

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2016**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-55413**

**CELL SOURCE, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**32-0379665**

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

**5 Kineret Street  
Bnei Brak, Israel**

(Address of principal executive offices)

**5126237**

(Zip Code)

Registrant's telephone number, including area code **011 972 3 562-1755**

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

Indicate by check mark whether the registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer (Do not check   
if a smaller reporting company)

Accelerated filer   
Smaller reporting   
company

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

As of November 15, 2016, the registrant had 24,429,256 shares of \$0.001 par value common stock outstanding.

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CELL SOURCE, INC. AND SUBSIDIARY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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**CELL SOURCE, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	<u>(Unaudited)</u>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 1,638	\$ 6,944
Prepaid expenses	114,610	71,882
Other current assets	145,510	134,736
Total Current Assets	<u>261,758</u>	<u>213,562</u>
Property and equipment, net	622	1,267
Deferred financing costs	20,000	-
Total Assets	<u>\$ 282,380</u>	<u>\$ 214,829</u>
<b>Liabilities and Stockholders' Deficiency</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses, current portion	\$ 955,584	\$ 586,485
Accounts payable and accrued expenses - related parties	209,554	214,629
Accrued compensation	516,161	324,672
Derivative liabilities	3,332,900	3,279,600
Notes payable, net of debt discount of \$73,600 and \$41,600 at September 30, 2016 and December 31, 2015, respectively	1,739,400	708,400
Notes payable - related parties, net of debt discount of \$11,100 and \$19,300 at September 30, 2016 and December 31, 2015, respectively	138,900	180,700
Convertible notes payable, current portion, net of debt discount of \$366,346 and \$214,550 at September 30, 2016 and December 31, 2015, respectively	1,001,154	180,450
Advances payable	200,000	450,000
Total Current Liabilities	<u>8,093,653</u>	<u>5,924,936</u>
Convertible notes payable, non-current portion, net of debt discount of \$0 and \$288,832 at September 30, 2016 and December 31, 2015, respectively	-	43,668
Accounts payable and accrued expenses, non-current portion	-	4,474
Total Liabilities	<u>8,093,653</u>	<u>5,973,078</u>
Commitments and contingencies		
<b>Stockholders' Deficiency:</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2016 and December 31, 2015	-	-
Common stock, \$0.001 par value; 200,000,000 shares authorized; 24,429,256 and 23,929,256 shares issued and outstanding at September 30, 2016 and December 31, 2015	24,429	23,929
Additional paid-in capital	4,991,473	4,720,417
Accumulated deficit	(12,827,175)	(10,502,595)
Total Stockholders' Deficiency	<u>(7,811,273)</u>	<u>(5,758,249)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 282,380</u>	<u>\$ 214,829</u>

See Notes to the Condensed Consolidated Financial Statements

**CELL SOURCE, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For The Nine Months Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>				
Research and development	133,866	118,551	357,454	295,770
Research and development - related party	205,957	200,000	604,777	600,000
Selling, general and administrative	261,914	230,587	814,351	807,365
Total Operating Expenses	<u>601,737</u>	<u>549,138</u>	<u>1,776,582</u>	<u>1,703,135</u>
Loss From Operations	<u>(601,737)</u>	<u>(549,138)</u>	<u>(1,776,582)</u>	<u>(1,703,135)</u>
<b>Other Income (Expense)</b>				
Change in fair value of derivative liabilities	324,350	3,200	695,200	115,900
Interest expense	(62,905)	(9,074)	(181,462)	(15,830)
Amortization of debt discount	(463,060)	(118,425)	(1,061,736)	(197,925)
Total Other Expense	<u>(201,615)</u>	<u>(124,299)</u>	<u>(547,998)</u>	<u>(97,855)</u>
<b>Net Loss</b>	<u>\$ (803,352)</u>	<u>\$ (673,437)</u>	<u>\$ (2,324,580)</u>	<u>\$ (1,800,990)</u>
Net Loss Per Share				
- Basic and Diluted	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>
Weighted Average Number of Common Shares Outstanding				
- Basic and Diluted	<u>26,066,157</u>	<u>25,670,917</u>	<u>26,066,157</u>	<u>25,639,208</u>

See Notes to the Condensed Consolidated Financial Statements

CELL SOURCE, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance - December 31, 2015</b>	23,929,256	\$ 23,929	\$ 4,720,417	\$ (10,502,595)	\$ (5,758,249)
Shares issued as debt discount in connection with extension of notes payable	500,000	500	199,500	-	200,000
Stock-based compensation:					
- warrants	-	-	71,556	-	71,556
Net loss	-	-	-	(2,324,580)	(2,324,580)
<b>Balance - September 30, 2016</b>	<u>24,429,256</u>	<u>\$ 24,429</u>	<u>\$ 4,991,473</u>	<u>\$ (12,827,175)</u>	<u>\$ (7,811,273)</u>

See Notes to the Condensed Consolidated Financial Statements

CELL SOURCE, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30,	
	2016	2015
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (2,324,580)	\$ (1,800,990)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of derivative liabilities	(695,200)	(115,900)
Amortization of debt discount	1,061,736	197,925
Depreciation	645	645
Stock-based compensation:		
Common stock	-	40,000
Warrants	115,589	16,759
Changes in operating assets and liabilities:		
Prepaid expenses	(42,728)	(28,033)
Other current assets	(10,774)	(74,680)
Accounts payable and accrued expenses	551,581	305,660
<b>Net Cash Used in Operating Activities</b>	<u>(1,343,731)</u>	<u>(1,458,614)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of notes payable	1,453,000	995,000
Repayment of note payable, related party	(50,000)	-
Payment of debt issuance costs	(44,575)	-
Deferred financing costs	(20,000)	-
Proceeds from cash advances	-	450,000
<b>Net Cash Provided by Financing Activities</b>	<u>1,338,425</u>	<u>1,445,000</u>
<b>Net Decrease In Cash</b>	(5,306)	(13,614)
<b>Cash - Beginning</b>	6,944	19,480
<b>Cash - Ending</b>	<u>\$ 1,638</u>	<u>\$ 5,866</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Non-cash investing and financing transactions:		
Warrants and conversion options issued in connection with issuance of notes payable	\$ 948,500	\$ 362,200
Deferring financing costs	\$ -	\$ 100,000
Advance exchanged for a convertible note payable	\$ 250,000	\$ -
Shares issued in connection with extension of notes payable	\$ 200,000	\$ -

See Notes to the Condensed Consolidated Financial Statements

## CELL SOURCE, INC. AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### Note 1 – Organization, Operations and Basis of Presentation

##### Organization and Operations

Cell Source, Inc. (“CSI”, “Cell Source” or the “Company”) is a Nevada corporation formed on June 6, 2012 that is the parent company of Cell Source Limited, which was founded in Israel in 2011 in order to commercialize a suite of inventions relating to certain cancer treatments. Cell Source Limited’s target indications include treatment of lymphoma, multiple myeloma and B-cell chronic lymphocytic leukemia (“BCLL”) (which is a common form of leukemia), facilitating transplantation acceptance (initially bone marrow transplantation and subsequently organ transplantation) and ultimately treating a variety of non-malignant diseases. Cell Source Limited’s lead prospective product is its patented Veto Cell immune system management technology, which is an immune tolerance biotechnology that enables the selective blocking of immune responses. Cell Source Limited’s Veto Cell immune system management technology is based on technologies patented, owned, and licensed to Cell Source Limited by Yeda Research and Development Company Limited, an Israeli corporation (“Yeda”).

##### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial position of the Company as of September 30, 2016 and the condensed consolidated results of its operations for the three and nine months ended September 30, 2016 and 2015 and cash flows for the nine months ended September 30, 2016 and 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the operating results for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and related disclosures of the Company as of December 31, 2015 and for the year then ended which were filed with the Securities and Exchange Commission (“SEC”) on Form 10-K on April 14, 2016.

#### Note 2 – Going Concern and Management Plans

The Company has not generated any revenues, has recurring net losses, a working capital deficiency as of September 30, 2016 of approximately \$7,832,000, and used cash in operations of approximately \$1,344,000 and \$1,459,000 for the nine months ended September 30, 2016 and 2015, respectively. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The ability of the Company to continue its operations is dependent on the execution of management’s plans, which include the raising of capital through the debt and/or equity markets, until such time that funds provided by operations are sufficient to fund working capital requirements. If the Company were not to continue as a going concern, it would likely not be able to realize its assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the condensed consolidated financial statements.

There can be no assurances that the Company will be successful in generating additional cash from the equity/debt markets or other sources to be used for operations. The condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary. Based on the Company’s current resources, the Company will not be able to continue to operate without additional immediate funding. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all operational activities and/or contemplate the sale of its assets, if necessary.

CELL SOURCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Principles of Consolidation

The Company's financial statements are consolidated and include the accounts of CSI and Cell Source Limited. All significant intercompany transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates, among other things, are used in accounting for allowances for deferred income taxes, contingencies, as well as the recording and presentation of its common stock and related warrant issuances. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

Loss Per Share

The Company computes basic net loss per share by dividing net loss by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share includes the dilution that would occur upon the exercise or conversion of all dilutive securities into common stock using the "treasury stock" and/or "if converted" methods, as applicable. Weighted average shares outstanding for the three and nine months ended September 30, 2016 and 2015 includes the weighted average impact of warrants to purchase an aggregate of 2,043,835 shares of common stock because their exercise price was determined to be nominal.

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

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Warrants	11,814,324	8,674,324
Convertible notes	2,636,900	193,333
Total	<u>14,451,224</u>	<u>8,867,657</u>

Deferred Financing Costs

The Company has recorded deferred financing costs as a result of fees incurred by the Company in conjunction with its debt financing activities. These costs are amortized using the interest method over the shorter of (a) the term of the related debt or (b) the expected conversion date of the debt into equity instruments. During the nine months ended September 30, 2016, the Company adopted Accounting Standards Update ("ASU") No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" and, as a result, the Company reclassified deferred financing costs for all periods presented such that costs are included as a discount to convertible notes payable on the accompanying condensed consolidated balance sheets.

As of September 30, 2016 and December 31, 2015, there was \$48,296 and \$152,932, respectively, of unamortized deferred financing costs which were included as a discount to convertible notes payable as well as \$20,000 of unamortized deferred financing costs associated with an equity offering that had yet to close as of September 30, 2016 which were included within non-current assets on the accompanying condensed consolidated balance sheets. See Note 6 – Notes Payable – Summary – for details associated with amortization of deferred financing costs which are included within amortization of debt discount on the condensed consolidated statements of operations.



## CELL SOURCE, INC. AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

##### Derivative Financial Instruments

The fair value of an embedded conversion option that is convertible into a variable amount of shares and warrants that include price protection reset provision features are deemed to be “down-round protection” and, therefore, do not meet the scope exception for treatment as a derivative under Accounting Standards Codification (“ASC”) 815 “Derivatives and Hedging”, since “down-round protection” is not an input into the calculation of the fair value of the conversion option and warrants and cannot be considered “indexed to the Company’s own stock” which is a requirement for the scope exception as outlined under ASC 815.

The accounting treatment of derivative financial instruments requires that the Company record the embedded conversion option and warrants at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. As a result of entering into warrant agreements, for which such instruments contained a variable conversion feature with no floor, the Company has adopted a sequencing policy in accordance with ASC 815-40-35-12 whereby all future instruments may be classified as a derivative liability with the exception of instruments related to share-based compensation issued to employees or directors.

The Black-Scholes option pricing model was used to estimate the fair value of the warrants and conversion options. The model includes subjective input assumptions that can materially affect the fair value estimates. The Company determined the fair value under the binomial lattice model and the Black-Scholes model to be materially the same. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants.

Conversion options are recorded as debt discount and are amortized as interest expense over the life of the underlying debt instrument.

##### Recent Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718)” (“ASU 2016-09”). ASU 2016-09 requires an entity to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating ASU 2016-09 and its impact on its condensed consolidated financial statements or disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. ASU 2016-15 requires adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its condensed consolidated cash flows and related disclosures.

The Company has evaluated all new accounting standards that are in effect and may impact its condensed consolidated financial statements and does not believe that there are any other new accounting standards that have been issued that might have a material impact on its financial position or results of operations.

##### Reclassifications

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2016 presentation. These reclassifications have no impact on the previously reported net loss.

CELL SOURCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 4 - Fair Value**

The Company determines the estimated fair value of amounts presented in these condensed consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current exchange between buyer and seller. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. These fair value estimates were based upon pertinent information available as of September 30, 2016 and December 31, 2015, and, as of those dates, the carrying value of all amounts approximates fair value. The Company estimated the fair value of its common stock during the three and nine months ended September 30, 2016. To determine the value of its common stock, the Company considered the following three possible valuation methods (1) the income approach, (2) the market approach and the (3) cost approach to estimate its enterprise value.

The Company has categorized its assets and liabilities at fair value based upon the following fair value hierarchy:

Level 1 - Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 - Inputs use directly or indirectly observable inputs. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs.

The following table summarizes the valuation of the Company's derivative liabilities and accrued compensation by the above fair value hierarchy levels as of September 30, 2016 and December 31, 2015 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

	Total	Quoted Prices In Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Accrued compensation	\$ 104,033	\$ -	\$ -	\$ 104,033
Derivative liability	3,332,900	-	-	3,332,900
<b>Balance - September 30, 2016</b>	<b>\$ 3,436,933</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,436,933</b>
Accrued compensation	\$ 60,000	\$ -	\$ -	\$ 60,000
Derivative liability	3,279,600	-	-	3,279,600
<b>Balance - December 31, 2015</b>	<b>\$ 3,339,600</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,339,600</b>

CELL SOURCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 4 - Fair Value – Continued**

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's Level 3 liabilities shown in the above table consist of warrants with "down-round protection", as the Company is unable to determine if it will have sufficient authorized common stock to settle such arrangements, warrants deemed to be derivative liabilities according to the Company's sequencing policy in accordance with ASC 815-40-35-12, the conversion option of convertible notes payable and accrued obligations to issue a warrant and common stock.

Assumptions utilized in the valuation of Level 3 liabilities are described as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	Risk-free interest rate	0.29% - 1.28%	0.33% - 1.53%	0.21% - 1.28%
Expected term (years)	0.04 - 5.00	0.25 - 5.00	0.04 - 5.00	0.25 - 5.00
Expected volatility	150% - 152%	166%	150% - 159%	166% - 172%
Expected dividends	0.00%	0.00%	0.00%	0.00%

The expected term used is the contractual life of the instrument being valued. Since the Company's stock has not been publicly traded for a sufficiently long period of time or with significant volume, the Company is utilizing an expected volatility based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all Level 3 liabilities measured at fair value on a recurring basis using unobservable inputs during the nine months ended September 30, 2016:

	Accrued Compensation	Derivative Liability	Total
<b>Balance - December 31, 2015</b>	\$ 60,000	\$ 3,279,600	\$ 3,339,600
Change in fair value		(1,072)	(696,272)
Issuance of warrants and conversion options		748,500	748,500
Accrual of obligations	45,105	-	45,105
<b>Balance - September 30, 2016</b>	<u>\$ 104,033</u>	<u>\$ 3,332,900</u>	<u>\$ 3,436,933</u>

The Company's significant financial instruments such as cash, other current assets, accounts payable, accrued expenses and notes payable were deemed to approximate fair value due to their short term nature.

See Note 6 – Notes Payable for details associated with the issuance of warrants and conversion options which were deemed to be derivative liabilities.

CELL SOURCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 5 – Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consisted of the following:

	September 30, 2016 <u>(unaudited)</u>	December 31, 2015 <u></u>
Accrued research and development	\$ 192,423	\$ 186,815
Accrued legal fees	221,164	216,956
Accrued other professional fees	131,241	75,164
Accrued director compensation	12,000	12,000
Accrued Scientific Advisory Board compensation	70,000	31,000
Accrued interest, current portion	217,748	25,139
Other accrued expenses	111,008	39,411
Accounts payable and accrued expenses, current portion	<u>955,584</u>	<u>586,485</u>
Non-current portion of accrued interest	-	4,474
Total accounts payable and accrued expenses	<u>\$ 955,584</u>	<u>\$ 590,959</u>

**Note 6 – Notes Payable**

Non-Convertible Notes

On March 8, 2016, the Company issued six-month notes payable in the aggregate principal amount of \$600,000 which bear interest at a rate of 10% per annum. In connection with the note issuances, the Company issued immediately vested warrants to purchase an aggregate of 300,000 shares of common stock at an exercise price of \$0.75 per share with an issuance date fair value of \$93,400, which were recorded as a debt discount. In connection with the Company's sequencing policy, the warrants were determined to be derivative liabilities. See Note 4 – Fair Value for additional details. The warrants contain a provision that provides the Company with an option, prior to the expiration date, to redeem all of the warrants then outstanding upon not less than thirty (30) days nor more than (60) days notice to the applicable holder, at a redemption price of \$0.01 per share, subject to the conditions that: (i) there is an effective registration statement covering the resale of the underlying shares of common stock and (ii) the common stock has traded for twenty (20) consecutive days with a closing price of at least \$2.50 per share with an average trading volume of 100,000 shares per day. The warrants expire on March 25, 2019.

On May 10, 2016, the Company issued a six-month note payable in the principal amount of \$53,000 which bears interest at 6% per annum, payable at maturity.

On July 20, 2016, the Company issued a six-month note payable in the principal amount of \$200,000 which bears interest at 10% per annum, payable at maturity. In connection with the note issuance, the Company issued to the purchaser an immediately-vested, five-year warrant to purchase 150,000 shares of common stock at an exercise price of \$0.75 per share. In connection with the Company's sequencing policy, the warrant was determined to be a derivative liability. The \$53,000 issuance date fair value was recorded as a debt discount and will be amortized over the term of the note.

On August 4, 2016, the Company issued a six-month note payable in the principal amount of \$100,000 which bears interest at 10% per annum, payable at maturity. In connection with the note issuance, the Company issued to the purchaser an immediately-vested, five-year warrant to purchase 75,000 shares of common stock at an exercise price of \$0.75 per share. In connection with the Company's sequencing policy, the warrant was determined to be a derivative liability. The \$26,500 issuance date fair value was recorded as a debt discount and will be amortized over the term of the note.

On August 16, 2016, the Company issued a six-month note payable in the principal amount of \$50,000 which bears interest at 10% per annum, payable at maturity. In connection with the note issuance, the Company issued to the purchaser an immediately-vested, five-year warrant to purchase 37,500 shares of common stock at an exercise price of \$0.75 per share. In connection with the Company's sequencing policy, the warrant was determined to be a derivative liability. The \$13,200 issuance date fair value was recorded as a debt discount and will be amortized over the term of the note.

## CELL SOURCE, INC. AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### Note 6 – Notes Payable – Continued

##### Non-Convertible Notes – Continued

On August 25, 2016, the Company issued a six-month note payable in the principal amount of \$60,000 which bears interest at 10% per annum, payable at maturity. In connection with the note issuance, the Company issued to the purchaser an immediately-vested, five-year warrant to purchase 45,000 shares of common stock at an exercise price of \$0.75 per share. In connection with the Company's sequencing policy, the warrant was determined to be a derivative liability. The \$15,900 issuance date fair value was recorded as a debt discount and will be amortized over the term of the note.

During the nine months ended September 30, 2016, the Company extended the maturity dates at maturity of non-convertible notes payable in the aggregate principal amount of \$500,000 to various dates through September 30, 2016. In connection with the note extensions, the Company issued the purchasers an aggregate of 500,000 shares of common stock. The issuance date fair value of an aggregate of \$200,000 was recorded as a debt discount and was amortized over the extended terms of the notes.

See Note 4 – Fair Value for details related to the fair value of warrants and Note 8 – Related Parties for details related to non-convertible notes held by the Company's Chief Executive Officer ("CEO") and a director of the Company.

##### Convertible Notes

##### *Other Convertible Notes*

In January 2016, the Company issued a convertible note payable in the principal amount of \$250,000 to an investor who advanced the funds to the Company in January 2015. The note matures on July 27, 2016 and bears interest at a rate of 10% per annum, beginning from the date the funds were advanced. The note shall be automatically converted into shares of the Company's common stock upon the earlier of (i) the closing of an offering of equity securities pursuant to which the Company receives an aggregate of at least \$5,000,000 in gross proceeds ("Qualified Financing"); or (ii) the maturity date. In the event the note is converted upon the occurrence of a Qualified Financing (the "QF Conversion Shares"), the conversion price of the note shall be the lesser of (i) seventy percent (70%) of the price per share or per unit (assuming the unit includes one share of common stock or the price per unit divided by the number of shares of common stock underlying such unit) at which the Company sells its securities in a Qualified Financing; or (ii) the quotient obtained by dividing \$35,000,000 by the aggregate number of outstanding shares of the common stock, measured on a fully-diluted basis, excluding certain shares, on the date immediately preceding the Qualified Financing. The QF Conversion Shares shall be subject to a prohibition from any sale, pledge or transfer for a period of six (6) months from the date of the closing on which the Company generates aggregate gross proceeds under the Qualified Financing of at least \$5,000,000. In addition, upon conversion of the note following the occurrence of a Qualified Financing, the holder shall automatically receive five-year warrants to purchase that number of shares of common stock into which the note is convertible and such warrants shall have an exercise price equal to the lesser of (i) seventy percent (70%) of the price per share or per unit (assuming the unit includes one share of common stock or the price per unit divided by the number of shares of common stock underlying such unit) at which the Company sells its securities in a Qualified Financing; or (ii) \$0.75. In the event the note is automatically converted upon the maturity date, the conversion price of the note shall be equal to the quotient obtained by dividing \$20,000,000 by the aggregate number of outstanding shares of the common stock, measured on a fully-diluted basis, excluding certain shares, on the date immediately preceding the maturity date (the "Maturity Conversion Price"). In addition, in the event of an automatic conversion of the note upon the maturity date, the holder shall automatically receive five-year warrants to purchase that number of common stock into which the note is convertible and such warrants shall have an exercise price equal to the Maturity Conversion Price. In connection with the Company's sequencing policy, the conversion option of the note was determined to be a derivative liability. The \$179,000 issuance date fair value was recorded as a debt discount and will be amortized over the term of the note. See Note 4 – Fair Value for additional details.

During the nine months ended September 30, 2016, the Company extended the maturity dates at maturity of other convertible notes payable in the aggregate principal amount of \$145,000 to January 24, 2017. In connection with the extensions, the Company issued the purchasers immediately-vested, three-year warrants to purchase an aggregate of 72,500 shares of common stock at an exercise price of \$0.75 per share. In connection with the Company's sequencing policy, the warrants were determined to be derivative liabilities. The \$21,800 issuance date fair value was recorded as a debt discount and will be amortized over the extended term of the notes.

## CELL SOURCE, INC. AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### Note 6 – Notes Payable – Continued

##### Convertible Notes - Continued

##### *10% Convertible Note Offering*

During the nine months ended September 30, 2016, the Company closed on an aggregate of \$390,000 in principal amount of convertible notes to investors (the "10% Convertible Notes"). The 10% Convertible Notes bear interest at a rate of 10% per annum and are payable eighteen (18) months from the date of issuance (the "Maturity Date"). The 10% Convertible Notes shall be automatically converted into shares of the Company's common stock upon the earlier of (i) the closing of an offering of equity securities pursuant to which the Company receives an aggregate of at least \$5,000,000 in gross proceeds ("Qualified Financing"); (ii) the closing of a strategic transaction (including but not limited to the Company's entry into a joint venture or partnership agreement or the sublicensing of the Company's intellectual property) pursuant to which the Company, directly or indirectly, receives, or expects to receive within eighteen months, cash, assets or other consideration with a total aggregate value of at least \$4,000,000 ("Strategic Transaction"); or (iii) the Maturity Date of the 10% Convertible Notes.

In the event the 10% Convertible Notes are converted upon the occurrence of a Qualified Financing (the "QF Conversion Shares"), the conversion price of the 10% Convertible Notes shall be the lesser of (i) seventy percent (70%) of the price per share or per unit (assuming the unit includes one share of common stock or the price per unit divided by the number of shares of common stock underlying such unit) at which the Company sells its securities in a Qualified Financing; or (ii) \$0.75. The QF Conversion Shares shall be subject to a prohibition from any sale, pledge or transfer for a period of six (6) months from the date of the closing on which the Company generates aggregate gross proceeds under the Qualified Financing of at least \$5,000,000. In the event the 10% Convertible Notes are converted upon the occurrence of a Strategic Transaction (the "ST Conversion Shares"), the conversion price of the 10% Convertible Notes shall be equal to \$0.75. In addition, upon conversion of the 10% Convertible Notes following the occurrence of a Qualified Financing or a Strategic Transaction, each holder of a 10% Convertible Note shall automatically receive five-year warrants to purchase that number of shares of common stock into which the 10% Convertible Notes are convertible and such warrants shall have an exercise price equal to one hundred ten percent (110%) of the per-share or per unit (assuming the unit includes one share of common stock or the price per unit divided by the number of shares of common stock underlying such unit) at which the Company sells its securities in a Qualified Financing or \$0.825 in the case of a Strategic Transaction, as applicable. The ST Conversion Shares shall be subject to a prohibition from any sale, pledge or transfer for a period of six (6) months from the date of the closing of a Strategic Transaction. In the event the 10% Convertible Notes are automatically converted upon the Maturity Date, the conversion price of the 10% Convertible Notes shall be equal to the quotient obtained by dividing \$15 million by the aggregate number of outstanding shares of the common stock, measured on a fully-diluted basis, excluding certain shares, on the date immediately preceding the Maturity Date (the "Maturity Conversion Price"). In addition, in the event of an automatic conversion of the 10% Convertible Notes upon the Maturity Date, the holder shall automatically receive five-year warrants to purchase that number of common stock into which the 10% Convertible Notes are convertible and such warrants shall have an exercise price equal to the Maturity Conversion Price.

In connection with the Company's sequencing policy, the conversion options of the notes were determined to be derivative liabilities. The \$327,700 aggregate issuance date fair value was recorded as a debt discount and will be amortized over the term of the notes. See Note 4 – Fair Value for additional details.

##### Summary

During the three and nine months ended September 30, 2016, the Company recorded interest expense related to notes payable of \$62,905 and \$181,462 respectively. During the three and nine months ended September 30, 2015, the Company recorded interest expense related to notes payable of \$9,074 and \$15,830, respectively.

During the three and nine months ended September 30, 2016, the Company recorded amortization of debt discount of \$463,060 and \$1,061,736, respectively. During the three and nine months ended September 30, 2015, the Company recorded amortization of debt discount of \$118,425 and \$197,925, respectively.

As of the date of filing, notes payable with an aggregate principal balance of \$1,953,000 were past due, however, no penalties or additional interest are associated with the notes payable as a result. Accrued interest related to these notes payable was an aggregate of \$138,744 as of September 30, 2016. The Company has not satisfied this debt and is in negotiations with the noteholders to extend the maturity dates of such notes or convert the principal and accrued interest into equity.

## CELL SOURCE, INC. AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### Note 7 – Advances Payable

See Note 6 – Notes Payable – Convertible Notes – Other Convertible Notes for details associated with the issuance of a note that previously was classified as an advance payable.

#### Note 8 – Related Parties

For the three and nine months ended September 30, 2016, the Company recorded a charge to operations of \$205,957 and \$604,777, respectively, related to its research and license agreement with Yeda. For the three and nine months ended September 30, 2015, the Company recorded a charge to operations of \$200,000 and \$600,000, respectively, related to its research and license agreement with Yeda. As of September 30, 2016 and December 31, 2015, approximately \$200,000 and \$208,000 has been accrued and is payable to Yeda, respectively.

On March 29, 2016, the Company exercised its option pursuant to an October 3, 2011 exclusive option agreement with Yeda, as amended, such that the Company attempted to negotiate an agreement with Yeda whereby the Company would exclusively license certain organ regeneration technology from Yeda. On September 22, 2016, the Company notified Yeda of its decision to not exclusively license certain organ regeneration technology from Yeda.

During the nine months ended September 30, 2016, the Company repaid a note payable in the principal amount of \$50,000 to the Company's CEO.

On July 20, 2016, the Company extended the maturity date of a non-convertible note payable to a director of the Company in the principal amount of \$100,000 to January 24, 2017. In connection with the extension, the Company issued the purchaser an immediately-vested, three-year warrant to purchase 60,000 shares of common stock at an exercise price of \$0.75 per share. In addition, in connection with the terms of the original note, because the principal amount of the note was not repaid by July 20, 2016, the Company shall pay a cash penalty of \$5,000 to the holder. In connection with the Company's sequencing policy, the warrant was determined to be a derivative liability. The \$18,000 issuance date fair value was recorded as a debt discount and will be amortized over the extended term of the note.

As of September 30, 2016 and December 31, 2015, there were outstanding notes payable to the Company's CEO in the aggregate principal amount of \$50,000 and \$100,000, respectively. As of September 30, 2016 and December 31, 2015, there was an outstanding note payable to a director of the Company in the principal amount of \$100,000.

#### Note 9 – Commitments and Contingencies

##### Litigation

Certain conditions may exist as of the date the condensed consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's condensed consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. As of September 30, 2016 and December 31, 2015, the Company has not accrued any amounts for contingencies.

CELL SOURCE, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 10 – Stockholders’ Deficiency**

Stock-Based Compensation

During the three and nine months ended September 30, 2016, the Company recognized \$23,627 and \$115,589, respectively, of stock-based compensation expense related to warrants. During the three and nine months ended September 30, 2015, the Company recognized \$90,159 and \$56,759, respectively, of stock-based compensation expense related to common stock and warrants. As of September 30, 2016, there was \$68,661 of unrecognized stock-based compensation expense that will be recognized over approximately 0.7 years.

**Note 11 – Subsequent Events**

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

Series A Convertible Preferred Stock Offering

On October 26, 2016, the Company closed on the sale of \$ 102,425 of its Series A Convertible Preferred Stock (“Preferred Stock”) at a purchase price of \$7.50 per share.

On November 14, 2016, the Company filed a Certificate of Designation (“COD”) with the Secretary of the State of Nevada setting forth the preferences, rights and limitation of the Preferred Stock.

Pursuant to the COD, the Preferred Stock may be converted at the option of the holder into such number of shares of the Company’s common stock (“Conversion Shares”) equal to the number of shares of Preferred Stock to be converted, multiplied by the Stated Value of \$7.50, divided by the conversion price in effect at the time of the conversion. The conversion price is \$0.75 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions. In addition, the Preferred Stock will automatically convert into common stock at the earlier of (a) any of the Company’s treatment candidates receiving Food and Drug Administration or European Medicines Agency approval or (b) five years from the final closing of the offering. Holders of Preferred Stock are entitled to cumulative 9% dividends which are payable semi-annually, commencing on December 30, 2016, in the Company’s sole discretion either in common stock or in cash.

Pursuant to a royalty agreement with the holders of the Preferred Stock, the Company will pay to the holders, in the aggregate, a royalty based on their pro rata ownership of the Preferred Stock equal to 6% of net revenue for treatments sold directly by the Company and 6% of cash received by the Company pursuant to Cell Source treatment licensing or partnering agreements. The royalty payments will terminate when the patents underlying the treatments expire or the sub-licensee discontinues commercial use.



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

*The following discussion and analysis of the consolidated results of operations and financial condition of Cell Source, Inc. ("CSI", "Cell Source" or the "Company") as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015 should be read in conjunction with our condensed consolidated financial statements and the notes thereto that are included elsewhere in this Quarterly Report on Form 10-Q. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "us," "we," "our," and similar terms refer to CSI. This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions, are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission (the "SEC") on April 14, 2016.*

### Overview

Our wholly-owned subsidiary, Cell Source Israel was founded in 2011 as a privately held company located in Tel Aviv, Israel. Our business is based on over ten (10) years of prominent research at the Weizmann Institute from whom we license patented and patent pending technology. Our exclusive, world-wide license provides us with access to certain discoveries, inventions and other intellectual property generated by Professor Yair Reisner, formerly Head of the Immunology Department at the Weizmann Institute, together with others. Professor Reisner leads a team at the Weizmann Institute to continue the development of these technologies in order to facilitate the transition of those technologies from the laboratory to clinical trials. Our Scientific Advisory Board is chaired by Dr. Terry Strom, Professor of Medicine and Surgery at Harvard Medical School and Director of The Transplant Institute at Beth Israel Deaconess Medical Center, the founding President of the American Society of Transplantation, from which he received a Lifetime Achievement Award, and past President of the Clinical Immunology Society. Its other members include Dr. Robert Negrin, Director of Bone and Marrow Transplantation and Professor of Medicine at Stanford University who is a past President of the American Society of Bone and Marrow Transplantation and the International Society of Cellular Therapy; Dr. Steven Burakoff, Director of the Tisch Cancer Institute at Mount Sinai Medical Center, Professor of Cancer Medicine at the Icahn School of Medicine, past Professor of Medicine at Harvard Medical School and Director of the NYU Cancer Institute, who won the American Association of Immunologists Lifetime Achievement Award; Dr. Herman Waldman, Department Head and Professor Emeritus of Pathology and Head of the Therapeutic Immunology Group at Oxford Medical School, former Cambridge Immunology Professor and SCRIP Lifetime Achievement Award winner; and Dr. Hermann Einsele, Professor and Director of Internal Medicine at Julius Maximilian University, Würzburg, Germany, a former visiting professor at the Fred Hutchinson Cancer Research Center in Seattle, Director of the German and member of the European Blood and Marrow Transplantation Groups.

Our lead prospective product is our patented Veto Cell immune system management technology, which is an immune tolerance biotechnology that enables the selective blocking of immune responses. The Company's target indications include: lymphoma, multiple myeloma and BCLL (a form of leukemia), facilitating transplantation acceptance (initially bone marrow transplantation and subsequently organ transplantation), and ultimately treating a variety of non-malignant diseases.

Cell Source, under its exclusive license with Yeda Research & Development Ltd., the commercial arm of the Weizmann Institute of Science, has recently filed two new provisional patent applications that extend the usage of Veto Cell technology as a critical enabler for other cell therapy treatments. One patent application highlights, based on preclinical data, the ability of Veto Cells to accompany other cell therapy treatments and help them overcome rejection and avoid Graft vs. Host Disease (GvHD) in an allogeneic (using a third party donor) treatment setting. The other patent application involves a genetically modified Veto Cell that can have sustained survival in the patient's body while avoiding rejection and GvHD. Both of these applications holds the potential to make CAR-T cells, which to date been effective primarily in an autologous (patient's own cells) setting, succeed in an allogeneic setting. What follows is a description of the significance of these two new patent applications:

- Gene modified cell therapy is considered to be one of the most promising cancer treatment approaches in decades, with companies like Kite Pharma and JUNO Therapeutics having recently attained multi-billion dollar valuations after having successfully treated relatively small numbers of patients in Phase I and II clinical trials.
- While gene modified treatments such as CAR-T have shown remarkable results in cancer treatment trials, their published successes to date have been mostly limited to "autologous" blood cell cancer treatments using the patient's own cells. There are concerns that this type of "personalized" treatment may not have favorable economics on a large scale basis.

- The ideal more lucrative commercial path for CAR-T and similar genetically engineered cell therapies is to become “allogeneic” or off-the-shelf product with drug-like distribution economics and to treat a broad spectrum of cancers including solid tumors.
- Preclinical data show that Veto cells can help genetically modified T-cells from the same donor to overcome rejection issues (among the problems exhibited to date by CAR-T therapy in an allogeneic setting), hence significantly increasing their persistence (longevity) and thus their efficacy in eradicating cancer. Based on this preclinical data, Cell Source believes that Veto cells could potentially enable the use of Off-the-shelf CAR-T cells directed against malignant cells.
- Cell Source has filed patent applications for combining Veto cells with genetically modified T cells and is currently exploring active collaboration with CAR-T cell providers to move Veto and CAR-T combined cell therapy towards the clinic.

Cell Source is actively exploring collaborations with larger biopharmaceutical firms where Veto Cell technology can significantly enhance the efficacy of cell therapy treatments for a variety of indications. This may allow Cell Source to complement the development of its own treatment candidates with parallel development with partners, thus multiplying the potential impact of this technology in the clinic.

Furthermore, Cell Source recently filed a provisional patent application for an Anti-viral Veto cell. Below is an explanation of the potential for this application:

- Other than primary disease (typically blood cell cancer) the leading causes of death in unrelated donor bone marrow transplants are GvHD (Graft vs. Host Disease, where the donor bone marrow rejects the host or recipient) – responsible for 20% of deaths after unrelated donor transplants - and infections – responsible for a further 17% of those transplants.
- It is well established that GvHD can be prevented by T cell depletion of the bone marrow transplant. However, this procedure is also associated with an increased rate of graft rejection. Preclinical studies clearly suggest that this problem can be overcome by adding Veto cells to the bone marrow transplant. However, viruses such as CMV and EBV remain a major threat to patients post-transplant.
- Cell Source has developed a next generation Veto cell that not only facilitates mismatched transplants but also protects the transplant recipient against these common viruses.
- Combining GVHD prevention by using T cell depleted transplants with anti-rejection action as well as virus prevention, Veto cell could potentially significantly increase survival rates post-transplant.
- Based on preclinical data, veto cells can also be used to facilitate organ transplants (e.g. kidney transplant combined with a bone marrow transplant) with partially mismatched donors and either reduce or eliminate the need for lifelong daily anti-rejection treatment currently given to even fully matched donor organ recipients.
- Cell source has filed a patent application for its Anti-viral Veto cells and is currently in discussions with leading transplant centers in both the US and Europe with a view to commencing human clinical trials.

Prior to commercializing its products, the Company must conduct human clinical trials and obtain FDA approval and/or approvals from comparable foreign regulatory authorities.

Generally speaking, as a preclinical biotechnology firm, Cell Source needs to go through several necessary steps in order to commercialize its products and commence revenue generation. These steps are per product, but can run in parallel for multiple products, which are each in different stages of the development “pipeline”, so that, for example, when a certain product is already in a human clinical trial, another product may still be in preclinical development and a third may be awaiting regulatory approval to commence human trials. These can also take place in parallel, and varied stages, for the same product in different geographic jurisdictions. The typical steps per product (and range of time frame for each) are:

1. Complete development of human treatment protocol (2-5 years)
2. Apply for and receive approval to commence human trials (9-18 months)

3. Recruit patients (1-6 months)
4. Conduct Phase I trials showing safety of product (1-2 years)
5. Apply for and receive approval to conduct trials showing product efficacy (6-12 months)
6. Data collecting and analysis (6-12 months)
7. Conduct Phase II efficacy trials (2-3 years)
8. Data collecting and analysis (6-12 months)
9. Apply for and receive approval to conduct trials showing efficacy in larger numbers of patients (6-12 months)
10. Conduct Phase III efficacy trials with larger numbers of patients (2-4 years)
11. Data collecting and analysis (6-12 months)
12. Apply for and receive approval for production scale manufacturing facilities (6-12 months)
13. Contract third party or establish own production facilities (6-30 months)
14. Contract third party or establish own distribution platform (6-18 months)
15. Commence manufacturing and distribution (6-12 months)

Please note that steps 12-15 can be conducted in parallel with some of the steps above. In the case of Cell Source and other firms that treat terminal patients with either rare diseases or those for which there is currently no effective treatment, or where preclinical studies indicate a reasonable expectation to increase life expectancy and survival rates by a substantive margin, several of these steps can be combined and or shortened, subject to regulatory discretion. For example, Phase I and II (safety and efficacy) can be combined in a single concurrent step; approvals for subsequent steps can be accelerated; in some countries patients can already be treated commercially after the end of Phase II, foregoing the requirement for Phase III data as a prerequisite.

Although we have provided estimated timeframes for each step above, no assurances can be made that such timeframes are accurate or that they would not be delayed for one or more reasons. At any stage of a human clinical trial, there could be problems with either safety or efficacy of treatment. In these instances the Company could be required to reformulate the treatment and proceed with additional patients, which could involve a delay of months or years, depending on whether we would have to seek approval from the very beginning of the approval process. There can also be a delay of up to 1 to 2 years between phases of a human clinical trial, as the regulator may wish to take additional time to review the approval of a subsequent stage. Furthermore, if a significant modification to the treatment is required, the application process begins again from the very first stage. If the treatment is not effective at all or if it's harmful to patients, even after modifications are made, it is possible that the trials may be halted completely and the product candidates permanently withdrawn. While the timescales presented here are representative of the typical experience, there is no assurance that there will not be significant delays at any stage or step in the process or a complete failure of trials.

The specific detailed next steps the Company must take to get the treatments or products to market include the following:

We have not submitted any drug applications to the FDA and do not have anything pending for approval with the FDA. Cell Source itself has not had any contact with any regulator anywhere regarding treatment approvals or clinical trials associated with regulatory approvals. We are aware that a hospital in Italy in May, 2014 independently requested and in September, 2014 received approval to conduct a trial with the same protocol that we plan to use, but we are not mentioned in the application nor in the approval. However, we may indirectly benefit from the outcome of the trial, if successful, although we are not the sponsor of this trial. There are no written or verbal agreements between the hospital and Cell Source regarding the use of the technology. That said, Cell Source is aware and in favor of the hospital plans to use the technology and would of course find a positive initial outcome encouraging. Since the treatment is being done on compassionate grounds as a non-commercial clinical trial, there is no legal requirement for the hospital to obtain approval to use the treatment protocol. The hospital has successfully treated a cancer patient using the Megadose Drug Combination technology that Cell Source exclusively licenses from Yeda Research & Development Ltd., commercial arm of the Weizmann Institute of Science. While Cell Source is not a sponsor of the trial, the results provide a positive initial indication with respect to the technology. The patient received a bone marrow transplantation from a haploidentical or "mismatched" donor under a reduced intensity conditioning regimen (i.e., a relatively low level of immune suppression treatment). There was successful initial engraftment of the transplantation in the absence of GVHD.

For the Veto Cell application for reducing rejection in Bone Marrow Transplants, Cell Source expects to commence Phase I/II human clinical trials in the US and EU starting sometime in 2018. Cell Source anticipates that Phase I/II studies will last until 2020 or 2021. These would be followed by completion of Phase II and Phase III, which would last another 2-3 years each, so that full approval, if successful, would be expected sometime in 2026. In Germany there is a possibility of approval for commercial use on a "compassionate grounds" basis at the end of Phase II, which could take place by 2024. In the US, Cell Source plans to commence the IND approval process with the FDA in 2017, which could last until between 2022 and 2025. Cell Source also aspires to enter into a collaboration with respect to combining CAR-T cell therapy with Veto Cell therapy and commence pre-clinical proof of concept trials in 2017. If successful, this could lead to a commencement of a combined FDA trial in 2018 or 2019 and could last until 2026 or 2027.

It is possible that Cell Source treatments could qualify for any or all of Fast Track, Breakthrough Therapy, Accelerated Approval and Priority Review designation under the FDA, which would hasten their approval if successful.

The costs for each step of development, in terms of clinical trials, are delineated below:

Cell Source estimates the cost of clinical trials alone to be up to \$5-10 million in each of the coming two years and another \$25-50 million in order to reach commercialization for both the Anti-rejection Veto Cell and the Veto Cell + CAR-T cell products. This would mean that Cell Source will need to secure one or more significant capital infusions in order to reach the point that meaningful revenues could be generated.

Cell Source will require additional financing for any and all of the steps described above.

## **Recent Developments**

### Notes Payable

During the three months ended September 30, 2016, we issued six-month notes payable in the aggregate principal amount of \$410,000 which bear interest at a rate of 10% per annum, payable at maturity. In connection with the note issuances, we issued to the purchasers immediately-vested, five-year warrants to purchase an aggregate of 307,500 shares of common stock at an exercise price of \$0.75 per share.

### Series A Convertible Preferred Stock Offering

On October 26, 2016, we closed on the sale of \$102,425 of our Series A Convertible Preferred Stock ("Preferred Stock") at a purchase price of \$7.50 per share.

On November 14, 2016, we filed a Certificate of Designation ("COD") with the Secretary of the State of Nevada setting forth the preferences, rights and limitation of the Preferred Stock.

Pursuant to the COD, the Preferred Stock may be converted at the option of the holder into such number of shares of our common stock ("Conversion Shares") equal to the number of shares of Preferred Stock to be converted, multiplied by the Stated Value of \$7.50, divided by the conversion price in effect at the time of the conversion. The conversion price is \$0.75 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions. In addition, the Preferred Stock will automatically convert into common stock at the earlier of (a) any of our treatment candidates receiving Food and Drug Administration or European Medicines Agency approval or (b) five years from the final closing of the offering. Holders of Preferred Stock are entitled to cumulative 9% dividends which are payable semi-annually commencing on December 30, 2016 in our sole discretion either in common stock or in cash.

Pursuant to a royalty agreement with the holders of the Preferred Stock, we will pay to the holders, in aggregate, a royalty based on their pro rata ownership of the Preferred Stock equal to 6% of net revenue for treatments sold directly by us and 6% of cash received by us pursuant to Cell Source treatment licensing or partnering agreements. The royalty payments will terminate when the patents underlying the treatments expire or the sub-licensee discontinues commercial use.

## Consolidated Results of Operations

### Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

The following table presents selected items in our unaudited condensed consolidated statements of operations for the three months ended September 30, 2016 and 2015, respectively:

	For The Three Months Ended September 30,	
	2016	2015
<b>Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>		
Research and development	133,866	118,551
Research and development - related party	205,957	200,000
Selling, general and administrative	261,914	230,587
Total Operating Expenses	601,737	549,138
Loss From Operations	(601,737)	(549,138)
<b>Other Income (Expense)</b>		
Change in fair value of derivative liabilities	324,350	3,200
Interest expense	(62,905)	(9,074)
Amortization of debt discount	(463,060)	(118,425)
Total Other Expense	(201,615)	(124,299)
<b>Net Loss</b>	<u>\$ (803,352)</u>	<u>\$ (673,437)</u>

#### Research and Development

Research and development expense was \$339,823 and \$318,551 for the three months ended September 30, 2016 and 2015, respectively, an increase of \$21,272, or 7%, primarily associated with increased expenses associated with key patents.

#### Selling, General and Administrative

Selling, general and administrative expense was \$261,914 and \$230,587 for the three months ended September 30, 2016 and 2015, respectively, an increase of \$31,327, or 14%. The increase was primarily due to increased external consulting costs as compared to the prior period.

#### Change in Fair Value of Derivative Liability

The change in fair value of derivative liability for the three months ended September 30, 2016 and 2015 was a gain of \$324,350 and \$3,200, respectively, which represents the change in fair value of the warrants that were deemed to be derivative liabilities during the respective periods. The primary reason for the increase as compared to the 2015 period is due to the expiration of a conversion option during the 2016 period.

#### Interest Expense

Interest expense was \$62,905 and \$9,074 for the three months ended September 30, 2016 and 2015, respectively, an increase of \$53,831, or 593%. The increase was due to the issuance of new notes payable subsequent to September 30, 2015 with interest rates ranging from 6% to 10% per annum.

### *Amortization of Debt Discount*

Amortization of debt discount was \$463,060 and \$118,425 for the three months ended September 30, 2016 and 2015, respectively, an increase of \$344,635 or 291%. The increase was primarily due to costs associated with warrants, common stock and conversion options issued in connection with notes payable and the costs incurred in connection with our debt offerings.

### *Nine months Ended September 30, 2016 Compared to Nine months Ended September 30, 2015*

The following table presents selected items in our unaudited condensed consolidated statements of operations for the nine months ended September 30, 2016 and 2015, respectively:

	For The Nine Months Ended September 30,	
	2016	2015
<b>Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>		
Research and development	357,454	295,770
Research and development - related party	604,777	600,000
Selling, general and administrative	814,351	807,365
<b>Total Operating Expenses</b>	<u>1,776,582</u>	<u>1,703,135</u>
<b>Loss From Operations</b>	<u>(1,776,582)</u>	<u>(1,703,135)</u>
<b>Other Income (Expense)</b>		
Change in fair value of derivative liabilities	695,200	115,900
Interest expense	(181,462)	(15,830)
Amortization of debt discount	(1,061,736)	(197,925)
<b>Total Other (Expense) Income</b>	<u>(547,998)</u>	<u>(97,855)</u>
<b>Net Loss</b>	<u>\$ (2,324,580)</u>	<u>\$ (1,800,990)</u>

### *Research and Development*

Research and development expense was \$962,231 and \$895,770 for the nine months ended September 30, 2016 and 2015, respectively, an increase of \$66,461, or 7%, primarily associated with increased expenses associated with key patents.

### *Selling, General and Administrative*

Selling, general and administrative expense was \$814,351 and \$807,365 for the nine months ended September 30, 2016 and 2015, respectively, an increase of \$6,986, or 1%.

### *Change in Fair Value of Derivative Liability*

The change in fair value of derivative liability for the nine months ended September 30, 2016 and 2015 was a gain of \$695,200 and \$115,900, respectively, which represents the change in fair value of the warrants that were deemed to be derivative liabilities during the respective periods. The primary reason for the increase as compared to the 2015 period is due to the expiration of a conversion option during the 2016 period.

### *Interest Expense*

Interest expense was \$181,462 and \$15,830 for the nine months ended September 30, 2016 and 2015, respectively, an increase of \$165,632, or 1046%. The increase was due to the issuance of new notes payable subsequent to September 30, 2015 with interest rates ranging from 6% to 10% per annum.

### *Amortization of Debt Discount*

Amortization of debt discount was \$1,061,736 and \$197,925 for the nine months ended September 30, 2016 and 2015, respectively, increase of \$863,811, or 436%. The increase was primarily due to costs associated with warrants and conversion options issued in connection with notes payable and the costs incurred in connection with our debt offerings.

### **Liquidity and Going Concern**

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

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(unaudited)</b>	
Cash	\$ 1,638	\$ 6,944
Working capital deficiency	\$ (7,831,895)	\$ (5,711,374)

We have not generated any revenues since our inception, we have recurring net losses, we have a working capital deficiency as of September 30, 2016 of approximately \$7,832,000 and we have used cash in operations of approximately \$1,344,000 and \$1,459,000 during the nine months ended September 30, 2016 and 2015, respectively. These conditions raise substantial doubt about our ability to continue as a going concern. Based on our current resources, we will not be able to continue to operate without additional immediate funding.

Our ability to continue our operations is dependent on the execution of management's plans, which include the raising of capital through the debt and/or equity markets, until such time that funds provided by operations are sufficient to fund working capital requirements. We may need to incur additional liabilities with certain related parties to sustain our existence. If we were not to continue as a going concern, we would likely not be able to realize our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of our financial statements.

There can be no assurances that we will be successful in generating additional cash from equity or debt financings or other sources to be used for operations. Should we not be successful in obtaining the necessary financing to fund our operations, we would need to curtail certain or all operational activities and/or contemplate the sale of our assets, if necessary.

During the nine months ended September 30, 2016 and 2015, our sources and uses of cash were as follows:

#### *Net Cash Used in Operating Activities*

We experienced negative cash flows from operating activities for the nine months ended September 30, 2016 and 2015 in the amounts of \$1,343,731 and \$1,458,614, respectively. The net cash used in operating activities for the nine months ended September 30, 2016 was primarily due to cash used to fund a net loss of \$2,324,580, adjusted for net non-cash expenses in the aggregate amount of \$482,770, partially offset by \$498,079 of net cash provided by changes in the levels of operating assets and liabilities, primarily as a result of increases in accounts payable and accrued expenses, due to cash constraints during the period. The net cash used in operating activities for the nine months ended September 30, 2015 was primarily due to cash used to fund a net loss of \$1,800,990, adjusted for net non-cash expenses in the aggregate amount of \$139,429 partially offset by \$202,947 of net cash provided due to changes in the levels of operating assets and liabilities, primarily as a result of increases in accounts payable and accrued expenses, due to cash constraints during the period.

#### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2016 and 2015 was \$1,338,425 and \$1,445,000, respectively. The net cash provided by financing activities during the nine months ended September 30, 2016 was attributable to \$1,453,000 of proceeds from the issuance of notes payable, partially offset by repayments of \$50,000 of notes payable, \$44,575 of debt issuance costs and \$20,000 of deferred financing costs associated with an equity offering that had yet to close as of September 30, 2016. The net cash provided by financing activities during the nine months ended September 30, 2015 was attributable to \$995,000 of proceeds from the issuance of notes payable and \$450,000 of proceeds received in connection with a convertible note offering prior to closing.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

## **Critical Accounting Policies and Estimates**

There are no material changes from the critical accounting policies set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K which was filed with the Securities and Exchange Commission (“SEC”) on April 14, 2016. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

### **Recent Accounting Standards**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2016-09, “Compensation – Stock Compensation (Topic 718)” (“ASU 2016-09”). ASU 2016-09 requires an entity to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We are currently evaluating ASU 2016-09 and its impact on our condensed consolidated financial statements or disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. ASU 2016-15 requires adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. We are currently evaluating the effect that adopting this new accounting guidance will have on our condensed consolidated cash flows and related disclosures.

We have evaluated all new accounting standards that are in effect and may impact our condensed consolidated financial statements and do not believe that there are any other new accounting standards that have been issued that might have a material impact on our financial position or results of operations.

### **Item 3. Quantitative And Qualitative Disclosures About Market Risk.**

Not applicable.

### **Item 4. Controls and Procedures.**

#### *Disclosure Controls and Procedures*

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

In connection with the preparation of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, management, with the participation of our Principal Executive and Financial Officer, Itamar Shimrat, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Principal Executive and Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

#### *Changes in Internal Controls*

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### *Limitations of the Effectiveness of Control*

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



## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not currently a party to any material legal proceedings.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K which was filed with the Securities and Exchange Commission on April 14, 2016.

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

During the three months ended September 30, 2016, the Company extended the maturity dates of non-convertible notes payable in the aggregate principal amount of \$500,000 to various dates through September 30, 2016. In connection with the note extensions, the Company issued the purchasers an aggregate of 500,000 shares of common stock with an issuance date fair value of an aggregate of \$200,000.

On October 26, 2016, the Company closed on the sale of \$102,425 of its Series A Convertible Preferred Stock (“Preferred Stock”) to accredited investors at a purchase price of \$7.50 per share. The proceeds of the sale of Preferred Stock was used for working capital.

On November 14, 2016, the Company filed a Certificate of Designation (“COD”) with the Secretary of the State of Nevada setting forth the preferences, rights and limitation of the Preferred Stock.

Pursuant to the COD, the Preferred Stock may be converted at the option of the holder into such number of shares of the Company’s common stock (“Conversion Shares”) equal to the number of shares of Preferred Stock to be converted, multiplied by the Stated Value of \$7.50, divided by the conversion price in effect at the time of the conversion. The conversion price is \$0.75 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions. In addition, the Preferred Stock will automatically convert into common stock at the earlier of (a) any of the Company’s treatment candidates receiving Food and Drug Administration or European Medicines Agency approval or (b) five years from the final closing of the offering. Holders of Preferred Stock are entitled to cumulative 9% dividends which are payable semi-annually, commencing on December 30, 2016, in the Company’s sole discretion either in common stock or in cash.

Pursuant to a royalty agreement with the holders of the Preferred Stock, the Company will pay to the holders, in the aggregate, a royalty based on their pro rata ownership of the Preferred Stock equal to 6% of net revenue for treatments sold directly by the Company and 6% of cash received by the Company pursuant to Cell Source treatment licensing or partnering agreements. The royalty payments will terminate when the patents underlying the treatments expire or the sub-licensee discontinues commercial use.

The Company relied on the exemption from registration under Section 4(a)(2) of the Securities Act or Rule 506 of Regulation D for the sale of the Preferred Stock.

The information contained in this section does not constitute an offer to sell or solicitation of an offer to buy the Preferred Stock or any other securities, and it shall not constitute an offer, solicitation or sale in any jurisdiction in which, or to any persons to whom, such an offer, solicitation or sale is unlawful. The information contained in this section is being disclosed pursuant to and in accordance with Rule 135c under the Securities Act of 1933.

The foregoing descriptions of the COD do not purport to be complete and are qualified in their entirety by reference to the complete text of the COD which is filed as Exhibit 3.1, which is incorporated herein by reference.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

The information contained in Part II. Item 2. above is incorporated herein by reference.

**Item 6. Exhibits.**

<b>Exhibit Number</b>		<b>Description</b>
3.1	*	Certificate of Designation for Series A Preferred Stock
31.1	*	Certificate of the Chief Executive Officer
31.2	*	Certificate of the Chief Financial Officer
32	**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Schema Document
101.CAL	*	XBRL Calculation Linkbase Document
101.DEF	*	XBRL Definition Linkbase Document
101.LAB	*	XBRL Label Linkbase Document
101.PRE	*	XBRL Presentation Linkbase Document

\* Filed herewith

\*\* This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise be subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

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

**CELL SOURCE, INC.**

Dated: November 18, 2016

By: /s/ Itamar Shimrat  
Name: Itamar Shimrat  
Title: Chief Executive Officer and  
Chief Financial Officer (Principal  
Executive, Financial and Accounting  
Officer)



BARBARA K. CEGAVSKE  
Secretary of State  
206 North Carson Street  
Carson City, Nevada 89701-4299  
(775) 684-5708  
Website: www.nvsos.gov

Filed in the office  
of  
/s/ Barbara K.  
Cegavske  
Barbara K.  
Cegavske  
Secretary of State  
State of Nevada

Document Number  
20160497565-85  
Filing Date and Time  
11/14/2016 1:51 AM  
Entity Number  
E0308832012-8

**Certificate of Designation  
(PURSUANT TO NRS 78.1955)**

USE BLACK INK ONLY – DO NOT HIGHLIGHT ABOVE

SPACE IS FOR OFFICE USE ONLY

**Certificate of Designation For  
Nevada Profit Corporations  
(Pursuant to NRS 78.1955)**

**1. Name of corporation:**

Cell Source, Inc.

**2. By resolution of the board of directors pursuant to a provision in the articles of incorporation this certificate establishes the following regarding the voting powers, designations, preferences, limitations, restrictions and relative rights of the following class or series of stock.**

(One Million Three Hundred Thirty-Five Thousand (1,335,000) of the Ten Million (10,000,000) authorized (shares of Preferred Stock of the Cell Source, Inc. shall be designated Series A Preferred Stock, and shall possess the rights and preferences set forth in the attachment hereto, which description is incorporated herein.

**3. Effective date of filing: (optional)** \_\_\_\_\_  
(must not be later than 90 days after the certificate is filed)

**4. Signature: (required)**

X /s/ Itamar Shimrat  
\_\_\_\_\_  
**Signature of Officer**

**Filing Fee: \$175.00**

**IMPORTANT: Failure to include any of the above information and submit with the proper fees may cause this filing to be rejected.**

*This form must be accompanied by appropriate fees.*

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**CERTIFICATE OF DESIGNATION OF PREFERENCES,  
RIGHTS AND LIMITATIONS  
OF  
SERIES A PREFERRED STOCK  
  
OF  
CELL SOURCE, INC.**

It is hereby certified that:

1. The name of the Company (hereinafter called the "Company") is Cell Source, Inc. a Nevada corporation.
2. The Certificate of Incorporation of the Company authorizes the issuance of Ten Million (10,000,000) shares of preferred stock, \$0.001 par value per share, and expressly vests in the Board of Directors of the Company the authority to issue any or all of said shares in one (1) or more series and by resolution or resolutions to establish the designation and number and to fix the relative rights and preferences of each series to be issued.
3. The Board of Directors of the Company, pursuant to the authority expressly vested in it as aforesaid, has adopted the following resolutions creating a Series A issue of Preferred Stock:

**RESOLVED**, that One Million Three Hundred Thirty-Five Thousand (1,335,000) of the Ten Million (10,000,000) authorized shares of Preferred Stock of the Company shall be designated Series A Preferred Stock, and shall possess the rights and preferences set forth below:

Section 1. Definitions. For the purposes hereof, the following terms shall have the following meanings:

**“Alternate Consideration”** shall have the meaning set forth in Section 7(c).

**“Business Day”** means any day except Saturday, Sunday, and any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

**“Common Stock”** means the Company’s common stock, par value \$0.001 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed into.

**“Common Stock Equivalents”** means any securities of the Company or the subsidiaries of the Company, whether or not vested or otherwise convertible or exercisable into shares of Common Stock at the time of such issuance, which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

**“Conversion Date”** shall have the meaning set forth in Section 6(a).

**“Conversion Price”** means \$0.75, subject to adjustment as set forth in Section 7.

**“Conversion Shares”** means the shares of Common Stock issuable upon conversion of the shares of Series A Preferred Stock in accordance with the terms hereof.

**“Dividend Payment Date”** shall have the meaning set forth in Section 3(b).

**“Effective Date”** means the date that this Certificate of Designation is filed with the Secretary of State of Nevada.

**“Fundamental Transaction”** shall have the meaning set forth in Section 7(c).

**“Holder”** shall mean the owner of the Series A Preferred Stock.

**“Junior Securities”** shall be the Common Stock and any other class or series of capital stock of the Company hereafter created which does not expressly rank pari passu with or senior to the Series A Preferred Stock.

**“Liquidation”** shall have the meaning set forth in Section 5.

**“Mandatory Conversion”** shall have the meaning set forth in Section 6(b).

**“Mandatory Conversion Date”** shall have the meaning set forth in Section 6(b).

**“Notice of Conversion”** shall have the meaning set forth in Section 6(a).

**“Person”** means an individual, entity, corporation, partnership, association, limited liability company, limited liability partnership, joint-stock company, trust or unincorporated organization.

**“PIK Shares”** shall have the meaning set forth in Section 3(b).

**“Purchase Agreement”** means, with respect to each Holder, the securities purchase agreement between the Company and the original Holder.

**“Preferred Stock”** means the Company’s preferred stock, par value \$0.001 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed into.

**“Series A Preferred Stock”** shall have the meaning set forth in Section 2.

“**Stated Value**” means \$7.50 per share.

“**Trading Day**” means a day on which the OTCQX or any other trading market or exchange on which the Common Stock may then trade is open for business.

**Section 2. Designation and Authorized Shares.** The series of preferred stock designated by this Certificate shall be designated as the Company’s Series A Preferred Stock (the “**Series A Preferred Stock**”) and the number of shares so designated shall be One Million Three Hundred Thirty-Five Thousand (1,335,000). So long as any of the Series A Preferred Stock are issued and outstanding, the Company shall not issue any shares of its preferred stock that are senior to the Series A Preferred Stock in Liquidation without the approval of the Holders of a majority of the issued and outstanding Shares of Series A Preferred Stock.

**Section 3. Dividends.** (a) The Holders will be entitled to receive, on any outstanding shares of Series A Preferred Stock held by such Holders, out of any funds and assets of the Company legally available (i) prior and in preference to any declaration or payment of any dividend on the Junior Securities, cumulative dividends, at an annual rate of 9% of the Stated Value (nine-tenths of a share of common stock per Preferred Share per annum), and (ii) any dividends declared and paid on the Common Stock on an as-converted basis therewith.

(b) Dividends on the Series A Preferred Stock set forth under Section 3(a)(i) shall be payable semi-annually [on June 30 and December 30 commencing on December 30, 2016] (forty-five hundredth of a share of common stock per Preferred Share semi-annually) (each, a “**Dividend Payment Date**”). Dividends under this Section 3(b) shall be payable (i) by delivery of shares of Common Stock (“**PIK Shares**”), in an amount for each Holder equal to the aggregate dividend payable to such holder with respect to the shares of Series A Preferred Stock held by such holder as of the Dividend Payment Date, divided by the Conversion Price as of the Dividend Payment Date, or (ii) in cash valued based on the Conversion Price.

**Section 4. Voting Rights.** The Holders shall have the right to vote on any matter submitted to a vote of holders of Common Stock, voting together with the Common Stock as one (1) class. The Holders shall be entitled to the same notice of any regular or special meeting of the shareholders as may or shall be given to holders of Common Stock entitled to vote at such meetings. Each share of Series A Preferred Stock will entitle its Holder to vote with the Common Stock on an as-converted basis. As long as any shares of Series A Preferred Stock are outstanding, the Company may not, without the affirmative vote of the Holders of the majority of the then outstanding shares of the Series A Preferred Stock, alter or change adversely the powers, preferences or rights given to the Series A Preferred Stock, or issue any series of capital ranking senior to the Series A Preferred Stock in Liquidation. Nothing in the foregoing sentence shall impede a change in the Company’s certificate of incorporation, including to effect a reverse split of the Company’s issued and outstanding common stock (the “Reverse Split”), bylaws or other charter documents which does not have such adverse effect. The holders of the Series A Preferred Stock consent to the Reverse Split.

**Section 5. Liquidation.** (a) The Series A Preferred Stock shall with respect to distributions of assets and rights upon the occurrence of a Liquidation, rank senior to the Junior Securities of the Company. Upon any liquidation, dissolution or winding-up of the Company (“Liquidation”), the Holders of Series A Preferred Stock will be entitled to be paid for each share of Series A Preferred Stock held thereby, out of but only to the extent the assets of the Company are legally available for distribution to its stockholders, an amount equal to the Stated Value per share (as adjusted for stock splits, stock dividends, combinations or other recapitalizations of the Series A Preferred Stock), plus any accrued but unpaid dividends before any distribution or payment may be made to the holders of any Junior Securities. If the assets of the Company available for distribution to holders of Series A Preferred Stock shall be insufficient to permit payment in full to such holders of the sums which such holders are entitled to receive in such case, then all of the assets available for distribution to holders of the Series A Preferred Stock shall be distributed among and paid to such holders ratably in proportion to the amounts that would be payable to such holders if such assets were sufficient to permit payment in full.



(b) After the holders of all series of Series A Preferred Stock shall have been paid in full the amounts to which they are entitled in paragraph 5(a), the shares of Series A Preferred Stock shall not be entitled to any further participation in any distribution of assets of the Company.

Section 6. Conversion.

a) Conversions at Option of Holder. Subject to the provisions of this Section 6, each share of Series A Preferred Stock will be convertible, at any time and from time to time from and after the Effective Date, at the option of the Holder thereof, into Common Stock. Holders may effect conversions by providing the Company with a conversion notice (a "**Notice of Conversion**") which specifies the number of shares of Series A Preferred Stock to be converted, the number of shares of Series A Preferred Stock owned prior to the conversion at issue, the number of shares of Series A Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the applicable Holder delivers by facsimile or e-mail such Notice of Conversion to the Company (such date, the "**Conversion Date**"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date will be the date that such Notice of Conversion to the Company is deemed delivered hereunder. The calculations and entries set forth in the Notice of Conversion shall control in the absence of manifest or mathematical error. To effect conversions of shares of Series A Preferred Stock, a Holder will not be required to surrender the certificate(s) representing such shares of Series A Preferred Stock to the Company unless all of the shares of Series A Preferred Stock represented thereby are so converted, in which case such Holder shall deliver the certificate representing such shares of Series A Preferred Stock promptly following the Conversion Date at issue. Shares of Series A Preferred Stock converted into Common Stock in accordance with the terms hereof will be canceled and may not be reissued except as otherwise set forth in this Certificate of Designation.

b) Mandatory Conversion. On the sooner to occur of (i) five years from the Effective Date or (ii) any of the Company's treatment candidates receiving U.S. Food and Drug Administration or the European Medicines Agency approval ("**Mandatory Conversion Date**"), all of the outstanding shares of Series A Preferred Stock will automatically convert to Common Stock (a "**Mandatory Conversion**"). Within three Business Days of the Mandatory Conversion Date, the Company shall deliver to each Holder the Conversion Shares issuable upon conversion of such Holder's Series A Preferred Stock, and, within three Business Days after receipt of such Conversion Shares, each Holder shall return the certificates for its Series A Preferred Stock to the Company, provided that, any failure by the Holder to return a certificate for Series A Preferred Stock will have no effect on the Mandatory Conversion pursuant to this Section 6(b), which Mandatory Conversion will be deemed to occur on the Mandatory Conversion Date.

c) Conversion Shares. The number of Conversion Shares which the Company shall issue upon conversion of the Series A Preferred Stock (whether pursuant to Section 6(a) or 6(b)) will be equal to the number of shares of Series A Preferred Stock to be converted, multiplied by the Stated Value, divided by the Conversion Price in effect at the time of the conversion.

d) Mechanics of Conversion at Option of Holder

i. Delivery of Certificate Upon Conversion. Not later than three Trading Days after each Conversion Date, the Company shall deliver, or cause to be delivered, to the converting Holder a certificate or certificates which will contain appropriate restrictive legends and trading restrictions representing the number of Conversion Shares being acquired upon the conversion of shares of Series A Preferred Stock. If in the case of any Notice of Conversion such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the applicable Holder shall be entitled to pursue such legal remedies for the default as may be available and may also elect to rescind such Conversion Notice by written notice to the Company at any time on or before its receipt of such certificate or certificates, in which event the Company shall promptly return to such Holder any original Series A Preferred Stock certificate delivered to the Company and such Holder shall promptly return to the Company any Common Stock certificates representing the shares of Series A Preferred Stock unsuccessfully tendered for conversion to the Company.

ii. Reservation of Shares Issuable Upon Conversion. The Company covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of the Series A Preferred Stock, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holders of the Series A Preferred Stock, not less than such aggregate number of shares of the Common Stock as are issuable upon the conversion of all outstanding shares of Series A Preferred Stock.

iii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of or as dividends on the Series A Preferred Stock. As to any fraction of a share which a Holder would otherwise be entitled to purchase or be issued upon such conversion, the Company shall round up to the next whole share.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Company, at any time while the Series A Preferred Stock is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any other Common Stock Equivalents (which, for avoidance of doubt, will not include any shares of Common Stock issued by the Company upon conversion of this Series A Preferred Stock); (B) subdivides outstanding shares of Common Stock into a larger number of shares; (C) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares; or (D) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of the Company, then the Conversion Price will be multiplied by a fraction of which the numerator will be the number of shares of Common Stock (excluding any treasury shares of the Company) outstanding immediately before such event and of which the denominator will be the number of shares of Common Stock, or in the event that clause (D) of this Section 7(a) will apply shares of reclassified capital stock, outstanding immediately after such event. Any adjustment made pursuant to this Section 7(a) will become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and will become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

c) Fundamental Transaction. If, at any time while the Series A Preferred Stock is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one transaction or a series of related transactions, or (C) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then, upon any subsequent conversion of the Series A Preferred Stock, the Holders shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one share of Common Stock (the "Alternate Consideration"). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall adjust the Conversion Price in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holders shall be given the same choice as to the Alternate Consideration they receive upon any conversion of the Series A Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall file a new Certificate of Designation with the same terms and conditions and issue to the Holders new preferred stock consistent with the foregoing provisions and evidencing the Holders' right to convert such preferred stock into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 7(c) and insuring that the Series A Preferred Stock (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

d) Calculations. All calculations under this Section 7 will be made to the nearest cent or the nearest 1/100th of a share, as the case may be.

e) Notice to the Holders. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 7, the Company shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

Section 8. Royalty Payment. The holders of the Series A being issued on the date hereof have also entered into a Royalty Agreement (the "Royalty Agreement") with the Company pursuant to which the Company has agreed to pay the holder of the Series A Preferred Stock a Royalty as set forth in and subject to the terms of the Royalty Agreement.

Section 9. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, by e-mail, or sent by a nationally recognized overnight courier service, addressed to the Company, at the address set forth in the Purchase Agreement or address as the Company may specify for such purposes by notice to the Holders delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally or sent by a nationally recognized overnight courier service, or by facsimile or e-mail, addressed to each Holder at the address of such Holder such forth in the Purchase Agreement or appearing on the books of the Company, or if no such address appears in the Purchase Agreement or on the books of the Company, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of the Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or upon actual receipt by the party to whom such notice is required to be given.

b) Lost or Mutilated Series A Preferred Stock Certificate. If a Holder's Series A Preferred Stock certificate becomes mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Series A Preferred Stock so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership thereof reasonably satisfactory to the Company.

c) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation will 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 conflict of laws thereof. All legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by this Certificate of Designation may be commenced only in the state and federal courts sitting in the City of New York, Borough of Manhattan.

e) Waiver. Any waiver by the Company or a Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation or a waiver by any other Holders. The failure of the Company or a Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party (or any other Holder) of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation. Any waiver by the Company or a Holder must be in writing.

f) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any dividend or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law.

g) Status of Converted Series A Preferred Stock. If any shares of Series A Preferred Stock shall be converted or reacquired by the Company, such shares shall resume the status of authorized but unissued Series A Preferred Stock, provided, however, that such shares may be reissued only as PIK Shares.

h) Assignment. The holders of the Series A Preferred Stock may not assign, transfer or sell the Series A Preferred Stock held by such holder or the rights under this Certificate of Designation without the prior written consent of the Company which shall not be unreasonably withheld.

[Signature page follows.]

IN WITNESS WHEREOF, this Certificate of Designation has been executed by a duly authorized officer of the Company as of this 21<sup>st</sup> day of September, 2016.

/s/ Itamar Shimrat  
Name: Itamar Shimrat  
Title: Chief Executive  
Officer



**CERTIFICATIONS UNDER SECTION 302**

I, Itamar Shimrat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cell Source, 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(s) 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(s) 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 18, 2016

/s/ Itamar Shimrat  
Itamar Shimrat  
Chief Executive Officer and Chief Financial Officer  
(Principal Executive Officer)

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**CERTIFICATIONS UNDER SECTION 302**

I, Itamar Shimrat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cell Source, 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(s) 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(s) 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 18, 2016

/s/ Itamar Shimrat  
Itamar Shimrat  
Chief Executive Officer and Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATIONS UNDER SECTION 906**

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), each of the undersigned officers of Cell Source, Inc., a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report for the quarter ended September 30, 2016 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 18, 2016

By: /s/ Itamar Shimrat

Itamar Shimrat  
Chief Executive Officer and Chief Financial Officer  
(Principal Executive and Financial Officer)

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