5Barz International, Inc.
Form 10-Q
June 24, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission File No. 333-1258321

5BARz International Inc.

(Name of small business issuer in its charter)

Nevada	26-4343002
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1218 Third Ave., Suite 505 **Seattle, Washington**	98101
(Address of principal executive offices)	(Zip Code)

877-723-7255

(Registrant’s telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class registered:	Name of each exchange on which registered:
None	None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.001

(Title of class)

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

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

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [X]

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

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

Number of shares of the registrant’s common stock, par value $0.001 outstanding as of May 31, 2013 was 131,773,887.

5BARz INTERNATIONAL INC.

FORM 10Q

For the quarter ended March 31, 2013

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As used in this Quarterly report, the terms "we," "us," "our," "5BARz" and the "Company" mean 5BARz International Inc. and its subsidiaries, unless otherwise indicated. All dollar amounts in this Quarterly report are expressed in U.S. dollars, unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements. Forward-looking statements include those that address activities, developments or events that we expect or anticipate will or may occur in the future. All statements other than statements of historical facts contained in this Quarterly report, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the captions "*Risk Factors*" beginning on page 21, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" beginning on page 4, and elsewhere in this Quarterly report. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the "SEC"), particularly our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

The disclosures set forth in this report should be read in conjunction with the audited financial statements and notes thereto of the Company for the year ended December 31, 2012. Because of the nature of a relatively new and growing company, the reported results will not necessarily reflect the operating results that will be achieved in the future.

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5BARz INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012 *
ASSETS		
CURRENT ASSETS:		
Cash	$45,851	$48,308
Prepaid expenses and deposits	21,436	22,156
TOTAL CURRENT ASSETS	67,287	70,464
FIXED ASSETS:		
Equipment, net	3,577	4,406
OTHER ASSETS:		
Intangible assets	3,387,406	3,387,406
Goodwill	1,140,246	1,140,246
Total other assets	4,527,652	4,527,652
TOTAL ASSETS	$4,598,516	$4,602,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$2,411,392	$2,445,410
Due to escrow agent	52,321	52,321
Accrued derivative liabilities	57,975	—
Notes payable	1,190,831	993,554
Total current liabilities	3,712,519	3,491,285
Related party loans	367	19,850
TOTAL LIABILITIES	3,712,886	3,511,135
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value, 250,000,000 shares authorized; 123,153,887 and 117,418,281 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	123,154	117,418
Capital in excess of par value	3,508,897	3,226,802
Deficit accumulated during the development stage	(3,404,453)	(2,971,099)
Accumulated Other Comprehensive Income	(2,799)	4,272
Non-controlling interest	660,831	713,994
Total stockholders' equity	885,630	1,091,387
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$4,598,516	$4,602,522

See accompanying notes

*Condensed from audited financial statements

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5BARz INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
AND FOR THE PERIOD FROM INCEPTION (November 14, 2008) TO MARCH 31, 2013
(Unaudited)

	3 Months Ended		Cumulative, November 14, 2008
	March 31, 2013	March 31, 2012	to March 31, 2013
Sales	—	—	—
Cost of Sales	—	—	—
Selling general and administrative expenses:			
Amortization and depreciation	$828	$190	$5,401
Bank charges and interest	24,560	14,622	260,423
Sales and marketing expenses	47,626	56,688	392,039
General and administrative expenses	442,401	435,457	3,076,798
Total operating expenses	515,415	506,957	3,734,661
Loss from operations	(515,415)	(506,957)	(3,734,661)
Other income (expense):			
Interest income		108	16,666
Currency losses	—	—	(567)
Change in fair value of derivative liability	(57,975)	376,569	569,756
Amortization of debt discount on derivative liability	—	15,250	(132,897)
Loss on termination of finance agreements	—	—	(152,676)
Other	86,873	—	86,092
Total Other income	28,898	391,927	386,374
Net loss before non-controlling interest	(486,517)	(115,030)	(3,348,287)
Non-controlling interest	53,163	545	56,166
Net loss after non-controlling interest	$(433,354)	$(114,485)	$(3,404,453)
Basic loss per common share	(0.0044)	(0.0013)	
Weighted average number of shares outstanding	110,476,917	91,812,982	
Other comprehensive income			
Foreign currency translation (loss) gain	(7,071)	(3,432)	
Other comprehensive (loss) income	(7,071)	(3,432)	
Comprehensive (loss)	$(440,425)	$(117,917)	

See accompanying notes

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5BARz INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
AND FOR THE PERIOD FROM INCEPTION (NOVEMBER 14, 2008) TO MARCH 31, 2013
(Unaudited)

	3 Months Ended March 31, 2013	March 31, 2012	Cumulative, November 14, 2008 to March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(486,517)	$(115,030)	(3,348,287)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	828	190	4,817
Change in debt discount on convertible notes	—	(15,250)	153,078
Non-controlling interest	—		(257)
Stock based compensation	3,866		10,979
Change in fair value of derivative liability	57,975	(376,569)	(483,475)
Change in warrant liability	—		14,968
Common shares issued for services	131,030	252,990	936,993
Changes in operating assets and liabilities:			—
Change in accounts payable and accrued expenses	117,282	(131,964)	732,846
Change in prepaid expenses and deposits	720	(800)	(2,277)
Change in unpaid interest and penalties on notes payable	15,978	892	398,509
Change in amount due to escrow agent	—	—	52,321
Net cash from (used in) operating activities	(158,838)	(385,541)	(1,529,784)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Deposit on investment in CelLynx	—	—	(170,000)
Cash in CelLynx - date of acquisition	—	3,260	3,260
Acquisition of intangible assets			(4,808)
Purchase of furniture and equipment assets	—	—	(4,653)
Net cash used in investing activities	—	3,260	(176,201)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments under line of credit agreement CelLynx	—	—	(250,152)
Payment of amount due to CelLynx - intellectual property acquisition	—	—	(242,865)
Proceeds from issuance of convertible notes	—	132,500	407,139
Payments of amounts due to related party	(19,483)	(46,064)	(463,806)
Proceeds used to settle notes payable	(42,500)	(65,361)	(110,818)
Proceeds from issuance of common stock	227,000	201,500	2,136,847
Proceeds from issuance of common stock by subsidiary - 5BARz AG	(1,565)	190,790	278,290
Net cash provided by financing activities	163,452	413,365	1,754,635
Effect of foreign currency exchange	(7,071)	(3,432)	(2,799)
NET INCREASE IN CASH	(2,457)	27,652	45,851
CASH, BEGINNING OF PERIOD	48,308	49,209	0

CASH, END OF PERIOD	$45,851	$76,861	$45,851
Supplementary disclosure of Cash Flow Information			
Cash paid for interest	$17,608	$14,586	$78,511
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Common stock issued upon acquisition of CelLynx Group, Inc.	$	$250,000	$250,000
Settlement of prepaid deposit upon acquisition of CelLynx Group, Inc.	$	$170,000	$170,000
Fair market value of notes converted upon acquisition of CelLynx Group, Inc.	$	$455,000	$521,200
Fair market value of net assets acquired	$	$875,000	$875,000
Conversion of notes payable	$3,600	$69,000	$73,500
Investment in CelLynx intellectual property for shares	$	$1,800,000	$1,800,000
Replacement of common shares acquired with a convertible note	$80,000	$	$80,000
Issuance of convertible note in lieu of accounts payable	$147,428	$-	$147,428
Shares issued to settle interest on notes payable	$7,500	$-	$7,500

See accompanying notes

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5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 1 – Organization, Going Concern and Development Stage

The Company was incorporated under the laws of the State of Nevada on November 14, 2008. The Company was originally named “Bio-Stuff” and was a designated shell corporation from inception to the date of acquisition of the 5BARz assets.

On December 29, 2010 the Company changed its name to 5BARz International, Inc. and on December 30, 2010, the Company acquired from CelLynx Group, Inc. the rights to certain intellectual property underlying the 5BARz products, a highly engineered wireless technology referred to as a “cellular network infrastructure device”. The 5BARz device captures cell signal and provides a smart amplification and resend of that cell signal giving the user improved cellular reception in their home, office or while mobile. On March 29, 2012, 5BARz International, Inc. acquired a 60% controlling interest in CelLynx Group, Inc.

On November 6, 2011, the Company incorporated a subsidiary Company in Zurich, Switzerland called 5BARz AG which is a 94.6% held subsidiary at March 31, 2013. This entity has been granted the license for the marketing and distribution rights for 5BARz products in Germany, Austria and Switzerland.

These financial statements reflect the financial position for the Company and its subsidiary companies 5BARz AG, CelLynx Group Inc. and its wholly owned subsidiary CelLynx Inc. as at March 31, 2013. Results of operations include those operations for subsidiaries acquired from the date of acquisition.

<u>**Going concern**</u>

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is a development stage company and has not commenced planned principal operations. As shown in the accompanying consolidated financial statements, the Company has incurred recurring losses for the period from November 14, 2008 (date of inception) through March 31, 2013 of $3,348,287. The Company has negative cash flows from operations since inception of $1,529,784 and has an accumulated deficit of $3,404,453 at March 31, 2013. The Company has made no revenue to date. The Company is seeking additional sources of equity or debt financing, and there is no assurance these activities will be successful. These factors raise substantial doubt about the Company’s ability to continue as a going concern and the Company’s continued existence is dependent upon adequate additional financing being raised to develop its sales and marketing program for the sales of 5BARz product and commence its planned operations.

The Company is in default on certain notes payable. Accordingly, any penalties and interest has been accrued as of March 31, 2013 (see Note 7).

The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Development stage

The Company is considered to be a development stage entity as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 915. The Company has been a development stage entity since November 14, 2008 its inception. The Company has not generated any revenues to date.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 2 - Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on May 13, 2013 for the fiscal year ended December 31, 2012.

The accompanying consolidated financial statements include the accounts of 5BARz International Inc., and its 94.6% owned subsidiary, 5BARz AG, and it’s 53% owned subsidiary CelLynx Group, Inc. and that Company’s 100% owned subsidiary CelLynx, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include impairment analysis for long lived assets, income taxes, litigation and valuation of derivative instruments. Actual results could differ from those estimates.

Intangible assets

Acquired patented and unpatented technology, licensing rights and trademarks are capitalized at their fair value. The legal costs, patent registration fees, and models and drawings required for filing patent applications are capitalized if they relate to commercially viable technologies. Commercially viable technologies are those technologies that are projected to generate future positive cash flows in the near term. Legal costs associated with applications that are not determined to be commercially viable are expensed as incurred. All research and development costs incurred in developing the patentable idea are expensed as incurred. Legal fees from the costs incurred in successful defense to the extent of an evident increase in the value of the patents are capitalized.

Capitalized costs for patents are amortized on a straight-line basis over the remaining twenty-year legal life of each patent after the costs have been incurred. Once each patent or trademark is issued, capitalized costs are amortized on a straight-line basis over a period not to exceed 20 years and 10 years, respectively. All research and development costs incurred in developing the patentable idea are expensed as incurred. The licensing right is amortized on a straight-line basis over a period of 10 years. Based on its review, the Company concluded that as of March 31, 2013 and December 31, 2012 there was no impairment of its intangible assets.

Goodwill

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test annually and more frequently when negative conditions or a triggering event arise. After an assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Based on its review, the Company concluded that as of March 31, 2013 there was no impairment of its goodwill.

Foreign currency translation

Transactions in foreign currencies have been translated into US dollars using the temporal method. The functional currency of the Company's subsidiary 5BARz AG, is its local currency (Swiss Franc – CHF). Under this method, monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the exchange rate at the time of the transaction. Realized and unrealized foreign exchange gains and losses are included in operations.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

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

- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.

- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following table provides a summary of the assets that are measured at fair value on a recurring basis.

	Consolidated Balance Sheet	Quoted Prices in Active Markets	Quoted Prices for Similar Assets or	Significant Unobservable Inputs (Level 3)

		for Identical Assets or Liabilities (Level 1)	Liabilities in Active Markets (Level 2)	
Derivative Liabilities:				
March 31, 2013	$ 57,975	$ —	$ —	$ 57,975
December 31, 2012	$ —	$ —	$ —	$ —

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	March 31, 2013	
Beginning balance	$	—
Change in fair value of derivative liabilities		57,975
Ending balance	$	57,975

The derivative conversion feature liabilities are measured at fair value using the Black-Scholes pricing model and are classified within Level 3 of the valuation hierarchy. The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company's derivative financial instruments are provided below:

	March 31, 2013	
Stock price	$0.05	
Volatility	240	%
Risk-free interest rate	0.04	%
Dividend yield	0	%
Expected life	0.02 years	

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivate liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company’s accounting and finance department, which reports to the Chief Financial Officer, determines its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company’s accounting and finance department with support from the Company’s consultants and which are approved by the Chief Financial Officer.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The Company uses the Black-Scholes option valuation model to value Level 3 financial liabilities at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as, volatility.

As of March 31, 2013 there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Derivative instruments

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging". The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.

Net loss per share

The Company reports loss per share in accordance with the ASC Topic 260, “Earnings Per Share.”, which requires presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants. These potentially dilutive securities were not included in the calculation of loss per common share for the three months ended March 31, 2013 or 2012 because their effect would be anti-dilutive. The weighted average number of shares outstanding does not include reciprocal shareholdings, held by the Company’s subsidiary, CelLynx Group, Inc. which is reflected as a reduction in capital in excess of par value on the Company’s balance sheet.

Reclassifications

Certain reclassifications have been made in the financial statements at March 31, 2012 and for the periods then ended to conform to the March 31, 2013 presentation. The reclassifications had no effect on net loss.

Recent accounting pronouncements

In July 2012, the FASB issued ASU 2012-02, “Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU simplifies how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The adoption of this guidance did not have a material effect on the condensed consolidated financial statements.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2013 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2013 or 2012, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 3 – Acquisition of CelLynx Group, Inc.

On January 7, 2011 the Company entered into a stock purchase agreement with two founding shareholders of CelLynx Group, Inc. to acquire in aggregate 63,412,638 shares of the capital stock of CelLynx Group, Inc. for total proceeds of $634,126. At that date the Company had paid $170,000 as a deposit made under that agreement. On March 29, 2012 the Company entered into a securities exchange agreement and settlement agreement with each of the two founding shareholders of CelLynx Group, Inc. whereby in addition to the $170,000 paid, the Company issued 1,250,000 shares of its common stock in exchange for the 63,412,638 shares of CelLynx Group, Inc. and mutual releases were signed between the parties releasing each from any further obligation.

On March 29, 2012, the Company acquired a further interest in CelLynx Group, Inc. by conversion of $73,500 of convertible debt in CelLynx Group, Inc for the issuance of 350,000,000 shares in the capital stock of CelLynx Group, Inc. As a result, in combination with the shares acquired from existing shareholders referred to above, the registrant acquired a 60% controlling interest in CelLynx Group, Inc. and has accounted for that acquisition as a consolidated subsidiary of the registrant effective March 29, 2012.

The purchase price, which was settled in cash, shares, and the settlement of convertible debt was $875,000, as follows:

i.	Cash consideration paid	$	170,000	
ii.	1,250,000 common shares of the registrant issued at a market price of $0.20 per share		250,000	
iii.	Redemption of convertible debt for 350 million shares of CelLynx Group Inc. common stock		455,000	(a)
Fair market value of consideration paid		$	875,000	

(a) The valuation of the debt instrument with an embedded conversion feature is calculated at the face value of the debt instrument of $73,500 plus the intrinsic value attributable to the conversion of the debt instrument at a 75% discount to market, based upon the lowest 3 closing bid prices of the common stock for a period of 30 days prior to the date of conversions. That intrinsic valuation is calculated to be $ 381,500. The amounts recognized for each class of the acquiree's assets and liabilities recognized at the acquisition date, March 29, 2012 are as follows:

The amounts recognized for each class of the acquiree's assets and liabilities recognized at the acquisition date, March 29, 2012 are as follows;

Description	Net book value of CelLynx Group, Inc. consolidated assets and liabilities	Acquisition Adjustments (i) (ii)	Valuation attributed to assets acquired
Current assets	$3,260		$3,260
Patented and unpatented technology, trademarks, and license	44,718	$1,155,282 (ii)	1,200,000
Investment in 5BARz (iii)	1,800,000		1,800,000
Furniture and equipment	2,113		2,113
Accounts payable and accruals	(1,752,628)		(1,752,628)
Notes payable (net of discount)	(403,076)		(403,076)
Accrued interest	(62,250)		(62,250)
Derivative liability	(5,495,425)	5,026,093 (i)	(469,332)
LOC payable – 5BARz (net)	(586,525)	586,525 (i)	—
Fair value non-controlling interest		(583,333)	(583,333)
Totals	$(6,449,813)	$6,184,567	(265,246)
Goodwill			1,140,246
Purchase price			$875,000

(i) In determining the fair value of assets acquired, the Company eliminated the convertible debt owed to 5BARz and the derivative liability attributed to that debt.
(ii) Fair value of technology, trademarks and license.
(iii) Eliminates in consolidation

On April 13, 2012 the Company exercised $7,700 under the terms of the convertible line of credit agreement with CelLynx Group, Inc. to acquire a further 51,333,333 shares in the capital stock of CelLynx Group, Inc. On May 15, 2012 the Company exercised a further $58,500 to acquire a further 390,000,000 shares and on May 21, 2013 the Company acquired 375,000,000 shares on the conversion of $9,375 under the convertible line of credit agreement. Each conversion increased the percentage ownership that the Company holds in CelLynx Group, Inc. to a 60% interest, subsequent to dilution arising from 3rd party convertible note conversions. At March 31, 2013 the Company had a 53% equity ownership in CelLynx Group, Inc.

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5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 4 – Investment in 5BARz AG

On October 6, 2011, the Company incorporated a subsidiary Company under the laws of Switzerland, in the Canton of Zurich, called 5BARz AG. 5BARz AG issued 10,000,000 common shares of which 5,100,000 are held by the Company, 450,000 are held by officers and a consultant to the Company and 4,450,000 were held in escrow for resale, by an independent escrow agent under the control of the Company. 5BARz AG issued the shares with a stated or par value of CHF 0.01 per share for proceeds of CHF 100,000 (US - $108,752). The net proceeds received on re-sale above the stated or par value of the shares, is paid into 5BARz AG as additional paid in capital. During the period from inception (October 6, 2011) to December 31, 2012, sales of those securities aggregated 92,000 shares sold for proceeds of $276,000 CHF ($278,290 USD). At December 31, 2012 the Company holds a 94.6% controlling interest in 5BARz AG represented by 9,458,000 shares. During the 3 month period ended March 31, 2013 the Company did not have any sales of securities and the controlling interest in 5BARz AG remains at a 94.6% controlling interest.

On October 19, 2011, the registrant, 5BARz International Inc. entered into a Marketing and Distribution agreement with 5BARz AG, through which 5BARz AG holds the exclusive rights for the marketing and distribution of products produced under the 5BARz brand for markets in Switzerland, Austria and Germany. That agreement does not have a royalty payment requirement, and remains effective as long as 5BARz AG is controlled by the Company. 5BARz AG is a consolidated subsidiary of the Company in these financial statements.

Note 5 – Intangible assets and goodwill

Intangible assets are comprised of patented and unpatented technology, trademarks and license rights which are recorded at cost, comprised of legal fees and acquisition costs. Once each patent or trademark is issued, capitalized costs are amortized on a straight-line basis over a period not to exceed 20 years and 10 years, respectively. License rights are amortized over the period of the respective license agreement.

	March 31, 2013	December 31, 2012
Patented and unpatented technology	$3,015,794	$3,015,794
Marketing and distribution agreement	370,000	370,000
Trademarks	264	264
License rights	1,348	1,348
	$3,387,406	$3,387,406
Accumulated amortization		--
Patents and other intangibles, net	$3,387,406	$3,387,406

During the three months ended March 31, 2013 and year ended December 31, 2012 no amortization has been recorded on technology and other intangibles. The intangible assets acquired on December 29, 2011 related to the 5BARz technology will commence amortization with the initial commercial production (commercial viability) of products incorporating the related technology. The Company's estimated patented and unpatented technology amortization over the next five years is expected to be $886,998.

Marketing and distribution agreement will commence amortization with the initial commercial production of products. Trademark and license amortization is calculated straight line over a 10 year period. The Company's estimated amortization on trademarks and licenses over the next five years is expected to be $806 and $806 for the remaining life of those assets.

There were no changes in the carrying amount of goodwill for the three months ended March 31, 2013.

5BARz International, Inc.

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Notes To Condensed Consolidated Financial Statements

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Note 6 – Common Stock

Since its inception, the Company has issued shares of common stock as follows:

On November 14, 2008, the Companies Directors authorized the issuance of 7,100,000 founder shares at par value of $0.001. These shares are restricted under rule 144 of the Securities Exchange Commission.

On various days in December 2008, our Directors authorized the issuance of 1,776,100 shares of common stock at a price of $0.01 per share as fully paid and non-assessable to the subscriber. These shares are not restricted and are free trading.

On November 15, 2010, our Directors initiated a forward stock split of 18:1 and increased the authorized shares from 100,000,000 to 250,000,000

On December 30, 2010, the Directors approved the cancellation of 87,800,000 shares of common stock.

On December 31, 2010, the Directors issued 15,600,000 shares in conjunction with the acquisition of certain assets, more fully described in Note 9.

On January 10, 2011 the Company issued 300,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $300,000.

On January 15, 2011 the Company issued 200,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $200,000.

On March 9, 2011 the Company issued 150,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $150,000.

On April 4, 2011 the Company issued 350,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $350,000.

On April 7, 2011 the Company issued 200,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $200,000.

On June 3, 2011 the Company issued 5,000 shares of common stock at a price of $0.70 per share for aggregate proceeds of $3,500.

On July 18, 2011 the Company issued 25,000 shares of common stock at a price of $1.00 per share for aggregate proceeds of $25,000.

On July 21, 2011 the Company issued 69,610 shares of common stock at a price of $0.20 per share for aggregate proceeds of $13,922.

On July 24, 2011 the Company issued 40,000 shares of common stock at a price of $0.50 per share for aggregate proceeds of $20,000.

On October 20, 2011 the Company issued 37,500 shares of common stock at a price of $0.20 per share for aggregate proceeds of $7,500

On November 8, 2011 the Company issued 200,000 shares of common stock at a price of $0.15 per share for aggregate proceeds of $30,000.

On December 7, 2011 the Company issued 75,000 shares of common stock at a price of $0.10 per share for services provided in the amount of $7,500.

On December 15, 2011 the Company issued 455,180 shares of common stock at a price of $0.10 per share for aggregate proceeds of $45,518.

On December 1, 2011 the Company issued 355,695 shares of common stock at a price of $0.20 per share for conversion of a Convertible Debenture Agreement, dated August 15,2011 for a principal amount of Fifty Thousand Euros (€50,000), which bears interest at a rate of 8.5%. The aggregate proceeds amounted to $67,513.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 6 – Common Stock (continued)

On December 19, 2011 the Company issued 150,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $15,000.

In December 2011, 5BARz AG sold 21,000 common shares with a par value of 0.01 per share, at a price of CHF 3.00 ($3.26 US) per share, for aggregate proceeds of CHF 63,000 (US – $75,840). The proceeds received have been credited to additional paid in capital in these consolidated financial statements.

On January 12, 2012 the Company issued 300,000 shares of common stock at a price of $0.10 per share for services for aggregate proceeds of $30,000.

On February 1, 2012 the Company issued 1,500,000 shares of common stock at a price of $0.10 per share for services for aggregate proceeds of $150,000.

On February 1, 2012 the Company issued 50,000 shares of common stock at a price of $0.10 per share for services for aggregate proceeds of $5,000.

On February 7, 2012 the Company issued 500,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $50,000.

On February 29, 2012 the Company issued 100,000 shares of common stock for services at a price of $0.4799 per share for aggregate proceeds of $47,990.

On February 29, 2012 the Company issued 200,000 shares of common stock for services at a price of $0.10 per share for aggregate proceeds of $20,000.

On March 6, 2012 the Company issued 433,334 shares of common stock at a price of $0.12 per share for aggregate proceeds of $52,000.

On March 7, 2012 the Company issued 150,000 shares of common stock at a price of $0.12 per share for aggregate proceeds of $18,000.

On March 20, 2012 the Company issued 333,334 shares of common stock at a price of $0.15 per share for aggregate proceeds of $50,000.

On March 22, 2012 the Company issued 170,000 shares of common stock at a price of $0.15 per share for aggregate proceeds of $25,500.

On March 26, 2012 the Company issued 50,000 shares of common stock at a price of $0.12 per share for aggregate proceeds of $6,000.

On March 29, 2012 the Company issued 9,000,000 shares of common stock at a price of $0.20 per share in payment to CelLynx Group, Inc. for a 60% for aggregate proceeds of $1,800,000. The shares were issued to acquire the 5BARz cellular technology rights.

On March 29, 2012 the Company issued 1,250,000 shares of 5BARz common stock at a price of $0.20 per share for aggregate proceeds of $250,000, plus $170,000 cash, in payment to two founders of CelLynx Group Inc. for 63,412,638 common shares of CelLynx Group, Inc.

On April 2, 2012 the Company issued 250,000 shares of common stock for services, at a price of $0.12 per share for an aggregate value of $30,270.

5BARz International, Inc.

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 6 – Common Stock (continued)

On April 18, 2012 the Company issued 100,000 shares of common stock at a price of $0.15 per share for aggregate proceeds of $15,000.

On April 30, 2012 the Company issued 125,000 shares of common stock at a price of $0.12 per share for services for an aggregate value of $14,977.

On April 30, 2012 the Company issued 66,667 shares of common stock at a price of $0.15 per share for services for an aggregate value of $10,000.

On May 3, 2012 the Company issued 80,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $8,000.

On May 14, 2012 the Company issued 20,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $2,000.

On June 12, 2012 the Company issued 95,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $9,500.

On June 21, 2012 the Company issued 2,150,000 shares of common stock at a price of $0.10 per share for services for an aggregate value of $212,685.

On June 27, 2012 the Company issued 50,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $5,000.

On July 9, 2012 the Company issued 520,000 shares of common stock at a price of $0.10 per share for aggregate proceeds of $52,000.

On July 20, 2012 the Company issued 250,000 shares of common stock at a price of $0.20 per share for services for an aggregate value of $50,000.

On August 10, 2012 the Company issued 500,000 shares of common stock at a price of $0.05 per share for aggregate proceeds of $25,000.

On August 14, 2012 the Company issued 500,000 shares of common stock at a price of $0.05 per share for aggregate proceeds of $25,000.

On August 14, 2012 the Company issued 140,000 units at a price of $0.05 per unit for aggregate proceeds of $7,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On September 5, 2012 the Company issued 100,000 units at a price of $0.05 per unit for aggregate proceeds of $5,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On September 10, 2012 the Company issued 401,338 shares of common stock at a price of $0.0299 per share as partial conversion of a note payable in settlement of $12,000 due under that note.

On September 14, 2012 the Company issued 300,000 shares of common stock at a price of $0.05 per share for aggregate proceeds of $15,000.

On October 12, 2012 the Company issued 300,000 units at a price of $0.05 per unit for aggregate proceeds of $15,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On October 26, 2012 the Company issued 100,000 shares of common stock at a price of $0.05 per share for aggregate proceeds of $5,000.

5BARz International, Inc.

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 6 – Common Stock (continued)

On December 7, 2012 the Company issued 3,300,824 shares of common stock at a price of $0.05 per share, for services with a total value of $165,041.

On December 12, 2012 the Company issued 400,000 units at a price of $0.05 per unit for aggregate proceeds of $20,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term. On December 17, 2012 the Company issued 1,200,000 units at a price of $0.05 per unit for aggregate proceeds of $60,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term. During the quarter ended March 31, 2013the Company entered into an amending agreement with the unit holder and agreed to cancel the shares and warrants in lieu of the issuance of a convertible debenture.

On December 31, 2012 the Company issued 2,250,000 shares for services at a price of $0.05 per share, for a total value of $112,500.

On various days during the period from January, 2013 to March, 2013 the Company issued 4,540,000 units at a price of $0.05 per unit for aggregate proceeds of $227,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On January 25, 2013 the Company issued 100,000 shares and warrants in settlement of accounts payable for services rendered in the amount of $5,000.

On February 12, 2013 the Company issued 125,000 shares of common stock at a price of $0.06 per share as partial settlement of $7,500 due under a note payable.

On February 15, 2013 the Company issued 1,440,000 shares of common stock at a price of $0.05 per share, for services with a total value of $72,000.

On February 26, 2013 the Company issued 250,000 shares of common stock at a price of $0.04 per share, for services with a total value of $10,000.

On February 26, 2013 the Company issued 91,780 shares of common stock at a price of $0.05 per share, for services with a total value of $4,589.

On March 1, 2013 the Company issued 175,000 shares of common stock at a price of $0.05 per share, for services with a total value of $8,750.

On March 17, 2013 the Company issued 513,827 shares of common stock at a price of $0.05 per share, for services with a total value of $25,691.

On March 31, 2013 the Company issued 100,000 shares of common stock at a price of $0.05 per share, for services with a total value of $5,000.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 7 – Convertible Securities

Convertible Promissory Note

On September 20, 2011, 5BARz International Inc., completed a transaction pursuant to a Promissory Note agreement (the Note), through which the company borrowed $42,500. The Note bears interest at a rate of 8%, and is due on June 22, 2012, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principle amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principle amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock. On March 20, 2012 the note, along with accrued interest and a prepayment amount was settled in full by the payment of $65,361, and the note was cancelled.

On February 27, 2012, 5BARz International Inc., completed a transaction pursuant to a Promissory Note agreement (the “February 27, 2012 Note”), through which the Company borrowed $37,500. The Note bears interest at a rate of 8%, and is due on November 29, 2012, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principle amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principle amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at a variable conversion price equal to 55% of the average of the three lowest closing bid prices for the Company’s common stock for a period of 10 days prior to the date of notice of conversion. On September 10, 2012, the Company redeemed $12,000 payable on that note, by the issuance of 401,338 common shares at a price of $0.0299 per share.

On May 3, 2012, 5BARz International Inc., completed a transaction pursuant to a Promissory Note agreement (the “May 3, 2012 Note”), through which the Company borrowed $42,500. The proceeds were received by the Company on May 24, 2012. The Note bears interest at a rate of 8%, and is due on February 3, 2013, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principle amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principle amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible into common stock at the option of the holder at a variable conversion price equal to 55% of the average of the three lowest closing bid prices for the Company’s common stock for a period of 10 days prior to the date of notice of conversion.

On September 18, 2012, the Company completed a transaction pursuant to a Promissory Note agreement (the “September 18, 2012 Note”), through which the Company borrowed $13,500. The Note bears interest at a rate of 8%, and is due on March 17, 2013, (the “Due Date”). The Company may settle that note within the first 90 days following the issue date by paying to the Lender 140% of the principle amount of the note plus accrued interest. The Company may settle the note during the period which is 91 days from the issue date of the note to 180 days from the issue date of the note by payment of 150% of the principle amount of the note plus accrued interest. In the event that the note is not repaid 180 days from the date of issue, the note and accrued interest are convertible at the option of the holder into common stock at a variable conversion price equal to 55% of the average of the three lowest closing bid prices for the Company’s common stock for a period of 10 days prior to the date of notice of conversion.

On December 12, 2012, the Company had entered into a future agreement to repay the February 27, 2012 Note, May 3, 2012 Note and the September 18, 2012 Note for aggregate payments of $100,000 payable as to $35,000 on December 31, 2012 and $65,000 on February 15, 2013. At this time the notes were no longer convertible and upon the payment of $100,000 would be paid in full. The Company missed its December 31, 2012 payment of $35,000. However, on January 4, 2013, the Company paid $25,000 to the note holder and another $2,500 on January 10, 2013 and a further $15,000 on February 15, 2013. On March 22, 2013, the note holder filed a complaint against the Company (see Note 13). The complaint claims that the Company missed its required payments under the December 12, 2012 agreement. The Company has accrued a default penalty of 50% of the notes payable as well as default interest of 22% per annum from the date of the default. As of March 31, 2013, the Company has recorded the total of $89,718 which includes the original principal balance, the default penalty and interest.

The Company has the option to pay the amount due in cash or in shares as defined in the terms of the notes agreements.

During the quarter ended March 31, 2013, the Company made the following payments on the above notes:

January 4, 2013	$25,000
January 10, 2013	$ 2,500
February 15, 2013	$15,000
Total	$42,500

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 7 – Convertible Securities (continued)

Securities Purchase Agreements

Convertible Debenture Agreement & Equity Investment Agreement

In January 2012, the Company negotiated potential agreements for a convertible debenture and an equity investment agreement with a private investment firm. As contemplated, the convertible debenture agreement provided that the investor could invest up to $500,000 and convert the principal and unpaid interest into a certain number of shares, 180 days from the date of the agreement. The equity investment agreement provided to Holder the right, from time to time during the term of the Agreement, to invest in the Company through the purchase of up to $5,000,000 of the Company's Common Stock. Each purchase under this Agreement was to be made at 150% of the "Volume Weighted Average Price" (VWAP) on the day prior to the day the investment is made (the "**Purchase Price**"). Beginning on the date that is one hundred eighty (180) days following the Issue Date, Holder shall have the right to purchase Common Stock under this Agreement. Provided the VWAP is above $0.06, Holder shall purchase a minimum of $50,000 per month beginning two hundred ten (210) days from the Issue Date.

On October 16, 2012, the investment firm filed a complaint in the federal court for the Northern District of California claiming breach of contract and seeking compensatory damages and alleged loss of profits of in excess of $2,500,000, based upon their $150,000 investment made under the putative agreements. *La Jolla Cove Investors, Inc. v. 5BARz International, Inc.*, 3:12-CV-5333 (N.D. Cal.). On November 8, 2012, the Company filed an answer, affirmative defenses, and counterclaims, against the plaintiff. On January 3, 2013, the Company entered into a settlement agreement requiring payments in the aggregate amount of $300,000 yielding interest at 9%, and the issuance of 125,000 shares of the common stock of the Company. In the event that $220,000 is paid by July 2, 2013, all amounts will be considered paid. The schedule for payments is January 24, 2013 - $10,000, April 3, 2013 - $30,000, July 2, 2013 - $180,000. The Company issued the 125,000 shares on February 12, 2013, however did not make the schedules cash payments. On March 13, 2013, an order granting entry of stipulated judgment was granted to La Jolla Cove Investors for payment by the Company of the $300,000 plus interest at 9%. The $300,000 along with 9% interest aggregating $306,584 have been accrued for at March 31, 2013. Also see litigation note 13.

On January 8, 2013 the Company entered into a convertible debenture agreement with a consultant in settlement of $147,428 payable to that consultant for services rendered. The convertible debenture yields interest at 8% per annum and may be converted into common stock, 90 days after the inception of the agreement, at a price which is a 20% discount to market, but not less than $0.05 per share. During the period to March 31, 2013, interest of $2,650 was accrued on the convertible debenture. In connection with the note the Company recorded $57,975 of derivative liability as of March 31, 2013.

In December 2012, a shareholder purchased 1,600,000 common shares for $80,000. The Company included the shares in issued and outstanding shares as of December 31, 2012, but the investor never took possession of the shares. During the quarter ended March 31, 2013, the proceeds were recorded as a note with 8% annual interest. The terms of the note were to be settled at a future date. (see Note 11).

CelLynx Group, Inc. – Convertible Promissory Notes

The Company's subsidiary, CelLynx Group, Inc.("CelLynx") has two 8% convertible promissory notes outstanding at March 31, 2013 as follows:

Issue Date	Principal Amount	Date of Maturity	Accrued Interest
May 24, 2012	$ 37,500	February 18, 2013	$ 1,060
September 18, 2012	$ 12,500	June 15, 2013	$ 49

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 7 – Convertible Securities (continued)

Convertible Debenture Agreement & Equity Investment Agreement (continued)

The terms of these notes are such that subsequent to the prepayment date six months after the issue date, if not paid, holder may convert principal and unpaid interest on the note into shares of CelLynx common stock, with the number of shares issuable determined to be the variable conversion factor. The variable conversion factor is calculated by dividing the amount to be converted by the conversion price which is equal to 51% of the average of the three lowest closing bid prices of the CelLynx common stock over the ten trading days prior to the date of the conversion. Holder is prohibited from converting amounts if principal and interest that would result in holder receiving shares, which when combined with shares of the CelLynx common stock held, would result in investor holding more than 4.99% of the CelLynx then- outstanding common stock. The shares of common stock, if any, issued upon conversion, will be restricted securities as defined pursuant to the terms of Rule 144.

CelLynx has the right to pre-pay the debt up to six months from the date of issue. During the first 120 days following the issue date of the Note may be settled by paying 150% of the then-outstanding principal amount and any accrued and unpaid interest, penalties, or other amounts owing.

Subsequent to year end the Company received a notice of default on notes entered into with the lender. Accordingly all notes to the lender have been recorded at the default amount at December 31, 2012 as the result of a cross default provision in the agreements. The Company has accrued a default penalty of 50% of the note payable as well as default interest at 22% per annum from the date of the default.

CelLynx has the option to pay the amounts due in cash or in shares as defined in the terms of the notes agreements. The resulting balances are as follows:

Issue Date	Principal Amount	Accrued Penalty and	Total

		Interest	
May 24, 2012	$23,100*	$14,593	$37,693
September 18, 2012	$12,500	$7,576	$20,076
Total	$35,600	$22,169	$57,769

*The following conversions of principle common shares were completed on this note as follows;

Date	Amount converted	Shares issued of CelLynx
November 28, 2012	$10,800	72,000,000
February 19, 2013	$3,600	72,000,000
April 1, 2013	$3,600	72,000,000

CelLynx Group, Inc. – Convertible Promissory Notes

On July 9, 2012 the Company settled the terms of a convertible debenture owed to a third party, on the six month anniversary of the note for proceeds of $30,582. The payment represents payment in full of principal, interest at a rate of 8% per annum and a pre-payment penalty of $14,400.

Pursuant to the Note agreement dated January 5, 2012 (the "January 5, 2012 Note"), the Company issued a note in the amount of $50,000, by way of settlement of certain debts owed by the Company to Holder. The Note bears interest at a rate of 8%, and was due on July 3, 2012. Holder may convert principal and unpaid interest on the note into shares of the Company's common stock, with the number of shares issuable determined to be the amount obtained by dividing the amount to be converted by the conversion price which is the lesser of $0.0013 per share or 63% of the average of the three lowest trading prices of the Company's common stock over the ten trading days prior to the date of the conversion.

As described elsewhere herein, the Company was in default on its other notes. Accordingly, based on the agreement, the January 5, 2012 Note was in default. The Company has accrued a default penalty of 50% of the note payable as well as default interest at 22% per annum from the date of the default and recorded a total of $86,324 on its books at March 31, 2013. The Company has the option to pay the amount due in cash or in shares as defined in the terms of the note agreement.

5BARz International, Inc.

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 7 – Convertible Securities (continued)

CelLynx Group, Inc. – Other Convertible Promissory Notes (continued)

On April 5, 2011 (the April 5, 2011 Note), the Company entered into a Securities Purchase Agreement (the “SPA”) with one of its directors, Dwayne Yaretz (“Yaretz”), in connection with the purchase by Yaretz of a Convertible Promissory Note (the “Yaretz Note”).

Pursuant to the Yaretz Note, Yaretz loaned to the Company the principal amount of $50,000. The Yaretz Note bears interest at a rate of 8%, and was due on January 5, 2012. Yaretz could have converted principal and unpaid interest on the note into shares of the Company’s common stock, with the number of shares issuable determined by dividing the amount to be converted by the conversion price which is equal to 63% of the average of the three lowest trading prices of the Company’s common stock over the ten trading days prior to the date of the conversion.

As described elsewhere herein, the Company was in default on its other notes. Accordingly, based on the agreement, the April 5, 2011 Note was in default. The Company has accrued a default penalty of 50% of the note payable as well as default interest at 22% per annum from the date of the default and recorded a total of $99,254 on its books at March 31, 2013. The Company has the option to pay the amount due in cash or in shares as defined in the terms of the note agreement.

On August 15, 2006, the Company issued a secured promissory note (the “August 2006 Note”) for $250,000 to an unrelated entity “Holder”. On November 10, 2007, the August 2006 Note was amended (the “Amended Note”). At the date of the amendment, the Company was obligated to pay to the Holder $262,356 which represented the principal and accrued interest. In contemplation of the completion of the reverse merger, the Company and the holder reached an agreement whereby this Amended Note superseded the August 2006 Note. The principal amount of the Amended Note is $262,356, is unsecured and bears interest at 4% per annum, computed on the basis of the actual number of days elapsed and a year of 365 days. All unpaid principal, together with any then accrued but unpaid interest, shall be due and payable upon the earlier of (i) November 9, 2010 at the written request of the holder to the Company, or (ii) when, upon or after the occurrence of an event of default. The principal amount is convertible into 4.8% of the Company shares outstanding. At March 31, 2013, the Company recorded on its books principal and interest in the amount of $318,939. The note is in default and is due and payable at March 31, 2013.

Note 8 – Options and Warrants

Warrants – 5BARz International Inc.

The following table summarizes the warrant activity to March 31, 2013:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2012	2,140,000	$ 0.20	
Granted	4,640,000	0.20	
Exercised	—	—	
Cancelled	1,600,000	0.20	
Outstanding at March 31, 2013	5,180,000	$ 0.20	1.8
Exercisable at March 31, 2013	5,180,000	$ 0.20	1.8

5BARz International, Inc.

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 8 – Options and Warrants - continued

Options – CelLynx Group, Inc.

At March 31, 2013, CelLynx Group Inc. has the following Options outstanding;

The number and weighted average exercise prices of all options and warrants exercisable as of March 31, 2013, are as follows:

CelLynx Group, Inc. - Options Exercisable

	Options	Weighted average exercise price	Weighted average remaining contract life
Opening at December 31, 2012	6,400,000	$0.0008	2.25
Granted	40,000,000	$0.0002	2.0
Expired	—		
Outstanding at March 31, 2013	46,400,000	$0.0003	2.1

Warrants – CelLynx Group, Inc.

The following table summarizes the warrant activity to March 31, 2013:

	Number of Warrants	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding at December 31, 2012	5,930,000	$ 0.79	
Granted			
Exercised	—	—	
Expired	980,000	0.25	
Outstanding at March 31, 2013	4,950,000	$ 0.90	2
Exercisable at March 31, 2013	4,950,000	$ 0.90	2

Note 9 - Related party transactions

On December 30, 2010 the Company acquired by way of an assignment agreement all right title and interest in a set of agreements from a Company of which the President and Director is also the President and Director of the reporting Company. The proceeds to be paid for that assignment agreement is comprised of a note payable in the amount of $370,000, and the issuance of 15,600,000 shares of common stock. During the 3 month period ended March 31, 2013 the Company paid $19,850 of principal and interest on that note. At March 31, 2013 the Company had a remaining balance to the related party in the amount of $367 (March 31, 2013 - $74,373).

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 10 - Litigation

Prior to the Company’s investment in CelLynx, on November 8, 2011 CelLynx Group, Inc. was a Defendant in an action brought by Dophinshire L.P., a California Limited Partnership(“the Plaintiff”) regarding its office space in Mission Viejo, CA. That action has since been dismissed. On November 8, 2011, plaintiff brought suit against the Company for unlawful detainer of offices located at 25910 Acero, Suite 370, Mission Viejo, CA 92691 pursuant to a lease agreement, seeking an unspecified amount of damages not to exceed $25,000. The Company has engaged in settlement negotiations with the plaintiff and management expected to settle has since, by agreement, vacated the leased premises and continues to negotiate a payout of past due rent and penalties and has moved the general office to 4014 Calle Isabella, San Clemente, CA 92672. Past due rents have been included in accounts payable at March 31, 2013 and are subject to adjustments based on the outcome of negotiation.

On August 27, 2012, an action was brought against CelLynx Inc. and Does 1-10, in the Superior Court of California, El Dorado County, Case No. PCL20120700. On August 27, 2012, CSS Properties brought suit against CelLynx, Inc. for unlawful detainer of offices located at 5047 Robert J Matthews Parkway, El Dorado Hills, CA 95762 pursuant to a lease agreement, seeking damages of $24,699, legal fees of $3,000 and late charges of $2,041. The Company had by agreement, vacated the leased premises and continues to negotiate a payout of past due rent and penalties. Past due rents have been included in accounts payable at March 31, 2013 and are subject to adjustments based on the outcome of negotiation.

Prior to the Company’s investment in CelLynx, on July 19, 2010 certain claims for unpaid wages were filed against CelLynx. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately $263,023 depending on interest charges. It is the Company’s intention to pay these amounts when proceeds are available.

On October 16, 2012, a complaint was filed in the federal court for the Northern District of California against 5BARz International Inc. and Does 1 - 10, claiming breach of contract and seeking compensatory damages and alleged loss of profits of in excess of $2,500,000, based upon a $150,000 investment made by LA Jolla Cove Investors under certain putative agreements. *La Jolla Cove Investors Inc. v. 5BARz International, Inc.*, 3:12-CV-5333 (N.D. Cal.). On January

3, 2013, the Company and La Jolla Cove Investors, Inc. entered into an agreement for the settlement of the lawsuit for proceeds of $300,000 plus accrued interest from the date of the settlement agreement at a rate of 9%, plus the delivery of 125,000 shares of the common stock of the Company.

5BARz International, Inc.

(A Development Stage Company)

Notes To Condensed Consolidated Financial Statements

(Unaudited)

Note 10 – Litigation (continued)

On January 13, 2013 a stipulation dismissing action without prejudice and without award of attorney's fees or costs was entered. The Company issued the 125,000 shares but was unable to meet the payment schedule as provided in the settlement agreement. On March 8, 2013 as a result of the default, La Jolla Cove was awarded a judgment in the amount of $300,000 plus accrued interest at a rate of 9% from the date of the settlement agreement plus 125,000 shares which have been issued. As of March 31, 2013, the Company has recorded $300,000 plus accrued interest aggregating $306,584.

On March 22, 2013 a complaint was filed in the Supreme Court of the State of New York, County of Nassau against 5BARz International Inc, Daniel Bland and James Vandeberg, by Asher Enterprises, Inc. claiming repayment of three Promissory notes in the principal amount of $81,000, penalties and interest. *Asher Enterprises, Inc. vs. 5BARz International Inc.., Daniel Bland and James Vandeberg 13-003472(County of Nassau)* The claims allege that damages in the amount of the greater of; (i) 200% x $81,000, the remaining outstanding principle amount of the Note, together with accrued and unpaid interest in the unpaid principle amount of the Notes, plus default interest; or (ii) the "parity value" of the "default amount" paid in shares as defined in the terms of the agreements. The Company and other named defendants have filed an appearance and intend to defend against the law suit.

The Company's subsidiary CelLynx Group, Inc. has received a Cease Trading Order from the British Columbia Securities Commission (BCSC) alleging that the Company is in violation of the British Colombia reporting requirements. The BCSC has assumed that since two the Company's Directors were domiciled in BC that the company is controlled out of BC and therefore subject to its reporting requirements. The Company denies that premise and is appealing the issuance of the CTO. At March 31, 2013, the Compay's sole Director is not domiciled in BC.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

Note 11 – Subsequent events

Sales of Common Stock

During the period from April 1, 2013 to May 31, 2013, the Company sold the following equity securities;

During the period April 1 2013 to May 31, 2013 the Company issued 7,995,000 units at a price of $0.05 per unit for aggregate proceeds of $399,750. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On April 1, 2013 the Company issued 425,000 units at a price of $0.05 per unit, for services with an aggregate value of $21,250.

On May 15, 2013 the Company issued 200,000 shares at a price of $0.05 per share, for services with an aggregate value of $10,000.

Convertible debenture

On April 21, 2013 the Company entered into an amendment agreement providing for the issuance of a convertible debenture agreement with an investor in the Company upon cancellation of a unit subscription agreement entered into on December 18, 2012 in the amount of $80,000. The convertible debenture yields interest at 8% per annum and may be converted into common stock, 90 days after the inception of the agreement, at a price which is a 20% discount to market, but not less than $0.05 per share (See Note 7).

Promissory note

On April 3, 2013 the Company entered into a Promissory note agreement which provides for an initial advance in the amount of $35,000. Pursuant to the terms of that Promissory Note, should the proceeds be repaid 90 days subsequent to the date of advance, no interest will be payable on the advance. Should the amount not be repaid within that 90 day period, then interest at a rate of 12% will be accrued as payable and the loan may be converted into common stock at a conversion rate equal to a 60 percent discount to market determined as the lowest trade price for a period of 25 trade days prior to the date of conversion. That discount factor would be increased by 10% should the Company's stock not be DWAC eligible (Depository Trust Company will accept shares for deposit "electronically" as opposed to "physically) and a further 5% if the shares are not DTC eligible (Depository Trust Company will accept physical stock certificates for deposit from DTC participants), and a further 15% should both be the case. The note agreement provides for the advance of a further $300,000, at the option of the lender.

2013 Stock Option Plan

On May 17, 2013 the Company adopted the 2013 Stock Incentive Plan (the “Plan”). The Plan will offer opportunity to selected employees and consultants to participate in the Company’s growth and encourage them to remain in the service of the Company and to acquire and maintain stock ownership in the Company. A maximum of 20,000,000 shares of Common Stock will be available for issuance under the Plan. As of May 17, 2013, 3,000,000 options with an exercise price of $0.10 were granted under the Plan.

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

Plan of Operations

Item 1. Business

5BARz International Inc. ("5BARz" or the "Company") is in the business of the development, sales and marketing of a line of cellular network infrastructure devices for use in the small office, home and mobile market places. This next generation cellular network extender, branded as 5BARz™ incorporates a patented technology to create a highly engineered, single-piece, plug 'n play unit that strengthens weak cellular signals to deliver higher quality signals for voice, data and video reception on cell phones, and other cellular devices.

The Company's initial product, *the Road Warrior*, won the prestigious 2010 innovation of the year award at CES (the largest consumer electronics show in the world) for achievements in product design and engineering. The *Road Warrior*, has passed FCC Certification, and has been produced in limited quantities to date by a contract manufacturer in the Philippines.

The market opportunity for the 5BARz technology represents some 6.4 billion cell phone subscribers worldwide serviced by 900 cellular network operators. These cellular network operators represent the Company's primary point of entry to the Global marketplace.

The 5BARz business opportunity to bring this state of the art technology to market represents a significant step forward in the deployment of micro-cell technology, referred to as a 'cellular network infrastructure device" in the industry. A step that management believes will significantly improve the functionality of cellular networks by managing cellular signal within the vicinity of the user. This technology facilitates cellular usage in areas where structures, create "cellular shadows" or weak spots within metropolitan areas, and highly congested areas such as freeways, and also serves to amplify cellular signal as users move away from cellular towers in urban areas. The market potential of the technology is far reaching.

Company History

5BARz was incorporated on November 14, 2008 and is a Nevada Corporation. On December 30, 2010 the Company acquired the “Master Global Marketing and Distribution Agreement” for the marketing and distribution of 5BARz products throughout the world. In addition to the acquisition of the marketing and distribution rights, the Company entered into an agreement for the acquisition of a 60% interest in the underlying intellectual property comprising the 5BARz products, and holds a security interest over the balance of those assets. The amount that was paid for this interest was $1.8 million which was paid with common shares of 5BARz.

On March 27, 2012, 5BARz acquired a 60% controlling interest through the acquisition of common shares of CelLynx Group Inc. CelLynx Group, Inc originally developed the 5BARz technology. This represents a significant step forward in bringing the originators of the technology together and under common control with the Company, to facilitate a more synergistic and clearly defined development platform for the globalization of the 5BARz technology.

On November 10, 2011, the Company incorporated a subsidiary Company in Zurich Switzerland called 5BARz AG. At December 31, 2012 the Company held a 94.6% equity interest in that entity. 5BARz AG has been granted the exclusive rights by way of a sub-license for the Sales and Marketing of the 5BARz products in the region, commonly referred to as the “DACH” in Europe, comprised of Germany, Austria and Switzerland.

Prior to December 30, 2010 the Registrant was a designated shell Company pursuant to Section 12B-2 of the Exchange Act of 1934, and operated under the name Bio-Stuff Inc. The business of Bio-Stuff was comprised of the development of bio-degradable products. That business was abandoned by the Company in 2010 when the 5BARz business opportunity was acquired.

Milestones

2007: A 5BARz working prototype was developed of an affordable consumer friendly single piece plug 'n play booster with a minimum of 45dB of gain in both up and down paths.

July 22, 2008: Dollardex Group entered into an exclusive "Master Global Marketing and Distribution Agreement" (the "Distribution Agreement") for the 5BARz products.

July 2009: First production run and FCC Certification of 5BARz Road Warrior

August 2009: Field testing and final modification of 5BARz Road Warrior

January 2010: 5BARz Road Warrior Selected as CES Innovations 2010 Design and Engineering Award. Marketing commenced in the US.

January 2011: 5BARz International Inc. acquires the "Master Global Marketing and Distribution Agreement" for the marketing and distribution of 5BARz products throughout the world, and enters into agreement for the acquisition of a 50% interest in the underlying intellectual property from Dollardex.

2011 – 5BARz International Inc. engages sales agents in Latin America, to present prototype products to R&D departments at major wireless carriers in the region, with positive results.

July 2011 – The Company received initial purchase order for the balance of limited production in the 5BARz Road Warrior units comprised of 16,000 units or $3.2 million dollar purchase order. As of December 31, 2012, no units have been shipped in connection with this order. The Company anticipates starting shipping first units during the quarter ending June 30, 2013.

November 2011 – Incorporated a subsidiary Company, 5BARz AG (completed in March 2012), and sub-licensed that entity for the Sales and Marketing Rights for the region commonly referred to as the "DACH", Germany, Austria and Switzerland. The Company engaged the services of BDC Investment AG, of Zurich, Switzerland to finance that entity and develop within the German speaking European marketplace.

February/March 2012 – The Company formed an Advisory Board comprised of leading executives within the technology sector to assist in the integration of the 5BARz technology and products into global markets. See bios in news – www.5barz.com

Dr. Gil Amelio – Director ATT, Former CEO – Apple Computer

Mr. Marcelo Caputo – CEO Telefonica USA

Mr. Finis Connor – Founder of Seagate Technology and Connor Peripherals

Mr. George Lauro – Co-founder of Alteon Capital Partners with Dr. Amelio

March 2012 – 5BARz International Inc. completed the acquisition of a 60% interest in CelLynx Group, Inc. through the acquisition of common shares (the originator of the 5BARz technology), developing a subsidiary for the global deployment of the 5BARz business opportunity.

August 2012 – Internal Engineering develop functional prototype units of the revised cradle-less 5BARz cellular network extender with several new and improved features over the Road Warrior unit.

December 2012 – 5BARz engages Maxim Group to provide investment banking and financial advisory services to the Company, to work with the Company to meet the financial requirements of its business plans.

The Market Opportunity

The market opportunity for the 5BARz technology represents more than 6.4 billion cell phone subscribers worldwide and is growing as a result of the following factors;

- Dead zones, weak signals, and dropped calls are the biggest problems in the industry. Now, by adding internet and video, the quality issue is increasing exponentially.
- 76% of cellular subscribers use their mobile phone as the primary phone
- More consumers are using mobile phones for web browsing, up and down- loading photos, videos and music
- More mobile phones are operating at higher frequencies which have less ability to penetrate buildings
- Weak signals make internet applications inaccessible and slow and increase the drain on cell phone batteries.
- Forty percent of all mobile phone users report inadequate service in their homes or office and we estimate that 60% of the 4.8 billion mobile phone users worldwide consider continuous connectivity to be very important.

Consumer demand for quality in the cell phone user experience is becoming an increasingly important factor. The 5BARz technology meets this need. 5BARz is currently developing relationships with Cellular network operators internationally to integrate the 5BARz product into cellular networks globally.

Why Poor Signals Exist

A variety of factors may cause dropped calls and dead zones, including congestion, radio signal interference, tower hand-off, and lack of coverage. Despite continued infrastructure investment by operators, and antenna technology improvements by base station providers and mobile phone makers, these problems will continue for the foreseeable future. This is because many of the contributing factors can't be controlled by the operators and manufacturers. To understand how innovative 5BARz products are in improving phone signals, it's first important to understand the causes of poor signal quality.

Congestion

In 1999, sales of mobile phones surpassed combined sales of personal computers and automobiles. By 2010, mobile phones had replaced land-line phones in 30% of U.S. households. Smart phones, led by iPhones and Android phones, have become indispensible personal assistants. Laptop computer sales outnumber desktop computer sales, and most laptops are equipped with cellular data chipsets or USB modems. Apple's iPad has sparked the connected tablet market too. Vending machines, automobiles, mobile sensors, and many other devices include "machine to machine" cellular data modules. As a result, the number of cellular voice and data devices will soon exceed the number of people on Earth.

If sheer numbers weren't enough, new uses for mobile devices are causing even faster growth in bandwidth usage. Obvious uses include video entertainment, videoconferencing, downloaded and streaming music, MMS, email, and application downloads. Facebook, Twitter, Foursquare, and many other social networking applications put further load on operator networks. Also, surprising sources of traffic have emerged, such as deliberate "miscalls". A miscall is when one subscriber calls another, but hangs up before the receiving party answers. Since operators don't charge for these uncompleted calls, subscribers are using miscalls as a free way to communicate. In India, orders for milk are made this way. In Syria, five miscalls in a row signals the recipient to "go online" to the Internet and chat. In Bangladesh, it's estimated that up to 70% of traffic at peak times is due to miscalls. This practice isn't limited to countries with low per-capita income, and yet it places a high load on operator networks.

There are sources of congestion based on location and time, too. Transportation clusters like airports, major highway intersections, bridges, and toll road gates all bring many people together at peak times. Also, because of home land-line replacement, many residential neighborhoods have many mobile phones in simultaneous use in mornings and evenings. Lastly, local population growth and immigration can result in too many phones for existing infrastructure. Due to long planning times, investment requirements, local government permits, and construction time, it's difficult for infrastructure to keep up with the pace of change in many developing areas, especially in growth countries.

Radio Signal Interference

Interference comes from both obvious and subtle causes. Certain materials aren't transparent to radio signals, especially durable materials used in buildings, large structures, and even automobiles. As a result there are radio shadows in which a mobile phone can't sense the signal from a base station. In addition, radio signals from adjacent channels or reflected signals can interfere with each other due to wave cancellation effects. In some cases these forms of interference primarily attenuate the signal (make it weaker). However, interference can also add noise, so that the ratio of signal to noise becomes too low for the mobile phone and the base station to understand each other.

Tower Hand-Off

Mobile phone networks are called "cellular" networks because they are made up of overlapping areas of coverage that are provided by base stations in fixed locations. As a mobile subscriber travels by automobile or train, he will eventually reach the limit of a base station's coverage. At that point, his mobile phone will "hand off" to a base station for the next coverage area. If signal quality is poor due to interference, or if the new base station is congested with too many mobile phones, the subscriber's connection may be lost.

Lack of Coverage

Some rural or developing areas don't have enough people or population density for operators to justify the cost of installing base stations except at wide intervals. In these areas the signal strength from the base station or the mobile phone may be too low to create or maintain a connection. This results in "dead zones" or dropped calls.

Solutions to Poor Signal Quality

Operators know that dead zones, dropped calls, and poor voice quality are big problems, and that re-dialing while driving can be unsafe. Operators also are concerned about subscribers' ability to make emergency calls. They understand that people rely on mobile phones for business and connecting with family. As mobile phones replace landlines, operators are especially aware that mobile signal quality is critical. Operators also see that wireless data is increasingly important for personal and business use.

To help, operators work with phone and base station manufacturers to improve antenna performance. They invest in new base stations in growth areas. They invest in technologies that enable more connections per base station. Operators have even provided refunds for dropped calls.

However, many factors causing poor signal quality can't be controlled by operators. Therefore products have emerged to help, provided by operators or companies who sell to either operators or subscribers.

Femtocells

Operators can provide femtocells to subscribers with poor signal quality at home. Usually the subscriber pays for hardware, installation, or a monthly fee. Femtocells are carrier grade, and are like small base stations that communicate with operators by using the home Internet connection as a "backhaul". They often can't be moved after installation, must be installed by a skilled technician in order to work properly and to avoid causing network problems. Many femtocells provide only a voice connection, not data. Lastly, femtocells usually only work with phones from one operator, so families with phones from multiple operators may have to request multiple femtocells.

Repeaters

Repeaters are usually carrier-grade equipment and are programmed for a specific operator. They extend cellular networks into buildings and small offices. As with femtocells, installation is complex and if not done properly they can cause network problems. Unlike femtocells, repeaters do not use the local Internet connections, but rather receive and re-transmit the signals between base stations and mobile phones.

Boosters

Boosters are usually sold online and through retail. They vary widely in amplification power, quality of amplification, and power balance. For example, these products amplify signals at 1, 3, 5, or even 10 watts all the time. Using power over 1 watt increases the probability that a booster will interfere with surrounding mobile devices. Also, it would be more energy efficient to adapt amplification power as needed, rather than to simply use the same wattage constantly. Many boosters don't support balanced power in both directions between base station and mobile phone. This may result in only solving the signal quality problem in one direction. Since communication is bi-directional, this doesn't actually solve the problem. Varying quality of amplification also introduces noise, which can interfere with surrounding devices.

A New Class of Solution

5BARz has evaluated the causes of poor signal quality, the needs of both operators and subscribers, and the solutions in the market. Femtocells, repeaters, and boosters either don't solve all parts of the problem, or aren't optimal due to cost or other drawbacks. Using expertise from a team of engineers who designed sophisticated base station amplifiers for operators, 5BARz has developed a new class of carrier-grade technology. This is a hybrid of repeaters and boosters, and is intended for automotive, home, and office use. 5BARz has tested these products in the lab, in the real world, and with operators, and also won the Innovation of the Year award at the 2010 CES conference. These products advance the state of the art to provide the following advantages:

Low Power Use

5BARz products only amplify when required. The automotive products use less than 1/2 watt, while the home product uses less than 1 watt. This not only saves energy, but also minimizes interference with other wireless devices and the network itself. In fact, new rules being proposed by the U.S. Federal Communications Commission are expected to mandate low power standards such as 5BARz now provides.

Simple Setup

5BARz products don't require a technician to run wires, carefully determine proper location, or optimize orientation. No use of home Internet connection is required, and there are no switches or settings.

Balanced Amplification

Received and sent signals need balanced assistance in order for both directions of a communication channel to be improved. 5BARz products are not only *smart* about adapting amplification levels, but also about balancing amplification for incoming signals from the base station, and return signals from the mobile phone.

Signal Stability

5BARz has done extensive design, testing, and re-design to avoid a number of problems experienced by the antenna design of alternatives. For example, booster products can experience oscillations when people, animals, or vehicles move nearby. These oscillations can weaken the booster effect or cause interference with other wireless devices. Many booster products achieve size similar to 5BARz' products by putting antennas close together in the same product package, but don't optimize radio wave interactions between those antennas. This weakens the boosters' effectiveness, and is one reason why other manufacturers compensate by using too much wattage, in turn wasting power and increasing the probability of interfering with other radio frequency devices and the network.

Choosing the Right 5BARz Product

5BARz has one model in production and three in development of three mobile products with a range of features and prices, as well as a home/office product:

Road Warrior	The Road Warrior won the 2010 CES Innovation of the Year award for product design and engineering. It improves wireless voice and data signals in the home, office, or vehicle. It works with any wireless operator, needs no installation, and can easily be moved. The Road Warrior features real-time radio frequency monitoring, self-adjusting radio frequency levels, and balanced power control for incoming and return signals. It is FCC compliant, and supports 3G cellular and PCS bands. There is no backhaul (Internet connection) required. The 45 dB maximum gain is limited to the small area around the phone cradle.
5BARz SC	The 5BARz SC provides the benefits of the Road Warrior in a single unit (with optional cradle) with a larger coverage area of about 2 meters. It only amplifies communication signals, not noise. In addition to the 45 dB gain and features of the Road Warrior, the Road Warrior II provides a medium power option, and radio frequency band auto configuration. In addition, the Road Warrior II uses a state-of-the-art, high-performance antenna by Pinyon™.
5BARz 4G	The Road Warrior 4G is a single unit package with a 45 dB gain and a coverage area of about 2 meters. It provides the features and benefits of the Road Warrior II, but additionally supports a full radio frequency range of 700Mhz to 2.6Ghz, and supports 4G. It also supports multiple phones simultaneously. It is also programmable according to operator requirements.
5BARz 3000	5BARz 3000 product provides a 70dB maximum gain at a maximum power of 0.6 watts, with coverage over a large area inside the home. It supports 3G and 4G, both voice and data, for multiple phones simultaneously.

5BARz 3000 is a single unit package with both antennas in the base unit. It is a carrier-grade product and operator configurable (fully programmable from 700Mhz to 2.6Ghz). It includes patented isolation feedback, with radio frequency isolation typically 30dB better than the Road Warrior.

5BARz 3000 can optionally be configured with GPS and wireless LAN.

<u>Intellectual property</u>

5BARz technology is based on achieving unique isolation between antennas, without oscillation, greatly improving signal gain for home and office coverage.

Title	Patent Application	Patent Issued
Cell Phone Signal Booster	11/625331	8005513
Dual Cancellation Loop Wireless Repeater	12/106468	
Wireless Repeater Management Systems	12/328076	
Dual Loop Active and Passive Repeater Antenna Isolation Improvement	12/425615	
5BARz Trademark	78/866260	
Multi-Band Wireless Repeater	12/235313 + Foreign filings	8027636

Comparative Analysis

	5BARz	Femtocell	Traditional Repeaters
Options for Consumer	Plug and play solutions that significantly improves wireless service	Carrier-specific box that connects to the internet through the broadband service at the home and acts like a short-range network tower site	Bi-directional amplifier and external antennas Installation of antennas required with minimum spacing of 35 feet or more between the antennas Need to determine what the two pieces of equipment, cables, and multiple power cords are for
Easy to Understand	Simply place the unit where there is some or marginal wireless service, turn on the unit and the voice and data wireless service is improved for everyone	Connect the unit to your broadband service where your router is located and the **voice only** wireless service should be improved throughout the home	Complex manual … Determine the ideal location for both antennas, outdoor network antenna and indoor coverage antenna, then determine ideal location for the bi-directional amplifier for proper cable routing to the antennas
Cost	One-time equipment charge only$299 5BARz Road Warrior	Equipment charge $250 for each carrier, 2 carrier house or SOHO equals $500 equipment charge Equipment won't work if you change carriers Possible monthly fee Requires use of broadband service	Equipment charge starting at $350 for dual band Professional installation starting at $200Higher performance antennas starting at $100
Setup			

	Plug 'n play No adjustments One part works for all carriers	Carrier-specific set up May require ISP support Currently Voice Only	Go on roof to measure signal level; outdoor network antenna placement based on testing for 2 bars or more signal strength Antennas need to be spaced 35 feet or more apart
Reliability	Designed by engineers and brought to production by managers trained in the Six Sigma quality process Self contained, fewest cables/connectors Oscillation suppression circuitry	Broadband vulnerable: Degraded broadband throughput Power outage Depends on carrier down/power down on carrier command Intermittent handoffs with macro network	External antennas less reliable Connectors Outdoor mounting Oscillation prone
Installation	None; Plug 'n play	Needs to be collocated with broadband service GPS antenna may need to be installed near a window with a cable going to the femtocell	Professional installation recommended

10

MARKETING STRATEGY – 2013

The Company has embarked upon a multi channel marketing strategy with significant emphasis in Latin America as a direct result of the very favorable factors and the stage of development of the cellular markets in South and Central America and Mexico, more fully addressed herein.

During 2011 and 2012, that Company has had several NDA's signed by major wireless operators in that region and they are currently in the process of analyzing the 5BARz products in their labs. It is the objective of management that the 5barz products and technology be integrated into the network infrastructure of selected cellular network operators in the region. The intent is to work with cellular network operators in integrating the fixed cellular network extenders, designed for use in the home or office markets. However the mobile devices, which will not be carrier specific will be marketed through more conventional distribution channels, such as the recent purchase order announced in 2011 with a customer in Mexico for 16,000 units, $3.2 million USD. In addition, the mobile units will be integrated into the marketplace through integration of the products with Original Equipment Manufacturer's (OEM's) with automobile manufacturers, computer manufacturers, mobile home manufacturers etc.

The Company has been expanding its employee/consultant base in Latin America and USA due to significant product interest. Further the Company has set a structure for the development of the German speaking market place in Europe, through a subsidiary operation 5BARz AG in Zurich Switzerland.

The LATAM Market

The Company has analyzed the fundamentals of the mobile phone market in the LATAM countries and has determined that to be a key point for market penetration for the 5BARz products for the following reasons;

First, the mobile phone market has just gone through a very strong decade of growth in Latin America, with mobile subscriptions having overtaken fixed lines as the preferred method of communication. As a result Latin America's mobile telephone industry has a high degree of market penetration. Mobile subscriptions totaled 88.2% of the region's population, compared to 55.2% in Asia Pacific, 90.4% in North America and 50.6% in the Middle East and Africa. Having recently invested heavily in subscription development, the cellular network operators are now focusing upon the maintenance of their substantial customer base, and the 5BARz technology can contribute substantially to achieving that customer satisfaction.

The mobile telephone industry in Latin America has benefited from generally opening up to competition. This provides a very fertile ground for the introduction of a technology such as 5BARz to secure customer retention through quality of service.

The inherent geographical difficulties in laying fixed line infrastructure have encouraged a move to mobiles, but in addition, that geography, the Andean and Rainforest regions and expanses of rural areas again benefit from the 5BARz technology whereby weak cellular signal is amplified within the vicinity of the user.

Further the LATAM countries are experiencing a renewed era of strong growth, reflecting reviving economic growth and improving income levels. This again is a favorable factor for the introduction of our products to meet the growing demands of consumers.

In addition, the launch of 3G and mobile broadband services has increased demand for mobile subscriptions. Mobile broadband is particularly desirable in areas with no or limited access to cable internet services. Moving to mobiles offers consumers the benefits of on-the-move communications and advantageous introductory deals. Greater access to communications also helps to narrow regional divides. All of these factors are enhanced by the 5BARz experience.

In fact internet usage is expanding since 2010, with broadband internet subscriptions generally growing by higher rates than mobile subscriptions

Initial 3G market expansion is likely to be greater in the region's wealthier markets, such as Argentina, Chile and Mexico, and these have been specifically targeted by our Company with very favorable results.

Number of subscribers

- ***Brazil: 194 million***
- ***Mexico: 93.5 million***
- ***Argentina: 50.4 million***
- ***Colombia: 40.5 million***
- ***Venezuela: 28.1 million***
- ***Chile: 16.5 million***
- ***Other countries: 103 million***
- ***Total: 526 million***

The DACH MARKET – 5BARz AG

The DACH/D-Deutschland or Germany, A-Austria and CH-Switzerland group of countries in the European Union represents one of the most technologically advanced and progressive sectors of that economic group representing a German speaking majority population based of 90.3 million people of which Germany, 78.3 million, Austria, 7.4 million, and Switzerland, 4.6 million

Formation of Subsidiary Company, 5BARz AG

On November 10, 2011, 5BARz International Inc. commenced the organization under the laws of Switzerland, in the Canton of Zurich, a wholly owned subsidiary called 5BAR AG. In so doing the registrant acquired 5,100,000 shares, of the issued and outstanding stock of the newly incorporated Company. Aggregate proceeds paid for the shares were CHF 51,000 representing the fully paid price of CHF 0.01 per share. 5BARz AG simultaneously had approved and issued to an escrow agent 4,900,000 fully paid shares, at a price of CHF 0.01 per share for aggregate proceeds of CHF 49,000. Those shares are being held for resale, and are more fully described herein. The net proceeds received on re-sale will be paid into 5BARz AG as additional paid in capital.

The newly formed subsidiary has appointed two directors, one of which, Mr. Daniel Bland is the President, CEO and a Director of the registrant. The other Director is Mr. Peter Burkhardt of Oberengstringen, Zurich, Switzerland.

Engagement of BDC Investment AG:

On October 15, 2011, 5BARz AG, entered into an agreement with BDC Investment AG., an independent investment Company in Oberengstringen, Zurich, Switzerland to act as agent for the Company for the sale of the 4,900,000 shares referred to above, on a best efforts basis. In addition to acting as agent for the 5BARz AG, BDC Investment AG will provide consulting services and will be responsible for corporate communications, for 5BARz AG in the European marketplace.

Global Marketing and Distribution Agreement

On October 19, 2011, 5BARz International Inc. entered into a Marketing and Distribution agreement with 5BARz AG, through which 5BARz AG holds the exclusive rights for the marketing and distribution of products produced under the 5BARz brand for markets in Switzerland, Austria and Germany. The agreement is a perpetual arrangement and will commence upon completion of the corporate formation and funding.

Results of Operations

Three month period ended March 31, 2013 compared to three month period ended March 31, 2012.

	3 Months ended March 31, 2013	3 Months ended March 31, 2012	Difference
Amortization and depreciation	828	190	638
Bank charges & interest	24,560	14,622	9,938
Sales and marketing expenses	47,626	56,688	(9,062)
General and administrative	442,401	435,457	6,944
Total Operating Expenses	515,415	506,957	8,458
Other income (expenses)	28,898	391,927	(363,029)
Net Loss	$(486,517)	(115,030)	(371,487)

The three months ended March 31, 2013 reflects a net loss of $486,517, representing an increase of $371,487 compared to the corresponding three month period ended March 31, 2012. This increase is due in the most part to the fact that the current year figures reflect the operations of the subsidiary Companies, CelLynx Group, Inc., and CelLynx Inc, which were not consolidated subsidiaries in the prior year. Although total operating expenses remained consistent with an increase of $8,458 or 2%, over the net loss of the corresponding quarter in the prior year, the net loss increased due to a reduction of other income items compared to the prior year. During the 3 months ended March 31, 2012 the Company realized a gain on the conversion of debts owed by CelLynx Group, Inc. to the Company in the amount of $376,569 which is the largest component of the other income of $391,927.

Liquidity and Capital Resources

As at March 31, 2013

As at March 31, 2013, the reporting issuers current assets were $67,287 and current liabilities were $3,712,519, which resulted in a working capital deficit of $3,645,232. As at March 31, 2013, current liabilities were comprised in the most part of liabilities that were incurred by CelLynx Group, Inc. in the aggregate amount of $2,688,298 of which $2,189,188 are liabilities incurred in the early stages of development of CelLynx, prior to the acquisition of the Company by 5BARz. The parent Company 5BARz International Inc. has a working capital deficit of some $918,087.

As at March 31, 2013, the Company's total assets were $4,598,516 comprised of intellectual property in the amount of $3,387,406 and goodwill arising on the acquisition of CelLynx Group, Inc. in the amount of $1,140,246. The intellectual property represents the patent applications and trademark registrations and license related to the 5BARz technology by the combined entity. In addition the Company has deposits and prepaid expenses of $67,287 in Switzerland related to their office and operations in 5BARz AG.

As at March 31, 2013, the Company's total liabilities were $3,712,886 comprised of current liabilities as described above. The increase in liabilities as at March 31, 2013 from year ended December 31, 2012 of $201,751 was due in the most part to the Company financing by way of convertible notes in the amount of $227,428.

Stockholders' equity decreased from an equity at December 31, 2012 of $1,091,387 to an equity balance of $885,630 at March 31, 2013. This decrease is attributable in the most part to equity sales of common stock during the period of $227,000 being more than offset by a loss during the quarter of $433,354. It should be noted that the stockholders deficit has been decreased by a treasury stock balance of $1,800,000 which represents the shares issued by 5BARz International Inc. to CelLynx Group, Inc. for a 60% interest in the 5BARz intellectual property.

Cash Flows from Operating Activities

For the three month period ended March 31, 2013, net cash flows used in operating activities was $158,838 consisting primarily of cash used for general and administrative expenses.

Cash Flows from Investing Activities

For the three month period ended March 31, 2013, net cash flows used in investing activities was nil.

Cash Flows from Financing Activities

The Company has financed operations primarily from the issuance of equity and notes payable. For the three month period ended March 31, 2013, net cash flows provided from financing activities was $163,452 comprised of proceeds from the sale of common stock in the amount of $227,000 and the repayment of convertible notes in the amount of $42,500 and $19,483 used to repay amounts due to related parties.

We expect that working capital requirements will continue to be funded through further issuances of securities, debt and from proceeds generated by sales, or through the leverage of these payments.

Plan of Operation and Funding

The Company has recently engaged the services of an investment banking group and is working with private investors to secure the financing necessary to commercialize the 5BARz business opportunity. Existing working capital, further sales of equity securities and anticipated cash flow are expected to be adequate to fund our operations over the next twelve months. We have no bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt and an increase in liabilities due from individuals and businesses that work with the Company. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) development and marketing of our product; and (ii) working capital. We intend to finance these expenses with further issuances of securities. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations.

Material Commitments

As of the date of this Quarterly Report, the Company has entered into a material commitment to CelLynx Group, Inc. to make available under the terms of a line of credit agreement $2.2 million dollars. This is a subsidiary Company, and this funding will be paid when proceeds come available.

Purchase of Significant Equipment

We do not intend to purchase any significant equipment during the next twelve months.

Off-Balance Sheet Arrangements

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

Going Concern

In our Annual Report on Form 10-K for the year ended December 31, 2012, our independent auditors included an explanatory paragraph in its report relating to our financial statements for the years ended December 31, 2012 and 2011, which states that we have incurred negative cash flows from operations since inception, and expect to incur additional losses in the future and have a substantial accumulated deficit. These conditions give rise to substantial doubt about our ability to continue as a going concern. Our ability to expand operations and generate additional revenue and our ability to obtain additional funding will determine our ability to continue as a going concern. Our condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have prepared our financial statements assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business

Recent accounting pronouncements

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU simplifies how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The adoption of this guidance did not have a material effect on the condensed consolidated financial statements.

FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards, updates, and regulations as of March 31, 2013 that will become effective in subsequent periods; however, management does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2013 or 2012, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Intangible assets

Acquired patented and unpatented technology, licensing rights and trademarks are capitalized at their acquisition cost or fair value. The legal costs, patent registration fees, and models and drawings required for filing patent applications are capitalized if they relate to commercially viable technologies. Commercially viable technologies are those technologies that are projected to generate future positive cash flows in the near term. Legal costs associated with applications that are not determined to be commercially viable are expensed as incurred. All research and development costs incurred in developing the patentable idea are expensed as incurred. Legal fees from the costs incurred in successful defense to the extent of an evident increase in the value of the patents are capitalized.

Capitalized costs for patents are amortized on a straight-line basis over the remaining twenty-year legal life of each patent after the costs have been incurred. Once each patent or trademark is issued, capitalized costs are amortized on a straight-line basis over a period not to exceed 20 years and 10 years, respectively. All research and development costs incurred in developing the patentable idea are expensed as incurred. The licensing right is amortized on a straight-line basis over a period of 10 years

Goodwill

Generally accepted accounting principles in the United States require the Company to perform a goodwill impairment test annually and more frequently when negative conditions or a triggering event arise. After an assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test.

Foreign currency translation

Transactions in foreign currencies have been translated into US dollars using the temporal method. The functional currency of the Company’s subsidiary 5BARz AG, is its local currency (Swiss Franc – CHF). Under this method, monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets have been translated at the historical rate of exchange prevailing at the date of the transaction. Expenses have been translated at the exchange rate at the time of the transaction. Realized and unrealized foreign exchange gains and losses are included in operations.

<u>Impairment or disposal of long-lived assets</u>

The Company applies the provisions of Accounting Standards Codification ("ASC") Topic 360, "Property, Plant, and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal.

<u>Accounting for Derivatives</u>

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging". The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the risk of loss from adverse changes in market prices and interest rates. We do not have substantial operations at this time so they are not susceptible to these market risks. If, however, they begin to generate substantial revenue, their operations will be materially impacted by interest rates and market prices.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of March 31, 2013. Based on this evaluation, our principal executive officer and principal financial officers have concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act, including this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that our disclosure and controls are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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. The design of any system of controls also is based in part on certain assumptions regarding the likelihood of certain events, and there can no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Given these and other inherent limitations of control systems, these are only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with United State’s generally accepted accounting principles (US GAAP), including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this assessment, Management concluded the Company did not maintain effective internal control over financial reporting as of March 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An internal control material weakness is a significant deficiency, or aggregation of deficiencies, that does not reduce to a relatively low level the risk that material misstatements in financial statements will be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than consequential.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of March 31, 2013, and this assessment identified the following material weaknesses in the company’s internal control over financial reporting:

- A system of internal controls (including policies and procedures) has neither been designed nor implemented.

- A formal, internal accounting system has not been implemented.

- Segregation of duties in the handling of cash, cash receipts, and cash disbursements is not formalized.

Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Quarterly Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation other than those articulated below. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our company, other than those articulated below.

Prior to the Company's investment in CelLynx, on November 8, 2011 CelLynx Group, Inc was a Defendant in an action brought by Dophinshire L.P. regarding its office space in Mission Viejo, CA. That action has since been dismissed. On November 8, 2011, plaintiff brought suit against the Company for unlawful detainer of offices located at 25910 Acero, Suite 370, Mission Viejo, CA 92691 pursuant to a lease agreement, seeking an unspecified amount of damages not to exceed $25,000. The Company has engaged in settlement negotiations with the plaintiff and management expected to settle. CelLynx has since, by agreement, vacated the leased premises and continues to negotiate a payout of past due rent and penalties and has moved the general office to 4014 Calle Isabella, San Clemente, CA 92672. Past due rents have been included in accounts payable at March 31, 2013 and are subject to adjustments based on the outcome of negotiation.

On August 27, 2012, an action was brought against CelLynx Inc. and Does 1-10, in the Superior Court of California, El Dorado County, Case No. PCL20120700. On August 27, 2012, plaintiff brought suit against the Company for unlawful detainer of offices located at 5047 Robert J Matthews Parkway, El Dorado Hills, CA 95762 pursuant to a lease agreement, seeking damages of $24,699, legal fees of $3,000 and late charges of $2,041. The Company had by agreement, vacated the leased premises and continues to negotiate a payout of past due rent and penalties. Past due rents have been included in accounts payable at March 31, 2013 and are subject to adjustments based on the outcome of negotiation.

Prior to the Company's investment in CelLynx, on July 19, 2010 certain claims for unpaid wages were filed against CelLynx. Judgments were obtained commencing in August 2011 for back wages by some of its former employees. Some of those claims have been partially paid and others were expected to be paid in the normal course of business or were to be otherwise defended. Those claims have now been incorporated into California Labor Commission awards in favor of those former employees. Those awards total approximately $263,023 depending on interest charges. It is the Company's intention to pay these amounts when proceeds are available.

On October 16, 2012, a complaint was filed in the federal court for the Northern District of California against 5BARz International Inc. and Does 1 - 10, claiming breach of contract and seeking compensatory damages and alleged loss of profits of in excess of $2,500,000, based upon a $150,000 investment made by LA Jolla Cove Investors under certain putative agreements. *La Jolla Cove Investors Inc. v. 5BARz International, Inc.*, 3:12-CV-5333 (N.D. Cal.). On January 3, 2013, the Company and La Jolla Cove Investors, Inc. entered into an agreement for the settlement of the lawsuit for proceeds of $300,000 plus accrued interest from the date of the settlement agreement at a rate of 9%, plus the delivery of 125,000 shares of the common stock of the Company. On January 13, 2013 a stipulation dismissing action without prejudice and without award of attorney's fees or costs was entered. The Company issued the 125,000 shares but was unable to meet the payment schedule as provided in the settlement agreement. On March 8, 2013 as a result of the default, La Jolla Cove was awarded a judgment in the amount of $300,000 plus accrued interest at a rate of 9% from the date of the settlement agreement plus 125,000 shares which have been issued. As of March 31, 2013, the Company has recorded $300,000 plus accrued interest aggregating $306,584.

On March 22, 2013 a complaint was filed in the Supreme Court of the State of New York, County of Nassau against 5BARz International Inc, Daniel Bland and James Vandeberg, by Asher Enterprises, Inc. claiming repayment of three Promissory notes in the principal amount of $81,000, penalties and interest. *Asher Enterprises, Inc. vs. 5BARz International Inc.., Daniel Bland and James Vandeberg 13-003472(County of Nassau)* The claims allege that damages in the amount of the greater of; (i) 200% x $81,000, the remaining outstanding principle amount of the Note, together with accrued and unpaid interest in the unpaid principle amount of the Notes, plus default interest; or (ii) the "parity value" of the "default amount" paid in shares as defined in the terms of the agreements. The Company and other named defendants have filed an appearance and intend to defend against the law suit.

The Company’s subsidiary CelLynx Group, Inc. has received a Cease Trading Order from the British Columbia Securities Commission (BCSC) alleging that the Company is in violation of the British Colombia reporting requirements. The BCSC has assumed that since two the Company's Directors were domiciled in BC that the company is controlled out of BC and therefore subject to its reporting requirements. The Company denies that premise and is appealing the issuance of the CTO. At March 31, 2013, the Company’s sole Director is not domiciled in BC.

In addition to the above, the Company may become involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

ITEM 1A. RISK FACTORS

Need For Additional Financing

The Company has very limited funds, and such funds may not be adequate to take advantage of current and planned business opportunities. Even if the Company's funds prove to be sufficient to acquire an interest in, or complete upon transactions contemplated, the Company may not have enough capital to fully develop the opportunity. The ultimate success of the Company may depend upon its ability to raise additional capital. As additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited.

Ability to continue as a going concern

The Company has incurred net losses of $3,348,287 for the period from inception November 14, 2008, to March 31, 2013. The Company has earned no revenues to date. Consequently the Company’s future is dependent upon their ability to obtain financing and to execute upon their business plan and to create future profitable operations for the business. These factors raise substantial doubt that the Company will be able to continue as a going concern. In the event that the Company cannot raise further debt or equity capital, or achieve profitable operations, the Company may have to liquidate their business interests and investors may lose their investment.

Lack of profitable operating history

The Company faces all of the risks of a new business and the special risks inherent in the investigation, acquisition, and involvement in a new business opportunity. The Company must be regarded as a new or "start-up" venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject, and consequently has a high risk or failure.

We may be subject to significant foreign currency exchange controls in certain countries in which we operate

Certain foreign economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries. Any shortages or restrictions may impede our ability to convert these currencies into U.S. dollars and to transfer funds, including for the payment of dividends or interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

Our foreign operations subject us to risks that could negatively affect our business

Our business can be exposed to risks inherent in foreign operations. These risks, which can vary substantially by market, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including wage and commodity inflation, consumer spending and unemployment levels), the regulatory environment, tax rates and laws and consumer preferences as well as changes in the laws and policies that govern foreign investment in other countries.

In addition, the value of our foreign assets is affected by fluctuations in foreign currency exchange rates, which may adversely affect reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

Dependence upon a sole director and limited management and consultants

The Company currently has only one individuals serving as its officer and director, and few employees and consultants. The Company will be heavily dependent upon their skills, talents, and abilities to implement its business plan, and secure additional personnel and may, from time to time, find that the inability of the officers and directors to fully meet the needs of the business of the Company results in a delay in progress toward implementing its business plan.

We may conduct further offerings in the future in which case investors' shareholdings may be diluted

Since our inception, we have relied on sales of our common stock to fund our operations. We may conduct further equity offerings in the future to finance our current operations. If common stock is issued in return for additional funds, the price per share could be lower than that paid by our current stockholders. We anticipate continuing to rely on equity sales of our common stock in order to fund our business operations. If we issue additional stock, investors' percentage interests in us will be diluted. The result of this could reduce the value of current investors' stock.

Regulation of Penny Stocks

The Company's securities are subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of $5,000,000, or individuals having a net worth in excess of $1,000,000 or having an annual income that exceeds $200,000 (or that, when combined with a spouse's income, exceeds $300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker- dealers to sell the Company's securities and also may affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities Exchange Act of 1934, as amended. Because the securities of the Company may constitute "penny stocks" within the meaning of the rules, the rules would apply to the Company and to its securities. The rules may further affect the ability of owners of Shares to sell the securities of the Company in any market that might develop for them.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The Company's management is aware of the abuses that have occurred historically in the penny stock market. Although the Company does not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company's securities.

Our common stock is not listed on a national exchange and as a public market develops in the future, it may be limited and highly volatile, which may generally affect any future price of our common stock

Our common stock currently is listed only in the over-the-counter market on the OTCBB, which is a reporting service and not a securities exchange. We cannot assure investors that in the future our common stock would ever qualify for inclusion on any of the NASDAQ markets for our common stock, The American Stock Exchange or any other national exchange or that more than a limited market will ever develop for our common stock. The lack of an orderly market for our common stock may negatively impact the volume of trading and market price for our common stock.

Any future prices for our common stock will be determined in the marketplace and may be influenced by many factors, including the following:

- the depth and liquidity of the markets for our common stock;
- investor perception of 5BARz International Inc. and the industry in which we participate;
- general economic and market conditions;
- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically, as has occurred in the past;
- quarterly variations in our results of operations;
- general market conditions or market conditions specific to technology industries; and
- domestic and international macroeconomic factors.

In addition, the stock market has recently experienced extreme price and volume fluctuations. These fluctuations are often unrelated to the operating performance of the specific companies. As a result of the factors identified above, a stockholder (due to personal circumstances) may be required to sell his shares of our common stock at a time when our stock price is depressed due to random fluctuations, possibly based on factors beyond our control.

Impracticability of Exhaustive Investigation

The Company's limited funds and the lack of full-time management will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of its chosen business opportunity before the Company commits its capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys and the like which, if the Company had more funds available to it, would be desirable.

Other Regulation

The Company may be subject to regulation or licensing by federal, state, or local authorities. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process and may limit other investment opportunities of the Company.

Failure to Perform

The Company may be unable to comply with the payment terms of certain agreements providing the Company with the exclusive sales marketing and distribution rights to 5BARz product. In the event that the Company defaults on such agreements, the Company may be unable to maintain operations as a going concern.

Reliance on Third parties

The Company has entered into certain agreements related to the exclusive sales marketing and distribution rights. In the event that the production Company is unable or unwilling for any reason to supply product under the terms of such agreement, the Company may not be able distribute product or may have business interrupted as they secure alternative production facilities.

Competitive Technologies

The Companies technology relates to a market that is highly competitive and a much sought after solution by cellular networks. The Company expects to be at a disadvantage when competing with firms that have substantially greater financial and management resources and capabilities than the Company. The Company is subject to technological obsolescence should other technologies be developed which are superior to the Companies technology.

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

During the three months ended March 31, 2013 and to the date of this report we have issued shares of common stock as follows:

On various days during the period from January, 2013 to March, 2013 the Company issued 4,540,000 units at a price of $0.05 per unit for aggregate proceeds of $227,000. Each unit is comprised of one share and one share purchase warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On January 25, 2013 the Company issued 100,000 units at a price of $0.05 per unit, for services with a total value of $5,000. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On February 12, 2013 the Company issued 125,000 shares of common stock at a price of $0.06 per share as partial settlement of $7,500 due under a note payable.

On February 15, 2013 the Company issued 1,440,000 shares of common stock at a price of $0.05 per share, for services with a total value of $72,000.

On February 26, 2013 the Company issued 250,000 shares of common stock at a price of $0.04 per share, for services with a total value of $10,000.

On February 26, 2013 the Company issued 91,780 shares of common stock at a price of $0.05 per share, for services with a total value of $4,589.

On March 1, 2013 the Company issued 175,000 shares of common stock at a price of $0.05 per share, for services with a total value of $8,750.

On March 17, 2013 the Company issued 513,827 shares of common stock at a price of $0.05 per share, for services with a total value of $25,691.

On March 31, 2013 the Company issued 100,000 shares of common stock at a price of $0.05 per share, for services with a total value of $5,000.

During the period April 1 2013 to May 31, 2013 the Company issued 7,995,000 units at a price of $0.05 per unit for aggregate proceeds of $399,750. Each unit is comprised of one share and one warrant to acquire a second share at a price of $0.20 per share acquired, with a two year warrant term.

On April 1, 2013 the Company issued 425,000 units at a price of $0.05 per unit, for services with an aggregate value of $21,250.

On May 15, 2013 the Company issued 200,000 shares at a price of $0.05 per share, for services with an aggregate value of $10,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company and certain consolidated subsidiaries are in default under the terms of convertible notes for non-payment when due as follows;

Company	Payee	Principle Amount	Accrued penalty and interest	Total amount due
5Barz International Inc.	Asher Enterprises, Inc. *	$39,000	$50,718	$89,718
	La Jolla Cove Investors *	150,000	156,584	306,584
CelLynx Group, Inc.	Asher Enterprises, Inc.	35,600	22,169	57,769
	Former officers & directors	100,000	85,578	185,578
CelLynx, Inc.	Palomar	262,356	56,583	318,939
Total		$586,956	$371,632	$958,588

*See legal proceedings, page 20

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

(a) None.

(b) There were no changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	**Description**
31.1	Section 302 Certification by the Corporation's Chief Executive Officer *
31.2	Section 302 Certification by the Corporation's Chief Financial Officer *
32.1	Section 906 Certification by the Corporation's Chief Executive Officer *
32.2	Section 906 Certification by the Corporation's Chief Financial Officer *

* Filed Herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

5BARz International Inc.
(Registrant)

Date: June 21, 2013 By: /s/ Daniel Bland
Daniel Bland
Chief Executive Officer

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