UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

o 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 001-33650

NEOSTEM, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	22-2343568
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
420 LEXINGTON AVE, SUITE 350 NEW YORK, NEW YORK	10170
(Address of principal executive offices)	(zip code)

Registrant'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 x No o

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

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

159,414,582 SHARES, $.001 PAR VALUE, AS OF November 13, 2012

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

NEOSTEM, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
NEOSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,390,611	$ 3,935,160
Accounts receivable trade, net of allowance for doubtful accounts of $442,302 and $187,600, respectively	1,794,579	1,010,475
Inventory	448,045	647,745
Prepaids and other current assets	3,228,775	649,739
Assets related to discontinued operations	37,024,245	32,367,217
Total current assets	47,886,255	38,610,336
Property, plant and equipment, net	11,067,570	11,616,053
Goodwill	11,117,770	11,117,770
Intangible assets, net	14,632,130	15,086,038
Other assets	932,474	3,326,938
Assets related to discontinued operations	43,169,861	75,570,645
	$ 128,806,060	$ 155,327,780
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 2,570,879	$ 2,287,201
Accrued liabilities	1,385,510	1,090,176
Notes payable	135,222	148,062
Mortgages payable	3,493,708	3,635,061
Unearned revenues	778,088	1,121,134
Other liabilities	2,728,000	—
Liabilities related to discontinued operations	39,343,867	28,165,010
Total current liabilities	50,435,274	36,446,644
Long-term Liabilities		
Deferred income taxes	3,774,655	3,774,655
Unearned revenues	143,734	169,198
Notes payable	48,317	—
Derivative liabilities	427,553	474,463
Acquisition-related contingent consideration	3,130,000	3,130,000
Other long-term liabilities	139,276	—
Liabilities related to discontinued operations	14,279,651	26,388,976
Total long-term liabilities	21,943,186	33,937,292
Commitments and Contingencies		
Redeemable Securities		
Convertible Redeemable Series E Preferred Stock; 10,582,011 shares designated, liquidation value $1.00 per share; issued and outstanding 3,135,411 and 6,662,748 shares, at September 30, 2012 and December 31, 2011, respectively	2,721,132	4,811,326

EQUITY		
Shareholders' Equity		
Preferred stock; authorized, 20,000,000 shares Series B convertible redeemable preferred stock liquidation value, 1 share of common stock, $.01 par value; 825,000 shares designated; issued and outstanding, 10,000 shares at September 30, 2012 and December 31, 2011	100	100
Common stock, $.001 par value, authorized 500,000,000 shares; issued and outstanding, 155,141,086 and 109,329,587 shares, at September 30, 2012 and December 31, 2011, respectively	155,141	109,330
Additional paid-in capital	225,528,652	200,858,638
Accumulated deficit	(181,622,667)	(143,094,854)
Accumulated other comprehensive income	4,148,767	4,152,343
Total NeoStem, Inc. shareholders' equity	48,209,993	62,025,557
Noncontrolling interests	5,496,475	18,106,961
Total equity	53,706,468	80,132,518
	$ 128,806,060	$ 155,327,780

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 4,433,961	$ 2,177,013	$ 11,578,783	$ 5,836,978
Cost of revenues	3,747,490	1,891,334	9,439,185	5,336,079
Gross profit	686,471	285,679	2,139,598	500,899
Research and development	2,828,210	1,540,441	7,490,002	5,656,875
Selling, general, and administrative	5,947,264	5,975,688	17,092,493	21,293,386
Operating Expenses	8,775,474	7,516,129	24,582,495	26,950,261
Operating loss	(8,089,003)	(7,230,450)	(22,442,897)	(26,449,362)
Other income (expense):				
Other (expense) income, net	(74,881)	1,292,911	36,924	1,572,807
Interest expense	(384,168)	(632,837)	(1,359,187)	(2,060,068)
	(459,049)	660,074	(1,322,263)	(487,261)
Net loss from continuing operations	(8,548,052)	(6,570,376)	(23,765,160)	(26,936,623)
Income (loss) from discontinued operations - net	152,095	(758,088)	(27,260,584)	(792,113)
Net loss	(8,395,957)	(7,328,464)	(51,025,744)	(27,728,736)
Less - loss from continuing operations attributable to noncontrolling interests	(59,572)	(35,222)	(248,294)	(237,127)
Less - income (loss) from discontinued operations attributable to noncontrolling interests	74,524	53,193	(12,513,069)	796,206
Net loss attributable to NeoStem, Inc.	(8,410,909)	(7,346,435)	(38,264,381)	(28,287,815)
Warrant inducements	(1,012,819)	—	(1,012,819)	—
Preferred dividends	(67,197)	(150,655)	(263,432)	(508,070)
Net loss attributable to NeoStem, Inc. common shareholders	$ (9,490,925)	$ (7,497,090)	$ (39,540,632)	(28,795,885)
Amounts Attributable to NeoStem, Inc. common shareholders:				
Loss from continuing operations	$ (8,488,480)	$ (6,535,154)	$ (23,516,866)	$ (26,699,496)
Income (loss) from discontinued operations - net of taxes	77,571	(811,281)	(14,747,515)	(1,588,319)
Warrant inducements	(1,012,819)	—	(1,012,819)	—
Preferred dividends	(67,197)	(150,655)	(263,432)	(508,070)
Net loss attributable to NeoStem, Inc. common shareholders	$ (9,490,925)	$ (7,497,090)	$ (39,540,632)	$ (28,795,885)
Basic and diluted (loss) per share attributable to NeoStem, Inc. common shareholders:				
Continuing operations	$ (0.06)	$ (0.07)	$ (0.18)	$ (0.32)
Discontinued operations	$ —	$ (0.01)	$ (0.11)	(0.02)
NeoStem, Inc. common shareholders	$ (0.06)	$ (0.08)	$ (0.30)	$ (0.35)
Weighted average common shares outstanding	148,197,077	94,102,589	131,533,057	82,775,215

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	$ (8,395,957)	$ (7,328,464)	$ (51,025,744)	$ (27,728,736)
Other comprehensive income (loss):				
Foreign currency translation elimination on discontinued operations	—	—	(169,993)	—
Foreign currency translation	(50,128)	2,134,363	317,294	2,222,569
Total other comprehensive (loss) income	(50,128)	2,134,363	147,301	2,222,569
Comprehensive loss	(8,446,085)	(5,194,101)	(50,878,443)	(25,506,167)
Comprehensive (loss) income attributable to noncontrolling interests	(9,611)	(705,130)	(12,610,486)	1,609,135
Comprehensive net loss attributable to NeoStem, Inc. common shareholders	$ (8,436,474)	$ (4,488,971)	$ (38,267,957)	$ (27,115,302)

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Series B Convertible Preferred Stock		Common Stock		Additional Paid in	Accumulated Other Comprehensive	Accumulated	Total NeoStem, Inc. Shareholders'	Non-Controlling Interest in	
	Shares	Amount	Shares	Amount	Capital	Income	Deficit	Equity	Subsidiary	Total Equity
Balance at December 31, 2011	10,000	$ 100	109,329,587	$ 109,330	$ 200,858,638	$ 4,152,343	$ (143,094,854)	$ 62,025,557	$ 18,106,961	$ 80,132,518
Net loss	—	—	—	—	—	—	(38,264,381)	(38,264,381)	(12,761,363)	(51,025,744)
Foreign currency translation	—	—	—	—	—	(3,576)	—	(3,576)	150,877	147,301
Share-based compensation	—	—	2,634,028	2,634	5,468,532	—	—	5,471,166	—	5,471,166
Proceeds from issuance of common stock	—	—	28,765,623	28,766	12,131,461	—	—	12,160,227	—	12,160,227
Proceeds from warrant exercises	—	—	10,160,521	10,160	5,915,771	—	—	5,925,931	—	5,925,931
Repayment of Series E Preferred Principal and Dividends	—	—	2,792,375	2,792	1,199,425	—	(263,432)	938,785	—	938,785
Warrant inducements	—	—	1,458,952	1,459	(45,175)	—	—	(43,716)	—	(43,716)
Balance at September 30, 2012	10,000	$ 100	155,141,086	$ 155,141	$ 225,528,652	$ 4,148,767	$ (181,622,667)	$ 48,209,993	$ 5,496,475	$ 53,706,468

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	$ (51,025,744)	$ (27,728,736)
Loss from discontinued operations	27,260,584	792,113
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock, stock options and warrants issued as payment for compensation, services rendered and interest expense	5,471,166	8,164,814
Depreciation and amortization	1,160,596	1,221,346
Amortization of preferred stock discount and issuance cost	1,195,217	1,903,703
Changes in fair value of derivative liability	(46,910)	(1,661,049)
Write off of acquired in-process research and development	—	1,150,000
Loss on disposal of assets	12,964	—
Contributions paid with common stock	—	607,363
Bad debt expense	328,003	59,538
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Prepaid expenses and other current assets	4,337	(223,527)
Accounts receivable	(1,112,107)	(944,206)
Inventory	199,700	779,043
Unearned revenues	(368,510)	(159,900)
Other assets	(187,123)	125,489
Accounts payable, accrued expenses and other current liabilities	711,997	(46,418)
Net cash used in operating activities - continuing operations	(16,395,830)	(15,960,427)
Net cash provided by (used in) operating activities - discontinued operations	12,168,199	(1,562,004)
Net cash used in operating activities	(4,227,631)	(17,522,431)
Cash flows from investing activities:		
Cash received in acquisitions	—	227,942
Cash received in divestiture	2,728,000	—
Change in restricted cash used as collateral for notes payable	—	(752)
Acquisition of property and equipment	(197,577)	(506,783)
Net cash provided by (used in) investing activities - continuing operations	2,530,423	(279,593)
Net cash used in investing activities - discontinued operations	(5,218,531)	(2,848,309)
Net cash used in investing activities	(2,688,108)	(3,127,902)
Cash flows from financing activities:		
Net proceeds from exercise of options	—	7,100
Net proceeds from exercise of warrants	5,925,931	—
Net proceeds from issuance of capital stock	12,160,227	21,167,682
Repayment of mortgage loan	(141,353)	(109,492)
Proceeds from notes payable	223,433	149,766
Repayment of notes payable	(187,956)	(132,891)
Repayment of debt to related party	—	(3,000,000)
Repayment of preferred stock	(2,258,852)	(175,000)
Payment of dividend for preferred stock	(56,850)	—

Payment for warrant inducement	(43,716)	—
Net cash provided by financing activities - continuing operations	15,620,864	17,907,165
Net cash used in financing activities - discontinued operations	(5,198,330)	(1,390,641)
Net cash provided by financing activities	10,422,534	16,516,524
Impact of changes of foreign exchange rates	(72,136)	234,756
Net increase/(decrease) in cash and cash equivalents	3,434,659	(3,899,053)
Cash and cash equivalents at beginning of period	12,745,432	15,612,391
Cash and cash equivalents at end of period	16,180,091	11,713,338
Less cash and cash equivalents of discontinued operations at end of period	10,789,480	1,548,351
Cash and cash equivalents of continuing operations at end of period	$ 5,390,611	$ 10,164,987
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 1,655,600	$ 1,238,400
Taxes	1,841,400	1,463,100
Supplemental Schedule of non-cash investing activities:		
Capitalized interest	154,700	235,700
Supplemental schedule of non-cash financing activities		
Common stock and warrants issued with the acquisition of PCT	—	17,200,000
Common stock issued pursuant to the redemption of Convertible Redeemable Series E 7% Preferred Stock	1,026,600	2,785,400
Common stock issued in payment of dividends for the Convertible Redeemable Series E 7% Preferred Stock	175,700	622,500
Dividend to related party reinvested as loan payable	—	11,726,100

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – The Business

Overview

NeoStem, Inc. ("NeoStem" or the "Company") was incorporated under the laws of the State of Delaware in September 1980 under the name Fidelity Medical Services, Inc. The Company's corporate headquarters are located at 420 Lexington Avenue, Suite 350, New York, NY 10170. The Company's telephone number is (212) 584-4180 and its website address is *www.neostem.com*.

The Company is emerging as a technology and market leading company in the fast developing cell therapy industry. The Company's multifaceted business strategy combines a state-of-the-art contract development and manufacturing organization (CDMO) with a medically important cell therapy product development program enabling short-term and long-term revenue growth opportunities. The Company's service business and pipeline of proprietary cell therapy products work in concert, giving the Company a competitive advantage that it believes is unique to the biotechnology and pharmaceutical industries. Supported by an experienced scientific and business management team and a strategic and growing patent and patent pending (IP) portfolio, the Company is well positioned to succeed.

As a leading cell therapy Company, we have a pipeline of proprietary products, including stem cell therapies for cardiovascular disease and regenerative medicine as well as a T cell therapy for autoimmune disorders. Through its GMP facilities, NeoStem further supports the cell therapy community's efforts to discover solutions for chronic disease by providing contract development and manufacturing expertise. In addition, NeoStem offers adult stem cell collection, processing and storage services in the U.S., enabling healthy individuals to donate and store their stem cells for personal therapeutic use.

In 2011, the Company operated its business in three reportable segments: (i) Cell Therapy — United States; (ii) Regenerative Medicine — China; and (iii) Pharmaceutical Manufacturing — China. In 2012, the Company began to exit its operations in China. Effective March 31, 2012, the Company no longer operated in the Regenerative Medicine – China reportable segment, which is now reported in discontinued operations (see Note 13). On June 18, 2012, the Company signed a definitive agreement to sell its 51% interest in Suzhou Erye, which represented the operations in our Pharmaceutical Manufacturing - China segment, and is also reported in discontinued operations (see Note 13). The Erye divestiture closed on November 13, 2012 (see Note 16). As a result, the Company currently operates in a single reporting segment - Cell Therapy, which will focus on CDMO and cell therapy development programs.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission for interim financial information. 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, the accompanying Consolidated Financial Statements of the Company and its subsidiaries, which are unaudited, include all normal and recurring adjustments considered necessary to present fairly the Company's financial position as of September 30, 2012 and the results of its operations and its cash flows for the periods presented. The unaudited consolidated financial statements herein should be read together with the historical consolidated financial statements of the Company for the years ended December 31, 2011 and 2010 included in our Annual Report on Form 10-K for the year ended December 31, 2011, as recast in our Current Report on Form 8-K filed with the SEC on August 15, 2012 to reflect our Pharmaceutical Manufacturing - China and Regenerative Medicine - China segments as discontinued operations. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of NeoStem, Inc. and its wholly owned and partially owned subsidiaries and affiliates as listed below:

Entity	Percentage of Ownership	Location
NeoStem, Inc.	Parent Company	United States of America
NeoStem Therapies, Inc.	100%	United States of America
Stem Cell Technologies, Inc.	100%	United States of America
Amorcyte, LLC	100%	United States of America
CBH Acquisition LLC	100%	United States of America
China Biopharmaceuticals Holdings, Inc. (CBH)	100% owned by CBH Acquisition LLC	United States of America
Suzhou Erye Pharmaceuticals Company Ltd. (1)	51% owned by CBH	People's Republic of China
Progenitor Cell Therapy, LLC (PCT)	100%	United States of America
NeoStem Family Storage, LLC	100% owned by PCT	United States of America
Athelos Corporation	80.1% owned by PCT	United States of America
PCT Allendale, LLC	100% owned by PCT	United States of America

(1) Represents the operations of our former Pharmaceutical Manufacturing - China reporting segment, which was discontinued on June 18, 2012, and is currently reported in discontinued operations. The Erye divestiture closed on November 13, 2012 (see Note 16).

Note 2 – Summary of Significant Accounting Policies

In addition to the policies below, our significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, as recast in our Current Report on Form 8-K filed with the SEC on August 15, 2012. There were no changes during the nine months ended September 30, 2012.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. The Company applies judgment in connection with establishing the allowance for doubtful accounts. Specifically, the Company analyzes the aging of accounts receivable balances, historical bad debts, customer concentration and credit-worthiness, current economic trends and changes in the Company's customer payment terms. Significant changes in customer concentrations or payment terms, deterioration of customer credit-worthiness or weakening economic trends could have a significant impact on the collectability of the receivables and the Company's operating results. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Management regularly reviews the aging of receivables and changes in payment trends by its customers, and records a reserve when it believes collection of amounts due are at risk.

Revenue Recognition

Clinical Services: The Company recognizes revenue for its cell development and manufacturing services based on the terms of individual contracts. Revenues associated with cell development services which contain multiple stages that do not have stand-alone values and are dependent upon one another are recognized as revenue on a completed contract basis. Cell services and manufacturing services which have separate and distinct arrangements, and the Company is paid for time and materials or for fixed monthly amounts is recognized as revenue when efforts are expended or contractual terms have been met.

Clinical Services Reimbursements: The Company separately charges the customers for the expenses associated with certain consumable resources (reimbursable expenses) that are specified in each clinical services contract. On a monthly basis, the Company bills customers for reimbursable expenses and immediately recognizes these billings as revenue, as the revenue is deemed earned as reimbursable expenses are incurred. For the three months ended September 30, 2012 and 2011, clinical services reimbursements were $0.9 million and $0.7 million, respectively. For the nine months ended September 30, 2012 and 2011, clinical services reimbursements were $2.9 million and $1.8 million, respectively.

Processing and Storage Services: The Company recognizes revenue related to the collection and cryopreservation of cord

blood and autologous adult stem cells when the cryopreservation process is completed which is approximately twenty-four hours after cells have been collected. Revenue related to advance payments of storage fees is recognized ratably over the period covered by the advance payments.

New Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, “Intangibles - Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment.” The guidance is intended to simplify impairment testing of indefinite-lived intangible assets such as In-Process Research and Development by first assessing qualitative factors to determine whether it is “more likely than not” that the fair value of an asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have a significant impact on the Company's financial position or results of operations.

Note 3 – Acquisitions

Amorcyte Acquisition

On October 17, 2011 (the “Closing Date”), Amo Acquisition Company I, Inc. (“Subco”), a newly-formed wholly-owned subsidiary of NeoStem, merged (the “Amorcyte Merger”) with and into Amorcyte, Inc., a Delaware corporation (“Amorcyte”), in accordance with the terms of the Agreement and Plan of Merger, dated as of July 13, 2011 (the “Amorcyte Merger Agreement”), among NeoStem, Amorcyte, Subco, and Amo Acquisition Company II, LLC (“Subco II”). As a result of the consummation of the Amorcyte Merger, Amorcyte is now a wholly-owned subsidiary of NeoStem. Amorcyte is a development stage cell therapy company focusing on novel treatments for cardiovascular disease.

The fair value of assets acquired and liabilities assumed on October 17, 2011 is as follows (in thousands):

Cash	$	92.9
Prepaid Expenses		178.2
In Process R&D		9,400.0
Goodwill		4,104.5
Accounts Payable & Accrued Liabilities		1,177.1
Deferred Tax Liability		3,774.7
Amount Due Related Party		340.4

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based upon their estimated fair values at the date of the acquisition. The Company completed its review of the final allocation and valuation during the second quarter of 2012 and there were no changes from our preliminary assessment.

Note 4 – Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid, investments with maturities of ninety days or less when purchased. As of September 30, 2012 and December 31, 2011, the Company had cash and cash equivalents of approximately $5.4 million and $3.9 million, respectively, including bank deposits of approximately $0.6 million and $0.8 million, respectively, covered by the Federal Deposit Insurance Corporation.

Note 5 – Inventories

The Company, through its PCT subsidiary, regularly enters into contracts with clients for services that have multiple stages and are dependent on one another to complete the contract and recognize revenue. The Company's inventory represents work in process for costs incurred on such projects at PCT that have not been completed. The Company reviews these projects periodically to determine that the value of each project is stated at the lower of cost or market. Inventories were $0.4 million and $0.6 million as of September 30, 2012 and December 31, 2011, respectively. The Company has also deferred revenue of approximately $0.6 million and $1.0 million of billings received as of September 30, 2012 and December 31, 2011, respectively, related to these contracts.

Note 6 – Loss Per Share

Basic loss per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net loss attributable to common shareholders by the weighted average shares outstanding during the period. Diluted loss per share, which is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares used in the basic loss per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as such potentially dilutive securities are anti-dilutive in all periods presented. For the nine months ended September 30, 2012 and 2011, the Company incurred net losses and therefore no common stock equivalents were utilized in the calculation of loss per share. At September 30, 2012 and 2011, the Company excluded the following potentially dilutive securities:

	September 30,	
	2012	2011
Stock Options	22,389,642	17,749,895
Warrants	56,314,182	35,208,817
Series E Preferred Stock, Common stock equivalents	2,634,799	4,693,730
Restricted Shares	232,000	830,834

Note 7 – Fair Value Measurements

Fair value of financial assets and liabilities that are being measured and reported are defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). The Company is required to classify fair value measurements in one of the following categories:

Level 1 inputs are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 inputs are defined as unobservable inputs for the assets or liabilities. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The Company determined the fair value of funds invested in money market investments, which are considered trading securities, to be level 1 inputs measured by quoted prices of the securities in active markets. The money market investments are included within prepaids and other current assets on the balance sheet. The Company determined the fair value of funds invested in money market funds to be level 1. The Company determined the fair value of the embedded derivative liabilities and warrant derivative liabilities to be level 3 inputs. These inputs require material subjectivity because value is derived through the use of a lattice model that values the derivatives based on probability weighted discounted cash flows. The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2012, and December 31, 2011 (in thousands):

	September 30, 2012		
	Fair Value Measurements Using Fair Value Hierarchy		
	Level 1	Level 2	Level 3
Money market investments	$ 2,500.1	$ —	$ —
Embedded derivative liabilities	—	—	257.0
Warrant derivative liabilities	—	—	170.6
Contingent consideration	—	—	3,130.0

	December 31, 2011		
	Fair Value Measurements Using Fair Value Hierarchy		
	Level 1	Level 2	Level 3
Money market investments	$ 2,497.4	$ —	$ —
Embedded derivative liabilities	—	—	391.7
Warrant derivative liabilities	—	—	82.7
Contingent consideration	—	—	3,130.0

Contingent consideration was recognized on October 17, 2011 in connection with the Amorcyte Merger (see Note 3). The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs. The fair value of contingent consideration obligations is based on a discounted cash flow model using a probability-weighted income approach. The measurement is based upon unobservable inputs supported by little or no market activity based on our own assumptions and experience. The value of our contingent consideration is valued using a discount rate of 30%. We base the timing to complete the development and approval of this product on the current development stage of the product and the inherent difficulties and uncertainties in developing a product candidate, such as obtaining U.S. Food and Drug Administration (FDA) and other regulatory approvals. In determining the probability of regulatory approval and commercial success, we utilize data regarding similar milestone events from several sources, including industry studies and our own experience. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense we record in any given period. Changes in the fair value of the contingent consideration obligations are recorded in our consolidated statement of operations. There were no changes in contingent consideration fair value as of September 30, 2012.

For those financial instruments with significant Level 3 inputs, the following table summarizes the activity for the three and nine months ended September 30, 2012 by type of instrument (in thousands):

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Embedded Derivatives	Warrants	Embedded Derivatives	Warrants
Beginning liability balance	$ 263.2	$ 99.8	$ 391.7	$ 82.7
Change in fair value recorded in earnings	(6.2)	70.8	(134.7)	87.9
Ending liability balance	$ 257.0	$ 170.6	$ 257.0	$ 170.6

Some of the Company’s financial instruments are not measured at fair value on a recurring basis, but are recorded at amounts that approximate fair value due to their liquid or short-term nature, such as cash and cash equivalents, restricted cash, accounts receivable, accounts payable, notes payable and bank loans.

Note 8 – Goodwill and Other Intangible Assets

As of September 30, 2012 and December 31, 2011, the Company's goodwill was as follows (in thousands):

	Total
Balance at December 31, 2011	$ 11,117.8
Balance at September 30, 2012	$ 11,117.8

As of September 30, 2012 and December 31, 2011, the Company’s intangible assets and related accumulated amortization consisted of the following (in thousands):

	Useful Life	September 30, 2012 Gross	September 30, 2012 Accumulated Amortization	September 30, 2012 Net	December 31, 2011 Gross	December 31, 2011 Accumulated Amortization	December 31, 2011 Net
Customer list	10 years	$1,000.0	$(170.1)	$829.9	$1,000.0	$(95.1)	$904.9
Manufacturing technology	10 years	3,900.0	(663.4)	3,236.6	3,900.0	(370.9)	3,529.1
Tradename	10 years	800.0	(136.1)	663.9	800.0	(76.2)	723.8
In process R&D	Indefinite	9,400.0	—	9,400.0	9,400.0	—	9,400.0
VSEL patent rights	19 years	669.0	(167.3)	501.7	669.0	(140.8)	528.2
Total Intangible Assets		$15,769.0	$(1,136.9)	$14,632.1	$15,769.0	$(683.0)	$15,086.0

Total intangible amortization expense was classified in the operating expense categories for the periods included below as follows (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cost of revenue	$ 97.5	$ 135.0	$ 292.5	$ 376.5
Research and development	8.8	8.8	26.4	26.4
Selling, general and administrative	45.0	67.5	135.0	188.3
Total	$ 151.3	$ 211.3	$ 453.9	$ 591.2

Note 9 – Debt

Notes Payable

As of September 30, 2012 and December 31, 2011, the Company had notes payable of approximately $183,500 and $148,100, respectively. The notes relate to certain insurance policies and equipment financings, require monthly payments, and mature within one to five years.

Mortgages Payable

On October 31, 2007, PCT issued a note to borrow $3,120,000 (the “Note”) in connection with its $3,818,500 purchase of condominium units in an existing building in Allendale, New Jersey (the “Property”) that PCT uses as a laboratory and stem cell processing facility. The Note is payable in 239 consecutive monthly payments of principal and interest, based on a 20 year amortization schedule; and one final payment of all outstanding principal plus accrued interest then due. The current monthly installment is $20,766, which includes interest at an initial rate of 5.00%; the interest rate and monthly installments payments are subject to adjustment on October 1, 2017. On that date, upon prior written notice, the lender has the option to declare the entire outstanding principal balance, together with all outstanding interest, due and payable in full. The Note is secured by substantially all of the assets of PCT, including a first mortgage on the Property and assignment of an amount approximately equal to eighteen months debt service held in escrow. The Note matures on October 1, 2027 if not called by the lender on October 1, 2017. The note is subject to certain debt service coverage and total debt to tangible net worth financial covenant ratios measured semi-annually. PCT was not in compliance with such covenants at the measurement date of December 31, 2011 and June 30, 2012, and obtained a covenant waiver letter from the lender for all periods through December 31, 2011 and June 30, 2012. The outstanding balance was approximately $2,622,900 at September 30, 2012 of which $118,400 is payable within twelve months. On December 6, 2010 PCT Allendale, a wholly-owned subsidiary of PCT, entered into a note for a second mortgage in the amount of $1 million on the Allendale Property with TD Bank, N.A. This loan is guaranteed by PCT, DomaniCell (a wholly-owned subsidiary of PCT, now known as NeoStem Family Storage, LLC), Northern New Jersey Cancer Associates (“NNJCA”) and certain partners of NNJCA and is subject to an annual financial covenant starting December 31, 2011. PCT was not in compliance with such covenants at the measurement date of December 31, 2011, and obtained a covenant waiver letter from the lender for all periods through December 31, 2011. The loan is for 124 months at a fixed rate of 6% for the first 64 months. The loan is callable for a certain period prior to the interest reset date. The initial four months was interest only. The outstanding balance as of September 30, 2012 is $870,800 of which $87,100 is payable within twelve months. Both mortgages are classified as current liabilities as of September 30, 2012.

Note 10 – Preferred Stock

Convertible Redeemable Series E 7% Preferred Stock

On November 19, 2010, the Company sold 10,582,011 Preferred Offering Units consisting of (i) one share ("Preferred Share") of Series E 7% Senior Convertible Preferred Stock, par value $0.01 per share, of the Company, (ii) a warrant to purchase 0.25 of a share of Common Stock (consisting of at issuance an aggregate of 1,322,486 warrants, adjusted to an aggregate of 1,747,188 as of September 30, 2012); and (iii) 0.0155 of a share of Common Stock (an aggregate of 164,418 common shares). Each Preferred Offering Unit was priced at $0.945 and total gross and net proceeds received by the Company were $10,000,000 and $8,876,700, respectively.

Dividends on the Preferred Shares accrue at a rate of 7% per annum and are payable monthly in arrears. The Company is required to redeem 1/27 of the Preferred Shares monthly. Monthly dividend and principal payments began on March 21, 2011 and continue on the 19th of each month thereafter with the final payment due on May 20, 2013. Payments can be made in cash or, upon notification to the holders, in shares of Company common stock, provided certain conditions are satisfied or holders of Preferred Shares agree to waive the conditions for that payment period. As of September 30, 2012, the Company had issued 7,950,107 shares of Company common stock in payment of monthly dividends and principal, including required advance payments.

The Company may pre-pay the outstanding balance of the Preferred Shares in full or in part (in increments of no less than $1,000,000) at 110% of the then outstanding balance with notice of not less than thirty days and adequate opportunity to convert. If the Company chooses to pre-pay, the outstanding balance must be paid in cash and the premium may be paid in cash or shares of Company common stock. An aggregate of $2,500,000 of the proceeds from the Preferred Offering was placed in escrow for a maximum of 2.5 years as security for the Company's obligations relative to the Preferred Shares, and is included in other assets.

Upon issuance, the Preferred Shares were convertible at an initial conversion price of $2.0004. The conversion price is subject to certain weighted average adjustments upon the occurrence of specific events, including stock dividends, stock splits, combinations and reclassifications of the Company's common stock and if (with certain exceptions) the Company issues or sells any additional shares of common stock or common stock equivalents at a price per share less than the conversion price then in effect, or without consideration. As of September 30, 2012, the conversion price had been adjusted to $1.18.

The characteristics of the Series E Preferred Stock require that this instrument be treated as mezzanine equity. The Company bifurcated the fair value of the embedded conversion options and redemption options from the preferred stock since the conversion options and certain redemption options were determined to not be clearly and closely related to the Series E Preferred Stock and recorded the fair value of the embedded conversion and redemption options as long-term derivative liabilities. The Company also recorded the fair value of the warrants as a long-term derivative liability. The fair value of the preferred stock (net of issuance costs and discounts), the embedded derivatives, and warrant derivative were approximately $2,721,100, $257,000 and $170,600, respectively, as of September 30, 2012. The Company will report changes in the fair value of the embedded derivatives and warrant derivative in earnings within other income (expense), net. For the three months ended September 30, 2012, the Company recorded a decrease in the fair value of the embedded derivatives of approximately $6,200 and an increase in the warrant derivative of approximately $70,800. For the nine months ended September 30, 2012, the Company recorded a decrease in the fair value of the embedded derivatives of approximately $134,800 and an increase in the warrant derivative of approximately $87,900.

In October 2012, the Company pre-paid the outstanding balance of the Preferred Shares, and the shares are no longer outstanding (see note 16). The $2,500,000 escrowed cash was released and applied to the aggregate redemption price.

Note 11 – Shareholders' Equity

Share-based Compensation

We utilize share-based compensation in the form of stock options, warrants and restricted stock. The following table summarizes the components of share-based compensation expense for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of goods sold	$ 19.8	$ 26.0	$ 120.1	$ 71.2
Research and development	102.2	(116.8)	362.4	500.8
Selling, general and administrative	1,794.2	1,598.6	4,988.7	7,592.8
Total share-based compensation expense	$ 1,916.2	$ 1,507.8	$ 5,471.2	$ 8,164.8

During the nine months ended September 30, 2012, the Company issued 2,649,236 shares of restricted stock. The following table summarizes the activity for stock options and warrants for the nine months ended September 30, 2012:

	Stock Options	Warrants
Outstanding at December 31, 2011	17,143,505	37,389,825
Changes during the Year:		
Granted	7,167,029	30,400,525
Exercised	—	(10,160,521)
Forfeited	(1,737,759)	(3)
Expired	(183,133)	(1,315,644)
Outstanding at September 30, 2012	22,389,642	56,314,182

Total compensation cost related to nonvested awards not yet recognized and the weighted-average periods over which the awards are expected to be recognized at September 30, 2012 were as follows (dollars in thousands):

	Stock Options	Warrants	Restricted Stock
Unrecognized compensation cost	$ 2,179.9	$ 94.9	$ 130.6
Expected weighted-average period in years of compensation cost to be recognized	1.84	0.39	0.14

Common Stock

In March 2012, the Company completed an underwritten offering of 15,000,000 units at a purchase price of $0.40 per unit, with each unit consisting of one share of Common Stock and a five year warrant to purchase one share of Common Stock at an exercise price of $0.51 per share (the “ March 2012 Offering”). The Company sold securities in the March 2012 Offering under the Company’s previously filed shelf registration statement on Form S-3 (333-173855), which was declared effective by the Securities and Exchange Commission on June 13, 2011. The Company received gross proceeds of $6,000,000, prior to deducting underwriting discounts and offering expenses payable by the Company, for net proceeds of approximately $5,297,000. In April 2012, the underwriters in the March 2012 Offering exercised their over-allotment option for an additional 2,000,000 units. The Company received additional gross proceeds of $800,000, prior to deducting underwriting discounts, for net proceeds of approximately $744,000. Additionally in April 2012, the warrants issued in connection with the offering initially exercisable beginning on September 30, 2012, were accelerated and became exercisable immediately.

In the first nine months of 2012, we also issued securities in a number of private placements of common stock or units consisting of common stock and warrants. In the aggregate, we raised gross proceeds of approximately $6.1 million in private placements of an aggregate of approximately 11.8 million shares of Common Stock and 8.3 million five year warrants at exercise prices ranging from $.51 to $.74. The warrants have been classified as equity and will not be subject to remeasurement.

In August 2012, the Company and Aspire Capital Fund, LLC ("Aspire") entered into an amendment to the Common Stock Purchase Agreement dated September 28, 2011, providing for an extension of the 24-month term of the Purchase Agreement until September 30, 2015. Pursuant to the amendment, we agreed to issue to Aspire a five-year warrant to purchase up to 1,612,903 shares of our common stock at an exercise price of $0.60 per share (the closing price of our common stock on the date the amendment was executed).

In the first nine months of 2012, we issued 1,039,339 shares of common stock to the Company's officers and directors pursuant and subject to the terms of the Company's 2009 Equity Compensation Plan, of which 398,115 shares were issued to our officers who elected to receive common stock as compensation in lieu of cash compensation.

Warrant Exercises

In July 2012, warrant holders from the March 2012 Offering exercised an aggregate of 3,150,344 warrants at an exercise price of $.51 per share for gross proceeds of approximately $1.6 million.

To raise capital on terms that we deemed favorable, during the three months ended September 30, 2012, the Board authorized certain inducements to warrant holders to exercise outstanding common stock purchase warrants significantly before their expiration dates. The Company determined in each instance that such inducements were modifications of equity instruments, and an incremental fair value of the inducement was determined using the Black-Scholes option pricing model.

In connection with the July 2012 exercise of 2,808,140 of the warrants issued in our May-July 2012 private placement warrants at an exercise price of $0.51 per share for gross proceeds of $1.4 million, we issued to each exercising holder a new five year warrant to purchase the identical number of shares of our Common Stock as had been exercised subject to substantially the same terms as the exercised warrant, except that the per share exercise price of each new warrant is between $.66 and $.69, the closing price of our Common Stock on the date the old warrant was exercised. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.4 million.

In August 2012, a warrant holder exercised warrants to purchase 2,100,000 shares of the Company' common stock at an exercise price of $0.51 per share, for gross proceeds to the Company of approximately $1.1 million. The warrants were originally issued in 2009 with an exercise price of $2.50 per share. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.2 million.

In August 2012, a warrant holder exercised warrants to purchase 344,825 shares of common stock at $1.85, and 300,000 shares of common stock at $1.45 per share, respectively, for gross proceeds to the Company of approximately $1.1 million. Since the exercise prices of the warrants were significantly above the Company's stock price, the Company issued the warrant holder 1,458,952 shares of the Company's common stock as an inducement to exercise. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.4 million.

In September warrant holders exercised an aggregate of 1,457,212 warrants at an exercise price of $.51 per share for gross proceeds of approximately $0.7 million. As an inducement to exercise, we paid certain warrant holders $.03 per share upon each exercise. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.

Note 12 – Income Taxes

The Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards (“NOL”) to offset future taxable income following a corporate ownership change. The Company’s ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points during any three-year period.

Since the year 2000, the Company has had several changes in ownership which has resulted in a limitation on the Company’s ability to apply net operating losses to future taxable income. As of December 31, 2011 the Company has lost $25,994,800 or $8,838,200 in tax benefits, of net operating losses applicable to Federal income taxes which expired due to these limitations and expiration of net operating loss carryforwards. At December 31, 2011, the Company had net operating loss carryforwards of approximately $47,427,300 applicable to future Federal income taxes. The tax loss carryforwards are subject to annual limitations and expire at various dates through 2030. The Company has recorded a full valuation allowance against its net deferred tax asset because it is more likely than not that such deferred tax assets will not be realized.

Note 13 – Discontinued Operations

Regenerative Medicine - China segment

In 2009, the Company began its Regenerative Medicine-China business in the People’s Republic of China (“China” or “PRC”) through its subsidiary, a wholly foreign owned entity (“WFOE”) and entered into contractual arrangements with certain variable interest entities (“VIEs”). Foreign companies have commonly used VIE structures to operate in the PRC, and while such structures are not uncommon, recently they have drawn greater scrutiny from the local Chinese business community in the PRC who have

urged the PRC State Council to clamp down on these structures. In addition, in December 2011, China's Ministry of Health announced its intention to more tightly regulate stem cell clinical trials and stem cell therapeutic treatments in the PRC, which has created uncertainty regarding the ultimate regulatory environment in the PRC. Accordingly, the Company took steps to restrict, and ultimately eliminate, its regenerative medicine business in the PRC. As a result of these steps, the Company has discontinued its operations in its Regenerative Medicine-China business. The Company has determined that any liability arising from the activities of the WFOE and the VIEs will likely be limited to the net assets currently held by each entity. As of March 31, 2012, the Company recognized the following loss on exit of the Regenerative Medicine-China business (in thousands):

Cash	$	195.1
Prepaid expenses and other current assets		14.9
Property, plant and equipment, net		1,023.7
Other Assets		330.5
Accounts payable		(177.1)
Accrued liabilities		(79.2)
Accumulated comprehensive income		(169.9)
Loss on exit of segment	$	1,138.0

The operations and cash flows of the Regenerative Medicine - China business were eliminated from ongoing operations as a result of our exit decision, and the Company will not have continuing involvement in this business going forward. The operating results of the Regenerative Medicine – China business for the three and nine months ended September 30, 2012 and 2011, which are included in discontinued operations, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ —	$ 98.8	$ 52.3	$ 148.9
Cost of revenues	—	(31.3)	(30.6)	(49.4)
Research and development	—	93.6	(103.3)	(64.5)
Selling, general, and administrative	—	(782.3)	(497.3)	(1,572.3)
Other income (expense)	—	1.4	(6.8)	(11.3)
Loss on exit of segment	—	—	(1,138.0)	—
Loss from discontinued operations	$ —	$ (619.8)	$ (1,723.7)	$ (1,548.6)

The summary of the assets and liabilities related to Regenerative Medicine-China discontinued operations as of December 31, 2011 was as follows (in thousands):

	December 31, 2011
Assets:	
Cash and cash equivalents	$ 103.3
Prepaid expenses and other current assets	284.4
Property, plant and equipment, net	1,256.8
Other Assets	149.0
	$ 1,793.5
Liabilities:	
Accounts payable	$ 177.8
Accrued liabilities	31.0
	$ 208.8

On October 12, 2012, the Company signed a settlement agreement with Yeyan Zhang, legal representative of the WFOE, to arrange for the orderly disposition and liquidation of the WFOE and the VIEs, and to formally assign the Company's rights, title and interest of the WFOE to Mr. Zhang.

Pharmaceutical Manufacturing - China segment

On June 18, 2012, the Company announced that it had entered into a definitive agreement to sell its 51% interest in Erye (the "Equity Purchase Agreement") for approximately $12.3 million in cash and the return to the Company of (i) 1,040,000 shares of the Company's Common Stock and (ii) the cancellation of 1,170,000 options and 640,000 Common Stock warrants. The closing of the transaction is subject to satisfaction of certain conditions. The Erye divestiture closed on November 13, 2012 (see Note 16).

In July 2012, the Company received from the Purchasers the initial $1,228,000 down payment (10% of the total cash purchase price for the Erye Sale). In August 2012, the Purchasers paid $4,912,000 (being 40% of the total cash purchase price for the Erye Sale) into escrow (the "Second Purchase Price Payment"), as follows: (x) $2,456,000 (the "Offshore Second Purchase Price Payment") was deposited by the Purchasers into a U.S.-based escrow account (the "Offshore Escrow Account") (the Equity Purchase Agreement providing that the Offshore Second Purchase Price Payment shall be released to our subsidiary CBH upon the receipt of approval of the Erye Sale by the PRC Ministry of Commerce and/or its local counterparts as applicable ("MOFCOM Transfer Approval")) and (y) the RMB equivalent of $2,456,000 (the "Onshore Second Purchase Price Payment") was deposited by the Purchasers into an escrow account inside the PRC (the "Onshore Escrow Account"). In September 2012, the Purchasers deposited the RMB equivalent of $6,140,000 (the remaining 50% of the total cash purchase price for the Erye Sale), into an escrow account inside the PRC (the "Onshore Escrow Account"). Also during September 2012, $1,500,000 was released from the Offshore Escrow Account to the Company. As a result, as of September 30, 2012, the Company has received $2,728,000 of the sale proceeds, which are non-refundable and have no restrictions. These sale proceeds are included in Cash and Cash Equivalents and Other Liabilities on the balance sheet.

The operations and cash flows of the Pharmaceutical Manufacturing - China business will be eliminated from ongoing operations with the sale of the Company's 51% interest in Erye. The operating results of the Pharmaceutical Manufacturing - China business for the three and nine months ended September 30, 2012 and 2011, including the estimated asset impairments based on the definitive agreement purchase price, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 20,036.4	$ 15,513.0	$ 57,254.7	$ 49,806.0
Cost of revenues	(11,551.5)	(11,905.1)	(37,131.5)	(36,207.1)
Research and development	(611.8)	(782.5)	(2,231.5)	(1,885.3)
Selling, general, and administrative	(3,514.7)	(2,107.4)	(9,714.8)	(8,233.5)
Other expense	(0.9)	(583.2)	(1,008.3)	(949.3)
Provision for income taxes	(1,029.9)	(26.2)	(1,535.4)	(907.6)
Asset impairments	(3,175.5)	—	(31,170.1)	—
(Loss) income from discontinued operations	$ 152.1	$ 108.6	$ (25,536.9)	$ 1,623.2

The summary of the assets and liabilities related to Pharmaceutical Manufacturing - China discontinued operations as of September 30, 2012 and December 31, 2011, respectively, were as follows (in thousands):

	September 30, 2012	December 31, 2011
Cash and cash equivalents	$ 10,789.5	$ 8,707.0
Restricted cash	2,892.4	—
Accounts receivable, net	7,105.3	5,525.7
Inventory	15,141.9	16,505.7
Deferred income taxes	344.2	463.7
Prepaid expenses and other current assets	750.9	777.5
Property, plant and equipment, net	37,327.3	36,490.4
Land use rights, net	3,021.5	4,872.4
Goodwill	—	8,495.7
Intangible assets, net	—	21,846.4
Other assets	2,821.1	2,459.9
Total assets	$ 80,194.1	$ 106,144.4
Accounts payable	$ 8,730.5	$ 7,950.3
Accrued liabilities	2,874.7	1,705.8
Bank loans	17,369.0	15,712.0
Notes payable	6,541.3	—
Income tax payable	2,142.3	621.6
Deferred income taxes	5,902.4	6,177.4
Unearned revenue	1,544.1	1,315.4
Amount due related parties	8,519.2	20,862.7
Total Liabilities	$ 53,623.5	$ 54,345.2

Statutory Reserves

Pursuant to laws applicable to entities incorporated in the PRC, the PRC subsidiaries are prohibited from distributing their statutory capital and are required to appropriate from PRC GAAP profit after tax to other non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits (i.e., 50% of the registered capital of the relevant company), the general reserve fund requires annual appropriation at 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end); the appropriation to the other funds are at the discretion of the subsidiaries.

The general reserve is used to offset extraordinary losses. Subject to approval by the relevant authorities, a company may, upon a resolution passed by the shareholders, convert the general reserve into registered capital provided that the remaining general reserve after the conversion shall be at least 25% of the registered capital of the subsidiary before the capital increase as a result of the conversion. The staff welfare and bonus reserve is used for the collective welfare of the employees of the company. The enterprise expansion reserve is for the expansion of the subsidiary's operations and can also be converted to registered capital upon a resolution passed by the shareholders subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law, and are not distributable as cash dividends to the parent company, NeoStem. Statutory reserves are $2,479,500 and $2,488,000 as of September 30, 2012 and December 31, 2011, respectively.

Relevant PRC statutory laws and regulations permit payment of dividends by the Company's PRC subsidiaries only out of their accumulated earnings, if any, as determined in accordance with PRC accounting standards and regulations. As a result of these PRC laws and regulations, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets either in the form of dividends, loans or advances. The restricted amount was $186,800 at September 30, 2012 and $185,000 at December 31, 2011.

Related Party Transactions

At September 30, 2012 and December 31, 2011, Erye owed EET, the 49% shareholder of Erye, approximately $8.5 million and $20.9 million, respectively, which represents dividends paid and loaned back to Erye. September 30, 2012 and December 31,

2011 the interest rate on this loan was 6.00% and 6.56%, respectively. In the three months ended September 30, 2012, Erye paid EET approximately $0.7 million of accrued interest, and $11.6 million of loan principal.

Pursuant to the terms and conditions of the October 2009 Erye Joint Venture Agreement, dividend distributions to EET and the Company's subsidiary will be made in proportion to their respective ownership interests in Erye; provided, however, that for the three-year period commencing on the first day of the first fiscal quarter after the Joint Venture Agreement became effective distributions are made as follows: for undistributed profits generated subsequent to the acquisition date: (i) the 49% of undistributed profits (after tax) of the joint venture due EET will be distributed to EET and lent back to Erye to help finance costs in connection with its construction of and relocation to a new facility (to be repaid gradually after construction is completed); and (ii) of the net profit (after tax) of the joint venture due the Company, 45% will be provided to Erye as part of the new facility construction fund and will be characterized as additional paid-in capital for the Company's 51% interest in Erye, and 6% will be distributed to the Company. It was contemplated by the Joint Venture Agreement that the construction would continue for three years. As such, 45% of the dividend we would be entitled to by reason of our 51% ownership would remain in Erye through 2012 to complete the construction while EET would loan back their dividend during the same period at a prevailing bank interest rate. In January 2011, a dividend totaling approximately $13,671,100 based on earnings for Fiscal Year 2009 was declared and approximately $6,698,800 was distributed to EET and lent back to Erye and approximately $6,972,300 due the Company was reinvested and re-characterized as additional paid-in capital in the business. In April 2011, a dividend totaling $10,259,700 based on earnings for Fiscal Year 2010 was declared and approximately $5,027,300 was distributed to EET and lent back to Erye, and approximately $5,232,400 due the Company was reinvested and re-characterized as additional paid-in capital in the business. A10% withholding tax was required on dividends payable to the Company. As a result, Erye withheld approximately $1,220,500 in taxes related to the Company's Fiscal Year 2009 and 2010 dividend amounts, and such amount has been paid to the local Chinese tax authorities as of December 31, 2011.

Contingencies

Chinese regulatory approvals — The Company has determined that it did not obtain all Chinese regulatory approvals (and associated registrations) required to reflect the legal title of its interest in Erye as being held by the proper entity within our group which is its current beneficial owner as that term is used under U.S. law. The Company believes that this issue will become moot through the proposed sale of the Company's equity interest in Erye to Erye's Chinese joint venture partner, EET. We have also secured Erye's agreement to obtain any necessary remedial approvals and filings in the event the Erye equity sale was not to close. As the Company has already signed a definitive agreement with EET with respect to the sale of its Erye equity interest, the Company believes that the risk of possible tax exposure and other regulatory issues in PRC associated with the foregoing filing deficiency is relatively contained.

Xiangbei Welman Pharmaceutical Co., Ltd. v. Suzhou Erye Pharmaceutical Co., Ltd. and Hunan Weichu Pharmacy Co., Ltd. involves a copyright infringement lawsuit brought in 2009 whereby Welman claimed the package inserts with respect to a particular antibiotics complex manufactured by Erye (the "Product") infringed its copyright. Erye was enjoined from copying and using the package inserts on the Product and from selling the Product with the package inserts and Welman was awarded 50,000 RMB Erye has filed application for a retrial of the previous lawsuit brought by Welman to the Hunan High Court, which application filing was accepted by the court, with the court opening date for retrial not determined yet.

In July 2011, a new copyright infringement lawsuit was brought by Welman against Erye claiming that Erye was not complying with the earlier judgment enjoining them from copying and using the package inserts for the Product. The Changsha Intermediate Court was applied to for property preservation and issued a civil decision freezing Erye's bank deposit of up to 50 million RMB, or to seal up or detain Erye's other properties of equal value. As of September 30, 2012, approximately 17.9 million RMB (approximately $2.8 million) had been frozen in six Erye bank accounts. Erye has contended that jurisdiction is not proper, and the case is now in review of the Hunan High Court.

In July 2011, another copyright infringement lawsuit was instituted by Welman against Erye in the Guangzhou Intermediate Court to (i) enjoin Erye from copying and using the package inserts from the Product and selling the drugs with the aforesaid package inserts; and (ii) award Welman economic losses of approximately 2 million RMB against Erye. The case has since been withdrawn by Welman. Welman made an application for a preliminary injunction to prohibit Erye from copying and using the package inserts from the Product and selling the drugs with the aforesaid package inserts; Welman's application was denied by the Court on September 6, 2011. Welman subsequently obtained a preliminary injunction from a lower court Guangzhou Haizhu District Court on September 14, 2011. However, on October 28, 2011, upon the appeal by Erye, the Haizhu District Court issued a decision withdrawing the preliminary injunction. Welman again applied for on April 13, 2012 and obtained on April 17, 2012 a preliminary injunction from another lower court Guangzhou Baiyun District Court. Erye has applied for court reconsideration on that granted preliminary injunction. On July 2, 2012, Guangzhou Baiyun District Court issued a decision withdrawing the injunction. On September 12, 2012, Erye brought an action against Welman at Zhuhai District Court for Welman's "wrongful application for

preliminary injunction", demanding that Welman compensate for Erye's economic loss of approximately RMB 1,000,000. The case has been accepted by Zhuhai District Court for further examination.

Note 14 – Related Party Transactions

On June 18, 2012, we and our subsidiary, China Biopharmaceuticals Holdings, Inc. ("CBH"), entered into an Equity Purchase Agreement (the "Equity Purchase Agreement") with Fullbright Finance Limited, a limited liability company organized under the laws of the British Virgin Islands ("Fullbright"), Suzhou Erye Economy & Trading Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("EET" and together with Fullbright, each a "Purchaser" and collectively, the "Purchasers"), and Erye, which Equity Purchase Agreement provides for the sale by NeoStem and CBH to the Purchasers (the "Erye Sale") of our 51% ownership interest in Erye (the "Erye Interest"). EET, one of the Purchasers party to the Equity Purchase Agreement, is the holder of the minority 49% ownership interest in Erye, and is a party along with our subsidiary CBH to the Joint Venture Agreement governing the ownership of the respective interests in Erye. Fullbright is an affiliate of EET. Mr. Shi Mingsheng (a member of our Board of Directors, and Chairman of the Board of Erye) and Madam Zhang Jian (the General Manager of Erye, and formerly our Vice President of Pharmaceutical Operations) are the principal equity holders of each of EET and Fullbright. Fullbright has assigned all its rights and obligations under the Equity Purchase Agreement (except for its obligations in respect of the return of certain NeoStem securities held by it as part of the purchase price, and its obligations in respect of closing deliverables) to Highacheive Holdings Limited, a limited liability company organized under the laws of the British Virgin Islands and an affiliate of Fullbright ("Highacheive"). As a result of the assignment, the Purchasers of our Erye Interest will be EET and Highacheive. See Note 13 for a description of the consideration to be paid by the Purchasers pursuant to the Equity Purchase Agreement. The Erye divestiture closed on November 13, 2012 (see Note 16).

Note 15 – Commitments and Contingencies

Lease Commitments

The Company leases offices and certain equipment under certain noncancelable operating leases that expire from time to time through 2017. In August 2012, the Company signed a new lease for a larger space at its current executive offices at 420 Lexington Avenue, New York, NY 10170. The new lease is believed to be sufficient space for the near future. The lease term began in September 2012 and shall extend through June 2015. The base monthly rent, which includes storage space, averages approximately $27,000 per month, with subleases that will aggregate approximately $7,500 per month. This property is used as the Company's corporate headquarters.

A summary of future minimum rental payments required under operating leases that have initial or remaining terms in excess of one year as of September 30, 2012 are as follows (in thousands):

Years ended	Operating Leases
2012	$ 410.8
2013	1,226.5
2014	962.1
2015	739.2
2016	563.9
Thereafter	293.2
Total minimum lease payments	$ 4,195.7

Expense incurred under operating leases was approximately $377,300 and $1,225,500 for the three and nine months ended September 30, 2012, respectively, and $434,600 and $1,376,100 for the three and nine months ended September 30, 2011, respectively.

Contingencies

Under license agreements with third parties the Company is typically required to pay maintenance fees, make milestone payments and/or pay other fees and expenses and pay royalties upon commercialization of products. The Company also sponsors research at various academic institutions, which research agreements generally provide us with an option to license new technology discovered during the course of the sponsored research.

In connection with the issuance to investors and service providers of many of the shares of the Company's common stock and warrants to purchase common stock previously disclosed and described herein, the Company granted the holders registration rights providing for the registration of such shares of common stock and shares of common stock underlying warrants on a registration statement to be filed with the Securities and Exchange Commission ("SEC") so as to permit the resale of those shares. Certain of the registration rights agreements provided for penalties for failure to file or failure to obtain an effective registration statement. With respect to satisfying its obligations to the holders of these registration rights, the Company has been in various situations. The Company had previously filed a registration statement as required for some of the holders, and in May 2011 filed a registration statement for all of the holders (except for holders whose shares of Common Stock were currently salable under Rule 144 of the Securities Act or who waived certain rights); such registration statement was declared effective by the SEC on September 30, 2011. The Company has certain obligations to maintain the effectiveness of this registration statement. Certain holders who had outstanding registration rights had previously waived their registration rights or were subject to lock-up agreements. No holder has yet asserted any claim against the Company with respect to a failure to satisfy any registration obligations. Were someone to assert a claim against the Company for breach of registration obligations, the Company believes it has several defenses that would result in relieving it from some or any liability, although no assurances can be given. The Company also notes that damage claims may be limited, as (i) most shares of Common Stock as to which registration rights attached are either now registered or currently salable under Rule 144 of the Securities Act or are otherwise currently subject to other restrictions on sale and (ii) the shares of Common Stock underlying warrants with registration rights are now registered, and during much of the relevant periods the warrants with registration rights generally have been out of the money, were subject to lock-up agreements and/or the underlying shares of Common Stock were otherwise subject to restrictions on resale. Accordingly, were holders to assert claims against the Company based on breach of the Company's obligation to register, the Company believes that the Company's maximum exposure would not be material.

Note 16 – Subsequent Events

In October 2012 warrant holders from the March 2012 Offering exercised an aggregate of 690,311 warrants at an exercise price of $.51 per share for an aggregate consideration of approximately $352,000. As an inducement to exercise, we agreed to pay certain warrant holders $.03 per share for each warrant exercised. The Company's mergers and acquisitions and finance committees of the board of directors authorized the exercise inducement on July 23, 2012.

On October 10, 2012, a warrant holder exercised its warrants to purchase 225,000 shares of common stock at $1.45, for gross proceeds to the Company of $326,250. Since the exercise prices of the warrants were above the Company's stock price, the Company agreed to pay the holder an inducement fee equal to the difference between the per share exercise price and $.72 (one penny above the closing market price on the date the agreement was signed). The Company's board of directors authorized the exercise inducement on October 8, 2012.

On October 25, 2012, the Company completed the redemption of all 2,351,558 outstanding shares of its Series E 7% Senior Convertible Preferred Stock, par value $0.01 per share (the "Series E Preferred Stock"), for an aggregate cash redemption price of approximately $3.4 million, $2.5 million of which was funded by money placed into escrow when the Series E Preferred stock was issued in November 2010. Also on October 25, 2012, the Company filed a Certificate of Elimination of the Series E 7% Senior Convertible Preferred Stock of NeoStem, Inc. with the Secretary of State of the State of Delaware to eliminate its Series E Preferred Stock, all of the outstanding shares of Series E Preferred Stock having been redeemed by the Company.

The Company entered into a Purchase Agreement with Aspire Capital Fund, LLC in September 2011, as amended on August 23, 2012, pursuant to which Aspire Capital committed to the purchase of up to $20 million of shares of the Company's Common Stock over the term of that Agreement, subject to certain terms and conditions, including a floor price as set forth in the Agreement. From October 22, 2012 through November 12, 2012, Aspire has purchased 2,300,000 shares of the Company's common stock for an aggregate consideration of approximately $1.5 million.

On November 8, 2012, the Company consummated a private placement and issued an aggregate of 833,333 shares of restricted common stock at a purchase price of $.60 per share for an aggregate consideration of $500,000. The Company's board of directors authorized the the terms of the private placement on October 8, 2012.

On November 13, 2012 (the "Closing Date"), the Company completed the divestiture (the "Erye Sale") of our 51% interest (the "Erye Interest") in Suzhou Erye Pharmaceuticals Company Ltd., a Sino-foreign equity joint venture with limited liability organized under the laws of the People's Republic of China primarily engaged in the manufacture of generic antibiotics ("Erye"), to Suzhou Erye Economy & Trading Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("EET"), and Highacheive Holdings Limited, a limited liability company organized under the laws of the British Virgin

Islands (“Highacheive” and together with EET, each a “Purchaser” and collectively the “Purchasers”). The Erye Sale was consummated pursuant to the terms and conditions of the Equity Purchase Agreement, dated as of June 18, 2012 (as amended, the “Equity Purchase Agreement”), by and among our Company, China Biopharmaceuticals Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of NeoStem (“CBH”), EET, Highacheive, Fullbright Finance Limited, a limited liability company organized under the laws of the British Virgin Islands (“Fullbright”), and Erye. Pursuant to the Equity Purchase Agreement, the aggregate purchase price paid to us by the Purchasers for the Erye Interest consisted of (i) $12,280,000 in cash, (ii) the return to our Company of 1,040,000 shares of NeoStem common stock and (iii) the cancellation of 1,170,000 options and 640,000 warrants. On the Closing Date, the balance of the amount held in escrow, was released to the Company, the common stock was delivered to the Company, the options and warrants were canceled, and all interest of the Company in Erye was transferred to the Purchasers.

On November 13, 2012, the Company entered into an amendment of its employment agreement with Dr. Robin L. Smith, pursuant to which, as previously amended (the “Agreement”), Dr. Smith serves as Chairman of the Board and Chief Executive Officer of the Company. Pursuant to the amendment, (i) the term of the Agreement was extended for two years to December 31, 2014; (ii) Dr. Smith's annual base salary was increased to $495,000; (iii) Dr. Smith will be eligible to receive a cash bonus for each of 2013 and 2014, based on a target amount of 50% of annual base salary assuming good progress toward the accomplishment of objectives set for Dr. Smith and the Company by the Compensation Committee, and which may be awarded in an amount up to 100% of annual base salary for extraordinary performance, all as determined by the Compensation Committee; (iv) all unvested options held by Dr. Smith as of the date of the amendment were immediately vested; (v) a failure to renew the Agreement at the end of the term regardless of reason shall be treated as a termination by the Company without cause; (vi) upon the Company's termination of Dr. Smith's employment without cause or by Dr. Smith with good reason, (a) the Company is to pay Dr. Smith her base salary and COBRA premiums for one year following the termination plus the previous year's annual bonus payment, and (b) all of Dr. Smith's stock options which are vested as of the termination date plus any additional options that would have vested by the passage of time during the 12 month period following such date (which additional options shall become immediately and fully vested as of the termination date) shall remain exercisable for the balance of their 10 year term; (vii) in the event the Company terminates Dr. Smith's employment with cause or Dr. Smith resigns, the Company is to pay Dr. Smith her then current base salary and COBRA premiums for one year; and (viii) any vested options previously or hereafter granted to Dr. Smith during the remainder of the term shall remain exercisable notwithstanding any termination of employment for the full option term until the expiration date.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Cautionary Note Regarding Forward-Looking Statements" herein and under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2011. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this quarterly report and in our annual report on Form 10-K for the year ended December 31, 2011, as recast in our current report on Form 8-K filed on August 15, 2012 to reflect our Pharmaceutical Manufacturing - China and Regenerative Medicine - China segments as discontinued operations.

Overview

We are emerging as a technology and market leading company in the fast developing cell therapy industry. Our multifaceted business strategy combines a state-of-the-art contract development and manufacturing organization (CDMO) with a medically important cell therapy product development program enabling short-term and long-term revenue growth opportunities. Our service business and pipeline of proprietary cell therapy products work in concert, giving us a competitive advantage that we believe is unique to the biotechnology and pharmaceutical industries. Supported by an experienced scientific and business management team and a strategic and growing patent and patent pending (IP) portfolio, we are well positioned to succeed.

As a leading cell therapy Company, we have a pipeline of proprietary products, including stem cell therapies for cardiovascular disease and regenerative medicine as well as a T cell therapy for autoimmune disorders. Through our GMP facilities, we further support the cell therapy community's efforts to discover solutions for chronic disease by providing contract development and manufacturing expertise. In addition, we offer adult stem cell collection, processing and storage services in the U.S., enabling healthy individuals to donate and store their stem cells for personal therapeutic use.

In 2011, we operated our business in three reportable segments: (i) Cell Therapy — United States; (ii) Regenerative Medicine — China; and (iii) Pharmaceutical Manufacturing — China. In 2012, we began to exit our operations in China. Effective March 31, 2012, we no longer operated in the Regenerative Medicine – China reportable segment, which is now reported in discontinued operations (see Note 13). The Erye divestiture closed on November 13, 2012 (see Note 16). On June 18, 2012, we signed a definitive agreement to sell our 51% interest in Suzhou Erye, which represented the operations in our Pharmaceutical Manufacturing - China segment, and is also reported in discontinued operations (see Note 13). As a result, we currently operate in a single reporting segment - Cell Therapy, which will focus on CDMO and cell therapy development programs.

We strengthened our expertise in cellular therapies with our January 19, 2011 acquisition of Progenitor Cell Therapy, LLC, a Delaware limited liability company ("PCT"). PCT is engaged in a wide range of services in the cell therapy market for the treatment of human disease, including, but not limited to contract manufacturing, product and process development, regulatory consulting, product characterization and comparability, and storage, distribution, manufacturing and transportation of cell therapy products. PCT's legacy business relationships also afford NeoStem introductions to innovative therapeutic programs.

In March 2011 PCT's wholly owned subsidiary, Athelos, Inc. ("Athelos"), acquired rights and technology for a T-cell based immunomodulatory therapeutic in exchange for an approximate 20% interest in Athelos.

We further strengthened our breadth in cellular therapies through its October 17, 2011 acquisition of Amorcyte, LLC. Amorcyte is a development stage cell therapy company focusing on novel treatments for cardiovascular disease. Amorcyte's lead product candidate is AMR-001. In January 2012, Amorcyte commenced patient enrollment for its PreSERVE Phase 2 trial to investigate AMR-001's ability to preserve heart function after a heart attack.

We view the PCT and Amorcyte acquisitions as fundamental to building a foundation in achieving our strategic mission of capturing the paradigm shift to cell therapy.

We acquired our Pharmaceutical Manufacturing — China segment when on October 30, 2009, China Biopharmaceuticals Holdings, Inc. ("CBH") merged with a wholly-owned subsidiary of NeoStem (the "Erye Merger"). As a result of the Erye Merger, NeoStem acquired CBH's 51% ownership interest in Erye, a Sino-foreign joint venture with limited liability organized under the laws of the PRC. Erye was founded more than 50 years ago and represents an established, vertically-integrated pharmaceutical business. Historically, Erye has concentrated its efforts on the manufacturing and distribution of generic antibiotic products. In 2010, Erye began transferring its operations to its newly constructed manufacturing facility, as to which construction is now substantially completed. The relocation and the new production lines have been completed and received cGMP certification. As

part of our plan to focus its business on capturing the paradigm shift to cell therapies following the January 2011 acquisition of PCT, on June 18, 2012, we entered into a definitive agreement to sell its interest in Erye for approximately $12.3 million in cash plus the return to the Company of 1,040,000 shares of NeoStem common stock and the cancellation of 1,170,000 options and 640,000 warrants. The Erye divestiture closed on November 13, 2012.

Results of Operations

Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011

Net loss for the three months ended September 30, 2012 was approximately $8.4 million compared to $7.3 million for the three months ended September 30, 2011. Our net loss from continuing operations for the three months ended September 30, 2012 and 2011 was approximately $8.5 million and $6.6 million, respectively. The loss from discontinued operations - net, reflects the operations of our Regenerative Medicine – China segment which was deconsolidated in the first quarter of 2012, and the operations of our Pharmaceutical Manufacturing - China segment, effective with our agreement to sell our 51% interest in Suzhou Erye in the second quarter of 2012. The income from discontinued operations - net for the three months ended September 30, 2012 was approximately $0.2 million and loss from discontinued operations - net for the three months ended September 30, 2011 $0.8 million.

Net loss for the nine months ended September 30, 2012 was approximately $51.0 million compared to $27.7 million for the nine months ended September 30, 2011. Our net loss from continuing operations for the nine months ended September 30, 2012 and 2011 was approximately $23.8 million and $26.9 million, respectively. The loss from discontinued operations - net for the nine months ended ended September 30, 2012 and 2011 was approximately $27.3 million and $0.8 million, respectively.

Revenues

For the three months ended September 30, 2012, total revenues were approximately $4.4 million compared to $2.2 million for the three months ended September 30, 2011, representing an increase of $2.3 million or 104%. Revenues for period were comprised of the following (in thousands):

	Three Months Ended September 30,	
	2012	2011
Clinical Services	$ 2,921.8	$ 1,014.3
Clinical Services Reimbursables	928.0	714.0
Processing and Storage Services	577.9	448.7
Other	6.3	—
	$ 4,434.0	$ 2,177.0

- Clinical Services, representing process development and clinical manufacturing services provided at PCT to its various clients, were approximately $2.9 million for the three months ended September 30, 2012 compared to $1.0 million for the three months ended September 30, 2011, representing an increase of approximately $1.9 million or 188%. The increase in clinical services revenue is due to an increased overall visibility of PCT and penetration into the cell therapy marketplace along with a general increase in the development of autologous cell therapies in the United States due to enhanced investment and expanded marketing programs in 2011 and 2012. The revenue increase was also as a result of fewer clinical service contracts subject to contract completion for revenue recognition in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. In accordance with our revenue recognition policy, revenue is recognized upon contract completion when the contract contains certain multiple stages that do not have stand alone values and are dependent on one another.

- Clinical Services Reimbursables, representing reimbursement of expenses for certain consumables incurred on behalf of our clinical service revenue clients, were approximately $0.9 million for the three months ended September 30, 2012 compared to $0.7 million for the three months ended September 30, 2011, representing an increase of approximately $0.2 million or 30%. Our reimbursable revenue increased as a result of increased manufacturing and process development activity.

- Processing and Storage Services, representing revenues from our oncology, cord blood, and adult stem cell banking activities, were approximately $0.6 million for the three months ended September 30, 2012 compared to $0.4 million for the three months ended September 30, 2011, representing an increase of approximately $0.1 million or 29%. The increase

is primarily attributable to increased revenue from our oncology stem cell processing service. Additionally, we added hospital clients during 2012 as more hospitals have begun to outsource their oncology stem cell processing. We expect to continue to see this level of revenue during the remainder of 2012.

For the three months ended September 30, 2012, total cost of revenues were approximately $3.7 million compared to $1.9 million for the three months ended September 30, 2011, representing an increase of $1.9 million or 98%. Overall, gross profit for the three months ended September 30, 2012 was $0.7 million compared to $0.3 million for the three months ended September 30, 2011, representing an increase of approximately $0.4 million or 140% .

For the nine months ended September 30, 2012, total revenues were approximately $11.6 million compared to $5.8 million for the nine months ended September 30, 2011, representing an increase of $5.7 million or 98%. Revenues for period were comprised of the following (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Clinical Services	$ 6,701.2	$ 2,620.3
Clinical Services Reimbursables	2,881.8	1,789.6
Processing and Storage Services	1,976.8	1,218.1
Other	19.0	209.0
	$ 11,578.8	$ 5,837.0

- Clinical Services were approximately $6.7 million for the nine months ended September 30, 2012 compared to $2.6 million for the nine months ended September 30, 2011, representing an increase of approximately $4.1 million or 156%. The increase in clinical services revenue is due to an increased overall visibility of PCT and penetration into the cell therapy marketplace along with a general increase in the development of autologous cell therapies in the United States due to enhanced investment and expanded marketing programs in 2011 and 2012. The revenue increase was also as a result of fewer clinical service contracts subject to contract completion for revenue recognition in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. In accordance with our revenue recognition policy, revenue is recognized upon contract completion for certain clinical service contracts.

- Clinical Services Reimbursables were approximately $2.9 million for the nine months ended September 30, 2012 compared to $1.8 million for the nine months ended September 30, 2011, representing an increase of approximately $1.1 million or 61%. Our reimbursable revenue increased as a result of increased manufacturing and process development activity.

- Processing and Storage Services were approximately $2.0 million for the nine months ended September 30, 2012 compared to $1.2 million for the nine months ended September 30, 2011, representing an increase of approximately $0.8 million or 62%. The increase is primarily attributable to increased revenue from our oncology stem cell processing service. Additionally, we added hospital clients during 2012 as more hospitals have begun to outsource their oncology stem cell processing.

- Other Revenue were approximately $19.0 thousand for the nine months ended September 30, 2012 compared to $0.2 million for the nine months ended September 30, 2011. In the second quarter of 2011, we received a $200,000 license fee related to our adult stem cell technology.

For the nine months ended September 30, 2012, total cost of revenues were approximately $9.4 million compared to $5.3 million for the nine months ended September 30, 2011, representing an increase of $4.1 million or 77%. Overall, gross profit for the nine months ended September 30, 2012 was $2.1 million compared to $0.5 million, representing an increase of approximately $1.6 million or 327% .

Operating Expenses

Historically, to minimize our use of cash, we have used a variety of equity and equity-linked instruments to compensate

employees, consultants and other service providers. The use of these instruments has resulted in charges to the results of operations, which has from time to time in the past been significant. In general, these equity and equity-linked instruments were used to pay for employee and consultant compensation, director fees, marketing services, investor relations and other activities.

For the three months ended September 30, 2012 operating expenses totaled $8.8 million compared to $7.5 million for the three months ended September 30, 2011, representing an increase of $1.3 million or 17%. Operating expenses for period were comprised of the following:

- Selling, general and administrative expenses of approximately $5.9 million for the three months ended September 30, 2012 compared to $6.0 million for the three months ended September 30, 2011, representing a minor decrease of approximately $0.1 million. Equity-based compensation included in selling, general and administrative expenses for the three months ended September 30, 2012 was approximately $1.8 million, compared to approximately $1.6 million for the three months ended September 30, 2011, representing an increase of $0.2 million. In addition, other, cash based, general and administrative expenses increased approximately $0.2 million, and other, cash based, selling expenses decreased $0.4 million compared to the prior year period.

- Research and development expenses of approximately $2.8 million for the three months ended September 30, 2012 compared to $1.5 million for the three months ended September 30, 2011, representing an increase of approximately $1.3 million or 84%. Overall, the increase was primarily due to expenses of approximately $2.5 million associated with our Phase 2 clinical trial for AMR-001, which was initiated in January 2012. The increase was partially offset by reduced costs associated with internal research activities relating to our VSEL Technology. Equity-based compensation included in research and development expenses for the three months ended September 30, 2012 was approximately $0.1 million, compared to approximately $0.1 million of equity-based compensation reversals that were due to forfeitures for the three months ended September 30, 2011, representing an increase of $0.2 million.

For the nine months ended September 30, 2012 operating expenses totaled $24.6 million compared to $27.0 million for the nine months ended September 30, 2011, representing a decrease of $2.4 million or 9%. Operating expenses for period were comprised of the following:

- Selling, general and administrative expenses of approximately $17.1 million for the nine months ended September 30, 2012 compared to $21.3 million for the nine months ended September 30, 2011, representing a decrease of approximately $4.2 million or 20%. Equity-based compensation included in selling, general and administrative expenses for the nine months ended September 30, 2012 was approximately $5.0 million, compared to approximately $7.5 million for the nine months ended September 30, 2011, representing a decrease of $2.5 million. General and administrative expenses decreased approximately $1.1 million, in part due to a one-time contribution of $0.6 million paid in equity to the Stem for Life Foundation during the nine months ended September 30, 2011. Selling expenses also decreased $0.6 million compared to the prior year period.

- Research and development expenses of approximately $7.5 million for the nine months ended September 30, 2012 compared to $5.7 million for the nine months ended September 30, 2011, representing an increase of approximately $1.8 million or 32%. Overall, the increase was primarily due to expenses of approximately $5.2 million associated with our Phase 2 clinical trial for AMR-001, which was initiated in January 2012. The increase was partially offset by a prior year period $1.2 million in-process research and development charge incurred, and reduced internal research activities relating to our VSEL Technology. Equity-based compensation included in research and development expenses for the nine months ended September 30, 2012 was approximately $0.4 million, compared to approximately $0.5 million for the nine months ended September 30, 2011, representing a decrease of $0.1 million.

Other Income and Expense

For the three months ended September 30, 2012 interest expense was $0.4 million compared with $0.6 million for the three months ended September 30, 2011. For the nine months ended September 30, 2012 interest expense was $1.4 million compared with $2.1 million for the nine months ended September 30, 2011. Interest expense in each period was primarily due to the amortization of debt discount related to the Series E Preferred Stock.

Other expense for the three months ended September 30, 2012 totaled approximately $0.1 million, compared with other income of $1.3 million for the three months ended September 30, 2011. Other income for the nine months ended September 30, 2012 totaled approximately $36.9 thousand, compared with other income of $1.6 million for the nine months ended September 30, 2011, and primarily relates to the revaluation of derivative liabilities that have been established in connection with the Convertible

Redeemable Series E Preferred Stock.

Discontinued Operations

Regenerative Medicine - China segment

In 2009, the Company began its Regenerative Medicine-China business in the People's Republic of China ("China" or "PRC") through its subsidiary, a wholly foreign owned entity ("WFOE") and entered into contractual arrangements with certain variable interest entities ("VIEs"). Foreign companies have commonly used VIE structures to operate in the PRC, and while such structures are not uncommon, recently they have drawn greater scrutiny from the local Chinese business community in the PRC who have urged the PRC State Council to restrict the use of these structures. In addition, in December 2011, China's Ministry of Health announced its intention to more tightly regulate stem cell clinical trials and stem cell therapeutic treatments in the PRC, which has created uncertainty regarding the ultimate regulatory environment in the PRC. Accordingly, the Company took steps to restrict, and ultimately eliminate its regenerative medicine business in the PRC. As a result of these steps, the Company has discontinued its operations in its Regenerative Medicine-China business. The Company has determined that any liability arising from the activities of the WFOE and the VIEs will likely be limited to the net assets currently held by each entity. As of March 31, 2012, the Company recognized the following loss on exit of the Regenerative Medicine-China business (in thousands):

Cash	$ 195.1
Prepaid expenses and other current assets	14.9
Property, plant and equipment, net	1,023.7
Other Assets	330.5
Accounts payable	(177.1)
Accrued liabilities	(79.2)
Accumulated comprehensive income	(169.9)
Loss on exit of segment	$ 1,138.0

The operations and cash flows of the Regenerative Medicine - China business were eliminated from ongoing operations as a result of our exit decision, and the Company will not have continuing involvement in this business going forward. The operating results of the Regenerative Medicine – China business for the three and nine months ended September 30, 2012 and 2011, which are included in discontinued operations, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ —	$ 98.8	$ 52.3	$ 148.9
Cost of revenues	—	(31.3)	(30.6)	(49.4)
Research and development	—	93.6	(103.3)	(64.5)
Selling, general, and administrative	—	(782.3)	(497.3)	(1,572.3)
Other income (expense)	—	1.4	(6.8)	(11.3)
Loss on exit of segment	—	—	(1,138.0)	—
Loss from discontinued operations	$ —	$ (619.8)	$ (1,723.7)	$ (1,548.6)

The summary of the assets and liabilities related to Regenerative Medicine-China discontinued operations as of December 31, 2011 was as follows (in thousands):

	December 31, 2011
Assets	
Cash and cash equivalents	$ 103.3
Prepaid expenses and other current assets	284.4
Property, plant and equipment, net	1,256.8
Other Assets	149.0
	$ 1,793.5
Liabilities	
Accounts payable	$ 177.8
Accrued liabilities	31.0
	$ 208.8

Pharmaceutical Manufacturing - China segment

On June 18, 2012, the Company announced that it had entered into a definitive agreement to sell its 51% interest in Erye for approximately $12.3 million in cash and the return to the Company of (i) 1,040,000 shares of the Company's Common Stock and (ii) the cancellation of 1,170,000 options and 640,000 Common Stock warrants. The closing of the transaction is subject to the satisfaction of certain conditions. The Erye divestiture closed on November 13, 2012.

The operations and cash flows of the Pharmaceutical Manufacturing - China business will be eliminated from ongoing operations with the sale of the Company's 51% interest in Erye. The operating results of the Pharmaceutical Manufacturing - China business for the three and nine months ended September 30, 2012 and 2011, including the estimated asset impairments based on the definitive agreement purchase price, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 20,036.4	$ 15,513.0	$ 57,254.7	$ 49,806.0
Cost of revenues	(11,551.5)	(11,905.1)	(37,131.5)	(36,207.1)
Research and development	(611.8)	(782.5)	(2,231.5)	(1,885.3)
Selling, general, and administrative	(3,514.7)	(2,107.4)	(9,714.8)	(8,233.5)
Other income (expense)	(0.9)	(583.2)	(1,008.3)	(949.3)
Provision for income taxes	(1,029.9)	(26.2)	(1,535.4)	(907.6)
Asset impairments	(3,175.5)	—	(31,170.1)	—
(Loss) income from discontinued operations	$ 152.1	$ 108.6	$ (25,536.9)	$ 1,623.2

The summary of the assets and liabilities related to Pharmaceutical Manufacturing- China discontinued operations as of September 30, 2012 and December 31, 2011, respectively, were as follows (in thousands):

	September 30, 2012	December 31, 2011
Cash and cash equivalents	$ 10,789.5	$ 8,707.0
Restricted cash	2,892.4	—
Accounts receivable, net	7,105.3	5,525.7
Inventory	15,141.9	16,505.7
Deferred income taxes	344.2	463.7
Prepaid expenses and other current assets	750.9	777.5
Property, plant and equipment, net	37,327.3	36,490.4
Land use rights, net	3,021.5	4,872.4
Goodwill	—	8,495.7
Intangible assets, net	—	21,846.4
Other assets	2,821.1	2,459.9
Total assets	$ 80,194.1	$ 106,144.4
Accounts payable	$ 8,730.5	$ 7,950.3
Accrued liabilities	2,874.7	1,705.8
Bank loans	17,369.0	15,712.0
Notes payable	6,541.3	—
Income tax payable	2,142.3	621.6
Deferred income taxes	5,902.4	6,177.4
Unearned revenue	1,544.1	1,315.4
Amount due related parties	8,519.2	20,862.7
Total Liabilities	$ 53,623.5	$ 54,345.2

Noncontrolling Interests

In connection with accounting for the Company's 51% interest in Erye, which is reported in discontinued operations, we account for the 49% minority shareholder share of Erye's net income or loss with a charge to Noncontrolling Interests. For the three months ended September 30, 2012 and September 30, 2011, Erye's minority shareholders' share of net income totaled approximately $74.5 thousand and $53.2 thousand, respectively. For the nine months ended September 30, 2012 Erye's minority shareholders' share of net loss totaled approximately $12.5 million and for the nine months ended September 30, 2011 Erye's minority shareholders' share of net income totaled approximately $0.8 million.

In March 2011, the Company acquired rights to use patents under licenses from Becton, Dickinson and Company in exchange for an approximately 20% interest in PCT’s Athelos subsidiary. For the three months ended September 30, 2012 and 2011, Becton’s minority shareholder’s share of Athelos’ net loss totaled approximately $59.6 thousand and $35.2 thousand, respectively. For the nine months ended September 30, 2012 and 2011, Becton’s minority shareholder’s share of Athelos’ net loss totaled approximately $248.3 thousand and $237.1 thousand, respectively.

Warrant Inducements

To raise capital on terms that we deemed favorable, during the three months ended September 30, 2012, the Board authorized certain inducements to warrant holders to exercise outstanding common stock purchase warrants significantly before their expiration dates. The Company determined in each instance that such inducements were modifications of equity instruments, and an incremental fair value of the inducement was determined using the Black-Scholes option pricing model.

In connection with the July 2012 exercise of 2,808,140 of the warrants issued in our May-July 2012 private placement warrants at an exercise price of $0.51 per share for gross proceeds of $1.4 million, we issued to each exercising holder a new five year warrant to purchase the identical number of shares of our Common Stock as had been exercised subject to substantially the same terms as the exercised warrant, except that the per share exercise price of each new warrant is between $.66 and $.69, the closing price of our Common Stock on the date the old warrant was exercised. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.4 million.

In August 2012, a warrant holder exercised warrants to purchase 2,100,000 shares of the Company' common stock at an exercise price of $0.51 per share, for gross proceeds to the Company of approximately $1.1 million. The warrants were originally issued in 2009 with an exercise price of $2.50 per share. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.2 million.

In August 2012, a warrant holder exercised warrants to purchase 344,825 shares of common stock at $1.85, and 300,000 shares of common stock at $1.45 per share, respectively, for gross proceeds to the Company of approximately $1.1 million. Since the exercise prices of the warrants were significantly above the Company's stock price, the Company issued the warrant holder 1,458,952 shares of the Company's common stock as an inducement to exercise. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.4 million.

In September 2012, warrant holders exercised an aggregate of 1,457,212 warrants at an exercise price of $.51 per share for gross proceeds of approximately $0.7 million. As an inducement to exercise, we paid certain warrant holders $.03 per share upon each exercise. The incremental fair value of the inducement recorded in the three months ended September 30, 2012 was $0.

Preferred Dividends

The Convertible Redeemable Series E Preferred Stock calls for annual dividends of 7% based on the stated value of the preferred stock. We recorded dividends of approximately $67.2 thousand and $0.2 million for the three months ended September 30, 2012 and September 30, 2011, respectively, and approximately $0.3 million and $0.5 million for the nine months ended September 30, 2012 and September 30, 2011.

Analysis of Liquidity and Capital Resources

At September 30, 2012 we had a cash balance of approximately $5.4 million, working capital of approximately $(2.5) million, and shareholders’ equity of approximately $48.2 million.

During the nine months ended September 30, 2012, we met our immediate cash requirements through revenue generated from our PCT operations, existing cash balances, private placements and a public offering of our common stock and warrants, which in total, raised an aggregate of approximately $12.2 million, warrant exercises, which raised approximately $5.9 million, and the use of equity and equity-linked instruments to pay for services and compensation.

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

	Nine Months Ended September 30,	
	2012	2011
Net cash used in operating activities - continuing operations	$ (16,395.8)	$ (15,960.4)
Net cash provided by (used in) investing activities - continuing operations	2,530.4	(279.6)
Net cash provided by financing activities - continuing operations	15,620.9	17,907.2

Operating Activities

Our cash used in operating activities in the nine months ended September 30, 2012 totaled approximately $16.4 million, which is the sum of (i) our net loss of $51.0 million, less discontinued operations of $27.3 million, and adjusted for non-cash expenses totaling $8.1 million (which includes adjustments for equity-based compensation and depreciation and amortization), and (ii) changes in operating assets and liabilities providing approximately $(0.8) million.

Investing Activities

During the nine months ended September 30, 2012, we spent approximately $0.2 million for property and equipment. In addition, in the three months ended September 30, 2012, we received advance sale proceeds of approximately $2.7 million from the divestiture of Erye. The Erye sale was completed on November 13, 2012, and we received the remaining $9.6 million sale proceeds on closing.

Financing Activities

During the nine months ended September 30, 2012, we financed our operations in part through a series of securities issuances.

In the spring of 2012, we completed an underwritten public offering of 17,000,000 units (inclusive of exercise of the underwriters over-allotment option) at a purchase price of $0.40 per unit, with each unit consisting of one share of Common Stock and a five year warrant to purchase one share of Common Stock at an exercise price of $0.51 per share. We sold securities in the public offering under our previously filed shelf registration statement. We received gross proceeds of $6.8 million, prior to deducting underwriting discounts and offering expenses, for net proceeds of approximately $6.0 million.

In the first nine months of 2012, we also issued securities in a number of private placements of common stock or units consisting of common stock and warrants. In the aggregate, we raised gross proceeds of approximately $6.1 million in private placements of an aggregate of approximately 11.8 million shares of Common Stock and 8.3 million five year warrants at exercise prices ranging from $.51 to $.74.

In addition, in the first nine months of 2012, we also raised approximately $5.9 million from the exercise of approximately 10.2 million warrants. To induce the exercise of certain of these warrants, we provided consideration to the warrant holders in the form of either cash, stock or additional warrants.

Liquidity and Capital Requirements Outlook

Capital Requirements

NeoStem acquired Amorcyte, Inc. (“Amorcyte”), in October 2011. The Company expects to incur substantial additional costs in connection with its transition to a cell therapy development company. In particular, Amorcyte is currently recruiting clinical trial sites for a 160 patient, Phase 2 clinical trial for Amorcyte’s lead product candidate, AMR-001, for the treatment of AMI. The trial began enrollment in January 2012, and is expected to cost approximately $16 million over the first two years and anticipated to cost up to approximately $21 million over a five year period, inclusive of manufacturing costs.

Liquidity

We anticipate that we will take further steps to raise additional capital in order to (i) fund the development of advanced cell therapies, including the development of AMR-001, and (ii) grow the PCT business, including expanding into Europe. To meet our short and long term liquidity needs, we currently expect to use existing cash balances and the growth of our revenue generating activities, and a variety of other means that could include, but not be limited to, the use of our current equity lines, potential additional warrant exercises, option exercises, issuances of other debt or equity securities in public or private financings, and/or sale of assets.

On June 18, 2012, the Company announced that it had entered into a definitive agreement to sell its 51% interest in Erye for approximately $12.3 million in cash and the return to the Company of (i) 1,040,000 shares of the Company's Common Stock and (ii) the cancellation of 1,170,000 options and 640,000 Common Stock warrants. We expect to use the cash proceeds of our sale of our 51% interest in Erye, to meet some of our cash requirements. In the third quarter of 2012, we received $2.7 million of the cash proceeds in advance of the expected closing, and the remaining $9.6 million was deposited into escrow by the Purchasers. The Erye divestiture closed on November 13, 2012. On the Closing Date, the balance of the amount held in escrow, was released to the Company, the common stock was delivered to the Company, the options and warrants were canceled, and all interest of the Company in Erye was transferred to the Purchasers.

In addition, we will continue to seek as appropriate grants for scientific and clinical studies from the National Institutes of Health, Department of Defense, and other governmental agencies and foundations, but there can be no assurance that we will be successful in qualifying for or obtaining such grants. Our history of operating losses and liquidity challenges, may make it difficult for us to raise capital on acceptable terms or at all. The demand for the equity and debt of small cap biopharmaceutical companies like ours is dependent upon many factors, including the general state of the financial markets. During times of extreme market volatility, capital may not be available on favorable terms, if at all. Our inability to obtain such additional capital could materially and adversely affect our business operations.

To support our liquidity needs, the Company raised an aggregate of approximately $18.8 million (or net proceeds of approximately $18.0 million) through an underwritten public offering of common stock and warrants, private placements, and warrant exercises for the nine months ended September 30, 2012. In August 2011, the Department of Defense (DOD) Peer Reviewed

Medical Research Program (PRMRP) of the Office of the Congressionally Directed Medical Research Programs (CDMRP) awarded NeoStem approximately $1.78 million to be applied towards funding the Company's VSEL ™ Technology, which award will support an investigation of a unique stem cell population, Very Small Embryonic-Like (VSEL) stem cells, for its bone building and regenerative effects in the treatment of osteoporosis. In September 2012, NeoStem received notice that it was awarded a $1.2 million grant by the National Institute of Dental and Craniofacial Research (NIDCR) to study the repair of bone defects with VSELs. In addition, in September 2011, as amended in August 2012, we entered into a Purchase Agreement with Aspire Capital which provided that Aspire Capital is committed to purchase up to $20 million of shares of the Company’s common stock over the term of that Agreement through September 30, 2015, subject to certain terms and conditions, including a floor price. From October 22, 2012 through November 12, 2012, Aspire has purchased 2,300,000 shares of the Company's common stock for an aggregate consideration of approximately $1.5 million.

While we continue to seek capital through a number of means, there can be no assurance that additional financing will be available on acceptable terms, if at all, and our negotiating position in capital generating efforts may worsen as existing resources are used. Additional equity financing may be dilutive to our stockholders; debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate as a business, our stock price may not reach levels necessary to induce option or warrant exercises, and asset sales may not be possible on terms we consider acceptable. If we are unable to raise the funds necessary to meet our long-term liquidity needs, we may have to delay or discontinue the acquisition and development of cell therapies, and/or the expansion of our business or raise funds on terms that we currently consider unfavorable.

Commitments and Contingencies

The following table reflects a summary of NeoStem's significant contractual obligations and commitments as of September 30, 2012 (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt Obligations					
Series E Preferred Stock(1)	$ 3,218.9	$ 3,218.9	$ —	$ —	$ —
Mortgages Payable	3,493.7	205.5	432.2	481.8	2,374.2
Operating Lease Obligations	4,195.7	1,300.0	1,899.6	992.5	3.6
	$ 10,908.3	$ 4,724.4	$ 2,331.8	$ 1,474.3	$ 2,377.8

(1) Amounts include dividends.

Under an agreement with an external clinical research organization (“CRO”), we will incur expenses relating to our AMR-001 Phase 2 clinical trial for the treatment of AMI. The timing and amount of these disbursements are based on the achievement of certain milestones, patient enrollment, services rendered or as expenses are incurred by the CRO and therefore, we cannot reasonably estimate the timing of these payments.

SEASONALITY

NeoStem does not believe that its operations are seasonal in nature.

OFF-BALANCE SHEET ARRANGEMENTS

NeoStem does not have any off-balance sheet arrangements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, as well as historical information. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from anticipated results, performance or achievements expressed or implied by such forward-looking statements. When used in this Quarterly Report on Form 10-Q, 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, although some forward-looking statements are expressed differently. Additionally, statements regarding our ability to successfully develop, integrate and grow the business, including with regard to our research and development efforts in respect of AMR-001 and other cell therapeutics, our adult stem cell and umbilical cord

blood collection, processing and storage business, contract manufacturing and process development of cellular based medicines, the future of regenerative medicine and the role of stem cells in that future, the future use of stem cells as a treatment option and the role of VSEL ™ Technology in that future and the potential revenue growth of such businesses, are forward-looking statements. Our future operating results are dependent upon many factors and our further development is highly dependent on future medical and research developments and market acceptance, which is outside our control.

Forward-looking statements, including with respect to the successful execution of the Company's strategy, may not be realized due to a variety of factors and we cannot guarantee their accuracy or that our expectations about future events will prove to be correct. Such factors include, without limitation, (i) our ability to manage the business despite operating losses and cash outflows; (ii) our ability to obtain sufficient capital or strategic business arrangements to fund our operations and expansion plans, including meeting our financial obligations under various licensing and other strategic arrangements, the funding of our clinical trials for AMR-001, and the commercialization of the relevant technology; (iii) our ability to build the management and human resources and infrastructure necessary to support the growth of the business; (iv) our ability to integrate our acquired businesses successfully and grow such acquired businesses as anticipated, including expanding the PCT business into Europe; (v) whether a large global market is established for our cellular-based products and services and our ability to capture a share of this market; (vi) competitive factors and developments beyond our control; (vii) scientific and medical developments beyond our control; (viii) our ability to obtain appropriate governmental licenses, accreditations or certifications or comply with healthcare laws and regulations or any other adverse effect or limitations caused by government regulation of the business; (ix) whether any of our current or future patent applications result in issued patents, the scope of those patents and our ability to obtain and maintain other rights to technology required or desirable for the conduct of our business; (x) whether any potential strategic benefits of various licensing transactions will be realized and whether any potential benefits from the acquisition of these licensed technologies will be realized; (xi) the results of our development activities, including the timing, enrollment, outcome and/or results of any clinical trials; and (xii) the other factors discussed in “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in the Company's other periodic filings with the Securities and Exchange Commission (the SEC”) which are available for review at *www.sec.gov* under “Search for Company Filings.”

All forward-looking statements attributable to us are expressly qualified in their entirety by these and other factors. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Disclosure controls and procedures are the Company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a 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. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of the end of the Company’s third fiscal quarter ended September 30, 2012 covered by this report, the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that, because of the material weakness in internal control over financial reporting described below, the Company’s disclosure controls and procedures were not effective, at the reasonable assurance level, in ensuring that information required to be disclosed by the

Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with management's assessment of internal controls in the Pharmaceutical Manufacturing - China segment as of December 31, 2011, which is now reported in discontinued operations, the Company identified the following material weaknesses which as of September 30, 2012, has not been fully remediated. The Company determined that Erye does not have sufficient qualified accounting and finance personnel, which has resulted in the lack of appropriate (i) segregation of duties in certain areas, (ii) detailed records for long term assets, (iii) knowledge of certain complex aspects of Chinese tax code, and (iv) audit trails on certain transactions. During 2011, the Company took steps to strengthen Erye's competency in the area of US GAAP, by hiring a director of international accounting with many years of US GAAP accounting and reporting experience, but recognized that it needed to do more to address the day to day needs of Erye's accounting department. In April 2012, Erye established a separate internal controls department, which will focus on strengthening accounting policies, and performing sample audits. It will also ensure that staff members receive proper training and new policies are implemented appropriately.

(b) Changes in Internal Control over Financial Reporting

There have been changes in the Company's internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15, that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, as described below.

Transition to new accounting system - Effective June 1, 2012, we began the migration to a new accounting software system for a portion of the Company and its U.S. subsidiaries. All remaining U.S. subsidiaries were transitioned onto the new accounting software system in the third quarter of 2012. This initiative further strengthened the unification of financial reporting processes within our consolidated subsidiaries.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material changes to the disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, except as set forth in Note 13, Discontinued Operations, of the Notes to the financial statements included elsewhere herein, and as set forth under Item 8.01 of our Current Report on Form 8-K filed with the SEC on October 5, 2012.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be affected by a number of factors, including, but not limited to, those disclosed previously and from time to time in the Company's filings with the SEC, including our Annual Report on Form 10-K, filed by the Company with the SEC on March 20, 2012, as amended by Amendment No. 1 on Form 10-K/A, filed by the Company with the SEC on April 30, 2012, our Quarterly Report on Form 10-Q, filed by the Company with the SEC on May 11, 2012, and other factors identified from time to time in the Company's periodic filings with the SEC, which Risk Factors are incorporated by reference herein, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. See also, the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012, under "Item 1 A - Risk Factors."

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

As previously disclosed, and as follows:

The Company has agreed to issue equity to certain consultants and other service providers for services. Effective August 10, 2012, pursuant to a four month agreement for financial consulting services and other specified related matters, the Company agreed to issue to a consultant a warrant to purchase 200,000 shares of restricted common stock at an exercise price of $.75, vesting ratably throughout term of the agreement; however the agreement was terminated on October 4, 2012, 50,000 warrant shares having vested. Effective October 5, 2012, pursuant to a six month agreement for consulting services in general corporate, securities, transactional and other specified matters, the Company agreed to issue to consultant, a five year warrant to purchase shares of our restricted common stock ("Warrant Shares") every month throughout the term of the agreement for $5,000 of warrant shares based upon a Black Scholes calculation each month, with 10,419 warrant shares at an exercise price of $.73 per share, and 12,067 warrant shares at an exercise price of $.65 having been issued for October and November. Effective October 15, 2012, pursuant to a four month extension of an agreement for consulting services in investor relations and other specified matters, the Company agreed to issue to consultant, 160,000 shares of restricted common stock, vesting as to 50% on the effective date of the extension and 50% at the end of the extension. Effective October 26, 2012, pursuant to a six month agreement for consulting services in corporate finance, investor communications, financial and investor public relations and other specified matters, the Company agreed to issue to a consultant, 240,000 shares of the Company's restricted common stock, vesting ratably throughout the term of the agreement. The issuance of all such securities is or was subject to the approval of the NYSE MKT.

On August 22, 2012, the Company consummated a private placement and issued an aggregate of 700,000 Units (the "Units") at a price of $0.57 per Unit, each Unit consisting of one share of common stock and one warrant for an aggregate consideration of $399,000. The warrants have an exercise price of the greater of (i) $0.70; or (ii) a penny above the closing price of Common stock on the date the subscription agreement is executed, expiring five years from the date of issuance and are exercisable immediately upon issuance.

On November 8, 2012, the Company consummated a private placement and issued an aggregate of 833,333 shares of restricted common stock at a purchase price of $.60 per share an aggregate consideration of $500,000.

The offer and sale by the Company of the securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for transactions by an issuer not involving a public offering. The offer and sale of such securities were made without general solicitation or advertising to "accredited investors" as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act and/or pursuant to Regulation D or Regulation S, each promulgated under the Securities Act and may not be resold in the United States or to U.S. persons unless registered under the Securities Act or pursuant to an exemption from registration under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

For information with respect to certain recent events involving an amendment to our Chief Executive Officer's employment agreement, see Note 16-Subsequent Events, paragraph 7 in our notes to our financial statements included elsewhere herein, which is incorporated into this Item 5 by reference.

ITEM 6. EXHIBITS

The exhibits to this Form 10-Q are listed in the Exhibit Index included elsewhere herein.

NEOSTEM, INC.
FORM 10Q

Exhibit Index

Exhibit	Description	Reference
2.1	Equity Purchase Agreement dated as of June 18, 2012, by and among NeoStem, Inc., China Biopharmaceuticals Holdings, Inc., Fullbright Finance Limited, Suzhou Erye Economy &Trading Co., Ltd., and Suzhou Erye Pharmaceutical Co., Ltd. (1)	2.1
2.2	Amendment to Equity Purchase Agreement, dated as of August 14, 2012, by and among NeoStem, Inc., China Biopharmaceuticals Holdings, Inc., Highacheive Holdings Limited, Fullbright Finance Limited, Suzhou Erye Economy & Trading Co., Ltd. and Suzhou Erye Pharmaceutical Co., Ltd. (2)	2.1
3.1	Amended and Restated Certificated of Incorporation, as amended (as certified March 25, 2011) (3)	3.1
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation, filed with the Secretary of State of the State of Delaware on October 14, 2011 (4)	3.1
3.3	Certificate of Elimination of the Series E 7% Senior Convertible Preferred Stock of NeoStem, Inc., filed with the Secretary of State of the State of Delaware on October 25, 2012 (5)	3.1
10.1	Form of Subscription Agreement for the May-July 2012 Private Placement (6)	10.7
10.2	Form of Common Stock Purchase Warrant for the May-July Private Placement (6)	10.8
10.3	Form of New Warrant from July 2012 (6)	10.9
10.4	Form of Subscription Agreement from the August 2012 Private Placement (7)	4.6
10.5	Form of Warrant from August 2012 Private Placement (7)	4.7
10.6	Amendment dated as of August 23, 2012 to Common Stock Purchase Agreement dated as of September 28, 2011, by and between NeoStem, Inc. and Aspire Capital Fund, LLC (2)	10.1
10.7	Warrant issued to Aspire Capital Fund, LLC in August 2012 (7)	4.9
10.8	NeoStem, Inc. 2012 Employee Stock Purchase Plan (8)	Appendix A
10.9	Amended and Restated NeoStem, Inc. 2009 Equity Compensation Plan (9)	Appendix B
10.10	Form of Subscription Agreement from the October 2012 Private Placement*	10.10
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*	31.1
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*	31.2
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**	32.1
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**	32.2
101.INS	XBRL Instance Document***	101.INS
101.SCH	XBRL Taxonomy Extension Schema***	101.SCH
101.CAL	XBRL Taxonomy Extension Calculation Linkbase***	101.CAL
101.DEF	XBRL Taxonomy Extension Definition Linkbase***	101.DEF
101.LAB	XBRL Taxonomy Extension Label Linkbase***	101.LAB
101.PRE	XBRL Taxonomy Extension Presentation Linkbase***	101.PRE

* Filed herewith.

** Furnished herewith.

*** Users of this interactive data file are advised pursuant to Rule 406T of Regulations S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

(1) Filed with the SEC as an exhibit, numbered as indicated above, to our Current Report on Form 8-K dated June 18, 2012, which exhibit is incorporated here by reference.

(2) Filed with the SEC as an exhibit, numbered as indicated above, to our Current Report on Form 8-K dated August 23, 2012, which exhibit is incorporated here by reference.

(3) Filed with the SEC as an exhibit, numbered as indicated above, to our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (filed with the SEC on April 6, 2011), which exhibit is incorporated here by reference.

(4) Filed with the SEC as an exhibit, numbered as indicated above, to our current report on Form 8-K dated October 14, 2011, which exhibit is incorporated here by reference.

(5) Filed with the SEC as an exhibit, numbered as indicated above, to our Current Report on Form 8-K dated October 25, 2012, which exhibit is incorporated here by reference.

(6) Filed with the SEC as an exhibit, numbered as indicated above, to our quarterly report on Form 10-Q for the quarter ended June 30, 2012, which exhibit is incorporated here by reference.

(7) Filed with the SEC as an exhibit, numbered as indicated above, to our Registration Statement on Form S-3 (Reg. No. 333-183542), declared effective by the SEC on October 3, 2012.

(8) Incorporated by reference to Appendix A of our Definitive Proxy Statement on Schedule 14A filed with the SEC on September 7, 2012.

(9) Incorporated by reference to Appendix B of our Definitive Proxy Statement on Schedule 14A filed with the SEC on September 7, 2012.

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 M.D.

Robin Smith M.D., Chief Executive Officer

Date: November 13, 2012

By: /s/ Larry A. May

Larry A. May, Chief Financial Officer

Date: November 13, 2012

By: /s/ Joseph Talamo

Joseph Talamo, Chief Accounting Officer

Date: November 13, 2012

Exhibit 10.10

SUBSCRIPTION AGREEMENT

NeoStem, Inc.
420 Lexington Avenue
Suite 350
New York, New York 10170
Attention: Chief Executive Officer

Ladies and Gentlemen:

The undersigned investor (the "*Investor*") under the following terms and conditions, offers to subscribe (the "Offer") for the securities of NeoStem, Inc., a Delaware corporation (the "Company" or "NeoStem"). The Company is offering (the "Offering") shares (the "Common Shares") of common stock, $.001 par value (the "Common Stock") at a per share purchase price equal to $0.60.

The Investor understands that the Common Shares are being issued pursuant to one or more exemptions from the registration requirements of the Securities Act of 1933, as amended (the "*Securities Act*" or the "*Act*"), in a private placement pursuant to an exemption from registration under Regulation D promulgated under Section 4(2) and Rule 506 of the Act and/or an exemption from registration under Regulation S promulgated under the Securities Act. As such, the Common Stock, are "*restricted securities*" and may not be sold or transferred absent a registration statement declared effective under the Act or an exemption from the registration requirements of the Act.

1. Subscription.

The closing (the "Closing") of the transactions hereunder shall take place at the offices of the Company or at such other location as the Company may determine after the receipt by the Company of subscriptions for Common Shares from Investors from time to time and after it has been determined that all conditions in this Agreement have been met. At each Closing, funds equal to the Subscription Amount of each Investor shall be delivered to the Company and the Company shall promptly thereafter deliver to each such Investor his, her or its respective Common Shares as provided herein. The Company may close on any number of Common Shares it may choose in its sole determination.

Subject to the terms and conditions hereinafter set forth in this Subscription Agreement, the Investor hereby offers to subscribe for Common Shares as set forth in the Investor Signature Page attached hereto and contemporaneously herewith makes payment for the purchase of the Common Shares by wire transfer or bank check.

2. Conditions.

The Offer is made subject to the following conditions: (i) that the Company, acting in good faith, shall have the right to accept or reject this Offer, in whole or in part, for any reason; (ii) that the Investor agrees to comply with the terms of this Subscription Agreement; and (iii) the Common Shares are accepted for listing on the NYSE MKT.

Acceptance of this Offer shall be deemed given by the countersigning of this Subscription Agreement by the Company. In the event the Company does not accept the Offer, any and all proceeds for the purchase of the Common Shares by the Investor shall be returned to Investor.

3. Representations and Warranties of the Investor.

The Investor, in order to induce the Company to accept this Offer, hereby warrants and represents as follows:

PLEASE CHECK ONE OR BOTH OF THE TWO BOXES BELOW AS APPROPRIATE:

o Investor is purchasing under Regulation D

OR

o Investor is purchasing under Regulation S

(a) Organization; Authority. The Investor, if not an individual, is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite power and authority to enter into and to consummate the transactions contemplated by this Subscription Agreement and otherwise to carry out its obligations hereunder. The purchase by Investor of the Common Shares hereunder has been duly authorized by all necessary action on the part of Investor. This Subscription Agreement has been duly executed by Investor, and when delivered by Investor in accordance with the terms hereof, will constitute the valid and legally binding obligation of Investor, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(b) Investor Representation for Purchase under Regulation D.

(i) Restricted Securities. Investor understands that the Common Shares are "restricted securities" and have not been registered under the Securities Act or qualified under any applicable state securities law by reason of their issuance in a transaction that does not require registration or qualification (based in part on the accuracy of the representations and warranties of the Investor contained herein), and that such securities must be held indefinitely unless a subsequent disposition is registered under the Securities Act or any applicable state securities laws or is exempt from such registration. The Investor hereby agrees that the Company may insert the following or similar legend on the face of the certificates evidencing the Common Shares, if required in compliance with federal and state securities laws:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") NOR UNDER THE SECURITIES LAWS OF ANY STATE. THEY MAY NOT BE SOLD, OFFERED FOR SALE, OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED PURSUANT TO A VALID EXEMPTION THEREFROM UNDER THE SECURITIES ACT."

The Investor understands and acknowledges that the U.S. Securities and Exchange Commission (the "*Commission*") currently takes the position that coverage of short sales of shares of the Common Stock "against the box" prior to the effective date of a registration statement registering the re-sale of the Common Shares is a violation of Section 5 of the Securities Act, as set forth in Item 65, Section 5 under Section A, of the Manual of Publicly Available Telephone Interpretations, dated July 1997, compiled by the Office of Chief Counsel, Division of Corporation Finance. Accordingly, the Investor agrees not to use any of the Common Shares to cover any short sales made prior to the effective date of such registration statement.

(ii) No Distribution. Investor is acquiring the Common Shares as principal for its own account, in the ordinary course of its business, and not with a view to or for distributing or reselling such Common Shares or any part thereof. Investor has no present intention of distributing any of such Common Shares and has no agreement or understanding, directly or indirectly, with any other individual, corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof), or other entity of any kind (each, a "*Person*") regarding the distribution of such Common Shares (this representation and warranty not limiting such Investor's right or intent to sell the Common Share pursuant to a Registration Statement or otherwise in compliance with applicable federal and state securities laws).

(iii) Investor Status. Investor is an "Accredited Investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) under the Securities Act. In general, an Accredited Investor is deemed to be an institution with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 (excluding the value of the Investor's home) or annual income exceeding $200,000, or $300,000 jointly with their spouse and is defined on Schedule A hereto.

(iv) Experience of Investor. Investor, either alone or together with its representatives, has such knowledge, sophistication, and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Common Shares, and has so evaluated the merits and risks of such investment. The Investor has not authorized any Person to act as his Purchaser Representative (as that term is defined in Regulation D of the General Rules and Regulations under the Act) in connection with this transaction. Investor is able to bear the economic risk of an investment in the Common Shares and, at the present time, is able to afford a complete loss of such investment.

(v) General Solicitation. Investor is not purchasing the Common Shares as a result of any advertisement, article, notice or other communication regarding the Common Shares published in any newspaper, magazine, or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(c) Investor Representations for Purchase under Regulation S.

(i) Restricted Securities. Investor understands that the Common Shares are "restricted securities" and have not been registered under the Securities Act or qualified under any applicable state securities law by reason of their issuance in a transaction that does not require registration or qualification (based in part on the accuracy of the representations and warranties of the Investor contained herein), and that such securities must be held indefinitely unless a subsequent disposition is registered under the Securities Act or any applicable state securities laws or is exempt from such registration. The Investor hereby agrees that the Company may insert the following or similar legend on the face of the certificates evidencing the Common Shares, if required in compliance with federal and state securities laws:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISTRIBUTED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES, ITS TERRITORIES, POSSESSIONS, OR AREAS SUBJECT TO ITS JURISDICTION, OR TO OR FOR THE ACCOUNT OR BENEFIT OF A "U.S. PERSON" AS THAT TERM IS DEFINED IN RULE 902 OR REGULATION S OF THE ACT, AT ANY TIME PRIOR TO ONE (1) YEAR AFTER THE ISSUANCE OF THIS CERTIFICATE, IN THE ABSENCE OF (i) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE ACT, OR (ii) AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED PURSUANT TO A VALID EXEMPTION THEREFROM FROM UNDER THE ACT. HEDGING TRANSACTIONS INVOLVING THE SHARES REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE ACT. ANY SALES, TRANSFERS OR OTHER DISTRIBUTIONS OF THE SECURITIES MUST BE MADE IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S OF THE ACT. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER OR OTHER DISTRIBUTION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE."

The Investor understands and acknowledges that the U.S. Securities and Exchange Commission (the "*Commission*") currently takes the position that coverage of short sales of shares of the Common Shares "against the box" prior to the effective date of a registration statement registering the re-sale of the Common Shares is a violation of Section 5 of the Securities Act, as set forth in Item 65, Section 5 under Section A, of the Manual of Publicly Available Telephone Interpretations, dated July 1997, compiled by the Office of Chief Counsel, Division of Corporation Finance. Accordingly, without limiting the restrictions set forth herein, Investor agrees not to use any of the Common Shares to cover any short sales made prior to the effective date of such registration statement.

(ii) (a) Non-U.S. Person. The Investor is a Non-U.S. Person (as defined herein). As used herein, the term "United States" means and includes the United States of America, its territories and possessions, any State of the United States, and the District of Columbia, and the term "Non-U.S. Person" means any person who is not a U.S. Person, within the meaning of Regulation S, the definition of which is set forth on Schedule B attached hereto, or is deemed not to be a U.S. Person pursuant to Rule 902(k)(2) of Regulation S, as set forth on Schedule C attached hereto.

(b) The Investor has been advised and acknowledges that:

(1) the Common Shares have not been, and when issued, will not be registered pursuant to the Securities Act, the securities laws of any state of the United States or the securities laws of any other country;

(2) in issuing and selling the Common Shares to the Investor pursuant hereto, the Company is relying upon the "safe harbor" provided by Regulation S;

(3) it is a condition to the availability of the Regulation S "safe harbor" that the Common Shares not be offered or sold in the United States or to a U.S. Person until the expiration of a period of one year following the Closing (the "*Restricted Period*"); and

(4) notwithstanding the foregoing, prior to the expiration of the Restricted Period the Common Shares may be offered or sold by the holder thereof if such offer and sale is made in compliance with the terms of this Agreement and either: (A) if the offer or sale is within the United States or to or for the account of a U.S. Person (as such terms are defined in Regulation S), the sale is made pursuant to an effective registration statement or pursuant to an exemption from the registration requirements of the Securities Act; or (B) the offer and sale is outside the United States and to other than a U.S. Person.

(iii) The Investor agrees that with respect to the Common Shares until the expiration of the Restricted Period:

(1) the Investor, its agents or its representatives have not and will not solicit offers to buy, offer for sale or sell any of the Common Shares, or any beneficial interest therein in the United States or to or for the account of a U.S. Person during the Restricted Period; and

(2) notwithstanding the foregoing, prior to the expiration of the Restricted Period the Common Shares shall not be offered or sold by the holder thereof unless such offer and sale is made in compliance with the terms of this Agreement and either: (A) if the offer or sale is within the United States or to or for the account of a U.S. Person (as such terms are defined in Regulation S), the sale is made pursuant to an effective registration statement or pursuant to an exemption from the registration requirements of the Securities Act; or (B) the offer and sale is outside the United States and to other than a U.S. Person; and

(3) the Investor will not engage in hedging transactions with regard to the Common Shares unless in compliance with the Securities Act.

The foregoing restrictions are binding upon subsequent transferees of the Common Shares, except for transferees pursuant to an effective registration statement. The Investor agrees that after the Restricted Period, the Common shares may be offered or sold within the United States or to or for the account of a U.S. Person only pursuant to applicable securities laws, including, without limitation, Regulation S.

(iv) The Investor is not purchasing the Common shares as a result of any advertisement, article, notice or other communication regarding the Common Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or other general solicitation or advertisement. The Investor has not engaged, nor is it aware that any party has engaged, and the Investor will not engage or cause any third party to engage, in any "directed selling efforts," as such term is defined in Regulation S, in the United States with respect to the Common Shares.

(v) The Investor: (1) is domiciled and has its principal place of business outside the United States; (2) certifies it is not a U.S. Person and is not acquiring the Common Shares for the account or benefit of any U.S. Person; and (3) at the time of the Closing, the Investor or persons acting on the Investor's behalf in connection therewith will be located outside the United States.

(vi) At the time of offering to the Investor and communication of the Investor's order to purchase the Common Shares and at the time of the Investor's execution of this Agreement, the Investor or persons acting on the Investor's behalf in connection therewith were located outside the United States.

(vii) The Investor is not a “distributor” (as defined in Regulation S) or a “dealer” (as defined in the Securities Act).

(viii) The Investor acknowledges that the Company shall make a notation in its stock books regarding the restrictions on transfer set forth in this Agreement and shall transfer such shares on the books of the Company only to the extent consistent therewith. In particular, the Investor acknowledges that the Company shall refuse to register any transfer of the Common Shares not made in accordance with the provisions of Regulation S, pursuant to registration pursuant to the Securities Act or pursuant to an available exemption from registration.

(ix) The Investor hereby represents that the Investor is satisfied as to the full observance of the laws of the Investor's jurisdiction in connection with any invitation to subscribe for the Common Shares or any use of the Agreement, including (i) the legal requirements within such Investor's jurisdiction for the purchase of the Common Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Common Shares. The Investor's subscription and payment for, and the Investor's continued beneficial ownership of, the Common Shares will not violate any applicable securities or other laws of the Investor's jurisdiction.

(x) The Investor is a resident of a country (an “*International Jurisdiction*”) other than Canada or the United States and the decision to subscribe for the Common Shares was taken in such International Jurisdiction.

(xi) The delivery of this Subscription Agreement, the acceptance of it by the Company and the issuance of the Common Shares to the Investor complies with all laws applicable to the Investor, including the laws of the Investor's jurisdiction of formation, and all other applicable laws, and will not cause the Company to become subject to, or require it to comply with, any disclosure, prospectus, filing or reporting requirements under any applicable laws of the International Jurisdiction.

(xii) The Investor is knowledgeable of, or has been independently advised as to, the application or jurisdiction of the securities laws of the International Jurisdiction which would apply to the subscription (other than the securities laws of Canada and the United States).

(xiii) The Investor is purchasing the Common Shares pursuant to exemptions from the prospectus and registration requirements (or their equivalent) under the applicable securities laws of that International Jurisdiction or, if such is not applicable, each is permitted to purchase the Common Shares under the applicable securities laws of the International Jurisdiction without the need to rely on an exemption.

(xiv) The applicable securities laws do not require the Company to register any of the Common Shares, file a prospectus or similar document, or make any filings or disclosures or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction.

(xv) The Investor will not sell, transfer or dispose of the Common Shares except in accordance with all applicable laws, including, without limitation, applicable securities laws of each of International Jurisdiction, Canada and the United States, and the Investor acknowledges that the Company shall have no obligation to register any such purported sale, transfer or disposition which violates applicable, International Jurisdiction, Canadian or United States or other securities laws.

(xvi) Investor Status. Investor is an “Accredited Investor” as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) under the Securities Act. In general, an Accredited Investor is deemed to be an institution with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 (excluding the value of an Investor's home) or annual income exceeding $200,000, or $300,000 jointly with their spouse and is defined on Schedule A hereto.

(xvii) Experience of Investor. The Investor, either alone or together with its representatives, has such knowledge, sophistication, and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Common Shares, and has so evaluated the merits and risks of such investment. The Investor is able to bear the economic risk of an investment in the Common Shares and, at the present time, is able to afford a complete loss of such investment.

(d) Access to Information. The Investor has reviewed the SEC Reports (as that term is defined in Section 4(g)). The Investor has also been afforded the opportunity to ask questions of, and receive answers from, the officers and/or directors of the Company concerning the terms and conditions of the Offering and to obtain any additional information, to the extent that the Company possesses such information, which Investor considers necessary and appropriate in order to permit Investor to evaluate the merits and risks of an investment in the Common Shares. It is understood that all documents, records, and books pertaining to this investment have been made available for inspection by the Investor during reasonable business hours at the Company's principal place of business. Notwithstanding the foregoing, it is understood that the Investor is purchasing the Common Shares without being furnished any prospectus setting forth all of the information that would be required to be furnished under the Securities Act and this Offering has not been passed upon or the merits thereof endorsed or approved by any state or federal authorities.

4. Representations and Warranties of the Company.

The Company hereby makes the following representations and warranties to the Investor:

(a) Organization and Qualification. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is not in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to conduct business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of this Subscription Agreement, (ii) a material adverse effect on the results of operations, assets, business, prospects or financial condition of the Company, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under this Subscription Agreement (any of (i), (ii), or (iii), a "*Material Adverse Effect*").

(b) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the Offering, to issue the shares of Common Stock deliverable thereunder. The execution and delivery of this Subscription Agreement and the Common Shares by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company and no further consent or action is required by the Company, other than the Required Approvals (as defined below). This Subscription Agreement, when executed and delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(c) No Conflicts. The execution, delivery, and performance of this Subscription Agreement by the Company and the consummation by the Company of the Offering and issuance of the Common Shares does not and will not: (i) conflict with or violate any provision of the Company's certificate or articles of incorporation, bylaws or other organizational or charter documents or (ii) subject to obtaining the Required Approvals, conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of any agreement, credit facility, debt, or other instrument (evidencing the Company's debt or otherwise) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree, or other restriction of any court or governmental authority as currently in effect to which the Company is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not, individually or in the aggregate have a Material Adverse Effect.

(d) Filings, Consents, and Approvals. The Company is not required to obtain any consent, waiver, authorization, or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local, or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of this Subscription Agreement, other than: (i) the filing with the Securities and Exchange Commission ("*Commission*") of the Registration Statement pursuant to Section 5, (ii) the filing with the Commission of a Form D pursuant to Commission Regulation D (as applicable), (iii) any applicable Blue Sky filings, and (iv) listing with the NYSE Amex (collectively, the "*Required Approvals*").

(e) Issuance of the Common Shares. The Common Shares, and each component or underlying security, are duly authorized and, when issued and paid for in accordance with this Subscription Agreement, will be duly and validly issued, fully paid and nonassessable, free and clear of all liens, and not subject to any preemptive rights.

(f) Capitalization. The number of shares and type of all authorized, issued, and outstanding capital stock of the Company is as set forth in the SEC Reports as of the respective dates set forth therein. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the Offering; provided that it is understood that the Company's Series E Warrants issued in connection with the Series E transaction have certain anti-dilution rights as described in the SEC Reports. No further approval or authorization of any stockholder, the Board of Directors of the Company, or others is required for the issuance and sale of the Common shares.

(g) SEC Reports; Financial Statements. The Company has filed all reports required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the one year preceding the date hereof (or such shorter period as the Company was required by law to file such material) (the foregoing materials being collectively referred to herein as the "*SEC Reports*"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company has advised Investor(s) that a copy of each of the SEC Reports (together with all exhibits and schedules thereto and as amended to date) is available at ***http://www.sec.gov***, a website maintained by the Commission where Investor(s) may view the SEC Reports.

(h) Private Placement. Assuming the accuracy of the Investor representations and warranties set forth in Section 3, no registration under the Securities Act is required for the offer and sale of the Common Shares by the Company to the Investor as contemplated hereby.

(i) No General Solicitation. Neither the Company nor any Person acting on behalf of the Company has offered or sold any of the Common Shares by any form of general solicitation or general advertising. The Company has offered the Common Shares for sale only to each investor in the Offering and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

5. Registration Rights. The Company shall file no later than thirty (30) days after the final Closing with the Securities and Exchange Commission (the "SEC") a registration statement under the Securities Act of 1933, as amended (the "Securities Act") to register the resale of the Common Shares (the "Registrable Securities"); provided, that the Company shall only be required to include the Registrable Securities to the extent that the Investor has provided to the Company all reasonable information requested by the Company as required to be included in the Registration Statement pursuant to SEC rules and guidance and further, provided that the Registrable Securities shall not be included to the extent all of such Registrable Securities have otherwise been transferred to persons who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend or may otherwise be sold without restriction under the Securities Act.

(i) Investor may not participate in any registration hereunder which is underwritten unless Investor (A) agrees to sell its securities on the basis provided in any underwriting arrangements approved by the Company and (B) with respect to any registration, timely completes and executes all questionnaires and other customary documents.

(ii) All fees, disbursements and out-of-pocket expenses and costs incurred by the Company in connection with the preparation and filing of the Registration Statement shall be borne by the Company. Investor shall bear any reasonable cost of underwriting and/or brokerage discounts, fees, and commissions, if any, applicable to the Registrable Securities being registered and sold by an underwriter for the Investor and the fees and expenses of the Investor's counsel. The Company shall use its reasonable best efforts to qualify any of the Registrable Securities for sale in such states as the Investor reasonably designates provided that the Company shall not be required to qualify in any state which will require an escrow or other restriction relating to the Company and/or the sellers, or which will require the Company to qualify to do business in such state or require the Company to file therein any general consent to service of process and the Company shall in no event be required to qualify in greater than five states.

(iii) Notwithstanding any other provisions hereof, with respect to an underwritten public offering by the Company, if the managing underwriter advises the Company that marketing or other factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting to the extent necessary to satisfy such

limitation, Registrable Securities held by the Investor prior to any cutback of shares to be sold for the Company or any other holder of shares with registration rights. Further, the Investor shall agree not to sell any Registrable Securities included in the underwritten public offering for such period as may be reasonably required by the managing underwriter. In connection with filing any Registration Statement; if the SEC limits the amount of securities to be registered, then the Company shall be allowed to exclude the Registrable Securities from the Registration Statement prior to excluding any securities it desires to register on its own account and any securities entitled to registration rights under any other agreement to which the Company is a party.

6. Other Agreements of the Company and the Investor.

(a) Press Releases. The Company may issue a press release if required upon the final closing of the offering and in its reasonable discretion.

(b) Confidentiality. Each Investor agrees that he, she or it will keep confidential and will not disclose, divulge or use for any purpose any confidential, proprietary or secret information, which such Investor may obtain from the Company pursuant to financial statements, reports and other materials or information submitted by the Company to such Investor pursuant to or in connection with this Subscription Agreement or otherwise (but not including the filed SEC Reports) ("Confidential Information"), unless such Confidential Information is known, or until such Confidential Information becomes known, to the public (other than as a result of a breach of this section by such Investor); provided, however, that an Investor may disclose Confidential Information (i) to his, her or its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring his, her or its investment in the Company, or (ii) as may otherwise be required by law, provided that the Investor takes reasonable steps to minimize the extent of any such required disclosure and promptly notifies the Company when it becomes aware of such legal requirement.

7. Miscellaneous.

(a) Termination. The Investor agrees that he shall not cancel, terminate, or revoke this Subscription Agreement or any agreement of the Investor made hereunder other than as set forth herein, and that this Subscription Agreement shall survive the death or disability of the Investor. If the Company elects to cancel this Subscription Agreement, provided that it returns to the Investor, without interest and without deduction, all sums paid by the Investor, this Offer shall be null and void and of no further force and effect, and no party shall have any rights against any other party hereunder.

(b) Entire Agreement. This Subscription Agreement, together with the schedules and exhibits hereto, contains the entire understanding of the Company and the Investor with respect to the subject matter hereof.

(c) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the second Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (b) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be to the Investor at his address set forth on the Investor Signature Page, and to the Company at the addresses set forth in the SEC Reports.

(d) Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, or in the case of a waiver, by the Company and the individual Investor. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

(e) Construction. The headings herein are for convenience only, do not constitute a part of this Subscription Agreement and shall not be deemed to limit or affect any of the provisions hereof.

(f) Successors and Assigns. This Subscription Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Subscription Agreement or any rights or obligations hereunder without the prior written consent of each Investor in the Offering. Investor may assign any or all of its rights under this Agreement to any Person to whom Investor assigns or transfers any of the Common Shares.

(g) No Third-Party Beneficiaries. This Subscription Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

(h) Governing Law. All questions concerning the construction, validity, enforcement, and interpretation of this Subscription Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Subscription Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees, or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Subscription Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. The parties hereby waive all rights to a trial by jury. If either party shall commence an action or proceeding to enforce any provisions of this Subscription Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred with the investigation, preparation, and prosecution of such action or proceeding.

(i) Survival. The representations and warranties contained herein shall survive the closing of the transaction hereunder.

(j) Execution. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof. This Agreement may be executed in two or more counterparts each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

(k) Severability. If any provision of this Subscription Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Subscription Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Subscription Agreement.

(l) Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of Investor and the Company will be entitled to specific performance under this Subscription Agreement. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

(m) Fees and Expenses. Except as provided in writing, the parties hereto shall be responsible for their own legal and other expenses, if any, in connection with this transaction.

INVESTOR SIGNATURE PAGE FOR NEOSTEM, INC. SUBSCRIPTION AGREEMENT
Please print or type, Use ink only. (All Parties Must Sign)

The undersigned Investor hereby certifies that he (i) has received and relied solely upon the SEC Reports, this Subscription Agreement and their respective exhibits and schedules, (ii) agrees to all the terms and conditions of this Subscription Agreement, (iii) meets the suitability standards set forth herein and (iv) is a resident of the state or foreign jurisdiction indicated below.

Dollar Amount of Units Subscribed for: $ Date:_____

If other than individual check one Name of Investor (Print) and indicate capacity of signatory
under the signature:
_____ Trust
Name of Joint Investor (if any) (Print) Estate
Uniform Gifts to Minors Act
_____ State of
Signature of Investor Attorney-in-fact
Corporation
_____ Other
Signature of Joint Investor (if any)
If Joint Ownership, Check one:
_____ Joint Tenants with Right of Capacity of Signatory (if applicable) Survivorship
Tenants in Common
_____ Tenants by the Entirety
Social Security or Taxpayer Identification Number Community Property

Investor Address: Backup Withholding Statement:
Please check this box only if the _____ investor is subject to backup
Street Address withholding

_____ Foreign Person:
City State Zip Code Please check this box only if the investor is a nonresident alien,
Foreign partnership, foreign trust,
Corporation, or foreign estate

Telephone: (_____) Country_____
Passport#_____
Fax: ( ) ID#_____
E-mail: ID Type
Address for Delivery of Units (if different from above):

_____
City State Zip Code

THE SUBSCRIPTION FOR UNITS OF NEOSTEM, INC. BY THE ABOVE NAMED INVESTOR(S) IS ACCEPTED THIS _____ DAY OF _____ 2012.

NEOSTEM, INC.

By:
Name: Robin L. Smith
Title: Chairman and CEO

Schedule A

Accredited Investor

An “accredited Investor” means:

i. a bank, insurance company, registered investment company, business development company, or small business investment company;

ii. an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of $5 million;

iii. a charitable organization, corporation, or partnership with assets exceeding $5 million;

iv. a director, executive officer, or general partner of the company selling the securities;

v. a business in which all the equity owners are accredited investors;

vi. a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase, exclusive of the value of the person's primary residence;

vii. a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or

viii. a trust with assets in excess of $5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

Schedule B

U.S. Person

A "U.S. person" means:

i. Any natural person resident in the United States;

ii. Any partnership or corporation organized or incorporated under the laws of the United States;

iii. Any estate of which any executor or administrator is a U.S. person;

iv. Any trust of which any trustee is a U.S. person;

v. Any agency or branch of a foreign entity located in the United States;

vi. Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;

vii. Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and

viii. Any partnership or corporation if:

A. Organized or incorporated under the laws of any foreign jurisdiction; and

B. Formed by a U.S. person principally for the purpose of investing in securities not registered under the Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a)) who are not natural persons, estates or trusts.

Schedule C

Non-U.S. Person

The following are not "U.S. persons":

i. Any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-U.S. person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States;

ii. Any estate of which any professional fiduciary acting as executor or administrator is a U.S. person if:

A. An executor or administrator of the estate who is not a U.S. person has sole or shared investment discretion with respect to the assets of the estate; and

B. The estate is governed by foreign law;

iii. Any trust of which any professional fiduciary acting as trustee is a U.S. person, if a trustee who is not a U.S. person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settlor if the trust is revocable) is a U.S. person;

iv. An employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country;

v. Any agency or branch of a U.S. person located outside the United States if:

A. The agency or branch operates for valid business reasons; and

B. The agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and

vi. The International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans.

Exhibit 31.1

CERTIFICATION

I, Robin Smith, M.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeoStem, 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, including its consolidated subsidiaries, 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 13, 2012

/s/ Robin Smith, M.D.
Name: Robin Smith, M.D.
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.

Exhibit 31.2

CERTIFICATION

I, Larry A. May, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeoStem, 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, including its consolidated subsidiaries, 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 13, 2012

/s/ Larry A. May
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 request.

Exhibit 32.1

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-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Smith, M.D., 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, to my knowledge 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 results of operations of the Company for the periods presented.

Dated: November 13, 2012

/s/ Robin Smith, M.D.
Robin Smith, M.D.
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-Q 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.

Exhibit 32.2

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-Q for the period ended September 30, 2012 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, to my knowledge 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 results of operations of the Company for the periods presented.

Dated: November 13, 2012

/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-Q 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.