapies for the treatment of chronic and acute heart damage as well as vascular and autoimmune diseases.

In our pipeline, we have multiple product candidates for the treatment of heart damage, including MyoCell and MyoCell SDF-1. MyoCell and MyoCell SDF-1 are autologous muscle-derived cellular therapies designed to populate regions of scar tissue within a patient’s heart with new living cells for the purpose of improving cardiac function in chronic heart failure patients.

MyoCell SDF-1 is intended to be an improvement to MyoCell. MyoCell SDF-1 is similar to MyoCell but the myoblast cells to be injected for use in MyoCell SDF-1 are modified prior to injection by an adenovirus vector or non-viral vector so that they will release extra quantities of the SDF-1 protein, which expresses angiogenic factors.

AdipoCell is a kit used to isolate a patient-derived cell therapy proposed for the treatment of a variety of degenerative diseases. We hope to demonstrate that these product candidates are safe and effective complements to existing therapies for a variety of diseases.

Our mission is to advance to market novel regenerative medicine and cellular therapy products that substantially benefit humankind. Our business strategy is, to the extent possible, finance our clinical development pipeline through revenue (cash in-flows) generated through the marketing and sales of unique educational and training services, animal health products and personalized cellular therapeutic treatments.

A fundamental shift in venture capital investment strategies where, management believes, financial sponsorship is now directed toward commercial or near commercial enterprises has required us to adapt our mission combining immediate revenue generating opportunities with longer-term development programs. Accordingly, we have developed a multifaceted portfolio of revenue generating products and services in our US Stem Cell Training, Vetbiologics, and US Stem Cell Clinic/Regenerative Wellness Clinic, operating divisions that will, if successful, financially support its clinical development programs. Our goal is to maximize shareholder value through the generation of short-term profits that increase cash in-flows and decrease the need for venture financings – a modern biotechnology company development strategy.

Today, our company is a combination of opportunistic business enterprises. What we are establishing is a foundation of value in the products and services we are and plan to sell from US Stem Cell Training, Vetbiologics, and US Stem Cell clinics. Our strategy is to expand the revenues generated from each of these operating divisions and to reinvest the profits we generate into our clinical development pipeline.

On November 9, 2016, we executed a Commercial Agency Agreement with High Rising Group Company (General Trading and Construction) and subsequently, on February 10, 2017, we authorized High Rising Group Company as an independent contractor and Licensee for our company for the territories of Kuwait and the Middle East (expressly excluding prohibited countries pursuant to the Patriot Act and The Iran Threat Reduction and Syria Human Rights Act of 2012). The intent of the agreement is for High Rising Group Company to establish clinics specializing in regenerative medicine, stem cell treatment and therapy, including stem cell bank, training, and all related stem cell machines and equipment. To date, the first clinic in Kuwait City has been completed but has not begun operations as High Rising Group has not yet been able to secure regulatory approvals to operate. With the ongoing construction of the The Sheikha Salwa Sabah Al-Ahmad Center for Stem Cell and Umbilical Cord, a public/private partnership with the government of Kuwait, (see <http://news.kuwaittimes.net/website/stem-cell-center-epitomizes-ppp> which is expressly not incorporated by reference to this filing), management hopes (but cannot guarantee) that private sector stem cell centers, as described above, will get regulatory approval.

On January 29, 2015 we announced an update and diversification of our clinical development pipeline. Our cardiovascular and vascular product candidates have been streamlined, putting, we believe, our best opportunities at the forefront of our efforts. The MYOCELL and MYOCELL SDF-1 candidates will, in our opinion, advance forward in the treatment of chronic heart failure (CHF). We are in active prospective partnering discussion for the MYOCELL SDF-1 program. Partnering, we contend, will enhance our capabilities, reduce our development cost through cost sharing and potentially accelerate our time to approval and commercialization. We will apply our ADIPOCELL to a variety of indications. We believe that updating and diversifying our clinical development programs increases the probability of our success, brings operational and fiscal clarity to our company, and will ultimately enhance shareholder value.

On March 3, 2017, we entered into an asset sale and lease agreement (sale/leaseback transaction; “Asset Sale and Lease Agreement”), with GACP (General American Capital Partners) Stem Cell Bank LLC, a Florida limited liability company (“GACP”) whereby we sold certain lab, medical and other equipment relating to the cell banking business for \$400,000 and leased back the sold equipment over a three year term. The lease includes a base monthly rental payment of \$20,000, due the first day of each calendar month. In addition, we are required to pay 2.3%, 22.5% and 31.6% of revenues collected on deposits arising from cell banking business for years 1, 2 and 3, respectively. At the expiration of the lease, we are required to return all leased equipment and along with any maintenance records, logs, etc. in our possession to the lessor with no right of repurchase. In addition, GACP has contractually agreed to invest an additional Two and a half Million Dollars (\$2,500,000) to open ten (10) stem cell clinics in the United States within 3 years--with a penalty provision to our benefit for shortfalls if less than 6 clinics are opened within 24 months.

As of September 30, 2018 (effective May 9, 2018), pursuant to an Amendment to Asset Sale and Lease Agreement, dated June 18, 2018, GACP has suspended their obligation to open additional clinics (tolling such obligation to a mutually agreeable date in the future) and has suspended the monthly aggregate number of stem cell kits set forth for purchase in a given month arising from such clinics. All other terms and conditions of the agreements between U.S. Stem Cell, Inc. and GACP remain in full force and effect.

American Stem Cell Centers of Excellence are clinics derived from the investment group behind the Asset Purchase and Leaseback Agreement. American Stem Cell Centers of Excellence provide comprehensive stem cell treatments using innovative technologies and the latest research with the intent that after treatment, the body’s own healing potential naturally repairs and regenerates damaged tissue. With a new clinic in Miami, Florida and, as we intend, additional clinics opening soon around the country, management contends that American Stem Cell Centers of Excellence provides comprehensive stem cell treatments using the U.S. Stem Cell Inc. innovative technologies and the latest regenerative medicine research. U.S. Stem Cell’s team of scientists have pioneered these in-clinic regenerative medicine protocols and, in our estimation, have helped thousands of patients through their partly-owned subsidiary U.S. Stem Cell Clinic. American Stem Cell Centers of Excellence would like to replicate this success and have partnered and, with the Board of Directors’ approval and continued oversight that this will not diminish their responsibilities to our company, retained the professional services of both Kristin Comella and Mike Tomas as CSO and CEO respectively to help with scientific and successful operational deployment of their clinics. Subsequently, the CSO of U.S. Stem Cell, Inc. has vacated her position but retained her positions with U.S. Stem Cell, Inc. and subsidiaries. Our board of directors contends that the successful deployment of American Stem Cell Centers of Excellence will lead to the financial value and revenue growth of U.S. Stem Cell, Inc through sales of our products and services at American Stem Cell Center of Excellence clinics.

We will continue to evaluate and act upon opportunities to increase our top line revenue position and that correspondingly increase cash in-flows. These opportunities include but are not limited to the development and marketing of new products and services, mergers and acquisitions, joint ventures, licensing deals and more.

Further, if the opportunity presents itself whereby we can raise additional capital at a reasonable fair market value, our management will do so. Accordingly, we plan to continue in our efforts to restructure, equitize or eliminate legacy balance sheet issues that are obstacles to market capitalization appreciation and capital fund raising.

Results of Operations Overview

We are a research and development company and our MyoCell product candidate has not received regulatory approval or generated any material revenues and is not expected generate revenues until commercialization , if ever. We have generated substantial net losses and negative cash flow from operations since inception and anticipate incurring significant net losses and negative cash flows from operations for the foreseeable future as we continue clinical trials, undertake new clinical trials, apply for regulatory approvals, make capital expenditures, add information systems and personnel, make payments pursuant to our license agreements upon our achievement of certain milestones, continue development of additional product candidates using our technology, establish sales and marketing capabilities and incur the additional cost of operating as a public company.

Three Months Ended September 30, 2018 as compared to the Three Months Ended September 30, 2017

Revenues

We recognized revenues of \$1,503,884 for the three months ended September 30, 2018. These revenues were generated from the sales of kits and equipment, services, MyoCath Catheters, AdipoCell, and laboratory services. We recognized revenues of \$1,506,518 for the three months ended September 30, 2017 from the sale of MyoCath catheters, AdipoCell, physician training, patient studies and laboratory services. The differential in revenue reflected an increase based on the products and services provided.

Cost of Sales

Cost of sales consists of the costs associated with the production of MyoCath, laboratory supplies necessary for laboratory services, production of AdipoCell systems and materials, physician course materials, kits and clinic supplies required for patient studies.

Cost of sales were \$544,398 and \$534,584 in in the three month periods ended September 30, 2018 and 2017, respectively. Associated gross margins were \$959,486 (63.80%) and \$971,934 (64.52%) for the three months periods ended September 30, 2018 and 2017, respectively.

Research and Development

Our research and development expenses consist of costs incurred in identifying, developing, and testing, our products and services. Research and development expenses were \$599 in the three month period ended September 30, 2018, a decrease of \$3,154 from the research and development expenses of \$3,753 in the three month period ended September 30, 2017. Current management focus is towards on sales in addition to research and development and its corresponding ongoing costs. The timing and amount of our planned research and development expenditures is dependent on our ability to obtain additional financing.

Marketing, General and Administrative

Our marketing, general and administrative costs were \$1,177,638 for the three month period ended September 30, 2018 compared to \$2,023,986 for the three month period ended September 30, 2017, a decrease of \$846,348. The decrease in costs are primarily due to increases in consulting and other professional fees, decrease in sales and marketing expenses and stock based and other compensation, as compared to the prior year.

Our marketing, general and administrative expenses primarily consist of the costs associated with our general management and product and service marketing programs, including, but not limited to, salaries and related expenses for executive, administrative and marketing personnel, rent, insurance, legal and accounting fees, consulting fees, travel and entertainment expenses, conference costs and other clinical marketing and trade program expenses.

Gain on settlement of debt

During the three months ended September 30, 2018, we incurred a net gain of \$80,200 primarily related to accounts payable and debt restructured during the current period as compared to a net aggregate gain of \$245,662 for the same period last year.

Gain on sale of equipment

In March 2017, we entered a sale/leaseback transaction whereby we sold our lab and other medical equipment and re-leased the equipment back for 36 months. In connection with the sale/leaseback, we realized a gain on sale of equipment of \$386,536, which we will recognize to operations over the term of the lease (36 months). During the three months ended September 30, 2018 and 2017, we recognized \$32,211 and \$32,212 in current period operations.

Income from equity investment

Our investment of a 33% member interest ownership of U.S. Stem Cell Clinic, LLC and Regenerative Wellness Clinic as well as a 49% interest in U.S Stem Cell of the Villages LLC are accounted for using the equity method of accounting. As such, we report our pro rata share of its income or loss for the period. For the three months ended September 30, 2018 and 2017, our pro rata share of its income was \$160,216 and \$39,400, respectively

Interest Expense

Interest expenses during the three months ended September 30, 2018 were \$384,813 compared to \$191,933 for the three months ended September 30, 2017. Interest expenses primarily consists of interest incurred on the principal amount of the Northstar loan, our former Bank of America loan, the Seaside National Bank loan, accrued fees and interest payable to the Guarantors, our capital lease and the amortization of debt discounts and non-cash interest incurred relating to our issued convertible notes payable. The debt discounts amortization and non-cash interest incurred during the three months ended September 30, 2018 and 2017 was \$32,293 and \$81,221, respectively.

Nine Months Ended September 30, 2018 as compared to the Nine Months Ended September 30, 2017

Revenues

We recognized revenues of \$5,037,242 for the nine months ended September 30, 2018. These revenues were generated from the sales of kits and equipment, services, MyoCath Catheters, AdipoCell, and laboratory services. We recognized revenues of \$4,047,415 for the nine months ended September 30, 2017 from the sale of MyoCath catheters, AdipoCell, physician training, patient studies and laboratory services. The differential in revenue reflected an increase based on the products and services provided.

Cost of Sales

Cost of sales consists of the costs associated with the production of MyoCath, laboratory supplies necessary for laboratory services, production of AdipoCell systems and materials, physician course materials, kits and clinic supplies required for patient studies.

Cost of sales were \$1,615,431 and \$1,348,647 in in the nine month periods ended September 30, 2018 and 2017, respectively. Associated gross margins were \$3,421,811 (67.93%) and \$2,698,768 (66.68%) for the nine months periods ended September 30, 2018 and 2017, respectively.

Research and Development

Our research and development expenses consist of costs incurred in identifying, developing, and testing, our products and services. Research and development expenses were \$4,527 in the nine month period ended September 30, 2018, a decrease of \$7,715 from the research and development expenses of \$12,242 in the nine month period ended September 30, 2017. Current management focus is towards on sales in addition to research and development and its corresponding ongoing costs. The timing and amount of our planned research and development expenditures is dependent on our ability to obtain additional financing.

Marketing, General and Administrative

Our marketing, general and administrative costs were \$4,468,121 for the nine month period ended September 30, 2018 compared to \$3,638,705 for the nine month period ended September 30, 2017, an increase of \$829,416. The increase in costs are primarily due to increases in consulting and other professional fees, increase in sales and marketing expenses and stock based and other compensation, as compared to the prior year.

Our marketing, general and administrative expenses primarily consist of the costs associated with our general management and product and service marketing programs, including, but not limited to, salaries and related expenses for executive, administrative and marketing personnel, rent, insurance, legal and accounting fees, consulting fees, travel and entertainment expenses, conference costs and other clinical marketing and trade program expenses.

Gain (loss) on settlement of debt

During the nine months ended September 30, 2018, we incurred a net gain of \$45,013 primarily related to accounts payable and debt restructured during the current period as compared to a net aggregate loss of \$137,198 for the same period last year.

Gain on sale of equipment

In March 2017, we entered a sale/leaseback transaction whereby we sold our lab and other medical equipment and re-leased the equipment back for 36 months. In connection with the sale/leaseback, we realized a gain on sale of equipment of \$386,536, which we will recognize to operations over the term of the lease (36 months). During the nine months ended September 30, 2018 and 2017, we recognized \$96,634 and \$75,160 in current period operations.

Loss on change in fair value of derivative liabilities

During 2016, we issued convertible promissory notes with an embedded derivative, requiring us to fair value the derivatives each reporting period and mark to market as a non-cash adjustment to our current period operations. This resulted in a loss of \$1,891,205 on change in fair value of derivative liabilities for the nine months ended September 30, 2017, none arising from the current period.

Income from equity investment

Our investment of a 33% member interest ownership of U.S. Stem Cell Clinic, LLC and Regenerative Wellness Clinic as well as a 49% interest in U.S Stem Cell of the Villages LLC are accounted for using the equity method of accounting. As such, we report our pro rata share of its income or loss for the period. For the nine months ended September 30, 2018 and 2017, our pro rata share of its income was \$263,322 and \$178,409, respectively

Interest Expense

Interest expenses during the nine months ended September 30, 2018 were \$1,068,238 compared to \$780,092 for the nine months ended September 30, 2017. Interest expenses primarily consists of interest incurred on the principal amount of the Northstar loan, our former Bank of America loan, the Seaside National Bank loan, accrued fees and interest payable to the Guarantors, our capital lease and the amortization of debt discounts and non-cash interest incurred relating to our issued convertible notes payable. The debt discounts amortization and non-cash interest incurred during the nine months ended September 30, 2018 and 2017 was \$164,312 and \$341,306, respectively.

Stock-Based Compensation

Stock-based compensation reflects our recognition as an expense of the value of stock options and other equity instruments issued to our employees and non-employees over the vesting period of the options and other equity instruments. We have granted to our employees options to purchase shares of common stock at exercise prices equal to the fair market value of the underlying shares of common stock at the time of each grant, as determined by our Board of Directors, with input from management.

We follow Accounting Standards Codification subtopic 718-10. Compensation ("ASC 718-10") which requires that all share-based payments to both employee and non-employees be recognized in the income statement based on their fair values.

In awarding our common stock, our Board of Directors considered a number of factors, including, but not limited to:

- our financial position and historical financial performance;
- our length of sales of our common stock;
- the development status of our product candidates;
- the business risks we face;
- vesting restrictions imposed upon the equity awards; and
- an evaluation and benchmark of our competitors; and
- prospects of a liquidity event.

On April 1, 2013, the Board of Directors approved, subject to subsequently received shareholder approval, the establishment of the Bioheart 2013 Omnibus Equity Compensation Plan, or the “2013 Omnibus Plan”. The 2013 Omnibus Plan initially reserved up to fifty thousand (50,000) shares of common stock for issuance. On August 4, 2014, the Board of Directors approved to set the reserve to one hundred thousand (100,000) shares of common stock for issuance and to close the 1999 Officers and Employees Stock Option Plan. On February 2, 2015, at the annual meeting of shareholders, the majority of shareholders approved the 2013 Omnibus Equity Compensation Plan. On November 2, 2015, the Board of Directors approved the increase of the reserve under the 2013 Omnibus Plan to five hundred million (500,000,000) shares of common stock for issuance, effective September 16, 2016, approved an addition of twenty five million (25,000,000) shares of common stock to the reserve, effective April 21, 2017, approved an addition of twenty five million (25,000,000) shares of common stock to the reserve, effective August 7, 2017, approved an addition of thirty million (30,000,000) shares of common stock to the reserve and effective May 7, 2018, approved an addition of one hundred million (100,000,000) shares of common stock to reserve.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. While our critical accounting policies are described in Note 1 to our financial statements appearing elsewhere in this report, we believe the following policies are important to understanding and evaluating our reported financial results:

Revenue Recognition

Effective January 1, 2018, the Company recognizes revenue in accordance with Accounting Standards Codification 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. The updated guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers.

At the time of each transaction, management assesses whether the fee associated with the transaction is fixed or determinable and whether or not collection is reasonably assured. The assessment of whether the fee is fixed or determinable is based upon the payment terms of the transaction. Collectability is assessed based on a number of factors, including past transaction history with the client and the creditworthiness of the client.

The Company’s primary sources of revenue are from the sale of test kits and equipment, training services, patient treatments, laboratory services and cell banking.

Revenues for kits and equipment sold are not recorded until kits and equipment are received by the customer. Revenues from in-person trainings are recognized when the training occurs and revenues from on demand online trainings are recognized when the customer purchases the rights to the training course. Any cash received as a deposit for trainings are recorded by the Company as a liability.

Patient treatments and laboratory services revenue are recognized when those services have been completed or satisfied.

Revenues for cell banking sales are accounted for as multiple performance obligations as described in ASC 606 and addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Because the Company sells its services separately, on more than a limited basis and at a price within a narrow range, the Company was able to allocate revenue based on stand-alone pricing. The multiple performance obligations include stem cell banking, dose retrieval and yearly storage fees. Revenues for stem cell banking and dose retrieval is recognized at the point of service and revenues for the yearly storage fees is recognized over the term of the banking contract, which is typically one year with annual renewals.

Research and Development Activities

We account for research and development costs in accordance with Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved as defined under the applicable agreement. Our company-sponsored research and development costs related to both present and future products are expensed in the period incurred.

Inflation

Our opinion is that inflation has not had, and is not expected to have, a material effect on our operations.

Climate Change

Our opinion is that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

Concentrations of Credit Risk

As of September 30, 2018, three customers represented 35%, 25% and 11%, respectively, representing an aggregate of 71% of our company’s accounts receivable. As of December 31, 2017, three customers represented 27%, 15% and 13% respectively, representing an aggregate of 55% of our company’s accounts receivable.

For the three months ended September 30, 2018, our company’s revenues earned from sale of products and services were \$1,503,884, of which two customers represented 12% and 10%, respectively, one of which is a related party (US Stem Cell Clinic LLC, a partly owned investment in with our company holds a 33% interest) represented 12% of our company’s revenue. For the three months ended September 30, 2017, our company’s revenues earned from the sale of products and services were \$1,506,518, of which one customer represented 10%, of which is a related party (US Stem Cell Clinic LLC).

For the nine months ended September 30, 2018, our company’s revenues earned from sale of products and services were \$5,037,242, of which two customers represented 11% and 8% respectively, of our company’s revenue, one of which is a related party (US Stem Cell Clinic LLC, a partly owned investment in with our company holds a 33% interest) represented 11%. For the nine months ended September 30, 2017, our company’s revenues earned from the sale of products and services were \$4,047,415, of which two customers represented 11% and 10% respectively, of our company’s revenue, one of which is a related party (US Stem Cell Clinic LLC), represented 11% of our company’s revenues.

Recent Accounting Policies

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on our financial position, results of operations or cash flows.

Liquidity and Capital Resources

In the nine months ended September 30, 2018, we achieved positive cash flow from operations of \$577,245 but will continue to finance our considerable operational cash needs with cash generated from financing activities and revenues.

Operating Activities

Net cash provided by operating activities was \$577,245 in the nine month period ended September 30, 2018 as compared to \$1,026,129 of cash provided in the nine months ended September 30, 2017.

Our cash provided by for operations in the nine months ended September 30, 2018 reflected a net loss generated during the period of \$1,714,630, adjusted for non-cash items such as stock-based compensation of \$812,300, notes payable issued for officer compensation of \$800,000, depreciation of \$155,480, amortization of debt discounts and non-cash interest of \$155,480 and bad debts of \$32,546, net with gain on settlement of debt of \$45,013, gain on sale of property and equipment of \$96,634 and income from investments of \$263,322. In addition we had a net increase in operating assets of \$59,413 and an increase in accrued expenses of \$242,004, accounts payable of \$332,577 and in deferred revenue of \$217,038.

Investing Activities

Net cash provided by investing activities was \$214,200 for the nine months ended September 30, 2018 represented proceeds from our equity investment as compared to cash provided by investing activities of \$688,838 from our equity investments of \$190,000, \$400,000 from sale of property and equipment and proceeds from long term deposits of \$100,000, net with \$1,162 purchase of equipment for the same period last year.

Financing Activities

Net cash used in financing activities was an aggregate of \$330,091 in the nine month period ended September 30, 2018 as compared to cash used of \$1,029,072 in the nine month period ended in September 30, 2017. In the nine month period ended September 30, 2018, we received \$367,700 from the sale of shares of our common stock, proceeds from restructuring of financing agreements of \$126,402, advances from related party of \$100,000 and equity contribution of \$103,159, net with repayments of notes payable of \$484,381 and \$542,971 related party notes.

Existing Capital Resources and Future Capital Requirements

Our MyoCell product candidate has not received regulatory approval or generated any material revenues. We do not expect to generate any material revenues or cash from sales of our MyoCell product candidate until commercialization of MyoCell, if ever. We have generated substantial net losses and negative cash flow from operations since inception and anticipate incurring significant net losses and negative cash flows from operations for the foreseeable future. Historically, we have relied on proceeds from the sale of our common stock and our incurrence of debt to provide the funds necessary to conduct our research and development activities and to meet our other cash needs.

At September 30, 2018, we had cash and cash equivalents totaling \$1,448,153. However our working capital deficit as of such date was approximately \$4.6 million. Our independent registered public accounting firm has issued its report dated April 16, 2018 in connection with the audit of our financial statements as of December 31, 2017 that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern and Note 2 of our unaudited financial statement for the quarter ended September 30, 2018 addresses the issue of our ability to continue as a going concern.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required under Regulation S-K for “smaller reporting companies.”

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based upon that evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures as of September 30, 2018 were not effective, for the same reasons as previously disclosed under Item 9A. “Controls and Procedures” in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the our last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On December 12, 2017, a product liability lawsuit was filed in Broward County, specifically Jeannine Mallard v. U.S. Stem Cell, Inc., US Stem Cell Clinics LLC., Regenestem, LLC., Regenestem Network, LLC., and Kristin C. Comella. The Company will continue to defend it vigorously.

On May 9, 2018, the U.S. Department of Justice filed an injunctive action, specifically United States of America v. U.S. Stem Clinic, LLC, U.S. Stem Cell, Inc., Kristin C. Comella, and Theodore Gradel. The Complaint was filed at the request of the U.S. Food and Drug Administration (FDA) and alleges that the respective defendants manufacture “stromal vascular fraction” (SVF) products from patient adipose (fat) tissue, which the companies then market as stem cell-based treatments without first obtaining necessary FDA approvals. The Company has retained counsel to defend in this action. The Company has had discussions with the U.S. Department of Justice to explore a favorable settlement. Court ordered mediation is now set for February 20, 2019, during which the parties will explore a mutually agreeable resolution. The Company is not able to predict the duration, scope, results, or consequences of the U.S. Department of Justice discussion or the injunctive actions. There can be no assurance that this matter will be resolved in a manner that is not adverse to the Company.

On or about March 1, 2018, the U.S. Securities and Exchange Commission (“Commission”), Miami Regional Office (“Commission Staff”), served a subpoena upon U.S. Stem Cell, Inc., which seeks the production of certain documents and communications. The Commission Staff is conducting a formal non-public, fact-finding inquiry of U.S. Stem Cell, Inc (“Investigation”). The Investigation is neither an allegation of wrongdoing nor a finding that any violation of law has occurred. The Company is cooperating with, and has provided information and documents to, the Commission Staff. As part of the Investigation, on or about May 14, 2018, the Commission Staff served subpoenas upon Kristin Comella and Mike Tomas, respectively, seeking the production of certain documents and communications. Ms. Comella and Mr. Tomas responded to the respective subpoenas and provided information and documents to the Commission Staff. No further inquiry or request for documents from the Commission Staff has been received by the Company or its management since May 14, 2018. At this juncture, the Company is not able to predict the duration, scope, results, or consequences of the Commission Staff’s investigation. There can be no assurance that the Investigation will be resolved in a manner that is not adverse to the Company.

The Company is subject at times to other legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of September 30, 2018 other than described above.

Item 1A. Risk Factors

Not required under Regulation S-K for “smaller reporting companies.”

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

None

Item 3. Defaults Upon Senior Securities

There were no defaults upon senior securities during the period ended September 30, 2018

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Exhibit Description
2.1(20)	Asset Sale and Lease Agreement between U.S. Stem Cell, Inc. and GACP Stem Cell Bank LLC., dated March 3, 2017.
2.2(20)	Asset Purchase Agreement between U.S. Stem Cell, Inc. and GACP Stem Cell Bank LLC., dated March 3, 2017.
2.3(20)	Customer Purchase Agreement between U.S. Stem Cell, Inc. and GACP Stem Cell Bank LLC., dated March 3, 2017.
3.4*	Amendment to Asset Sale and Lease Agreement between U.S. Stem Cell, Inc. and GACP Stem Cell Bank LLC., dated June 18, 2018.
3.1 (1)	Articles of Incorporation
3.2(5)	Amended and Restated Articles of Incorporation
3.3(8)	Articles of Amendment to the Articles of Incorporation
3.4(17)	Articles of Amendment to the Articles of Incorporation
3.5 (7)	Amended and Restated Bylaws
3.6(19)	Amendment to Bylaws
4.1(4)	Loan and Security Agreement, dated as of May 31, 2007 by and between BlueCrest Capital Finance, L.P. and the Registrant
4.2(9)	Amendment to Loan and Security Agreement, between the Company and BlueCrest Venture Finance Master Fund Limited, dated as of April 2, 2009
4.3(9)	Grant of Security Interest (Patents), between the Company and BlueCrest Venture Finance Master Fund Limited, dated as of April 2, 2009
4.4(9)	Security Agreement (Intellectual Property), between the Company and BlueCrest Venture Finance Master Fund Limited, dated as of April 2, 2009
4.5(9)	Subordination Agreement, by Hunton & Williams, LLP in favor of BlueCrest Venture Finance Master Fund Limited, entered into and effective April 2, 2009
4.6(9)	Amended and Restated Promissory Note, dated April 2, 2009, by the Company to BlueCrest Venture Finance Master Fund Limited
4.7(9)	Warrant to purchase shares of the Registrant's common stock, dated April 2, 2009, issued to BlueCrest Venture Finance Master Fund Limited
4.8(10)	Warrant to purchase shares of the Registrant's common stock, dated April 2, 2009, issued to Rogers Telecommunications Limited
4.9(10)	Warrant to purchase shares of the Registrant's common stock, dated April 2, 2009, issued to Hunton & Williams, LLP
4.10 (15)	Series A Convertible Preferred Stock
10.1(1)	Lease Agreement between the Registrant and Sawgrass Business Plaza, LLC, as amended, dated November 14, 2006.
10.2(3)	Loan Guarantee, Payment and Security Agreement, dated as of June 1, 2007, by and between the Registrant, Howard J. Leonhardt and Brenda Leonhardt
10.3(3)	Loan Guarantee, Payment and Security Agreement, dated as of June 1, 2007, by and between the Registrant and William P. Murphy Jr., M.D.
10.4(3)	Loan Agreement, dated as of June 1, 2007, by and between the Registrant and Bank of America, N.A.
10.5(5)	Loan Guarantee, Payment and Security Agreement, dated as of September 12, 2007, by and between the Registrant and Samuel S. Ahn, M.D.
10.6(5)	Loan Guarantee, Payment and Security Agreement, dated as of September 12, 2007, by and between the Registrant and Dan Marino
10.7(5)	Loan Guarantee, Payment and Security Agreement, dated as of September 19, 2007, by and between the Registrant and Jason Taylor
10.8(6)	Loan Guarantee, Payment and Security Agreement, dated as of October 10, 2007, by and between the Registrant and Howard and Brenda Leonhardt
10.9(6)	Second Amendment to Loan Guarantee, Payment and Security Agreement, dated as of October 10, 2007, by and between the Registrant and Howard and Brenda Leonhardt

[Table of Contents](#)

10.10(6)	Second Amendment to Loan Guarantee, Payment and Security Agreement, dated as of October 10, 2007, by and between the Registrant and William P. Murphy, Jr., M.D.
10.11(11)	Loan Agreement with Seaside National Bank and Trust, dated October 25, 2010.
10.12(11)	Promissory Note with Seaside National Bank and Trust, dated October 25, 2010.
10.13(11)	Amended and Restated Loan and Security Agreement with BlueCrest Venture Finance Master Fund Limited, dated October 25, 2010.
10.14(12)	Unsecured Convertible Promissory Note for \$25,000, with Magna Group, LLC, dated January 3, 2011.
10.15(12)	Promissory Note for \$139,728.82 with Magna Group, LLC, dated January 3, 2011.
10.16(13)	Unsecured Convertible Promissory Note for \$34,750, with Magna Group, LLC, dated May 16, 2011.
10.17(13)	Promissory Note for \$139,728.82 with Magna Group, LLC, dated May 16, 2011.
10.18**(14)	2013 U.S. Stem Cell, Inc. Omnibus Equity Compensation Plan
10.19 (16)	Senior Convertible Note with Magna Equities II, LLC, dated October 1, 2015
10.20 (16)	Securities Purchase Agreement, dated as of October 1, 2015, by and between Magna Equities II, LLC and U.S. Stem Cell, Inc.
10.21(16)	Registration Rights Agreement, dated as of October 1, 2015, by and between Magna Holdings I, LLC and U.S. Stem Cell, Inc.
10.22(18)	Senior Convertible Note Magna Equities II, LLC, dated December 3, 2015.
10.23 (18)	Amended and Restated Senior Convertible Note, dated December 3, 2015.
10.24 (18)	Securities Purchase Agreement, dated as of December 3, 2015, by and between Magna Equities II, LLC and U.S. Stem Cell, Inc.
10.25 (18)	Registration Rights Agreement, dated as of December 3, 2015, by and between Magna Holdings I, LLC and U.S. Stem Cell, Inc.
10.26 (20)	Non-Competition and Non-Solicitation Agreement between U.S. Stem Cell, Inc. and GACP Stem Cell Bank LLC., dated March 3, 2017.
10.27(21)	First Amendment to Lease Agreement between the Registrant and Sawgrass Business Plaza, LLC, as amended, dated November 17, 2017.
14.1(2)	Code of Business Conduct and Ethics.
31.01*	Certification of Chief Executive Officer and Chief Financial Officer (Principal Accounting Officer) pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01*	Certifications of Chief Executive Officer and Chief Financial Officer (Principal Accounting Officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS	XBRL Instance Document
101 SCH	XBRL Taxonomy Extension Schema Document
101 CAL	XBRL Taxonomy Calculation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB	XBRL Taxonomy Labels Linkbase Document
101 PRE	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith

** Indicates management contract or compensatory plan.

- (1) Incorporated by reference to the Company's Form S-1 filed with the Securities and Exchange Commission (the "SEC") on February 13, 2007.
- (2) Incorporated by reference to Amendment No. 1 to the Company's Form S-1 filed with the SEC on June 5, 2007.
- (3) Incorporated by reference to Amendment No. 3 to the Company's Form S-1 filed with the SEC on August 9, 2007.
- (4) Incorporated by reference to Amendment No. 4 to the Company's Form S-1 filed with the SEC on September 6, 2007.
- (5) Incorporated by reference to Amendment No. 5 to the Company's Form S-1 filed with the SEC on October 1, 2007.
- (6) Incorporated by reference to Post-effective Amendment No. 1 to the Company's Form S-1 filed with the SEC on October 11, 2007.
- (7) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 3, 2008.
- (8) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on August 8, 2008.

[Table of Contents](#)

- (9) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on April 8, 2009.
- (10) Incorporated by reference to the Company's Annual Report on Form 10-K filed with the SEC on April 15, 2009.
- (11) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 29, 2010.
- (12) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 12, 2011.
- (13) Incorporated by reference to the Company Current Report on Form 8-K filed with the SEC on May 25, 2011.
- (14) Incorporated by reference to the Company Quarterly Report on Form 10-Q filed with the SEC on May 9, 2013.
- (15) Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 28, 2014.
- (16) Incorporated by reference to the Company Current Report on Form 8-K filed with the SEC on October 2, 2015.
- (17) Incorporated by reference to the Company Current Report on Form 8-K filed with the SEC on November 4, 2015.
- (18) Incorporated by reference to the Company Current Report on Form 8-K filed with the SEC on December 4, 2015.
- (19) Incorporated by reference to the text of the Company Current Report on Form 8-K filed with the SEC on August 3, 2016.
- (20) Incorporated by reference to the Company Current Report on Form 8-K filed with the SEC on March 8, 2017.
- (21) Incorporated by reference to the Company Annual Report on Form 10-K filed with the SEC on April 16, 2018.

SIGNATURES

Pursuant to the requirements 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.

U.S. Stem Cell, Inc.

Date: November 7, 2018

By: /s/ Mike Tomas
Mike Tomas
Chief Executive Officer &
President and Principal Financial
and Accounting Officer

AMENDMENT TO ASSET SALE AND LEASE AGREEMENT

This AMENDMENT TO ASSET SALE AND LEASE AGREEMENT (this “**Amendment**”) is signed this ___ day of June 2018 but is effective as of the 9th day of May 2018 (the “**Effective Date**”), by and between GACP STEM CELL BANK LLC, a Florida limited liability company (“**Lessor**”), and U.S. STEM CELL, INC., a Florida corporation (“**Lessee**”). Lessor and Lessee are sometimes referred to herein individually as a “**Party**,” and collectively as the “**Parties**.”

RECITALS

WHEREAS, Lessor and Lessee on March 3, 2017, entered into that certain Asset Sale and Lease Agreement (the “**Agreement**”), a copy of which is attached hereto as **Exhibit A**; and

WHEREAS, pursuant to the Agreement, the Parties, among other matters established an ongoing business and operational relationship with respect to the establishment and operation of stem cell treatment clinics (the “**Business Relationship**”); and

WHEREAS, in accordance with the Agreement, the Parties are required to and have been conducting the Business Relationship in accordance with all applicable federal, state and local laws, regulations and rules (“**Applicable Laws**”); and

WHEREAS, May 9, 2018, certain actions of the United States Department of Justice have occurred and may continue to occur (collectively, “**DOJ Actions**”) which may affect aspects of the performance by Lessor and Lessee of the Business Relationship pursuant to the Agreement; and

WHEREAS, Lessor and Lessee therefore desire to take into account the actual and potential effect of DOJ Actions upon their performance of the Agreement and to modify accordingly certain provisions of the Agreement.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. The above Recitals are true and correct and are incorporated herein by reference.

2. Section 12.01 of the Agreement is hereby amended by inserting immediately after the end of the last sentence of the original text of the Section the following provisions: “Notwithstanding the foregoing provisions of this Section 12.01 or any other provision of this Agreement to the contrary, Lessor and Lessee agree to suspend as of May 9, 2018, Lessor’s obligation hereunder to open six (6) stem cell clinics within the first two (2) years following the Closing Date, and such two (2) year period shall cease to run and shall be deemed tolled until such mutually satisfactory date as Lessor and Lessee may in future agree in a signed writing, whereupon such period shall resume running for such time as remained for it to run as of the



Effective Date. In addition, for so long as such obligation of Lessor to open stem cell clinics remains suspended, so too shall be suspended the monthly aggregate number of stem cell kits set forth for purchase in a given month in the financial model for six (6) clinics attached to the Agreement as **Exhibit C.**”

3. Each of the Parties hereby affirms, agrees and covenants that, in continuing to perform the remainder of the Agreement and the Business Relationship not hereby suspended, it shall in good faith use its best efforts to comply with all Applicable Laws.

4. No other changes, modifications, or additions to the Agreement are made hereby and except as amended hereunder, the Parties agree and acknowledge that the Agreement is ratified, approved and confirmed and is in full force and effect.

5. All capitalized terms not otherwise defined in this Amendment shall have the meanings given in the Agreement.

IN WITNESS WHEREOF, the parties to this Amendment have caused this Amendment to be executed by their duly authorized respective officers as of the date first written above, but effective as of the Effective Date

GACP STEM CELL BANK LLC

By: _____
Name:
Title:

U.S. STEM CELL, INC.

By: _____
Name:
Title:

Exhibit 31.1

Certification of Chief Executive Officer and Principal Accounting Officer

I, Mike Tomas, certify that:

1. I have reviewed this report on Form 10-Q of U.S Stem Cell, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2018

Name: /s/ Mike Tomas
Mike Tomas
President and Chief Executive Officer
Chief Financial Officer and Principal
Accounting Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mike Tomas, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, U.S. Stem Cell, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 7, 2018

Name: /s/ Mike Tomas
Mike Tomas
President and Chief Executive Officer Chief
Financial Officer and Principal Accounting
Officer