

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

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 0-10909

NEOSTEM, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

22-2343568  
(I.R.S. Employer  
Identification No.)

420 LEXINGTON AVE, SUITE 450 NEW YORK, NEW YORK  
(Address of principal executive offices)

10170  
(zip code)

Issuer's telephone number, including area code: 212-584-4180

(Former name, former address and former fiscal year,  
if changed since last report)

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 is a shell company (as defined in  
Rule 12b-2 of the Exchange Act).  
Yes  No

26,501,077 SHARES, \$.001 PAR VALUE, AS OF May 9, 2007

(Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date)

Transitional Small Business Disclosure Format (check one):  Yes  No

I N D E X

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NEOSTEM, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS

	March 31, 2007	December 31, 2006
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,058,898	\$ 436,659
Accounts receivable	47,933	9,050
Prepaid expenses and other current assets	140,774	82,451
	-----	-----
Total current assets	1,247,605	528,160
Property and equipment, net	97,169	96,145
Goodwill	558,169	558,169
Other assets	10,625	12,500
	-----	-----
	\$ 1,913,568	\$ 1,194,974
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 196,035	\$ 372,348
Accrued liabilities	85,192	241,388
Note payable, due related party - current portion	118,189	125,000
Notes payable	98,571	1,313
Unearned revenues	525	2,420
Convertible debentures	--	75,000
Capitalized lease obligations - current portion	21,890	20,829
	-----	-----
Total current liabilities	520,402	838,298
Note payable, due related party - long-term portion	--	24,439
Capitalized lease obligations	32,583	40,132
	-----	-----
Total Liabilities	552,985	902,869
	-----	-----
Stockholders' Equity:		
Preferred stock; authorized, 5,000,000 shares		
Series B convertible redeemable preferred stock, liquidation value 10 shares of common stock per share; \$0.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares	100	100
Common stock, \$.001 par value; authorized, 500,000,000 shares; issued and outstanding, 26,464,192 shares at March 31, 2007 and 20,781,214 shares at December 31, 2006	26,464	20,782
Additional paid-in capital	23,908,159	20,949,654
Unearned compensation	(451,040)	(371,666)
Accumulated deficit	(22,123,100)	(20,306,765)
	-----	-----
Total stockholders' equity	1,360,583	292,105
	-----	-----
	\$ 1,913,568	\$ 1,194,974
	=====	=====

See accompanying notes to consolidated financial statements

NEOSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
	-----	-----
Revenues	\$ 55,895	\$ 6,262
Direct costs	1,253	4,467
	-----	-----
Gross profit	54,642	1,795
Selling, general and administrative	1,873,097	939,234
	-----	-----
Operating loss	(1,818,455)	(937,439)
Other income (expense):		
Interest income	12,350	539
Interest expense	(10,230)	(192,610)
Interest expense - Series A mandatorily redeemable convertible preferred stock	--	(9,934)
	-----	-----
Net loss	\$ (1,816,335)	\$ (1,139,444)
	=====	=====
Net loss per common share	\$ (.07)	\$ (.15)
	=====	=====
Weighted average common shares outstanding	24,716,525	7,558,153
	=====	=====

See accompanying notes to consolidated financial statements

NEOSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Three Months Ended March 31,	
	----- 2007 -----	----- 2006 -----
Cash flows from operating activities:		
Net loss	\$(1,816,335)	\$(1,139,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common shares issued and stock options granted for services rendered and interest expense	567,335	220,766
Depreciation	9,691	5,627
Amortization of debt discount	--	65,862
Series A mandatorily redeemable convertible preferred stock dividends	--	9,934
Deferred acquisition costs	1,253	4,467
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(57,700)	(144,852)
Accounts receivable	(38,883)	--
Unearned revenues	(1,895)	(6,262)
Accounts payable, accrued expenses, and other current liabilities	(363,760)	156,180
	-----	-----
Net cash used in operating activities	(1,700,294)	(827,722)
	-----	-----
Cash flows from investing activities:		
Acquisition property and equipment	(10,716)	--
	-----	-----
Net cash used in investing activities	(10,716)	--
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of common stock	2,317,478	26,500
Proceeds from advances on notes payable	138,232	180,397
Payments of capitalized lease obligations	(6,489)	(5,980)
Proceeds from sale of convertible debentures	--	250,000
Repayments of notes payable	(115,972)	(83,000)
	-----	-----
Net cash provided by financing activities	2,333,249	367,917
	-----	-----
Net increase/(decrease) in cash and cash equivalents	622,239	(459,805)
Cash and cash equivalents at beginning of period	436,659	488,872
	-----	-----
Cash and cash equivalents at end of period	\$ 1,058,898	\$ 29,067
	=====	=====

Three Months Ended March 31,

----- 2007 -----	----- 2006 -----
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Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:

Interest	\$ 10,230	\$ 4,679
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Supplemental Schedule of Non-cash Financing Activities:

Net accrual of dividends on Series A preferred stock	--	9,934
Issuance of common stock for capital commitment	165,000	--
Issuance of restricted common stock for services	43,125	--
Issuance of common stock for services rendered	13,637	25,150
Issuance of common stock for compensation	53,910	--
Issuance of warrants for services	35,575	875
Compensatory element of stock options	205,817	52,022

See accompanying notes to consolidated financial statements.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 - The Company

NeoStem, Inc. ("NeoStem") was incorporated under the laws of the State of Delaware in September 1980 under the name Fidelity Medical Services, Inc.

NeoStem is in the business of operating a commercial autologous (donor and recipient are the same) adult stem cell bank and is pioneering the pre-disease collection, processing and long-term storage of adult stem cells that donors can access for their own present and future medical treatment. On January 19, 2006 we consummated the acquisition of the assets of NS California, Inc., a California corporation ("NS California") relating to NS California's business of collecting and storing adult stem cells. Effective with the acquisition, the business of NS California became our principal business, rather than our historic business of providing capital and business guidance to companies in the healthcare and life science industries. The Company provides adult stem cell processing, collection and banking services with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs.

Prior to the NS California acquisition, the business of the Company was to provide capital and business guidance to companies in the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Additionally, through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. From June, 2002 to March, 2007 the Company was engaged in the "run off" of such extended warranties and service contracts. As of March 31, 2007 the recognition of revenue from the sale of extended warranties and service contracts was completed.

On August 29, 2006, our stockholders approved an amendment to our Certificate of Incorporation to effect a reverse stock split of our Common Stock at a ratio of one-for-ten shares and to change our name from Phase III Medical, Inc. to NeoStem, Inc. All numbers in this report have been adjusted to reflect the reverse stock split which was effective as of August 31, 2006.

## Note 2 - Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2007 and December 31, 2006, the results of operations for the three months ended March 31, 2007 and 2006 and the cash flows for the three months ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2006 consolidated balance sheet has been derived from the audited consolidated financial statements at that date included in the Company's Annual Report on Form 10-K. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

**Revenue Recognition:** The Company initiated the collection and banking of autologous adult stem cells in the fourth quarter of 2006. The Company recognizes revenue related to the collection and cryopreservation of autologous adult stem cells when the cryopreservation process is completed which is generally twenty four hours after cells have been collected. Revenue related to advance payments of storage fees are recognized ratably over the period covered by the advanced payments. The Company also earns revenue, in the form of start up fees, from physicians seeking to establish autologous adult stem cell collection centers. These fees are in consideration of the Company establishing a service territory for the physician. Start up fees are recognized once the agreement has been signed and the physician has been qualified by the Company's accreditation committee.

The Company had sold, via the Internet, through partnerships and directly to consumers, extended warranty service contracts for seven major consumer products. The Company recognizes revenue ratably over the length of the contract. The Company purchased insurance to fully cover any losses under the service contracts from a domestic carrier. The insurance premium and other costs related to the sale are amortized over the life of the contract.

#### Recently Issued Accounting Pronouncements:

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 expands the scope of specific types of assets and liabilities that an entity may carry at fair value on its statement of financial position, and offers an irrevocable option to record the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any; SFAS No. 159 will have on its financial statements.

#### Note 3 - Acquisition of NS California

On January 19, 2006, the Company consummated the acquisition of the assets of NS California, Inc. ("NS California") relating to NS California's business of collecting and storing adult stem cells, issuing 400,000 shares of the Company's common stock with a value of \$200,000. In addition, the Company assumed certain liabilities of NS California's which totaled \$476,972. The underlying physical assets acquired from NS California were valued at \$109,123 resulting in the recognition of goodwill in the amount of \$558,169. Upon completion of the acquisition the operations of NS California were assumed by the Company and have been reflected in the Consolidated Statement of Operations since January 19, 2006. Effective with the acquisition, the business of NS California became the principal business of the Company.

#### Note 4 - Notes Payable

On December 30, 2005, the Company sold \$250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of \$220,000. These convertible notes were sold in connection with a subscription agreement between the Company and certain investors and the placement agent was WestPark Capital, Inc. ("WestPark"). (The convertible notes and warrants sold in December, 2005 and January, 2006 in the transaction in which WestPark Capital, Inc. acted as the placement agent is sometimes referred to here in as the "WestPark Private Placement") The Company recorded a debt discount associated with the conversion feature in the amount of \$83,333, which was charged to interest expense during the year ended December 31, 2006. The debt discount recorded of \$83,333 did not change the amount of cash required to payoff the principal value of these Promissory Notes, at any time during the term, which was \$250,000. As part of the WestPark Private Placement, these Promissory Notes had 41,667 detachable warrants for each \$25,000 of debt, which entitle the holder to purchase one share of the Company's Common Stock at a price of \$1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. The Promissory Notes convert to the Company's Common Stock at \$.60 per share. The Promissory Notes are convertible at anytime into shares of Common Stock at the option of the Company subsequent to the shares underlying the Promissory Notes and the shares underlying the warrants registration if the closing price of the Common Stock has been at least \$1.80 for a period of at least 10 consecutive days prior to the date on which notice of conversion is sent by the Company to the holders of the Promissory Notes. Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible notes and the warrants sold in the WestPark Private Placement. This registration statement was not made effective by July 31, 2006 and certain additional rights have accrued to the Convertible Promissory Noteholders (see below for a detailed description of these additional rights). In 2005, the Company recorded an expense of \$2,573 associated with the warrants as their fair value using the Black Scholes method.

In January 2006, the Company sold an additional \$250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of \$223,880 as part of the WestPark Private Placement. The Company recorded a debt discount associated with the conversion feature in the amount of \$129,167. For the year ended December 31, 2006, the Company charged \$127,932 of the debt discount to interest expense. The debt discount recorded of \$129,167 does not change the amount of cash required to payoff the principal value of these Promissory Notes, at any time during the term, which was \$250,000. These Promissory Notes also had 41,667 detachable warrants for each \$25,000 of debt, which entitle the holder to purchase one share of the Company's Common Stock at a price of \$1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. The Promissory Notes convert to the Company's Common Stock at \$.60 per share. The Promissory Notes are convertible at anytime into shares of Common Stock at the option of the Company subsequent to the shares underlying the Promissory Notes and the shares underlying the warrants registration if the closing price of the Common Stock has been at least \$1.80 for a period of at least 10 consecutive days prior to the date on which notice of conversion is sent by the Company to the holders of the Promissory Notes. Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible notes and the warrants sold in the WestPark Private Placement. This registration statement was not made effective by July 31, 2006 and as a result certain additional rights accrued to the Convertible Promissory Noteholders (see below for a detailed description of these additional rights). For the year ended December 31, 2006, the Company recorded as interest expense \$263,612 associated with the warrants



as their fair value using the Black Scholes method.

As mentioned previously, pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark Private Placement. In the event the Company did not do so, (i) the conversion price of the convertible promissory notes was reduced by 5% each month, subject to a floor of \$.40; (ii) the exercise price of the warrants was reduced by 5% each month, subject to a floor of \$1.00 and (iii) the warrants could be exercised pursuant to a cashless exercise provision. The Company did not have the registration statement effective by July 31, 2006 and requested that the investors in the WestPark Private Placement extend the date by which the registration statement is required to be effective until February 28, 2007. In August, 2006 the Company filed with the SEC a registration statement registering the resale by the investors of the WestPark Private Placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark Private Placement which was made effective in November, 2006.

In an effort to improve the financial position of the Company, in July 2006, noteholders were offered the option of (A) extending the term of the convertible note for an additional four months from the maturity date in consideration for which (i) the Company shall issue to the investor for each \$25,000 in principal amount of the convertible note 5,682 shares of unregistered Common Stock; and (ii) the exercise price per warrant shall be reduced from \$1.20 to \$.80, or (B) converting the convertible note into shares of the Company's Common Stock in consideration for which (i) the conversion price per conversion share shall be reduced to \$.44; (ii) the Company shall issue to the investor for each \$25,000 in principal amount of the Note, 11,364 shares of Common Stock; (iii) the exercise price per warrant shall be reduced from \$1.20 to \$.80; and (iv) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each \$25,000 in principal amount of the convertible note at an exercise price of \$.80 per share. Pursuant to this, the investor was also asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement. This offer was terminated on August 31, 2006. By August 31, 2006 investors owning \$237,500 of the \$500,000 of convertible promissory notes had agreed to convert the convertible note into shares of the Company's Common Stock for consideration described above and investors holding \$162,500 of the \$500,000 of convertible promissory notes had agreed to extend the term of the convertible note for an additional four months from the maturity date for consideration described above.

In September 2006, a new offer was extended to the remaining noteholders to convert the convertible note into shares of the Company's Common Stock in consideration for which (i) the conversion price per conversion share shall be reduced to \$.44; (ii) the exercise price per warrant shall be reduced from \$1.20 to \$.80 and (iii) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each \$25,000 in principal amount of the convertible note at an exercise price of \$.80 per share. Pursuant to this, the investor is also being asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement.

By December 31, 2006, investors owning \$425,000 convertible promissory notes agreed to convert the convertible note into shares of the Company's Common Stock for consideration described above. The Company issued 1,073,859 shares of Common Stock with a fair value of \$692,896. In addition, the Company issued 604,166 warrants with a fair value of \$472,741 for noteholders that agreed to an early conversion of their convertible promissory notes. The Company also issued 36,932 shares of Common Stock as consideration for extending the term of the convertible notes, totaling \$162,500, for an additional four months with a fair value of \$21,023. The fair value of this Common Stock has been accounted for as interest expense. Amounts in excess of the face value of the convertible promissory notes and the fair value of the warrants issued as the result of early conversion have been accounted for as interest expense. The balance, \$75,000, of convertible promissory notes was paid off in January, 2007.

In connection with the NS California acquisition, the Company assumed a 6% note due to Tom Hirose, a former officer of NS California in the amount of \$15,812. As of December 31, 2006, \$1,313 remains unpaid. Final payment will be made in 2007.

The Company has financed certain insurance policies and has notes payable at March 31, 2007 in the amount of \$97,258 related to these policies. These notes require monthly payments and mature in less than one year.

#### Note 5 - Series A Mandatorily Redeemable Convertible Preferred Stock

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In connection with the settlement of securities class action litigation in 1994, the Company issued 1,000,000 shares of Series A \$0.07 Convertible Preferred Stock (the "Series A Preferred Stock") with an aggregate value of \$1,000,000. The following summarizes the terms of Series A Preferred Stock. The Series A Preferred Stock had a liquidation value of \$1 per share, was non-voting and convertible into common stock of the Company at a price of \$5.20 per share. Holders of Series A Preferred Stock were entitled to receive cumulative cash dividends of \$0.07 per share, per year, payable semi-annually. At December 31,

2005 there were 681,171 shares of Series A Preferred Stock outstanding.

On March 17, 2006, the stockholders of the Company voted to approve an amendment to the Certificate of Incorporation which permits the Company to issue in exchange for all 681,171 shares of Series A Preferred Stock outstanding and its obligation to pay \$538,498 (or \$.79 per share) in accrued dividends thereon, a total of 544,937 shares of Common Stock (eight tenths (.8) shares of Common Stock per share of Series A Preferred Stock). Pursuant thereto, all outstanding shares of Series A Preferred Stock were cancelled and converted into Common Stock. Therefore at March 31, 2007 and December 31, 2006 and there were no shares of Series A Preferred Stock outstanding.

#### Note 6 - Stockholders' Equity

##### ----- Common Stock:

In January 2007, the Company issued 120,000 shares of Common Stock to its intellectual property acquisition consultant, vesting as to 10,000 shares per month commencing January 2007.

In January 2007, the Company issued an aggregate of 90,000 shares of Common Stock, pursuant to the Company's Equity Participation Plan, to Wayne Marasco pursuant to Dr. Marasco's agreements to serve as Chairman of the Company's Scientific Advisory Board and consultant to the Company.

In February 2007, the term of the Company's financial advisory agreement with Duncan Capital Group LLC was extended through December 2007, and the Company issued to Duncan 150,000 shares of Common Stock as an advisory fee payment vesting monthly through December 2007.

In January and February 2007, the Company raised an aggregate of \$2,500,000 through the private placement of 2,500,000 units at a price of \$1.00 per unit (the "January 2007 private placement"). Each unit was comprised of two shares of the Company's Common Stock, one redeemable seven-year warrant to purchase one share of Common Stock at a purchase price of \$.80 per share and one non-redeemable seven-year warrant to purchase one share of Common Stock at a purchase price of \$.80 per share. The Company issued an aggregate of 5,000,000 shares of Common Stock, and warrants to purchase up to an aggregate of 5,000,000 shares of Common Stock at an exercise price of \$0.80 per share. Emerging Growth Equities, Ltd ("EGE"), the placement agent for the January 2007 private placement, received a cash fee equal to \$171,275 and is entitled to expense reimbursement not to exceed \$50,000. The Company also issued to EGE redeemable seven year warrants to purchase 342,550 shares of Common Stock at a purchase price of \$.50 per share, redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share and non-redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share. The net proceeds of this offering was approximately \$2,317,500.

In February 2007, the Company issued 300,000 shares of its Common Stock, resulting in a charge to operations of \$165,000, to a financial advisor in connection with a commitment for the placement of up to \$3,000,000 of the Company's preferred stock.

##### Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company. A total of 13,406,525 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of March 31, 2007 at prices ranging from \$0.47 to \$1.20 and expiring through February 2014.

In connection with the January 2007 private placement the Company issued warrants to purchase up to an aggregate of 5,000,000 shares of Common Stock at an exercise price of \$0.80 per share. The Company also issued to EGE redeemable seven year warrants to purchase 342,550 shares of Common Stock at a purchase price of \$.50 per share, redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share and non-redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share.

In March 2007, the Company engaged Trilogy Capital Partners, Inc. ("Trilogy") as a marketing and investor relations consultant. Pursuant to this agreement, the Company issued to Trilogy warrants to purchase 1,500,000 shares of its Common Stock at a purchase price of \$.47 per share. Such warrants vest over a 12 month period at a rate of 125,000 per month, subject to acceleration in certain circumstances, and are exercisable until April 30, 2010. During the three months ended March 31, 2007 the Company recognized \$35,575 as consulting expense related to the vesting of these warrants.

At March 31, 2007 the outstanding warrants by range of exercise prices are as follows:

Exercise Price	Number Outstanding March 31, 2007	Weighted Average Remaining Contractual Life (years)	Number Exercisable March 31, 2007
\$0.47 to \$0.62	1,857,550	3.77	357,550
\$0.62 to \$0.91	11,229,053	5.25	11,229,053
\$0.91 to \$1.20	319,922	1.76	319,922
	13,406,525		11,906,525
	=====		=====

Options:

The Company's Equity Participation Plan (the "Plan") permits the grant of share options and shares to its employees, Directors, consultants and advisors for up to 50,000,000 shares of common stock as stock compensation. Stock options under the Equity Participation Plan are generally granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a period determined at time of grant and generally expire 10 years from the grant date.

The Company's results for the three month periods ended March 31, 2007 and 2006 include share-based compensation expense totaling \$205,817 and \$52,022, respectively. Such amounts have been included in the consolidated statements of operations within general and administrative expenses.

Stock option compensation expense is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award.

The range of assumptions made in calculating the fair values of options are as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Expected term (in years)	10	10
Expected volatility	137% - 152%	200%
Expected dividend yield	0%	0%
Risk-free interest rate	4.51% to 4.90%	4.50%

Stock option activity under the 2003 Equity Participation Plan is as follows:

	Number of Shares(1)	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2006	4,446,000	\$ .30 - \$2.50	\$ 0.73		
Granted	1,170,000	\$ .27 - \$ .80	\$ 0.56		
Exercised	--	--	--		
Expired	--	--	--		
Cancelled	--	--	--		
Balance at March 31, 2007	5,616,000	\$ .27 - \$2.50	\$ 0.69	8.98	\$ 103,740
Vested and Exercisable at March 31, 2007	2,765,500		\$ 0.68	8.34	\$ 66,640

(1) -- All options are exercisable for a period of ten years.

Exercise Price	Number Outstanding March 31, 2007	Weighted Average Remaining Contractual Life (years)	Number Exercisable March 31, 2007
\$0.27 to \$0.72	4,585,000	9.06	2,174,500
\$0.72 to \$1.16	620,000	8.88	420,000
\$1.16 to \$1.61	261,000	7.92	141,000
\$1.61 to \$2.05	30,000	6.46	30,000
\$2.05 to \$2.50	120,000	9.18	--
	5,616,000		2,765,500

Options are usually granted at an exercise price at least equal to the fair value of the common stock at the grant date and may be granted to employees, Directors, consultants and advisors of the Company.

As of March 31, 2007, there was approximately \$1,759,000 of total unrecognized compensation costs related to unvested stock option awards which are expected to vest over a weighted average life of 1.54 years.

	Options	Weighted Average Grant Date Fair Value
Non-Vested at December 31, 2006	2,115,833	\$ 0.63
Issued	1,170,000	\$ 0.54
Canceled	--	--
Vested	(435,333)	\$ 0.60
Non-Vested at March 31, 2007	2,850,500	\$ 0.60

The total value of shares vested during the three months ended March 31, 2007 was \$205,817.

#### Note 7 - Segment Information

Until April 30, 2001, the Company operated in two segments; as a reinsurer and as a seller of extended warranty service contracts through the Internet. The reinsurance segment has been discontinued and the Company's remaining revenues are derived from the run-off of its sale of extended warranties and service contracts via the Internet. Additionally, the Company established a new business in the banking of adult autologous stem cells sector. The Company's operations are conducted entirely in the U.S. Although the Company has realized minimal revenue from the banking of adult autologous stem cells, the Company will be operating in two segments until the "run-off" is completed. As of March 31, 2007 the run off of the sale of extended warranties and service contracts was completed.

## Note 8 - Related Party Transactions

On January 20, 2006, Mr. Robert Aholt, Jr. tendered his resignation as Chief Operating Officer of the Company. In connection therewith, on March 31, 2006, the Company and Mr. Aholt entered into a Settlement Agreement and General Release (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company agreed to pay to Mr. Aholt the aggregate sum of \$250,000 (less applicable Federal and California state and local withholdings and payroll deductions), payable, initially over a period of two years in biweekly installments of \$4,807.69 commencing on April 7, 2006, except that the first payment was in the amount of \$9,615. In July, 2006 this agreement was amended to call for semi-monthly payments of \$10,417 for the remaining 21 months. In the event the Company breaches its payment obligations under the Settlement Agreement and such breach remains uncured, the full balance owed shall become due. The Company and Mr. Aholt each provided certain general releases. Mr. Aholt also agreed to continue to be bound by his obligations not to compete with the Company and to maintain the confidentiality of Company proprietary information. At March 31, 2007, \$118,189 was due Mr. Aholt pursuant to the terms of the Settlement Agreement.

## Note 9 - Subsequent Events

In April 2007, the Company received two provisional licenses from the State of New York. The first license permits the Company's California facility to collect, process and store hematopoietic progenitors cells ("HPCs") collected from New York residents. The second license permits solicitation in New York relating to the collection of HPCs. Each license is subject to certain limitations stated therein.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

This Quarterly Report on Form 10-QSB and the documents incorporated herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Quarterly Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "plan", "intend," "may," "will," "expect," "believe", "could," "anticipate," "estimate," or "continue" or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## GENERAL

On January 19, 2006 the Company consummated the acquisition of the assets of NS California, Inc., a California corporation ("NS California") relating to NS California's business of collecting and storing adult stem cells. NS California had been a company to which NeoStem had been providing business guidance. Effective with the acquisition, the business of NS California became the principal business of the Company. The Company now provides adult stem cell collection, cryopreservation and banking services with the goal of making stem cell collection and storage widely available, so the general population will have the opportunity to store their own stem cells for future healthcare needs. The Company also hopes to become the leading provider of adult stem cells for therapeutic use in the burgeoning field of regenerative medicine for potentially addressing heart disease, certain types of cancer and other critical health problems.

Until the NS California acquisition, the business of the Company was providing capital and business guidance to companies in the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Additionally, through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. From June 2002 to March 2007 the Company was engaged in the "run off" of such extended warranties and service contracts. As of March 31, 2007 the recognition of revenue from the sale of extended warranties and service contracts was completed.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2007 Compared To Three Months Ended March 31, 2006

The Company's initial sales strategy is to develop a nationwide network of adult stem cell collection centers and medical providers, enabling health conscious consumers to donate and store their own stem cells with NeoStem for personal use years or decades later in times of critical medical need. Medical providers that are interested in participating in providing this service to patients in their local area are required to pay a start up fee in consideration for exclusivity in that service area. Sales and marketing efforts to create this network started in the fourth quarter of 2006 and continued in the quarter ending March 31, 2007. To that end the Company recognized revenues of \$54,000 from the receipt of start up fees in the quarter ended March 31, 2007.

The Company also recognized revenues from the sale of extended warranties and service contracts of \$1,697 for the three months ended March 31, 2007 as compared to \$6,262 for the three months ended March 31, 2006. These revenues were derived entirely from revenues deferred over the life of extended warranties and service contracts sold in prior periods. As of March 31, 2007 the recognition of revenue from the sale of extended warranties and service contracts was completed. Direct costs related to these sales were \$1,253 and \$4,467 for the three months ended March 31, 2007 and 2006, respectively.

Selling, general and administration expenses increased approximately \$933,900 to \$1,873,097 for the three months ended March 31, 2007 as compared to \$939,234 for the three months ended March 31, 2006. Since the acquisition of NS California in January, 2006 the Company's expenses have been increasing as the Company initiated sales and marketing efforts to promote the collection and banking of adult stems cells. The increase in selling, general and administrative expenses is primarily due to increases in marketing efforts through the hiring of staff, preparation of marketing materials, attending key marketing events and retaining the services of specialized marketing consulting firms. To that end payroll and related expenses increased \$240,121, marketing expenses increased \$62,254, consulting fees increased \$158,537, and the compensatory value of common stock options granted increased by \$221,919. The Company issued 300,000 shares of its Common Stock, resulting in a charge to operating expenses of \$165,000, to a financial advisor in connection with a commitment for the placement of up to \$3,000,000 of the Company's preferred stock. The Company applied for licensure for stem cell processing in New York which resulted in additional expenses of \$25,000. Increases in expenses such as legal expense, accounting fees, investor relations, stock transfer fees, rent, and director fees (in the form of restricted stock grants) were offset by decreases in settlement expenses with the Company's former Chief Operating Officer, investment banking fees, and laboratory operations which resulted in a net increase in operating expenses of \$61,031.

Interest expense decreased by approximately \$182,300 for the three months ended March 31, 2007 in comparison to the three months ended March 31, 2006. This decrease is due to the conversion or payoff of the WestPark convertible debt issued in December 2005 and January 2006 which resulted in a \$183,600 reduction in interest expense. This decrease was offset by a small increase in interest related to financing insurance policies. The conversion of Series A mandatorily redeemable convertible preferred stock to common stock eliminated the obligation to accrue dividends in 2006 and therefore no interest expense related to this dividend obligation was incurred in the quarter ending March 31, 2007.

For the reasons cited above the net loss for the three months ended March 31, 2007 increased to \$1,816,336 from \$1,139,444 for the three months ended March 31, 2006.

## LIQUIDITY AND CAPITAL RESOURCES

The following chart represents the net funds provided by or used in operating, financing and investment activities for each period indicated:

	Three Months Ended	
	March 31, 2007	March 31, 2006
Cash used in		
Operating Activities	\$ (1,700,294)	\$ (827,722)
Cash used in		
Investing Activities	\$ (10,716)	\$ --
Cash provided by		
Financing Activities	\$ 2,333,249	\$ 367,917

The Company incurred a net loss of \$1,816,335 for the three months ended March 31, 2007. Such loss adjusted for non-cash charges consisting of common stock, options and warrants issued for services totaling \$567,335 and amortization and depreciation of \$9,691 resulted in cash used in operations totaling \$1,700,294 for the three months ended March 31, 2007. This use of cash included additions to prepaid expenses and other current assets of \$57,700, accounts receivable \$38,883 and reductions in accounts payable and accrued expenses of \$363,759.





To meet its cash requirements for the three months ended March 31, 2007, the Company relied primarily on the sale of shares of Common Stock resulting in net proceeds of \$2,317,478. In addition, the Company incurred new debt totaling \$138,232 to finance certain insurance policies for the company offset by debt payments totaling \$115,972 to pay off WestPark Convertible debt of \$75,000 and payments of \$40,972 for new debt incurred to finance insurance policies.

#### INFLATION

The Company does not believe that its operations have been materially influenced by inflation for the three months ended March 31, 2007, a situation which is expected to continue for the foreseeable future.

ITEM 3 CONTROLS AND PROCEDURES

(a) Our chief executive officer and chief financial officer have concluded, based on their evaluation of the effectiveness of our "disclosure controls and procedures" as of the end of the period covered by this quarterly report on Form 10-QSB (as defined under Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934), that our disclosure controls and procedures were effective as of such date to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgements in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

(b) During our last fiscal quarter and subsequent to our evaluation, there were no significant changes in internal controls or other factors that have materially affected, or reasonably likely to materially affect our internal controls over financial reporting.

NEOSTEM, INC.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In January 2007, the Company issued 120,000 shares of Common Stock to its intellectual property acquisition consultant, vesting as to 10,000 shares per month commencing January 2007.

In February 2007, the term of the Company's financial advisory agreement with Duncan Capital Group LLC was extended through December 2007, and the Company issued to Duncan 150,000 shares of Common Stock as an advisory fee payment pursuant to the terms of the agreement.

In January and February 2007, the Company raised an aggregate of \$2,500,000 through the private placement of 2,500,000 units at a price of \$1.00 per unit (the "January 2007 private placement"). Each unit was comprised of two shares of the Company's Common Stock, one redeemable seven-year warrant to purchase one share of Common Stock at a purchase price of \$.80 per share and one non-redeemable seven-year warrant to purchase one share of Common Stock at a purchase price of \$.80 per share. The Company issued an aggregate of 5,000,000 shares of Common Stock, and warrants to purchase up to an aggregate of 5,000,000 shares of Common Stock at an exercise price of \$0.80 per share. Emerging Growth Equities, Ltd ("EGE"), the placement agent for the January 2007 private placement, received a cash fee equal to \$171,275 and is entitled to expense reimbursement not to exceed \$50,000. The Company also issued to EGE redeemable seven year warrants to purchase 343,550 shares of Common Stock at a purchase price of \$.50 per share, redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share and non-redeemable seven-year warrants to purchase 171,275 shares of Common Stock at a purchase price of \$.80 per share. The net proceeds of this offering was approximately \$2,317,500.

In February 2007, the Company issued 300,000 shares of its Common Stock to a financial advisor in connection with a commitment for the placement of up to \$3,000,000 of the Company's preferred stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

NEOSTEM, INC. (Registrant)

By: /s/ Robin Smith, MD  
-----  
Robin Smith MD,  
Chief Executive Officer

Date: May 9, 2007

CERTIFICATION

I, Robin Smith, MD, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of NeoStem, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly;
4. The small business registrant's other certifying officer(s) (if any) 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)) 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 small business registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the small business 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 quarterly report based on such evaluation; and
  - c) disclosed in this quarterly report any change in the small business registrant's internal control over financial reporting that occurred during the small business registrant's most recent fiscal quarter (the small business registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business registrant's internal control over financial reporting;
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting to the small business registrant's auditors and the audit committee of the small business 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 small business 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 small business registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ Robin, Smith, MD

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Name: Robin Smith, MD  
Title: Chief Executive Officer of NeoStem, Inc.

A signed original of this written statement required by Section 302 has been provided to NeoStem, Inc. and will be retained by NeoStem, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

## CERTIFICATION

I, Larry A. May, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of NeoStem, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly;
4. The small business registrant's other certifying officer(s) (if any) 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)) 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 small business registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the small business 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 quarterly report based on such evaluation; and
  - c) disclosed in this quarterly report any change in the small business registrant's internal control over financial reporting that occurred during the small business registrant's most recent fiscal quarter (the small business registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business registrant's internal control over financial reporting;
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting to the small business registrant's auditors and the audit committee of the small business registrant's board of directors (or persons performing the equivalent functions):
  - b) 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 small business 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 small business registrant's internal control over financial reporting.

Date: May 9, 2007

/s/ Larry A. May

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Name: Larry A. May

Title: Chief Financial Officer of NeoStem, Inc.

A signed original of this written statement required by Section 302 has been provided to NeoStem, Inc. and will be retained by NeoStem, Inc. and furnished to the Securities and Exchange Commission or its staff upon

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NeoStem, Inc. (the "Company") on Form 10-QSB for the period ended March 31, 2007 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Smith MD, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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 of the Company as of the dates presented and the result of operations of the Company for the periods presented.

Dated: May 9, 2007

/s/ Robin Smith, MD  
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Robin Smith, MD  
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-QSB or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to NeoStem, Inc. and will be retained by NeoStem, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NeoStem, Inc. (the "Company") on Form 10-QSB for the period ended March 31, 2007 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Larry A. May, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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 of the Company as of the dates presented and the result of operations of the Company for the periods presented.

Dated: May 9, 2007

/s/ Larry A. May  
-----  
Larry A. May  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-QSB or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to NeoStem, Inc. and will be retained by NeoStem, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.