

Intellicell Biosciences, Inc.  
Form 10-Q  
November 21, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transitional period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No000-54729

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

Nevada  
(State or other jurisdiction of  
incorporation or organization)

91-1966948  
(I.R.S. Employer  
Identification No.)

460 Park Avenue, 17th Floor  
New York, New York 10022  
(Address of principal executive offices) (zip code)

(646) 576-8700  
(Registrant's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated 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

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Smaller Reporting  
Company

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

Number of shares of common stock issued and outstanding as of November 5, 2012 was 40,972,235.

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QUARTERLY REPORT ON FORM 10-Q  
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EXPLANATORY NOTE

In filing this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 on November 21, 2012, Intellicell Biosciences, Inc. (the “Company”) is relying on the order issued by the Securities and Exchange Commission (the “Commission”) (Release No. 68224) providing relief to registrants unable, due to Hurricane Sandy and its aftermath, to meet a filing deadline occurring during the period from and including October 29, 2012 to November 20, 2012, provided that such report, schedule or form is filed on or before November 21, 2012.

Pursuant to such order, as stated in the Company’s Form NT 10-Q filed with the Commission on November 19, 2012, the Company hereby informs the Commission that in connection with the recent devastation to the New York metropolitan area from Hurricane Sandy, the Company’s normal process for compilation and review of its financial statements was delayed since the Company’s personnel and other professional advisors were not able to travel to the Company’s headquarters or access the Company’s accounting records. As a result, the Company was unable to process this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 before its original filing deadline of November 14, 2012.

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## PART I - FINANCIAL STATEMENTS

## Item 1. Financial Statements

Intellicell BioSciences Inc. and Subsidiary  
CONSOLIDATED BALANCE SHEETS

|   | September<br>30, 2012<br>(Unaudited) | December<br>31, 2011<br>(Audited) |
|---|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                                      |                                   |
| Current assets:   |                                      |                                   |
| Cash  | \$ -                                 | \$ 110,194                        |
| Accounts Receivable - related party   | 334,000                              | -                                 |
| Total current assets  | 334,000                              | 110,194                           |
| Property & Equipment - net of accumulated depreciation of \$151,133 and \$15,226 as of September 30, 2012 and December 31, 2011   |                                      |                                   |
|   | 2,881,365                            | 556,834                           |
| Deposit - License Agreement with related party  | 100,000                              | 100,000                           |
| Financing Fees, net of accumulated amortization of \$74,200 and \$0 as of September 30, 2012 and December 31, 2011  | 148,400                              | -                                 |
| Due from related party  | 37,627                               | -                                 |
| Restricted cash for security deposit  | 650,000                              | 650,000                           |
|   | \$ 4,151,392                         | \$ 1,417,028                      |
| <b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>  |                                      |                                   |
| Current liabilities:  |                                      |                                   |
| Bank Overdraft  | \$ 45,847                            | \$ -                              |
| Convertible debentures  | 1,360,000                            | 1,312,859                         |
| Convertible promissory note payable   | 500,000                              | -                                 |
| Notes payable and accrued interest  | 649,897                              | 1,161,758                         |
| Accounts payable and accrued expenses   | 1,640,914                            | 584,585                           |
| License fee liability   | 1,222,500                            | -                                 |
| Deferred income   | -                                    | 502,500                           |
| Related party notes payable and advances  | 305,209                              | 67,882                            |
| Accrued liabilities, related party  | 994,647                              | 735,932                           |
| Total current liabilities   | 6,719,014                            | 4,365,516                         |
| Long term liabilities - Derivative liabilities  |                                      |                                   |
|   | 598,283                              | 14,791,291                        |
| Total liabilities   | 7,317,297                            | 19,156,807                        |
| Commitments   |                                      |                                   |
| Stockholders' deficit:  |                                      |                                   |
| Convertible preferred stock; \$0.01 par value, Series B, 21,000 shares authorized, 15,233 and 18,280 issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 153                                  | 183                               |
|   | 72                                   | 108                               |

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Convertible preferred stock; \$0.01 par value, Series C, 13,000 shares authorized, 7,250 and 10,823 issued and outstanding at September 30, 2012 and December 31, 2011, respectively

|  |              |              |
|--|--------------|--------------|
| Convertible preferred stock; \$0.01 par value, Series D, 500,000 shares authorized, 56,500 and 42,000 issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 565          | 420          |
| Common stock; \$0.001 par value; 500,000,000 shares authorized; 41,136,760 and 21,034,938 shares and issued and outstanding at September 30, 2012 and December 31, 2011, respectively. | 41,136       | 21,035       |
| Additional paid in capital   | 30,613,155   | 15,849,217   |
| Accumulated deficit  | (33,820,986) | (33,610,742) |
| Total stockholders' deficit  | (3,165,905)  | (17,739,779) |
|  | \$ 4,151,392 | \$ 1,417,028 |

The accompanying notes are an integral part of these consolidated financial statements.

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Intellicell BioSciences Inc. and Subsidiary  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

|  | For The Three Months Ended<br>September 30, |                | For The Nine Months Ended<br>September 30, |                  |
|--|---|----------------|--|------------------|
|  | 2012  | 2011           | 2012                                       | 2011             |
| Revenues                                       | \$ 2,073                                    | \$ 22,050      | \$ 20,942                                  | \$ 80,550        |
| Revenues - related party                       | 184,000                                     | -              | 334,000                                    | -                |
| Total revenue                                  | 186,073                                     | 20,050         | 354,942                                    | 80,550           |
| Cost of Goods Sold                             | 137,394                                     | 2,452          | 314,641                                    | 48,988           |
| Gross Profit                                   | 48,679                                      | 19,598         | 40,301                                     | 31,562           |
| Operating Expenses:                            |   |                |  |                  |
| Research and development                       | 76,221                                      | 14,810         | 199,670                                    | 191,100          |
| Sales and marketing                            | 2,305                                       | 294,399        | 275,822                                    | 437,338          |
| General and administrative                     | 948,020                                     | 212,247        | 2,051,147                                  | 853,234          |
| Employee Stock Based Compensation              | 667,265                                     | -              | 2,525,724                                  | -                |
| Non-Employee Stock Based Compensation          | 78,593                                      | -              | 8,105,947                                  | 827,125          |
| Total Operating Expense                        | 1,772,404                                   | 521,456        | 13,158,310                                 | 2,308,797        |
| Loss from operations                           | (1,723,725)                                 | (501,858)      | (13,118,009)                               | (2,277,235 )     |
| Other Income (Expenses):                       |   |                |  |                  |
| Interest Expense                               | (38,903)                                    | (106,796)      | (174,041)                                  | (198,302)        |
| Financing Costs                                | (55,650)                                    | -              | (74,200)                                   | -                |
| Stock based financing costs                    | (1,037,000)                                 | -              | (1,037,000)                                | -                |
| Other Income                                   | -   | 157,500        | -  | 157,500          |
| Change in fair value of derivative liabilities | 1,112,314                                   | (5,740,759 )   | 14,193,008                                 | (17,073,453 )    |
| Total Other Income (Expenses)                  | (19,239)                                    | (5,690,055)    | 12,907,767                                 | (17,114,255 )    |
| Income (Loss) Before Income Taxes              | (1,742,964)                                 | (6,191,912)    | (210,242)                                  | (19,391,490)     |
| Provision for Income Taxes                     | -   | -              | -  | -                |
| Net Income (loss)                              | \$ (1,742,964)                              | \$ (6,191,912) | \$ (210,242)                               | \$ (19,391,490 ) |
| Loss per share:                                |   |                |  |                  |
| Basic & diluted                                | \$ (0.05)                                   | \$ (0.33)      | \$ (0.01)                                  | \$ (1.09)        |
| Weighted Average shares outstanding            |   |                |  |                  |
| Basic & diluted                                | 32,627,419                                  | 18,670,289     | 27,748,393                                 | 17,858,505       |

The accompanying notes are an integral part of these consolidated financial statements.





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Intellicell BioSciences Inc. and Subsidiary  
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 For the Nine Months Ended September 30, 2012  
 (Unaudited)

|   | Convertible<br>Series<br>B Preferred<br>Stock |        | Convertible<br>Series<br>C Preferred<br>Stock |        | Convertible<br>Series<br>D Preferred<br>Stock |        | Common Stock |           | Additional<br>Paid In<br>Capital | Accumulated<br>(Deficit) | Total           |
|---|---|--------|---|--------|---|--------|--------------|-----------|----------------------------------|--------------------------|-----------------|
|   | Shares  | Amount | Shares  | Amount | Shares  | Amount | Shares       | Amount    |                                  |                          |                 |
| Balances,<br>December 31,<br>2011   | 18,280  | \$ 183 | 10,823  | \$ 108 | 42,000  | \$ 420 | 21,034,938   | \$ 21,035 | \$ 15,849,217                    | \$ (33,610,742)          | \$ (17,739,779) |
| Proceeds from<br>sales of<br>common stock<br>at \$1.00 per<br>share, net of<br>fees             | -   | -      | -   | -      | -   | -      | 2,100,000    | 2,100     | 2,042,150                        | -                        | 2,044,250       |
| Conversion of<br>note payable<br>and accrued<br>interest to<br>common stock                     | -   | -      | -   | -      | -   | -      | 500,000      | 500       | 527,049                          | -                        | 527,549         |
| Stock issued<br>for the<br>conversion of<br>convertible<br>debenture and<br>accrued<br>interest | -   | -      | -   | -      | -   | -      | 118,794      | 118       | 103,530                          | -                        | 103,648         |
| Conversion of<br>Series B<br>Preferred to<br>Common stock                                       | (3047)  | (30)   | -   | -      | -   | -      | 3,046,527    | 3,046     | (3,016)                          | -                        | -               |
| Conversion of<br>Series C<br>Preferred to<br>Common stock                                       | -   | -      | (3,573)                                       | (36)   | -   | -      | 3,572,500    | 3,573     | (3,537)                          | -                        | -               |
| Issuance of<br>Series D   | -   | -      | -   | -      | 14,500  | 145    | -            | -         | 229,855                          | -                        | 230,000         |

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|   |        |        |       |       |        |        |            |           |               |                |           |               |
|---|--------|--------|-------|-------|--------|--------|------------|-----------|---------------|----------------|-----------|---------------|
| Preferred<br>shares, net of<br>fees   |        |        |       |       |        |        |            |           |               |                |           |               |
| Issuance of<br>additional<br>shares for<br>anti-dilution                              | -      | -      | -     | -     | -      | -      | 6,100,000  | 6,100     | 1,030,900     | -              | -         | 1,037,000     |
| Stock issued to<br>employees  | -      | -      | -     | -     | -      | -      | 725,000    | 725       | 115,275       | -              | -         | 116,000       |
| Stock-based<br>compensation<br>expense<br>related to<br>employee<br>stock options     | -      | -      | -     | -     | -      | -      | -          | -         | 2,409,724     | -              | -         | 2,409,724     |
| Stock-based<br>compensation<br>expense<br>related to<br>non-employee<br>stock options | -      | -      | -     | -     | -      | -      | -          | -         | 30,644        | -              | -         | 30,644        |
| Compensation<br>expense<br>related to the<br>issuance of<br>warrants                  | -      | -      | -     | -     | -      | -      | -          | -         | 2,720,764     | -              | -         | 2,720,764     |
| Stock issued<br>for<br>professional<br>services at fair<br>market value               | -      | -      | -     | -     | -      | -      | 3,939,001  | 3,939     | 5,560,600     | -              | -         | 5,564,539     |
| Net income for<br>the nine<br>months ended<br>September 30,<br>2012                   | -      | -      | -     | -     | -      | -      | -          | -         | -             | (210,242)      | (210,242) | (210,242)     |
| Balances,<br>September 30,<br>2012  | 15,233 | \$ 153 | 7,250 | \$ 72 | 56,500 | \$ 565 | 41,136,760 | \$ 41,136 | \$ 30,613,155 | \$(33,820,984) | \$        | \$(3,165,905) |

The accompanying notes are an integral part of these consolidated financial statements.



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Intellicell BioSciences, Inc. and Subsidiary  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
(Unaudited)

(Unaudited)  
For the nine months  
ended September 30,  
2012                      2011

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |    |              |                 |
|--|----|--------------|-----------------|
| Net Income (Loss)  | \$ | (210,242)    | \$ (19,391,490) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |    |              |                 |
| Stock compensation issued for services in excess of proceeds                         |    | 9,142,947    | 827,125         |
| Employee stock compensation  |    | 2,525,724    | -               |
| Depreciation expense   |    | 135,907      | 8,624           |
| Amortization of financing costs  |    | 74,200       | -               |
| Interest from original issue discount on convertible debentures                      |    | 72,141       | 144,282         |
| Change in fair value of derivative liabilities                                       |    | (14,193,008) | 17,073,453      |
| Other income   |    | -            | (157,500)       |
| Changes in assets and liabilities:   |    |              |                 |
| Increase (decrease) in accounts receivable   |    | (334,000)    | 69,800          |
| Increase in prepaid expenses   |    | -            | (111,399)       |
| Increase in accounts payable and accrued expenses                                    |    | 1,250,664    | 183,032         |
| Increase in deferred income  |    | 720,000      | 312,500         |
| Increase in accrued liabilities, related party                                       |    | 258,715      | 146,327         |
| Net cash used in operating activities  |    | (556,952)    | (895,246)       |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |  |             |           |
|--|--|-------------|-----------|
| Purchase of equipment and leasehold improvements |  | (2,460,438) | (86,797)  |
| Advances to related party                        |  | (37,627)    | -         |
| Increase in restricted cash for security deposit |  | -           | (650,000) |
| Cash used in investing activities                |  | (2,498,065) | (736,797) |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|  |    |           |           |
|--|----|-----------|-----------|
| Proceeds from sale of common stock, net of fees                  |    | 2,044,250 | 176,000   |
| Proceeds from the sales of Series D Preferred Stock, net of fees |    | 230,000   | -         |
| Proceeds from issuance of convertible debenture, net of fees     |    | 387,400   | -         |
| Proceeds from notes payable, related party                       |    | 200,167   | -         |
| Proceeds of related party advances, net                          |    | 37,159    | 68,000    |
| Bank overdraft   |    | 45,847    | -         |
| Proceeds from sale of convertible debentures                     |    | -         | 1,385,000 |
| Cash provided by financing activities                            |    | 2,944,823 | 1,629,000 |
| Net change in cash   |    | (110,194) | (3,043)   |
| Cash and cash equivalents at the beginning of period             |    | 110,194   | 3,179     |
| Cash and cash equivalents at the end of the period               | \$ | -         | \$ 136    |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

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|  |              |            |
|--|--------------|------------|
| Cash paid for interest   | \$ 15,000    | \$ -       |
| Cash paid for taxes  | \$ -         | \$ -       |
| <b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>  |              |            |
| Conversion of convertible debenture and accrued interest to common stock   | \$ 103,648   | \$ -       |
| Shares issued in conjunction with the stock exchange agreement   | \$ 1,037,000 | \$ -       |
| Conversion of note payable to common stock and warrants  | \$ 500,000   | \$ -       |
| Original issue discount attributed to detachable 5 year warrants sold in conjunction with Convertible Debentures | \$ -         | \$ 288,563 |

The accompanying notes are an integral part of these consolidated financial statements.

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Intellicell BioSciences Inc. and Subsidiary  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Description of Business

Formation

Intellicell Biosciences Inc., a New York corporation, was formed under the name Regen Biosciences, Inc. on August 13, 2010 as a pioneering regenerative medicine company to develop and commercialize regenerative medical technologies in large markets with unmet clinical needs. On February 17, 2011, Regen Biosciences, Inc. changed its name to IntelliCell BioSciences Inc. (“IntelliCell”). To date, IntelliCell has developed proprietary technologies that allow for the efficient and reproducible separation of stromal vascular fraction (branded “IntelliCell™”) containing adipose stem cells that can be performed in tissue processing centers and in doctors’ offices.

In conjunction with the formation of IntelliCell (formerly Regen Biosciences, Inc.), a shareholder contributed, as part of his initial capital contribution, one hundred percent (100%) of the outstanding stock of Tech Stem Inc., a New York corporation (“Tech Stem”) originally formed on May 24, 2010. Tech Stem’s business is the sourcing, sales and distribution of laboratory equipment and supplies utilized in tissue processing related to IntelliCell’s technologies.

Reverse Merger

On April 27, 2011, Intellicell and Media Exchange Group, Inc. (“MEG”) entered into an Agreement and Plan of Merger which was amended on June 3, 2011 (the “Merger Agreement”). Under the terms of the Merger Agreement, a subsidiary of MEG (“Merger Sub”) merged into Intellicell. The Merger Sub ceased to exist as a corporation and Intellicell continued as the surviving corporate entity (the “Merger”). As a result of the merger, Intellicell’s former shareholders acquired majority of MEG’s outstanding common stock and all of MEG’s Series B preferred stock. The recapitalized Intellicell Biosciences, Inc. is hereafter referred to as “Intellicell” or the “Company”. As consideration for the Merger, the holders of the an aggregate of 7,975,768 shares of IntelliCell’s common stock exchanged their shares of common stock for an aggregate of 15,476,978 shares of the Company’s common stock and Dr. Steven Victor, the principal shareholder of IntelliCell, exchanged an aggregate of 10,575,482 shares of IntelliCell’s common stock for an aggregate of 20,521 shares of the Company’s series B preferred stock. Each share of series B preferred stock is convertible into 1,000 shares of the Company’s common stock. In addition, the holders of the series B preferred stock are entitled to notice of stockholders’ meetings and to vote as a single class with the holders of the Common Stock on any matter submitted to the stockholders for a vote, and are entitled to the number of votes equal the product of (a) the number of shares of Common Stock into which the series B preferred stock is convertible into on the record date of the vote multiplied by (b) ten (10). The closing of the Merger took place on June 3, 2011 (the “Closing Date”).

In addition to the foregoing, in accordance with the Merger Agreement, all outstanding convertible notes issued by IntelliCell (the “IntelliCell Notes”) and warrants issued by IntelliCell (the “IntelliCell Warrants”) entitle the holder to convert or exercise, as the case may be, into and receive the same number of shares of the Company common stock as the holder of IntelliCell Notes and Warrants would have been entitled to receive pursuant to the Merger had such holder exercised such Intellicell Notes and Warrants in full immediately prior to the closing of the Merger. Thus, there was an aggregate of \$1,385,000 of Intellicell Notes outstanding which are convertible into an aggregate of shares of common stock of the Company and warrants to purchase an aggregate of 3,071,342 shares of common stock of the Company. Subsequent to the conversion of \$25,000 of subordinated convertible debentures in the current period, the remaining \$1,360,000 subordinated convertible debentures are convertible into an aggregate of 4,121,212 shares of common stock.



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Intellicell BioSciences Inc. and Subsidiary  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

2. Going Concern

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception resulting in an accumulated deficit of \$33,820,986 and a working capital deficit of \$6,385,014 as of September 30, 2012, respectively. However, if the non-cash expense related to the Company's change in fair value of derivative liability and stock based compensation is excluded then the accumulated deficit amounted to \$3,165,905. Further losses are anticipated in the continued development of its business, raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with existing cash on hand and a private placement of common stock or other debt or equity securities. There can be no assurance that we will be able to obtain further financing, do so on reasonable terms, or do so on terms that would not substantially dilute our current stockholders' equity interests in us. If we are unable to raise additional funds on a timely basis, or at all, we probably will not be able to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and the rules of the Securities and Exchange Commission.

In our opinion, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature.

Principles of Consolidation

The consolidated financial statements include the accounts of IntelliCell and those of Tech Stem Inc., the Company's wholly owned subsidiary (collectively the "Company"). All significant inter-company transactions and balances have been eliminated.

Management's Use of Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Management's estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the periods they are determined to be necessary.





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Intellicell BioSciences Inc. and Subsidiary  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Fair Value of Financial Instruments

GAAP requires certain disclosures regarding the fair value of financial instruments. The fair value of financial instruments is made as of a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the degree of subjectivity that is necessary to estimate the fair value of a financial instrument. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1 – Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. The following table sets forth our estimate of fair value of our financial instruments that are liabilities as of September 30, 2012:

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|                        | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
|------------------------|--|---|--|------------|
| Derivative Liabilities | \$ -   | \$ -  | \$ 598,283   | \$ 598,283 |

The following table sets forth a summary of changes in fair value of our derivative liabilities for the nine months ended September 30, 2012:

|  | For the Nine<br>Months<br>ended<br>September<br>30, 2012 |
|--|--|
| Beginning balance  | \$ 14,791,291  |
| Fair value of 2012 warrants at issue date                                | 17,152,200   |
| Fair value of 2012 embedded conversion feature at issue date             | 2,071,247  |
| Change in fair value of embedded warrants included in earnings           | (27,147,357)   |
| Change in fair value of embedded conversion feature included in earnings | (6,269,098)  |
| Balance at September 30, 2012  | \$ 598,283   |

The following is a description of the valuation methodologies used for these items:

Derivative liabilities — these liabilities consist of certain instruments issued with warrants and embedded conversion features that contain anti-dilution provisions. These instruments were valued using pricing models which incorporate the Company's stock price, volatility, U.S. risk free rate, dividend rate and estimated life.

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Share Based Expenses

GAAP, prescribes that accounting and reporting standards for all stock-based payment awards to employees, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights, may be classified as either equity or liabilities. The Company should determine if a present obligation to settle the share-based payment transaction in cash or other assets exists. A present obligation to settle in cash or other assets exists if:

- a) the option to settle by issuing equity instruments lacks commercial substance, or
- b) the present obligation is implied because of an entity's past practices or stated policies. If a present obligation exists, the transaction should be recognized as a liability; otherwise, the transaction should be recognized as equity.

With respect to stock-based compensation issued to non-employees and consultants GAAP requires that the amount of share-based payment transactions be based on the fair value of whichever is more reliably measurable:

- a) the goods or services received or
- b) the equity instruments issued.

The fair value of the share-based payment transaction should be determined at the earlier of performance commitment date or performance completion date.

Revenue Recognition

The Company licenses independent third parties to use the Company's technology in order to enable them to establish tissue processing centers in major metropolitan markets, as well as establishing centers it will operate. Each center will utilize the Company's proprietary technology in conjunction with a suite of laboratory equipment selected by the Company that will enable the lab to process adipose tissue into stromal vascular fraction containing adipose stem cells using the Company's technology and protocols. In certain centers, the Company will maintain ownership of the laboratory equipment and in other cases the laboratory equipment will be sold to an independent party. These license fees are payable upon signing of a license agreement and are recognized as revenue ratably over the license. As of September 30, 2012, the Company had executed license agreements and received \$1,122,500 in license fees for six centers which had not yet commenced operations. Consequently recognition of such revenue had been deferred pending commencement of operations. Subsequently, the Company has reclassified the \$1,222,500 of previously paid license fees to Accrued Licensee Fee Liability upon the Company's cancellation of the license agreements and the determination of the amount of fees to be returned to the former licensees.

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The Company has also entered into agreements with independent sales representative organizations to market the centers services to physicians in the geographic area. Fees for tissue processing cases from such physicians will be collected by the Company and recognized upon performance of the laboratory analysis. Sales of equipment by Tech Stem are recognized when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured.

Concentrations

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. This potentially subjects the Company to a concentration of credit risk; however the Company believes the risk is negligible. The Company's carrying amount of deposits in financial institutions did not exceed federally insured limits September 30, 2012.

The Company anticipates that it will purchase more than 50% of its lab equipment, for both its own use as well as for resale, from one vendor.

Certain Risks and Uncertainties

The Company has a limited operating history and its prospects are subject to the risks and uncertainties frequently encountered by companies in the early stages of development and commercialization, especially those companies in rapidly evolving and technologically advanced industries such as the biotech / medical device field. The future viability of the Company largely depends on its ability to complete development of new products and processes and maintain and/or receive regulatory approval for those products and processes. No assurance can be given that the Company's new processes and products will be successfully developed, regulatory approvals will be maintained or granted, or acceptance of these processes and products by the medical and patient communities will be achieved.

Accounts Receivable

The Company extends credit to customers without requiring collateral. The Company an allowance provides for doubtful accounts based on management's evaluations of the collectability of accounts receivable. Management's evaluation is based on the Company's historical collection experience and a review of past-due amounts. Based on management's evaluation of collectability, the Company did not require an allowance for doubtful accounts as of September 30, 2012 and December 31, 2011, respectively. The Company determines accounts receivable to be delinquent when collection past due under the agreed upon terms. Accounts receivable are written off when it is determined that amounts are uncollectible.

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Equipment

Equipment is recorded at cost. Depreciation and amortization are computed for financial reporting purposes utilizing the straight-line method over the estimated useful lives of the related asset or, for leasehold improvements, the shorter of the lease term or estimated useful life.

Maintenance and repairs are charged to expense as incurred. Costs of renewals and betterments are capitalized.

Research and Development Costs

Research and development (“R&D”) expenses include supplies, salaries, benefits, and other headcount related costs, clinical trial and related clinical manufacturing costs, contract and other outside service and facilities and overhead costs. The Company expenses the costs associated with research and development activities when incurred.

Income Taxes

The Company accounts for income taxes under using the liability method. The liability method requires recognition of future tax benefits, measured by enacted rates, attributable to deductible temporary differences between financial statement and income tax bases of assets and liabilities to the extent that realization of such benefits is “more likely than not.” The Company’s temporary differences between financial statement and income tax reporting relate primarily to receivable reserves, depreciation expense, and operating loss carryforwards. This standard also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination.

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## Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period, increased by potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include stock options and warrants granted and convertible debt. The Company's loss attributable to common stockholders, along with the dilutive effect of potentially issuable common stock due to outstanding options warrants and convertible securities cause the normal computation of diluted loss per share to be smaller than the basic loss per share; thereby yielding a result that is counterintuitive. Consequently, the diluted loss per share amount presented does not differ from basic loss per share due to this "anti-dilutive" effect.

## Reclassifications

Certain prior period amounts were reclassified to conform with current period presentation.

## 4. PROPERTY AND EQUIPMENT

The Company's property and equipment at September 30, 2012 and December 31, 2011 consists of the following:

|                               | 9/30/12      | 12/31/11   |
|-------------------------------|--------------|------------|
| Lab equipment                 | \$ 203,204   | \$ 117,690 |
| Construction in progress      | 1,612,483    | 422,000    |
| Furniture & Fixtures          | 458,297      | 25,140     |
| Computer Equipment            | 758,514      | 7,230      |
|                               | 3,032,498    | 572,060    |
| Less accumulated depreciation | 151,133      | 15,226     |
| Property and Equipment, net   | \$ 2,881,365 | \$ 556,834 |

Depreciation expense for the three and nine months ended September 30, 2012 and 2011 was \$125,022 and \$135,907 and \$3,102 and \$8,624, respectively and is included in general and administrative expenses on the Company's statement of operations. Construction in progress consists of leasehold improvements for various expansion projects that the Company has undertaken. When these projects are considered complete, functional and meet the Company's standards, the Company will record the leasehold improvements as assets and will begin depreciating the assets.

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## 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at September 30, 2012 and December 31, 2011 are as follows :

|                                  | 9/30/12      | 12/31/11   |
|----------------------------------|--------------|------------|
| Accounts payable                 | \$ 731,340   | \$ 44,208  |
| Accrued expenses and liabilities | 620,089      | 422,519    |
| Accrued payroll                  | 210,697      | 72,858     |
| Other                            | 78,788       | 45,000     |
| Total                            | \$ 1,640,914 | \$ 584,585 |

## 6. Notes Payable

In conjunction with the Merger, the Company assumed notes payable in the principal amount of \$2,463,652 plus accrued interest of \$369,898.

Following completion of the Merger, the Company entered into an asset purchase agreement (the “Consorteum Purchase Agreement”) with Consorteum Holdings, Inc. (“Consorteum”), an unrelated company, pursuant to which the Company agreed to sell, transfer and assign to Consorteum all of the Company’s rights, title and interests to, and agreements relating to, its digital trading card business and platform in exchange for Consorteum assuming an aggregate principal amount of \$1,864,152 of indebtedness of the Company. Such rights include, but are not limited to, the Company’s name, phone number and listing, reputation, relationships and other intangible assets (including its rights to any intellectual property or proprietary technology), as well as the company’s rights under certain licensing agreements (“Digital Trading Assets”).

Also on June 6, 2011, the Company and Consorteum entered into an amendment agreement (the “Amendment Agreement”) to the Consorteum Purchase Agreement pursuant to which the parties agreed, among other things, that the obligations of the Parties to consummate the transactions contemplated by the Purchase Agreement are subject to (i) the approval of the Board of Directors of each of the parties, and (ii) the completion of the assignment of the Assumed Liabilities (including receipt of all the necessary consents of the holders of all outstanding indebtedness of the Buyer).

On June 30, 2011, the Company and Consorteum agreed to waive the requirement that the conditions precedent set forth in the Consorteum Purchase Agreement as amended be satisfied on or before closing and each party agreed that as of the date of the Consorteum Purchase Agreement, Consorteum would assume an aggregate of \$1,477,052 of principal indebtedness plus accrued interest from the Company totaling \$250,695 less unamortized note discounts of \$9,890. Upon completion of the requirements of the Consorteum Purchase Agreement and the Amendment Agreement, the note holders who consented to the assumption of their obligations by Consorteum received shares of Consorteum common stock in satisfaction of their notes. Included in the notes assumed by Consorteum were notes payable to former officers and directors of the Company prior to the Merger totaling \$450,000 in principal plus accrued interest of \$74,935. Notwithstanding the foregoing, Consorteum agreed to provide the Company a guaranty, whereby Consorteum agrees to unconditionally and irrevocably guarantee to the Company the prompt and complete payment, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of any remaining notes payable for which the Company had not received the necessary consent as of the date of the waiver. As a result of the foregoing, the transactions contemplated by the Consorteum Purchase Agreement closed on June 30, 2011.





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The Digital Trading Assets acquired at the acquisition date were measured at their fair values as of the Merger date which were determined to be an amount equal to the principal, net of discounts, plus accrued interest of the notes assumed by Consorteum as of the effective date of the sale equal to \$1,717,857 therefore no gain or loss was recognized as a result of this sale.

The Company has recorded as liabilities the notes payable not yet assumed by Consorteum which total \$236,600 in principal plus \$34,789 in accrued interest at September 30, 2012. Notwithstanding the guaranty of Consorteum to unconditionally and irrevocably guarantee to the Company the prompt and complete payment, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of any remaining notes payable, the Company will continue to report such liabilities on the Company's balance sheet until settlement and disposition of these obligations is finalized.

In the current period, a \$375,000 notes payable and accrued interest of \$152,549 was converted to common stock and warrants as part of the February 2012 private placement. The Company's remaining outstanding notes consist of an aggregate of \$375,000 of notes of the Company which have been amended and are convertible into an aggregate of 187,500 shares of common stock of the Company (based upon a fixed conversion price of \$2.00 per share).

7. Related Party Notes Payable

Frank Loan

On August 26, 2012, the Company entered into a secured promissory note (the "Note") with Fredrick Frank (the "August 2012 Lender") pursuant to which the August 2012 Lender loaned the Company \$200,000 that is due and payable on October 31, 2012 in accordance with the terms of the Note (the "Maturity Date"). The Note is secured by 500,000 shares of the Company's Common Stock. On November 6 2012, the Company and August 2012 Lender agreed to extend the Frank Note until November 30, 2012. Fredrick Frank is an advisor of the Company.

LMazur Associates JV Loan

On September 1, 2012, the Company entered into a secured promissory note (the "Note") with LMazur Associates JV (the "Agent"), as agent for LMazur Associates JV and JJK LLC (collectively, the "Lender") pursuant to which the Lender loaned the Company \$100,000 that was due and payable on October 1, 2012 in accordance with the terms of the Note (the "Maturity Date"). The Note bore interest at a rate of 10% per annum which was payable on the Maturity Date. The Company's obligations under the Note were guaranteed by Dr. Steven Victor, the Company's chief executive officer. In addition, the Company, Dr. Victor and the Lender entered into a pledge and security Agreement pursuant to which the Note was secured by all of Dr. Victor's shares of series B preferred stock of the Company. The Note, and all accrued and unpaid interest thereon, was paid in full on October 1, 2012. LMazur Associates JV is an entity controlled by Leonard Mazur, a director of the Company.

7. Related Party Transactions

Rent

The Company is provided office facilities and related services by a company owned by the Company's Chief Executive Officer, Dr. Steven Victor. The Company has recorded rent, administrative, and office overhead expenses of \$0 and \$150,000 and \$30,000 and \$90,000, respectively, representing the Company's portion of use for such for

three and nine months ended September 30, 2012 and 2011, respectively.

Officer Salary

The Company has recorded a salary expense of \$68,750 and \$206,250 and \$68,750 and \$206,250 for the three and nine months ended September 30, 2012 and 2011, respectively, for Dr. Victor as a result of his serving in the capacity of the Company's Chief Executive Officer. Additionally, a salary expense totaling approximately \$45,000 and \$115,000 and \$43,750 and \$99,500 for the three and nine months ended September 30, 2012 and 2011, respectively, recorded for the Company's Executive Vice President who is a related party, a shareholder and the spouse of the Company's Chief Executive Officer.

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**Research and Development**

Research and Development costs for the three and nine months ended September 30, 2011 was \$76,000 and \$80,000, respectively, including fees accrued and payable to Dr. Steven Victor for services as the attending physician in thirty-eight (38) patient cases included as part of the Company's ongoing research of its technologies and processes. No fees were accrued in the nine months ending September 30, 2012. Payment of these fees are contingent upon the Company either generating \$2.0 million in revenues or completing an equity offering of the Company's common stock or other securities equal to or greater than \$5.0 million, whichever occurs first. As of September 30, 2012 and 2011, the following amounts were owed to related parties:

|                       | September<br>30, 2012 | December<br>31, 2011 |
|-----------------------|-----------------------|----------------------|
| Accrued salaries      | \$ 633,647            | \$ 374,932           |
| Accrued research fees | 361,000               | 361,000              |
|                       | \$ 994,647            | \$ 735,932           |

**Officer Advance**

From time to time, the Company has received advances from one of its officers to meet short term working capital needs. These advances do not have formal repayment terms or arrangements.

Dr. Steven Victor's, cumulative advances amounted to \$105,042 and \$67,882 to the Company for working capital purposes as of September 30, 2012 and December 31, 2011, respectively. These advances do not have formal repayment terms or arrangements.

**Regen Agreement**

On April 16, 2012, the Company entered into a technology license and administrative services agreement (the "Agreement") with Regen Medical P.C., the medical practice which is owned by, and through which, our Chief Executive Officer, Dr. Steven Victor, engages in the practice of Cosmetic Dermatology ("Regen Medical"). Pursuant to the Agreement, the Company, among other things, (i) granted Regen Medical the non-exclusive and non-assignable license to utilize the Company's proprietary process and technology for its patients, (ii) granted Regen Medical a license to use a laboratory which can be used by Regen Medical for use of the Company's proprietary process and (iii) was appointed as the exclusive manager and administrator of Regen Medical's operations which relates to the implementation of the Company's proprietary process as well as Regen Medical's cosmetic dermatology practice, and (iv) was appointed the sole provider of non-medical managerial, administrative and business functions for Regen Medical's cosmetic dermatology practice. The Agreement became effective as of April 16, 2012 and shall continue until April 16, 2017. Thereafter, the Agreement is to be automatically renewed for successive five year periods unless either party notifies the other in writing of its intention not to renew the Agreement. Such a notice is to be given at least 12 months but no more than 15 months prior to the expiration of the then current term. Either party may terminate the Agreement, for among other things, the failure to cure a material breach of the agreement within 30 days after receipt of written notice or in the event any state or federal laws or regulations, now existing or enacted or promulgated after the effective date, are interpreted in such a manner as to indicate that the structure of the agreement may be in violation of any such laws or regulations.

In consideration for the services to be provided under the Agreement, Regen Medical is to pay the Company (i) an annual administrative fee of \$600,000, payable in equal monthly installments during the term of the term of the agreement (subject to an annual increase of up to a maximum of ten percent (10%) beginning on the second

anniversary of the effective date), (ii) an annual technology license fee of \$120,000, payable in equal monthly installments during the term of the agreement, for the use of our proprietary process (including the laboratory and the laboratory technician) and (iii) a processing fee of \$1,000 for each tissue processing case that utilizes our proprietary process. The Company is also entitled to an annual performance fee during the term of either (i) \$150,000, in the event total income to Regen Medical exceeds \$5,500,000 or (ii) \$200,000, in the event that total income to Regen Medical exceeds \$7,000,000. In addition, beginning on October 16, 2013 and on each six month anniversary thereafter during the term, the Company is entitled to a share of Regen Medical's Savings (as defined below), minus its share of any Loss (as defined below), based upon an agreed upon base burden percentage for Regen Medical (the "Base Burden Percentage"). The Base Burden Percentage is to be calculated by dividing (a) the aggregate actual costs of Regen Medical paid by the Company during the period ending on December 31, 2011 by (b) the aggregate revenue of Regen Medical collected by the Company during the period ending on December 31, 2011; provided, however, that the Base Burden Percentage shall be recalculated on January 1, 2013 and every 12 months thereafter during the term by dividing (i) the aggregate actual costs for the Regen Medical paid by the Company during the preceding three six-month periods by (ii) the aggregate Savings or Loss is to be calculated by subtracting (a) the aggregate actual costs for the Regen Medical paid by the Company during the preceding Period from (b) an amount equal to (I) the Base Burden Percentage multiplied by (ii) the aggregate revenue of the Regen Medical collected by the Company during the preceding Period (the "Burden Amount"). If the Burden Amount exceeds the Period Actual Costs (the "Savings") or the Period Actual Costs exceed the Burden Amount (the "Loss"), Regen Medical and the Company shall share such Savings or Loss 65% for the account of the Regen Medical and 35% for the account of the Company. The Company incurred revenue of \$180,000 and \$334,000 for the three and nine months ended September 30, 2012, respectively, under the agreements. The balance of \$334,000 is included in the outstanding accounts receivable as of September 30, 2012. Furthermore, Regen Medical has advances due to the company in the amount of \$37,627 as of September 30, 2012. These advances do not have formal repayment terms or arrangements.

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8. Convertible Debentures

In May 2011, IntelliCell completed a convertible debt offering aggregating \$1,385,000. The units offered consist of a \$50,000 subordinated convertible debenture payable one year from the date of issue with interest at a rate of 6% and convertible, at the option of the holder, into the Company's common stock at an initial conversion price of \$1.72 per share. Each unit also included a detachable five (5) year warrant to purchase 57,143 shares of IntelliCell's common stock at an exercise price of \$1.72 per share. The proceeds from the issuance of convertible debt securities with detachable warrants were allocated between the warrants and the debt security. The discount is being amortized over the life of the debt. As of September 30, 2012, the Company recorded an original issue discount of \$288,564 related to the value of the warrants that will be amortized as interest expense over the initial one year term of the convertible debentures. During the three and nine months ended September 30, 2012, the Company recognized \$0 and \$72,141 of interest expense as a result of the amortization.

The Company accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of the Company's common shares. The Company determined the value of the derivative conversion features of these debentures issued at the relevant commitment dates to be \$32,209 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a charge to income of \$63,408 and a reduction to charge to income of \$4,408,733 during the three and nine months ended September 30, 2012 and \$3,387,351 during the three and nine months ended September 30, 2011. The fair value of the derivative conversion features was determined to be \$72,608 at September 30, 2012.

The Company accounted for the detachable warrants included with the convertible debentures as liabilities in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued during at the relevant commitment dates to be \$332,401 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a reduction to the charge to income of \$77,096 and \$10,008,017 during the three and nine months ended September 30, 2012 and an increase to the charge to income of \$7,929,262 and \$7,938,552 during the three and nine months ended September 30, 2011, respectively. The fair value of the derivative conversion features was determined to be \$301,933 at September 30, 2012.

As of September 30, 2012, the balance of the remaining convertible debenture amounted to \$1,360,000 and was due and payable on September 30, 2012. In the current year, a \$25,000 convertible debenture and the related accrued interest of \$904 was converted to common stock.

On May 17, 2012, the holder of an aggregate of \$500,000 principal amount of IntelliCell Notes informed the Company that it is in default and demanded repayment under the IntelliCell Notes. Pursuant to the terms of the IntelliCell Notes, upon the occurrence, after the expiration of a cure period of fifteen (15) days with respect to monetary defaults, following the receipt by the Company of written notice from a holder of a default in the payment of any installment of principal or interest, or any part thereof, when due, a holder, at its election may accelerate the unpaid balance of the principal and all accrued interest due under this Note and declare the same payable at once without further notice or demand. Upon an event of default under the IntelliCell Notes, the holders of the IntelliCell Notes shall be entitled to, among other things (i) the principal amount of the IntelliCell Notes along with any interest accrued but unpaid thereon and (ii) costs and expenses in connection with the collection and enforcement under the

IntelliCell Notes, including reasonable attorneys' fees. As a result of the notice of default, the IntelliCell Notes in the aggregate principal amount of \$1,360,000 are immediately due and payable. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the IntelliCell Notes. In conjunction with the agreement arrangements with the note holders, \$77,744 of accrued interest was converted to 89,358 shares of the Company's common stock in May 2012.

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As discussed, as a result of the Company's Merger, the subordinated convertible debentures and warrants were assumed by the Company. The remaining subordinated convertible debentures are convertible into an aggregate of 4,121,212 shares of common stock and warrants to purchase an aggregate of 3,071,542 shares of common stock (at an exercise price of \$0.33).

9. Convertible Notes Payable

Convertible Promissory Note

On June 7, 2012, the Company issued the Convertible Note in favor of TCA Global Master Fund, L.P. ("TCA"). The maturity date of the Convertible Note is June 7, 2013, and the Convertible Note bears interest at a rate of twelve percent (12%) per annum. The Convertible Note is convertible into shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") at a price equal to ninety-five percent (95%) of the average of the lowest daily volume weighted average price of the Common Stock during the five (5) trading days immediately prior to the date of conversion. The Convertible Note may be prepaid in whole or in part at the Company's option without penalty.

The Company accounted for the conversion features underlying the convertible note issued in accordance with GAAP, as the conversion feature embedded in the convertible note could result in the note being converted to a variable number of the Company's common shares. The Company determined the value of the derivative conversion features of these notes issued at the relevant commitment dates to be \$187,135 using the Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a reduction of income of \$55,886 and a charge to income of \$23,748 during the three and nine months ended September 30, 2012, respectively. The fair value of the derivative conversion features was determined to be \$210,882 at September 30, 2012.

10. Derivative Liabilities

GAAP provides guidance on determining what types of financial instruments or embedded features in a financial instrument would cause a financial instrument to be considered as indexed to a company's own stock for the purpose of evaluating the accounting for derivatives. These requirements can affect the accounting for warrants issued by the Company. Under the evaluation criteria, the Company concluded that the instruments issued are not indexed to the Company's stock and therefore are to be treated as derivative liabilities.



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## Convertible Promissory Note - Derivative Liabilities

The derivative liabilities related to the embedded conversion feature were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

|   | September<br>30, 2012<br>Embedded<br>Conversion<br>Feature |
|---|--|
| Risk free interest rate                         | 3.00%  |
| Expected volatility (peer group)                | 105.09%  |
| Expected life (in years)                        | 1.00   |
| Expected dividend yield                         | -  |
| Number outstanding                              | 2,425,168  |
| Fair value at issue date                        | \$ 187,135   |
| Change in derivative liability for the period * | \$ 23,748  |
| Fair value -derivative liability                | \$ 210,882   |

## Convertible Debentures - Derivative Liabilities

The derivative liabilities related to the embedded conversion feature and the outstanding warrants were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

|   | September 30, 2012                 |                                   |
|---|------------------------------------|-----------------------------------|
|   | Embedded<br>Detachable<br>Warrants | Embedded<br>Conversion<br>Feature |
| Risk free interest rate                         | 3.00%                              | 3.00%                             |
| Expected volatility (peer group)                | 105.09%                            | 105.09%                           |
| Expected life (in years)                        | 3.50                               | .50                               |
| Expected dividend yield                         | -                                  | -                                 |
| Number outstanding                              | 3,071,542                          | 4,121,212                         |
| Fair value at issue date                        | \$ 38,710                          | \$ 25,418                         |
| Change in derivative liability for the period * | \$ (10,008,017)                    | \$ (4,408,733)                    |
| Fair value -derivative liability                | \$ 301,933                         | \$ 72,608                         |

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## Common Stock Offering - Derivative Liabilities

The derivative liabilities related to the embedded conversion feature and the outstanding warrants were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

|  | September 30, 2012           |                             |
|--|------------------------------|-----------------------------|
|  | Embedded Detachable Warrants | Embedded Conversion Feature |
| Risk free interest rate  | 3.00%                        | 3.00%                       |
| Expected volatility (peer group)                                   | 105.09%                      | 105.09%                     |
| Expected life (in years)   | 4.50                         | .-                          |
| Expected dividend yield  | -                            | -                           |
| Number outstanding   | 10,400,000                   | 2,600,000                   |
| Fair value at issue date   | \$ 17,152,200                | \$ 1,884,112                |
| Change in derivative liability for the period (since issue date) * | \$ (17,139,140)              | \$ (1,884,112)              |
| Fair value -derivative liability                                   | \$ 12,860                    | \$ -                        |

The risk free interest rate was based on the yields of US Treasury securities having a similar life. The expected volatility was based on the historical volatility of the share prices of a peer group of the Company as quoted on major US stock exchanges over a two year period, selected based upon similar industry category, market capitalization and total asset values. The expected dividend rate was based on the fact that the Company has not historically paid dividends on common stock and does not expect to pay dividends on common stock in the future. The valuation of the embedded conversion feature at September 30, 2012 was deemed immaterial.

\* the principal reason for the changes in the derivative liabilities for the period is due to the volatility fluctuation of the Company's common stock as it is indexed for the purpose of evaluating the accounting for derivatives and/or the decrease in life as the instruments reach expiration.

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11. Capital Stock

As of September 30, 2012 and December 31, 2011, the Company has designated 21,000 shares of preferred stock as Series B preferred stock, with a par value of \$.01 per share, of which 15,233 and 18,280 shares of preferred stock are issued and outstanding, respectively. As of September 30, 2012 and December 31, 2011, the Company has designated 13,000 shares of preferred stock as Series C preferred stock, with a par value of \$.01 per share, of which 7,250 and 10,823 shares of preferred stock are issued and outstanding, respectively. As of September 30, 2012 and December 31, 2011, the Company has designated 500,000 shares of preferred stock as Series D preferred stock, with a par value of \$.01 per share, of which 56,500 and 42,000 shares of preferred stock are issued and outstanding, respectively. The Company has authorized 500,000,000 shares of common stock, with a par value of \$.001 per share. As of September 30, 2012 and December 31, 2011, the Company had 41,136,760 and 21,034,938, respectively, of shares of common stock issued and outstanding.

Series B Preferred Stock

Pursuant to the Merger Agreement, at closing, we issued 20,521 shares of the series B preferred stock to Dr. Steven Victor, the principal shareholder of Intellicell, in exchange for an aggregate of 10,575,482 shares of IntelliCell's common stock. Each share of series B preferred stock shall be convertible into 1,000 shares of the Company's common stock.

To date, the holder of Series B Preferred Stock elected to convert 5,288 shares of Series B Preferred Stock into 5,287,116 shares into our common stock including 3,047 shares of Series B Preferred into 3,046,527 shares into our common stock in the current period. As a result, there are presently 15,233 shares of Series B Preferred Stock issued and outstanding.

Series C Preferred Stock

Prior to the consummation of the Merger, the Company entered into agreements with the holders of an aggregate of \$1,693,472 of indebtedness to the Company, comprised of accrued compensation in the amount of \$1,201,551, promissory notes in the principal amount of \$263,707 and accrued expenses totaling \$228,414 (the "Series C Debt"), which included \$1,566,644 of accrued compensation, notes and/or advances held or made by affiliates of the Company, pursuant to which such persons agreed to settle and compromise such Series C Debt in exchange for the issuance of an aggregate of 12,123 shares of Series C preferred stock. Each share of Series C preferred stock shall be convertible into 1,000 shares of the Company's common stock. Certain holders of the Company's Series C preferred stock have contractually agreed to restrict their ability to convert the Series C preferred stock such that the number of shares of the Company common stock held by each of holder and its affiliates after such conversion shall not exceed 4.99% of the Company's then issued and outstanding shares of common stock.

To date, certain holders of Series C Preferred Stock elected to convert 4,873 shares of Series C Preferred Stock into 4,873,000 shares into our common stock including 3,573 shares of Series C Preferred into 3,572,500 shares into our common stock in the current period. As a result, there are presently 7,250 shares of Series C Preferred Stock issued and outstanding.

Series D Preferred Stock

The Company entered into a securities purchase agreements with purchasers that qualified as an accredited investors, as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to which the Company sold an aggregate of 56,500 shares of our series D convertible preferred stock and warrants to purchase 565,000 of the Company's common stock, for aggregate gross proceeds of \$1,130,000. Each share of series D convertible preferred stock has a stated value equal to \$20.00 per share and is initially convertible at any time into shares of common stock at a conversion price equal to \$2.00 per share, subject to adjustment under certain circumstances. As long as the series D preferred stock is outstanding, the conversion price of the series D convertible preferred stock in effect shall be reduced by \$0.05 for every 180 day period a share of series D preferred stock is held by the investor. The series D convertible preferred stock automatically converts into shares of the Company's common stock after three years. The warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$2.00, subject to adjustment under certain circumstances. The exercise price of the warrants and the conversion price of the series D convertible preferred stock are subject to full ratchet and anti-dilution adjustment for subsequent lower price issuances by the Company, as well as customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. However, no adjustment made shall cause the exercise price of the series D convertible preferred stock and warrants to be less than \$1.00.

To date, the Company has sold its series D convertible preferred stock and warrants for aggregate gross proceeds of \$1,130,000 including 14,500 shares of Series D convertible preferred stock in the current period for net proceeds of \$230,000.

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On January 27, 2012, the Company sold an aggregate of 12,500 shares of our series D convertible preferred stock and a warrant to purchase 125,000 of the Company's common stock, for aggregate gross proceeds of \$250,000.

On January 30, 2012, the Company sold an aggregate of 2,000 shares of our series D convertible preferred stock and warrants to purchase an aggregate of 20,000 of the Company's common stock, for aggregate gross proceeds of \$40,000.

In connection with the series D convertible preferred stock offering, we paid professional fees of \$60,000 and issued a placement agent 15,000 warrants to purchase shares of common stock. The warrants issued to the placement agent may be exercised on a cashless basis.

February 2012 Private Placement- Common Stock and Warrant Issuances

In February 2012, the Company entered into securities purchase agreements with accredited investors, as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to which the Company sold (i) an aggregate of 2,600,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), (ii) class A warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class A Warrants"), and (iii) class B warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class B Warrants" and together with the Class A Warrants, the "Warrants"), for aggregate gross cash proceeds of \$2,627,649, which consisted of \$2,100,000 of cash and the exchange and cancelation of a promissory note (bearing principal and interest totaling \$527,549) and a warrant ("Exchange Agreement"). In connection with the private placement, we paid placement agent fees and professional fees of \$55,750 and issued the placement agent 27,500 warrants to purchase shares of common stock. The warrants issued to the placement agent may be exercised on a cashless basis.

The Class A Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$2.00, subject to adjustment. The Class B Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$3.75, subject to adjustment. The exercise price of the Warrants are subject to anti-dilution adjustment for subsequent lower price issuances by the Company, as well as customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. The investors may exercise the Warrants on a cashless basis anytime after the six month anniversary of the initial exercise date of the Warrants if the shares of common stock underlying the Warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the Warrants on a cashless basis, we will not receive any proceeds.

Common Stock Issuances

As discussed above, the Company issued 2,600,000 shares of its common stock for the February 2012 Private Placement which includes 2,100,000 shares for the private placement and 500,000 shares for the exchange and cancelation of a promissory note.

On January 9, 2012, The Company issued 29,436 shares of its common stock in exchange for the conversions of a \$25,000 convertible debenture and accrued interest of \$904. In addition, on May 22, 2012, the Company issued 89,358 shares of its common stock in exchange for the conversion of accrued interest of \$77,744.

In February 2012, the Company issued 360,001 shares of its common stock for advisory services. The Company recognized the fair market value of \$1,083,170 as an expense as of the date of issue.

In March 2012, the Company issued 200,000 shares of its common stock in exchange for outstanding fees due and payable . The Company recognized the fair market value net of \$100,000 as a reduction to accrued expenses as of the date of issue.

On February 20, 2012 , the Company issued 500,000 of additional shares of its common stock to a former noteholder for services in conjunction with the Exchange Agreement. The Company recognized the fair market value net of \$1,250,000 as an expense as of the date of issue.

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In May 2012, the Company issued 100,000 shares of common stock in conjunction with the Australian license agreement dated December 2011.

In May 2012, the Company issued 1,100,000 shares of its common stock for advisory services. The Company recognized the fair market value of \$2,635,500 as an expense.

In June 2012, the Company issued 1,000,000 shares of its common stock in exchange for outstanding fees due and payable. The Company recognized the fair market value net of \$77,687 as a reduction to accrued expenses as of the date of issue.

In June 2012, the Company issued 14,000 shares of its common stock for advisory services. The Company recognized the fair market value of \$5,180 as an expense.

In August 2012, the Company issued 330,000 shares of its common stock for advisory services. The Company recognized the fair market value of \$52,800 as an expense.

In September 2012, the Company issued 60,000 shares of its common stock for advisory services. The Company recognized the fair market value of \$10,200 as an expense.

Between September 5, 2012 and October 11, 2012, the February 2012 investors (including the investor that exchanged and cancelled his outstanding promissory note) agreed to certain amendments to their securities purchase agreement and exchange their respective Warrants for (i) an aggregate of 6,100,000 shares of the Company's Common Stock (ii) a new series A warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share and (iii) a new series B warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share.

Committed Equity Facility Agreement

On June 7, 2012, the Company entered into the Equity Agreement with TCA Global Master Fund, L.P. ("TCA"). Pursuant to the terms of the Equity Agreement, for a period of twenty-four months commencing on the effective date of the Registration Statement (as defined herein), TCA is to commit to purchase up to \$2,000,000 of the Company's common stock, par value \$0.001 per share (the "Shares"), pursuant to Advances, covering the Registrable Securities. The purchase price of the Shares under the Equity Agreement is equal to ninety-five percent (95%) of the lowest daily volume weighted average price of the Company's common stock during the five (5) consecutive trading days after the Company delivers to TCA an Advance notice in writing requiring TCA to advance funds (an "Advance") to the Company, subject to the terms of the Equity Agreement.

As further consideration for TCA entering into and structuring the Equity Facility, the Company must pay TCA a fee by issuing 275,000 shares of its common stock that equal to \$110,000.

Registration Rights Agreement

On June 7, 2012 (the "Closing Date"), the Company entered into the Registration Rights Agreement with TCA. Pursuant to the terms of the Registration Rights Agreement, the Company will use its commercially reasonable best efforts to file a registration statement (the "Registration Statement") with the U.S. Securities and Exchange

Commission (the "SEC") to cover the Registrable Securities no later than 45 days from the Closing Date (the "Filing Date"). The Company shall use its commercially reasonable efforts to cause the Registration Statement to be declared effective by the SEC no later than 90 days following the Closing Date. In the event that the Registration Statement is not declared effective within a 150 days of the Filing Date, the Company will be subject to certain penalties.



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## 12. Stock Options and Warrants

## Employee and Non-Employee Stock Options

The following table summarizes the changes in the options outstanding at September 30, 2012, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$ 0.01 - 0.16           | 1,400,000          | \$ 0.14                         | 9.71  | 500,000            | \$ 0.12                         |
| 4.00                     | 2,519,802          | \$ 4.00                         | 9.25  | 1,769,797          | \$ 4.00                         |
|                          | 3,919,802          |                                 | 9.41  | 2,269,797          |                                 |

A summary of the Company's stock awards for options as of September 30, 2012 and changes for the nine months ended September 30, 2012 is presented below:

|                                 | Stock Options | Weighted Average Exercise Price |
|---------------------------------|---------------|---------------------------------|
| Outstanding, December 31, 2011  | 3,150,016     | \$ 4.00                         |
| Granted                         | 1,743,750     | 0.90                            |
| Exercised                       | (973,964)     | 4.00                            |
| Expired/Cancelled               | —             | —                               |
| Outstanding, September 30, 2012 | 3,919,802     | 2.62                            |
| Exercisable, September 30, 2012 | 2,269,797     | 2.54                            |

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The weighted-average fair value of stock options granted to employees during the nine months ended September 30, 2012 and 2011, respectively, and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton (“Black-Scholes”) option pricing model are as follows:

|   | September<br>30, 2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
| Significant assumptions (weighted-average): |                       |                      |
|   | 0.35% to              |                      |
| Risk-free interest rate at grant date       | 1.61%                 | 0.85%                |
| Expected stock price volatility             | 105%                  | 105%                 |
| Expected dividend payout                    | -                     | -                    |
|   | 3.0 to                |                      |
| Expected option life (in years)             | 10.0                  | 10.0                 |
| Expected forfeiture rate                    | -                     | 0%                   |
| Fair value per share of options granted     | \$ 0.24               | \$ 3.65              |

The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company has no historical experience with which to establish a basis for determining an expected life of these awards. Therefore, the Company only gave consideration to the contractual terms and did not consider the vesting schedules, exercise patterns and pre-vesting and post-vesting forfeitures significant to the expected life of the option award.

We estimate the volatility of our common stock based on the calculated historical volatility of similar entities in industry, in size and in financial leverage whose share prices are publicly available. We base the risk-free interest rate used in the Black-Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. We have not paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes-Merton option valuation model.

There were no options exercised during the nine months ended September 30, 2012 and 2011, respectively.

Total stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the three and nine months ended September 30, 2012 was \$551,265 and \$2,409,724, respectively, net of tax effect. Total stock-based compensation expense in connection with options granted to non-employees recognized in the consolidated statement of operations for the three and nine months ended September 30, 2012 was \$15,593 and \$30,646, respectively, net of tax effect. There were no stock options issued in the three and nine months ended September 30, 2011. Additionally, none of the options outstanding and unvested as of September 30, 2012 had any intrinsic value.

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## Warrants

The following table summarizes the changes in the warrants outstanding at September 30, 2012, and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were issued in lieu of cash compensation for services performed or financing expenses and in connection with the private placements and merger.

| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$ 0.33                  | 3,071,542          | \$ 0.33                         | 3.61  | 3,071,542          | \$ 0.33                         |
| \$ 0.75 - 0.86           | 11,580,000         | \$ 0.75                         | 4.35  | 11,580,000         | \$ 0.75                         |
| \$ 1.00                  | 42,500             | \$ 1.00                         | 4.23  | 42,500             | \$ 1.00                         |
| \$ 1.58                  | 45,000             | \$ 1.58                         | 9.50  | 45,000             | \$ 1.58                         |
| \$ 2.00                  | 2,929,200          | \$ 2.00                         | 4.14  | 2,929,200          | \$ 2.00                         |
| \$ 2.45 - 2.60           | 800,000            | \$ 2.51                         | 4.26  | 800,000            | \$ 2.51                         |
| \$ 3.00                  | 750,000            | \$ 3.00                         | 4.21  | 750,000            | \$ 3.00                         |
| \$ 3.20                  | 350,000            | \$ 3.20                         | 4.18  | 350,000            | \$ 3.20                         |
| \$ 3.75                  | 100,000            | \$ 3.75                         | 4.39  | 100,000            | \$ 3.75                         |
|                          | 19,668,242         |                                 | 4.08  | 19,668,242         |                                 |

A summary of the Company's stock awards for warrants as of September 30, 2012 and changes for the nine months ended September 30, 2012 is presented below:

|                                 | Options and Warrants | Weighted Average Exercise Price |
|---------------------------------|----------------------|---------------------------------|
| Outstanding, December 31, 2011  | 6,931,542            | \$ 1.62                         |
| Granted                         | 12,736,700           | 0.99                            |
| Exercised                       | —                    | —                               |
| Expired/Cancelled               | —                    | —                               |
| Outstanding, September 30, 2012 | 19,668,242           | 1.09                            |
| Exercisable, September 30, 2012 | 19,668,242           | 1.09                            |

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February 2012 Private Placement

In February 2012, the Company entered into securities purchase agreements with accredited investors, as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to which the Company sold (i) an aggregate of 2,600,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), (ii) class A warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class A Warrants"), and (iii) class B warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class B Warrants" and together with the Class A Warrants, the "Warrants"). (See note 10)

The Class A Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$2.00, subject to adjustment. The Class B Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$3.75, subject to adjustment. The exercise price of the Warrants are subject to anti-dilution adjustment for subsequent lower price issuances by the Company, as well as customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. The investors may exercise the Warrants on a cashless basis anytime after the six month anniversary of the initial exercise date of the Warrants if the shares of common stock underlying the Warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the Warrants on a cashless basis, the Company will not receive any proceeds.

Between September 5, 2012 and October 11, 2012, the February 2012 investors (including the investor that exchanged and cancelled his outstanding promissory note) agreed to certain amendments to their securities purchase agreement and exchange their respective Warrants for (i) an aggregate of 6,100,000 shares of the Company's Common Stock (ii) a new series A warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share and (iii) a new series B warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share.

Series D Preferred Stock

The Company sold an additional 14,500 shares of our series D convertible preferred stock and warrants to purchase 145,000 of the Company's common stock, for aggregate net proceeds of \$230,000 (See Note 11). The warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$2.00, subject to adjustment under certain circumstances. The exercise price of the warrants and the conversion price of the series D convertible preferred stock are subject to anti-dilution adjustment for subsequent lower price issuances by the Company, as well as customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. However, no adjustment made shall cause the exercise price of the series D convertible preferred stock and warrants to be less than \$1.00. In conjunction with the February 2012 Private Placement, the Series D holders were allocated an additional 565,000 warrants to purchase the Company's common stock and the exercise price of the Series D warrants was reduced to \$1.00 as an anti-dilution adjustment.

The Company issued 1,584,200 compensatory warrants to non-employees during the three and nine months ended September 30, 2012. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for the grants, respectively; dividend yield of zero percent for all periods; expected volatility is 105%; risk-free interest rate from a range of .12% to 2.08%; expected lives ranging from one years to ten years. Total non-employee stock-based compensation expense in connection with warrants recognized in the consolidated statement of operations for the three and nine months ended September 30, 2012 was \$0 and \$2,720,764, respectively, net of tax effect. There were

no compensatory warrants issued in the three and nine months ended September 30, 2011.

#### Series D Preferred Stock Financing Amendment

Between October 2, 2012 and October 11, 2012, the Company entered into an amendment agreement (collectively, the "Series D Amendment Agreement"), with investors who participated in the Company's series D preferred stock private placement (the "Series D Investors") pursuant to which the Series D Investors holding (i) an aggregate of 40,500 shares of series D preferred stock (the "Series D Preferred Stock") and (ii) warrants to purchase an aggregate of 405,000 shares of Common Stock (the "Series D Warrants"), agreed to certain amendments to their securities purchase agreement and their Series D Warrants to, among other things, remove all anti-dilution price protection that the Feb 2012 Investors received in connection with the transaction, allow the Company to create a new series of preferred stock that ranks pari passu as to dividends, redemption or distribution of assets upon liquidation with the Series D Preferred Stock in exchange for reducing (i) the conversion price of the Series D Preferred Stock to \$0.33 and (ii) the exercise price of the Series D Warrants to \$0.75.

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## 13. Loss per Share

The following table presents the computations of basic and dilutive loss per share:

|  | For the three<br>months<br>ended<br>September<br>30, 2012 | For the nine<br>months<br>ended<br>September<br>30, 2012 |
|--|---|--|
| Net Loss   | \$ 1,742,964  | \$ 210,242   |
| Net income (loss) per share:                                 |   |  |
| Net income (loss) per share – basic & diluted                | \$ (.05)  | \$ (.01)   |
| Weighted average common shares outstanding – basic & diluted | 32,627,419  | 27,748,393   |

For the three and nine months ended September 30, 2012 common stock equivalents totaling 40,537,511 and 42,651,555, respectively, related to warrants, convertible debt and preferred stock were excluded from the calculation of the diluted net loss per share as their effect would have been antidilutive.

|  | For the three<br>months<br>ended<br>September<br>30, 2011 | For the nine<br>months<br>ended<br>September<br>30, 2011 |
|--|---|--|
| Net Income (Loss)  | \$ (6,191,912)  | \$ (19,391,490)  |
| Net income (loss) per share:                                 |   |  |
| Net income (loss) per share – basic & diluted                | \$ (0.33)   | \$ (1.09)  |
| Weighted average common shares outstanding – basic & diluted | 18,670,289  | 17,858,505   |

For the three and nine months ended September 30, 2011 common stock equivalents totaling 35,246,597 and 35,017,915, respectively, related to warrants, convertible debt and preferred stock were excluded from the calculation of the diluted net loss per share as their effect would have been antidilutive.

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14. Commitments

On June 1, 2011, a company owned by Dr. Steven Victor, the Company's chief executive officer, entered into a 13 year lease for new office space, for which the Company unconditionally guaranteed any and all obligations owed under the lease to the landlord. In connection with the execution of the lease, the Company established a restricted cash account in the amount of approximately \$650,000 to secure a line of credit to be used as a security deposit under the lease as well as paying the initial two months' rent totaling \$53,839. Once the build out of the office space is complete, the Company will pay \$25,000 per month to sublease office space from the company owned by Dr. Victor. The Company occupied this new facility in April 2012. The Company paid Dr. Victor \$25,000 per month in rent through the period ending June 30, 2012.

15. Subsequent Events

The Company has evaluated its subsequent events from the balance sheet date through the date the accompanying consolidated financial statements became available to be issued. There were no significant subsequent events.

Series E Preferred Stock Financing

Between October 1 2012 and October 31, 2012, the Company entered into a securities purchase agreement with two accredited investors (the "Series E Preferred Stock Investors") pursuant to which the Company sold the investors an aggregate of one hundred twenty-five (125) shares of its series E convertible preferred stock (the "Series E Preferred Stock") for aggregate gross proceeds of \$125,000.

Between November 5, 2012 and November 6, 2012, the Company entered into an exchange agreement, with the Series E Preferred Stock Investors pursuant to which the Series E Preferred Investors holding an aggregate of 125 shares of the Company's Series E Preferred Stock agreed to exchange their Series E Preferred Stock for (i) an aggregate of 833,334 shares of the Company's Common Stock and (ii) a five-year warrant to purchase an aggregate of 416,667 shares of Common Stock at an exercise price of \$0.45 per share. The Series E Preferred Stock Investors also provided their consent to allow the Company to take all actions necessary to cancel the Series E Preferred Stock which will include the filing of a Withdrawal of Designation with the Secretary of State of Nevada. As of the date of this Quarterly Report on Form 10-Q, the Company has not filed any documents with the Nevada Secretary of State.

A FINRA registered broker-dealer was engaged as placement agent in connection with the Series E Preferred Stock private placement. We paid the placement agent a cash fee in the amount of \$17,500 (representing a 10% sales commission of \$12,500 and reimbursement for legal fees incurred) and will issue the placement agent a warrant to purchase shares of common stock.

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Thailand License Agreement

On October 23, 2012, the Company sent a letter to StemCells 21 Co. Ltd. (the “Thailand Licensee”) pursuant to which the Company notified the Thailand Licensee that it intends to terminate the Laboratory Services License Agreement, dated April 7, 2012 by and between the Company and Thailand Licensee (the “Thailand Agreement”), effective immediately. The Company is terminating the Thailand Agreement, for, among other things, Thailand Licensee’s (i) attempt to determine the Technology (as defined in the Thailand Agreement) for Tissue Processing (as defined in the Thailand Agreement), (ii) failure to provide monthly reports summarizing Thailand Licensee’s efforts to utilize and commercially exploit the Patents (as defined in the Thailand Agreement) and Technology, (iii) operation of the Technology without using the name “Intellicell Thailand”, (iv) operation of the Technology in ways that fall outside the scope of the Thailand Agreement and (v) failure to notify the Company of infringing uses of the Technology. Pursuant to the terms of the Thailand Agreement, the Thailand Licensee has ten (10) business days to cure an event of default under the Thailand Agreement (except for termination of the Thailand Agreement as set forth in subsection (i) above which allows the Company to terminate the Thailand Agreement immediately). The Company has accrued \$150,000 in the License Fee Liability upon the determination of amount of the fees, if any, to be returned to the former Thailand Licensee.

Australia License Agreement

On December 16, 2011, the Company entered into an exclusive lab services agreement (the “Australian Agreement”) with Cell-Innovations Pty Ltd. (“Australian Licensee”) pursuant to which the Company granted Australian Licensee the exclusive right and license to the Company’s technology and trademarks so that the Australian Licensee can utilize the Company’s technology and trademarks to provide tissue processing services for humans in Australia and New Zealand. As of the date of this Current Report on Form 8-K, the Company and Australian Licensee are in a dispute over the some of the terms of the Australian Agreement, including, but not limited to, compliance by Australian Licensee with ICB Protocols (as defined in the Australian Agreement). While the Company has commenced discussions with the Australian Licensee concerning the disputes that have arisen under the terms of the Australian Agreement, there can be no assurance that the Company and the Australian Licensee will come to any mutual understanding with respect to any of the issues in question. As of the date of this Current Report on Form 8-K, the Company is continuing to evaluate what further action(s), if any, it make take in response to the dispute with the Australian Licensee, which action(s) may include, but not be limited to, terminating the Australian Agreement. The Company has accrued \$700,000 in the License Fee Liability upon the determination of amount of the fees, if any, to be returned to the former Australian Licensee.

Unit Offering

On November 13, 2012, the Company entered into a securities purchase agreement with an accredited investor pursuant to which the Company sold the investor 833,333 units, each unit consisting of two (2) shares of the Company’s common stock and a warrant to purchase a share of common stock, for aggregate gross proceeds of \$250,000. The warrant is exercisable for a period of five years from the date of issuance at an initial exercise price of \$0.45, subject to adjustment. The exercise price of the warrant is subject to customary adjustments for stock splits, stock dividends, recapitalizations and the like.





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

Statement of Forward Looking Information

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. The following Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company should be read in conjunction with the Consolidated Financial Statements and notes related thereto included in this Quarterly Report on Form 10-Q. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions. Factors that could cause differences include, but are not limited to, expected market demand for our products, fluctuations in pricing for materials, and competition.

In this quarterly report on form 10-Q, references to "we" "our," or the "Company" refer collectively to IntelliCell Biosciences, Inc. and its subsidiaries which include our wholly owned subsidiary, IntelliCell Biosciences, Inc., a New York corporation.

History

We were incorporated in Nevada under the name AVL Systems International, Inc. on March 8, 1999. On March 9, 2000, we filed an amendment to our articles of incorporation to change our corporate name to I-Track, Inc. On March 21, 2003, we filed Articles of Exchange pursuant to which we acquired Strategic Communication Partners, Inc., and we filed an amendment to our articles of incorporation to change our corporate name to China Wireless Communications, Inc. On May 17, 2010, we filed an amendment to our articles of incorporation to change our corporate name to Media Exchange Group, Inc. On June 3, 2011, we completed the acquisition of Intellicell Biosciences, Inc., a New York corporation, pursuant to the terms of an Agreement and Plan of Merger dated April 27, 2011. Thereafter, on June 30, 2011, we completed the sale of all of our rights, title and interests to, and agreements relating to, our digital trading card business and platform as well as all other intangible assets of the business, pursuant to an asset purchase agreement with Consorteum Holdings, Inc. As a result of the transactions with Intellicell and Consorteum, we terminated our digital trading card business and platform and succeeded to the business operations and research efforts of Intellicell in the field of Regenerative medicine. On June 27, 2011, we filed articles of merger to change our corporate name to Intellicell Biosciences, Inc.

Merger with Intellicell Biosciences, Inc.

On April 27, 2011, we entered into an Agreement and Plan of Merger with Intellicell which was amended on June 3, 2011 (the "Merger Agreement"). Under the terms of the Merger Agreement, our wholly-owned subsidiary ("Merger Sub") merged into Intellicell. The Merger Sub ceased to exist as a corporation and Intellicell continued as the surviving corporate entity. As a result of the merger, Intellicell shareholders acquired majority of our outstanding common stock and all of our Series B preferred stock. The recapitalized Intellicell Biosciences, Inc. is hereafter referred to as "Intellicell" or the "Company". As consideration for the Merger, the holders of the an aggregate of 7,975,768 shares of IntelliCell's common stock exchanged their shares of common stock for an aggregate of 15,476,978 shares of the Company's common stock and Dr. Steven Victor, the principal shareholder of IntelliCell, exchanged an aggregate of 10,575,482 shares of IntelliCell's common stock for an aggregate of 20,521 shares of the Company's series B preferred stock. Each share of series B preferred stock is convertible into 1,000 shares of the Company's common stock. In

addition, the holders of the series B preferred stock are entitled to notice of stockholders' meetings and to vote as a single class with the holders of the Common Stock on any matter submitted to the stockholders for a vote, and are entitled to the number of votes equal the product of (a) the number of shares of Common Stock into which the series B preferred stock is convertible into on the record date of the vote multiplied by (b) ten (10). The closing of the Merger took place on June 3, 2011 (the "Closing Date").

In addition to the foregoing, in accordance with the Merger Agreement, all outstanding convertible notes issued by IntelliCell (the "IntelliCell Notes") and warrants issued by IntelliCell (the "IntelliCell Warrants") entitle the holder to convert or exercise, as the case may be, into and receive the same number of shares of the Company common stock as the holder of IntelliCell Notes and Warrants would have been entitled to receive pursuant to the Merger had such holder exercised such Intellicell Notes and Warrants in full immediately prior to the closing of the Merger. Thus, remaining are an aggregate of \$1,360,000 of Intellicell Notes outstanding which are convertible into an aggregate of 1,533,258 shares of common stock of the Company and warrants to purchase an aggregate of 3,071,342 shares of common stock of the Company. In the current period, holders of Intellicell Notes in the principal amount of \$25,000 have converted their Intellicell Notes into shares of our common stock. We have not repaid any of the principal or accrued but unpaid interest that has become due and payable under the remaining Intellicell Notes. The Company is currently working on making arrangements to honor its remaining obligations under the Intellicell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the Intellicell Notes.

As a result of the Merger, IntelliCell became our wholly-owned subsidiary, with Intellicell's former shareholders acquiring a majority of the outstanding shares of our common stock, as well as all of the shares of our series B preferred stock.

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### License Agreements

We have entered into domestic licensing agreements covering the areas of Philadelphia, Pennsylvania, Dallas/Ft. Worth, Texas, Palm Beach, Florida, Metairie, Louisiana, Lake Mary, Florida, Denver, Colorado, Sugarland, Texas and Baton Rouge, Louisiana as well as international licensing agreements covering the territories of Canada, Australia, New Zealand, and Thailand. As of the date hereof, we believe that the licensees in Philadelphia, Pennsylvania, Dallas/Ft. Worth, Texas, Palm Beach, Florida, Metairie, Louisiana, and Lake Mary, Florida are either in default and/or non-compliance with the duties, obligation or responsibility imposed upon them by the agreement and we intend to pursue our remedies accordingly. In addition, we have received notification of termination from the licensees in Denver, Colorado, Baton Rouge, Louisiana and Lake Mary, Florida which notifications include demand for payments. We believe that such parties were also in default and/or non-compliance with the duties, obligation or responsibility imposed upon them by the agreement, and we intend to pursue our remedies and/or vigorously defend ourselves against any claims made by such parties. In addition, during the course of the establishment of the laboratory in Thailand, we became concerned over the ability of the licensee to make certain payments to us as well as the licensee's ongoing ability to meet the duties, obligations and/or responsibility imposed upon them by the license agreement. As a result, we are considering terminating the agreement and returning all or a portion of the fees paid to date, if appropriate, however, there can be no assurance that any such arrangement will ever materialize.

### Regen Agreement

On April 16, 2012, the Company entered into a technology license and administrative services agreement (the "Agreement") with Regen Medical P.C., the medical practice which is owned by, and through which, our Chief Executive Officer, Dr. Steven Victor, engages in the practice of Cosmetic Dermatology ("Regen Medical"). Pursuant to the Agreement, the Company, among other things, (i) granted Regen Medical the non-exclusive and non-assignable license to utilize the Company's proprietary process and technology for its patients, (ii) granted Regen Medical a license to use a laboratory which can be used by Regen Medical for use of the Company's proprietary process and (iii) was appointed as the exclusive manager and administrator of Regen Medical's operations which relates to the implementation of the Company's proprietary process as well as Regen Medical's cosmetic dermatology practice, and (iv) was appointed the sole provider of non-medical managerial, administrative and business functions for Regen Medical's cosmetic dermatology practice. The Agreement became effective as of April 16, 2012 and shall continue until April 16, 2017. Thereafter, the Agreement is to be automatically renewed for successive five year periods unless either party notifies the other in writing of its intention not to renew the Agreement. Such a notice is to be given at least 12 months but no more than 15 months prior to the expiration of the then current term. Either party may terminate the Agreement, for among other things, the failure to cure a material breach of the agreement within 30 days after receipt of written notice or in the event any state or federal laws or regulations, now existing or enacted or promulgated after the effective date, are interpreted in such a manner as to indicate that the structure of the agreement may be in violation of any such laws or regulations.

In consideration for the services to be provided under the Agreement, Regen Medical is to pay the Company (i) an annual administrative fee of \$600,000, payable in equal monthly installments during the term of the term of the agreement (subject to an annual increase of up to a maximum of ten percent (10%) beginning on the second anniversary of the effective date), (ii) an annual technology license fee of \$120,000, payable in equal monthly installments during the term of the term of the agreement, for the use of our proprietary process (including the laboratory and the laboratory technician) and (iii) a processing fee of \$1,000 for each tissue processing case that utilizes our proprietary process. The Company is also entitled to a an annual performance fee during the term of either (i) \$150,000, in the event total income to Regen Medical exceeds \$5,500,000 or (ii) \$200,000, in the event that total income to Regen Medical exceeds \$7,000,000. In addition, beginning on October 16, 2013 and on each six month anniversary thereafter during the term, the Company is entitled to a share of Regen Medical's Savings (as defined below), minus its share of any Loss (as defined below"), based upon an agreed upon base burden percentage for Regen

Medical (the “Base Burden Percentage”). The Base Burden Percentage is to be calculated by dividing (a) the aggregate actual costs of Regen Medical paid by the Company during the period ending on December 31, 2011 by (b) the aggregate revenue of Regen Medical collected by the Company during the period ending on December 31, 2011; provided, however, that the Base Burden Percentage shall be recalculated on January 1, 2013 and every 12 months thereafter during the term by dividing (i) the aggregate actual costs for the Regen Medical paid by the Company during the preceding three six-month periods by (ii) the aggregate Savings or Loss is to be calculated by subtracting (a) the aggregate actual costs for the Regen Medical paid by the Company during the preceding Period from (b) an amount equal to (I) the Base Burden Percentage multiplied by (ii) the aggregate revenue of the Regen Medical collected by the Company during the preceding Period (the “Burden Amount”). If the Burden Amount exceeds the Period Actual Costs (the “Savings”) or the Period Actual Costs exceed the Burden Amount (the “Loss”), Regen Medical and the Company shall share such Savings or Loss 65% for the account of the Regen Medical and 35% for the account of the Company.

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### Recent Developments

#### FDA Validation

On November 8, 2012, the Company was notified according to the Federal Drug Administration (“FDA”) validation registration number 3009842420, that its new facility located at 460 Park Avenue, New York, NY 10022 is now registered to recover, process, package, store, and label human cells and tissue products (HCT/P’s) such as the IntelliCell autologous stromal vascular fraction cellular product. In the registration notification, FDA acknowledged that the IntelliCell process is to be covered under regulations for tissue products. The HCT/P regulations are described in 21 CFR section 1271.10. The registration does not represent FDA approval of IntelliCell’s processes.

#### Lasersculpt IP License Agreement

On July 20, 2012, the Company entered into an intellectual property license agreement (the “License Agreement”) with Lasersculpt, Inc., a corporation controlled by Dr. Steven Victor, the Company’s chief executive officer (“Lasersculpt”), pursuant to which Lasersculpt licensed to the Company, among other things, the right to (i) use, market, broadcast and otherwise exploit a 30 minute infomercial, 30 and 60 second commercials and other produced content regarding the Lasersculpt method and procedure (the “Shows”) (ii) product and commercially exploit new versions of the Shows, as well as any sequels, prequels and other productions based on the Shows or the IP Rights (as defined in the License Agreement), and (iii) use and exploit the IP Rights (as defined in the License Agreement) in any manner the Company, in its sole discretion, deems necessary or advisable. The License Agreement shall have an initial term of ten (10) years from the date of the License Agreement, unless terminated sooner in accordance with the License Agreement (the “Term”). In consideration for the rights granted under the License Agreement, the Company agreed to (i) issue 430,000 shares of Common Stock to Lasersculpt (which shares were transferred by Dr. Victor out of his personal holdings in the Company directly to Lasersculpt) and (ii) pay Lasersculpt royalties in an amount equal to 5% of Net Revenue (as defined in the License Agreement) received by the Company during the Term (which royalties Dr. Victor and his affiliates have agreed to not receive).

#### Series E Preferred Stock Financing

Between October 1 2012 and October 31, 2012, the Company entered into a securities purchase agreement with two accredited investors (the “Series E Preferred Stock Investors”) pursuant to which the Company sold the investors an aggregate of one hundred twenty-five (125) shares of its series E convertible preferred stock (the “Series E Preferred Stock”) for aggregate gross proceeds of \$125,000.

Between November 5, 2012 and November 6, 2012, the Company entered into an exchange agreement, with the Series E Preferred Stock Investors pursuant to which the Series E Preferred Investors holding an aggregate of 125 shares of the Company’s Series E Preferred Stock agreed to exchange their Series E Preferred Stock for (i) an aggregate of 833,334 shares of the Company’s Common Stock and (ii) a five-year warrant to purchase an aggregate of 416,667 shares of Common Stock at an exercise price of \$0.45 per share. The Series E Preferred Stock Investors also provided their consent to allow the Company to take all actions necessary to cancel the Series E Preferred Stock which will include the filing of a Withdrawal of Designation with the Secretary of State of Nevada. As of the date of this Quarterly Report on Form 10-Q, the Company has not filed any documents with the Nevada Secretary of State.

A FINRA registered broker-dealer was engaged as placement agent in connection with the Series E Preferred Stock private placement. We paid the placement agent a cash fee in the amount of \$17,500 (representing a 10% sales commission of \$12,500 and reimbursement for legal fees incurred) and will issue the placement agent a warrant to purchase shares of common stock.

Thailand License Agreement

On October 23, 2012, the Company sent a letter to StemCells 21 Co. Ltd. (the “Thailand Licensee”) pursuant to which the Company notified the Thailand Licensee that it intends to terminate the Laboratory Services License Agreement, dated April 7, 2012 by and between the Company and Thailand Licensee (the “Thailand Agreement”), effective immediately. The Company is terminating the Thailand Agreement, for, among other things, Thailand Licensee’s (i) attempt to determine the Technology (as defined in the Thailand Agreement) for Tissue Processing (as defined in the Thailand Agreement), (ii) failure to provide monthly reports summarizing Thailand Licensee’s efforts to utilize and commercially exploit the Patents (as defined in the Thailand Agreement) and Technology, (iii) operation of the Technology without using the name “Intellicell Thailand”, (iv) operation of the Technology in ways that fall outside the scope of the Thailand Agreement and (v) failure to notify the Company of infringing uses of the Technology. Pursuant to the terms of the Thailand Agreement, the Thailand Licensee has ten (10) business days to cure an event of default under the Thailand Agreement (except for termination of the Thailand Agreement as set forth in subsection (i) above which allows the Company to terminate the Thailand Agreement immediately). The Company has accrued \$150,000 in the License Fee Liability upon the determination of amount of the fees, if any, to be returned to the former Thailand Licensee.

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### Australia License Agreement

On December 16, 2011, the Company entered into an exclusive lab services agreement (the “Australian Agreement”) with Cell-Innovations Pty Ltd. (“Australian Licensee”) pursuant to which the Company granted Australian Licensee the exclusive right and license to the Company’s technology and trademarks so that the Australian Licensee can utilize the Company’s technology and trademarks to provide tissue processing services for humans in Australia and New Zealand. As of the date of this Current Report on Form 8-K, the Company and Australian Licensee are in a dispute over the some of the terms of the Australian Agreement, including, but not limited to, compliance by Australian Licensee with ICB Protocols (as defined in the Australian Agreement). While the Company has commenced discussions with the Australian Licensee concerning the disputes that have arisen under the terms of the Australian Agreement, there can be no assurance that the Company and the Australian Licensee will come to any mutual understanding with respect to any of the issues in question. As of the date of this Current Report on Form 8-K, the Company is continuing to evaluate what further action(s), if any, it make take in response to the dispute with the Australian Licensee, which action(s) may include, but not be limited to, terminating the Australian Agreement. The Company has accrued \$700,000 in the License Fee Liability upon the determination of amount of the fees, if any, to be returned to the former Australian Licensee.

### Unit Offering

On November 13, 2012, the Company entered into a securities purchase agreement with an accredited investor pursuant to which the Company sold the investor 833,333 units, each unit consisting of two (2) shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”) and a warrant to purchase a share of common stock (collectively, the “Warrant”), for aggregate gross proceeds of \$250,000. The Warrant is exercisable for a period of five years from the date of issuance at an initial exercise price of \$0.45, subject to adjustment. The exercise price of the Warrant is subject to customary adjustments for stock splits, stock dividends, recapitalizations and the like.

### Corporate Structure

As a result of the foregoing transactions, we currently have a wholly-owned subsidiary, Intellicell Biosciences, Inc., a New York corporation, through which we engage in our principal business. We have also recently formed another wholly-owned subsidiary, ICBS Research, Inc., a New York corporation, for the purpose of engaging in clinical studies at prominent medical centers to obtain FDA approval for major clinical indications. In addition, our wholly-owned subsidiary, Intellicell Biosciences, Inc., a New York corporation, owns one hundred percent (100%) of the outstanding stock of Tech Stem Inc., a New York corporation.

Results of Operations - Three Months and Nine Months ended September 30, 2012 compared to the Three and Nine Months ended September 30, 2011

### Revenue

Revenue for the three and nine months ended September 30, 2012 was \$182,073 and \$354,942 compared to \$22,050 and \$80,550 for the three and nine months ended September 30, 2011, respectively. Revenues were primarily attributable to fees from cases processed by licensees. In addition, related party revenue of \$184,000 and \$334,000 for the three and nine months ended September 30, 2012, respectively, was earned in accordance with the Regen Medical technology license and administrative services agreement dated April 16, 2012. We intend to engage in a multi-pronged approach with respect to the utilization and commercialization of our proprietary process that will involve entering into technology licensing agreements and related service agreements with physicians, physician practice groups, hospitals and ambulatory service centers located in the United States. We will also be seeking to enter



into technology licensing agreements that cover a particular international territory or country. In addition, we will also be seeking to establish “Centers of Excellence” in conjunction with physicians under an arrangement whereby we are appointed the exclusive managing agent for the professional corporation in exchange for the grant of a license to the professional corporation to utilize our proprietary process. Depending upon the arrangement involved, we will be collecting some combination of fees from licensing, processing, service, and management, as well as up-front territorial licensing fees.

License fees will generally be payable upon signing of a license agreement and will be recognized as revenue ratably over the appropriate period of time to which the revenue item relates. We have also entered into agreements with independent sales representative organizations that will market such tissue processing centers services to physicians in the geographic area. Fees for tissue processing cases from such physicians will be collected by us and recognized upon performance of the laboratory analysis.

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Cost of goods sold and Gross Margin

Cost of goods sold were \$137,394 and \$314,641 for the three and nine months ended September 30, 2012, respectively, compared to \$2,452 and \$48,988 for the three and nine months ended September 30, 2011, respectively. These costs were primarily salaries and related costs attributable to the Regen technology license and administrative services agreement and the cost of supplies for cases processed in our tissue processing center in New York.

Gross margin were \$48,679 and \$40,301, for the three and nine months ended September 30, 2012, respectively, compared to \$19,598 and \$31,562 for the three and nine months ended September 30, 2011, respectively. In the future, in addition to the cost of equipment sold directly to licensees, the cost of goods sold effecting gross margins will include costs for the supplies sold to licensees for the processing of each tissue processing case and the direct sales costs associated with license fees received.

Operating expenses

Research and development expenses were \$76,221 and \$199,670 for the three and nine months ended September 30, 2012, respectively, compared to \$14,810 and \$191,100 for the three and nine months ended September 30, 2011, respectively. The Company began to increase the research and development staff in the current year period and applicable laboratory supplies and disposables. In prior year, the principal component of research development costs consists of fees to payable to Dr. Steven Victor, the Chief Executive Officer and principal shareholder of the Company, for services as the attending physician in patient cases, for lab technicians, and for nursing staff employed by Dr. Victor's medical practice included as part of the ongoing research of our technologies and processes. These fees totaled \$0 for the three and nine months ended September 30, 2012 and \$76,000 and \$156,000 for the three and nine months ended September 30, 2011, respectively. Payment of these fees will be contingent upon the Company either generating \$2.0 million in revenues or completing an equity offering of the Company's common stock or other securities equal to or greater than \$5.0 million, whichever occurs first. The fees payable to Dr. Victor for these cases range from \$5,000 to \$10,000 per case.

Sales and marketing expenses were \$2,305 and \$275,822 and \$294,399 and \$437,338 for the three and nine months ended September 30, 2012 and 2011, respectively. Sales and marketing expenses consist of costs associated with the development of our brochure and informational materials, our website, an informational video and travel expenses to attend professional meetings, as well as commissions on sales.

General and administrative expenses were \$948,020 and \$2,051,147 and \$212,247 and \$853,234 for the three and nine months ended September 30, 2012 and 2011, respectively. Included in general and administrative expenses are \$0 and \$150,000 and \$30,000 and \$90,000 of costs for the three and nine months ended September 30, 2012 and 2011, respectively, for our office facilities and related services provided by a company owned by our chief executive officer and majority shareholder. In addition, for the three and nine months ended September 30, 2012 and 2011, we incurred salary expenses of \$173,331 and \$657,484 and \$80,750 and \$305,750, respectively. Included in the salary expense and related to this same shareholder as a result of this individual serving in the capacity of our Chief Executive Officer was \$68,750 and \$206,250 for the three and nine months end September 30, 2012 and \$68,750 and \$206,250 for the three and nine months ending September 30, 2011, respectively. In addition, salary expenses totaling \$43,750 and \$158,750 for the three and nine months ending September 30, 2012 and \$12,000 and \$99,000 for the three and nine months ending September 30, 2011, respectively, to the spouse of our Chief Executive Officer and majority shareholder. For the three and nine months ended September 30, 2012 and 2011, we have incurred approximately \$390,000 and \$573,190 and \$33,159 and \$209,347 in legal and professional fees primarily related the FDA compliance, public company costs and/or financing transactions. Lastly, depreciation expense amounted to \$125,022 and \$135,907 for the three and nine months ended September 2012 compared to \$3,102 and \$8,624 for the three and nine months ended September 30, 2011, respectively.

Stock Based Compensation. During the three and nine months ended September 30, 2012, we incurred employee stock based compensation expenses of \$551,265 and \$2,409,724 from the issuances of employee incentive stock options, respectively. The incentive stock options were valued using the Black Scholes method. In addition, in the current period the Company issued 725,000 shares of common stock was valued at fair market at the date of issuance in the amount \$116,000. There was no stock option expense in the prior year period.

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Non-Employee Stock Based Compensation. During the three and nine months ended September 30, 2012 we incurred non-cash non-employee stock based compensation charges of \$78,593 and \$8,105,947, respectively. For the three and nine months ended September 30, 2011, we incurred non-cash non-employee stock based compensation charges of \$0 and \$827,125, respectively. In the three and nine month period ending September 30, 2012, the Company issued 2,604,000 and 3,364,001 shares of common stock shares for stock issuances for medical advisory and professional services and charged \$3,021,367 and \$5,354,537, respectively. In addition, for the three and nine months ended September 30, 2012, \$0 and \$2,720,764 was expensed due to the issuance of 1,584,200 warrants amounting in exchange for consulting and professional services from unrelated third parties. The value of the warrants was determined using the Black Scholes method, the details of which are more fully explained within the notes to the financial statements. In the three and nine month period ending September 30, 2011, \$0 and \$827,125, respectively, was expensed due to the issuance of 1,656,250 shares of common stock for services prior to Merger and recapitalization in February 2011.

Changes in Fair Value of Derivative Liability

Convertible Debentures - Derivative Liabilities

In May 2011, IntelliCell completed a convertible debt offering aggregating \$1,385,000. The offering consisted of \$50,000 units each of which consisted of a \$50,000 subordinated convertible debenture payable one year from the date of issue with interest at a rate of 6% and convertible, at the option of the holder, into IntelliCell common stock at an initial conversion price of \$1.72 per share. Each unit also included a detachable five (5) year warrant to purchase 57,143 shares of the Company's common stock at an exercise price of \$1.72 per share. As a result of the Merger, the Intellicell Notes and Intellicell Warrants were assumed by the Company, the conversion price of the Intellicell Notes and the exercise price of the Intellicell Warrants were each adjusted to \$0.88 per share, the remaining Intellicell Notes and IntelliCell Warrants are now convertible into an aggregate of 4,121,212 and 3,071,542 shares of common stock, respectively. On May 17, 2012, the holder of an aggregate of \$500,000 principal amount of IntelliCell Notes informed the Company that it is in default and demanded repayment under the IntelliCell Notes. Pursuant to the terms of the IntelliCell Notes, upon the occurrence, after the expiration of a cure period of fifteen (15) days with respect to monetary defaults, following the receipt by the Company of written notice from a holder of a default in the payment of any installment of principal or interest, or any part thereof, when due, a holder, at its election may accelerate the unpaid balance of the principal and all accrued interest due under this Note and declare the same payable at once without further notice or demand. Upon an event of default under the IntelliCell Notes, the holders of the IntelliCell Notes shall be entitled to, among other things (i) the principal amount of the IntelliCell Notes along with any interest accrued but unpaid thereon and (ii) costs and expenses in connection with the collection and enforcement under the IntelliCell Notes, including reasonable attorneys' fees. As a result of the notice of default, the IntelliCell Notes in the aggregate principal amount of \$1,360,000 are immediately due and payable. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the IntelliCell Notes.

The convertible debentures are subject to anti-dilution protection if we sell shares or share-indexed financing instruments at less than the stated conversion prices. Therefore, the associated conversion feature requires liability classification under GAAP which is carried at their fair value to be reevaluated each reporting period. We estimate their fair value as a common stock equivalent, enhanced by the forward elements (coupon, puts, and calls), because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion behavior estimates) that are necessary to determine the fair value of this type of financial instrument.

The warrants issued in this financing arrangement are also required to be carried as a liability, at fair value, under GAAP. As discussed above, the fair value of the warrants on the inception dates has been estimated using the

Black-Scholes model.

We accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of our common shares. We determined the value of the derivative conversion features of these debentures issued at the relevant commitment dates to be \$32,209 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a charge to income of \$63,408 and a reduction to the charge to income \$4,408,733 for the three and nine months ended September 30, 2012, respectively.

We accounted for the detachable warrants included with the convertible debentures issued in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued at the relevant commitment dates to be \$332,401 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a reduction to the charge to income of \$77,096 and \$10,008,017 for the three and nine months ended September 30, 2012, respectively.

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### Common Stock Offering - Derivative Liabilities

In February 2012, the Company entered into securities purchase agreements with accredited investors, pursuant to which the Company sold (i) an aggregate of 2,600,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), (ii) class A warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class A Warrants"), and (iii) class B warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class B Warrants" and together with the Class A Warrants, the "Warrants"), for aggregate gross cash proceeds of \$2,627,649, which consisted of \$2,100,000 of cash and the exchange and cancellation of a promissory note (bearing principal and interest totaling \$527,549) and a warrant ("Exchange Agreement").

The Class A Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$2.00, subject to adjustment. The Class B Warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of \$3.75, subject to adjustment. The exercise price of the Warrants are subject to are subject to anti-dilution protection if we sell shares or share-indexed financing instruments at less than the stated conversion prices.

Therefore, the associated conversion feature requires liability classification under GAAP which is carried at their fair value to be reevaluated each reporting period. We estimate their fair value as a common stock equivalent, enhanced by the forward elements (coupon, puts, and calls), because that technique embodies all of the assumptions (including credit risk, interest risk, stock price volatility and conversion behavior estimates) that are necessary to determine the fair value of this type of financial instrument.

The warrants issued in this financing arrangement are also required to be carried as a liability, at fair value, under GAAP. As discussed above, the fair value of the warrants on the inception dates has been estimated using the Black-Scholes model.

We accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of our common shares. We determined the value of the derivate conversion features of these debentures issued at the relevant commitment dates to be \$1,884,112 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a reduction to the charge to income of \$0 and \$1,884,112 for the three and nine months ended September 30, 2012, respectively.

Between September 5, 2012 and October 11, 2012, the February 2012 investors (including the investor that exchanged and cancelled his outstanding promissory note) agreed to certain amendments to their securities purchase agreement and exchange their respective Warrants for (i) an aggregate of 6,100,000 shares of the Company's Common Stock (ii) a new series A warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share and (iii) a new series B warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share.

### Convertible Promissory Note - Derivative Liabilities

On June 7, 2012, the Company issued the Convertible Note in favor of TCA Global Master Fund, L.P. ("TCA"). The maturity date of the Convertible Note is June 7, 2013, and the Convertible Note bears interest at a rate of twelve percent (12%) per annum. The Convertible Note is convertible into shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") at a price equal to ninety-five percent (95%) of the average of the lowest daily volume weighted average price of the Common Stock during the five (5) trading days immediately prior to the date of conversion. The Convertible Note may be prepaid in whole or in part at the Company's option without penalty.

The Company accounted for the conversion features underlying the convertible note issued in accordance with GAAP, as the conversion feature embedded in the convertible note could result in the note being converted to a variable number of the Company's common shares. The Company determined the value of the derivative conversion features of these notes issued at the relevant commitment dates to be \$187,135 using the Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a reduction of income of \$55,886 and a charge to income of \$23,748 during the three and nine months ended September 30, 2012, respectively. The fair value of the derivative conversion features was determined to be \$210,882 at September 30, 2012.

In summary, we accounted for the detachable warrants included with the convertible debentures issued in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued at the relevant commitment dates to be \$598,283 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a reduction to the charge to income of \$1,112,314 and \$14,193,008 for the three and nine months ended September 30, 2012, respectively.

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### Net Income (Loss) before income tax and Net Income (Loss)

Net loss before income tax for the three and nine months ended September 30, 2012 was \$1,742,964 and \$210,242, respectively, which includes reduction charges for the non-cash change in fair value of derivative liabilities of \$1,112,314 and \$14,193,008, respectively, non-cash expense for Employee Stock Compensation of \$551,265 and \$2,409,724, respectively and non-employee stock based compensation of \$15,293 and \$30,646, respectively, as discussed above. Net loss before income tax for the three and nine months ended September 30, 2011 was \$6,191,912 and \$17,073,453, respectively, which includes charges for the non-cash change in fair value of derivative liabilities of \$5,740,759 and \$17,073,453, respectively, and non-employee stock compensation of \$0 and \$827,125, respectively. As we are just beginning to implement our business strategy we anticipate that we will continue to have operating losses for the next several calendar quarters until such time as we have been able to establish a sufficient number of licensees generating licensing, processing, service, and management fees to us, as well as up-front territorial licensing fees, sufficient to cover our operating costs.

### Liquidity and Capital Resources

We had a working capital deficit as of September 30, 2012 of \$6,385,014, compared to a working capital deficit at December 31, 2011 of \$4,255,322.

Our cash and cash equivalents as September 30, 2012 was \$0, compared to cash balances at December 31, 2011 of \$110,194. We are in the early stages of the implementation of our business strategy and anticipate we will require additional cash to fund our operations for the next twelve months inclusive of costs associated with attracting, training and acquiring laboratory equipment for licensees, costs associated with the conducting of clinical research needed to establish and protect the therapeutic benefits of our technologies, costs associated with the development and marketing and promotional and educational materials relative to our services and costs associated with building out the infrastructure necessary to manage and control our business. In the near term, we plan to utilize our proceeds from licensing, processing, service, and management fees to us, as well as up-front territorial licensing fees, and additional equity based financings to maintain our operations.

In accordance with the provisions of the Intellicell Notes, we notified the holders of their right to have the Intellicell Notes repaid upon completion of our recent equity financing (pursuant to which we received aggregate gross proceeds of \$2,627,549, which consisted of \$2,100,000 of cash and the exchange and cancelation of a promissory note (bearing principal and interest totaling \$527,549) and a warrant ), or to convert their Intellicell Notes into shares of our common stock. As of the date of this Annual Report on Form 10-Q, holders of Intellicell Notes in the principal amount of \$25,000 have converted their Intellicell Notes into shares of our common stock. On May 17, 2012, the holder of an aggregate of \$500,000 principal amount of IntelliCell Notes informed the Company that it is in default and demanded repayment under the IntelliCell Notes. Pursuant to the terms of the IntelliCell Notes, upon the occurrence, after the expiration of a cure period of fifteen (15) days with respect to monetary defaults, following the receipt by the Company of written notice from a holder of a default in the payment of any installment of principal or interest, or any part thereof, when due, a holder, at its election may accelerate the unpaid balance of the principal and all accrued interest due under this Note and declare the same payable at once without further notice or demand. Upon an event of default under the IntelliCell Notes, the holders of the IntelliCell Notes shall be entitled to, among other things (i) the principal amount of the IntelliCell Notes along with any interest accrued but unpaid thereon and (ii) costs and expenses in connection with the collection and enforcement under the IntelliCell Notes, including reasonable attorneys' fees. As a result of the notice of default, as of the date hereof, the IntelliCell Notes in the aggregate principal amount of \$1,360,000 are immediately due and payable. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the IntelliCell Notes.





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Based on our current cash and cash equivalents levels and expected cash flow from operations, we believe our current cash position is not sufficient to fund our cash requirements during the next twelve months, including operations and capital expenditures. We intend to license our proprietary technology and services or obtain equity and/or debt financing to support our current and proposed operations and capital expenditures. We cannot assure that continued funding will be available. There can be no assurance, however, that any such opportunities may arise, or that any such acquisitions may be consummated. Additional financing may not be available on satisfactory terms when required. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. We currently have no firm commitments for any additional capital. There is no guarantee that we will be successful in raising the funds required. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Net cash used in operating activities

Net cash used in operating activities was \$556,952 and \$895,246 for nine months ended September 30, 2012 and 2011, respectively. Cash was used primarily to fund our operating losses net of non-cash expenditures such as stock compensation for services and changes in the fair value of our derivative liabilities which was offset by an increase in our accounts payable of \$1,250,664, increases in deferred income related to our license agreements of \$720,000 and increases in accrued liabilities of \$258,715 primarily related to salary payable to our majority shareholder. We have also paid approximately \$2.1 million towards the construction and infrastructure costs for the office space where our new laboratory and corporate office are located in New York, NY, which space is leased by a company owned by Dr. Steven Victor, our chief executive officer. In addition, we have submitted a request to the landlord to have the lease assigned to us so that we become the primary tenant under the terms of the lease. We then plan to sublease a portion of the space to Regen Medical Practice, PC and/or other medical practitioners in the regenerative medical industry and to provide them with a license to utilize our proprietary process in exchange for certain administrative and management services.

Net cash used in investing activities

Net cash used in investing activities was \$2,498,065 and \$736,797 for the nine months ended September 30, 2012 and 2011, respectively, consisting of \$85,514 and \$80,796 for the purchase of lab equipment, \$751,284 and \$6,001 for the purchase of computer equipment, \$433,157 and \$0 for the purchase of furniture and fixtures and \$1,190,483 and \$0 for Construction-in-progress costs for the lease build-out in our new corporate and operations facility, respectively. The lease for the facility is to Dr. Steven Victor, our chief executive officer and will provide facilities for both our operations as well as that of Dr. Victor's medical practice. In addition, net advances to Regen Medical, Inc., a related party, amounted to \$37,627.

Net cash provided by financing activities

Net cash provided by financing activities was \$2,944,823 and \$1,629,000 for the nine months ended September 30, 2012 and 2011, respectively. In the current period ending September 30, 2012, the Company received \$230,000 of net proceeds from our Series D preferred stock offering and \$2,044,250 of net proceeds from our private placement offering and \$387,400, net of fees, for a convertible promissory note. Additionally, the Company increased advances, net of repayments, from Dr. Victor in the amount of approximately \$37,159. Furthermore, in the current period, the Company received \$200,167 of proceeds from related party notes payable. In the period ending September 30, 2011, \$176,000 of gross proceeds were received from the sale of our common stock at \$0.50 per share and \$1,385,000 in proceeds were received in the sale of convertible debentures. Additionally, the Company received advances from Dr. Victor and an investor in the amount of \$68,000.

Trends

We are not aware of any trends, events or uncertainties that have or are reasonably likely to have a material impact on our short-term or long-term liquidity.

Inflation

We believe that inflation has not had a material or significant impact on our revenue or our results of operations.

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### Contractual Obligations

We do not have certain fixed contractual obligations and commitments that include future estimated payments.

### Off-balance Sheet Arrangements

We are not party to any off-balance sheet arrangement.

### Critical Accounting Policies

#### Fair Value of Financial Instruments

GAAP requires certain disclosures regarding the fair value of financial instruments. The fair value of financial instruments is made as of a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

GAAP establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the degree of subjectivity that is necessary to estimate the fair value of a financial instrument. GAAP establishes three levels of inputs that may be used to measure fair value:

Level 1 – Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

### Revenue Recognition

The Company licenses independent third parties to use the Company's technology in order to enable them to establish tissue processing centers in major metropolitan markets, as well as establishing centers it will operate. Each center will utilize the Company's proprietary technology in conjunction with a suite of laboratory equipment selected by the Company that will enable the lab to process adipose tissue into stromal vascular fraction containing adipose stem cells using the Company's technology and protocols. In certain centers the Company will maintain ownership of the laboratory equipment and in other cases the laboratory equipment will be sold to an independent party. These license

fees are payable upon signing of a license agreement and will be recognized as revenue ratably over the appropriate period of time to which the revenue item relates. As of September 30, 2012, the Company had executed license agreements and received \$1,222,500 in license fees for six centers which had not yet commenced operations and therefore recognition of such revenue was deferred. Subsequently, the Company has reclassified the \$1,222,500 of previously paid license fees to Accrued Licensee Fee Liability upon the Company's cancellation of the license agreements and the determination of the amount of fees to be returned to the former licensees.

The Company has also entered into agreements with independent sales representative organizations that will market the centers services to physicians in the geographic area. Fees for tissue processing cases from such physicians will be collected by the Company and recognized upon performance of the laboratory analysis. Sales of equipment by Tech Stem are recognized when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured.

#### New Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to have a material impact on the Company's consolidated financial position, operations or cash flows .

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include, without limitation, means controls and other procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, because of the Company's limited resources and limited number of employees, management concluded that our disclosure controls and procedures were ineffective as of September 30, 2012.

Management has identified control deficiencies regarding the lack of segregation of duties and the need for a stronger internal control environment. Management of the Company believes that these material weaknesses are due to the small size of the Company's accounting staff. The small size of the Company's accounting staff may prevent adequate controls in the future, such as segregation of duties, due to the cost/benefit of such remediation.

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of external legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework.

These control deficiencies could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our consolidated financial statements may not be prevented or detected on a timely basis. In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the quarter ended September 30, 2012 included in this Quarterly Report on Form 10-Q were fairly stated in accordance with US GAAP. Accordingly, management believes that despite our material weaknesses, our consolidated financial statements for the quarter ended September 30, 2012 are fairly stated, in all material respects, in accordance with US GAAP.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events

and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### Changes in Internal Controls

During the fiscal quarter ended September 30, 2012, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting

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PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm its business. The Company is currently not aware of any such legal proceedings or claims that they believe will have, individually or in the aggregate, a material adverse affect on its business, financial condition or operating results.

ITEM 1A: RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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

Unless otherwise noted, the issuances noted below are all considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933, as amended.

In August 2012, we issued options to purchase an aggregate of 801,044 shares of our common stock to a former employee at a price of \$4.00 per share.

In July 2012, we issued 2,750,000 shares of our common stock upon conversion of 2,750 shares our of series C convertible preferred stock.

In July 2012, we issued 1,00,000 shares of our common stock upon conversion of 1,000 shares our of series B convertible preferred stock.

In August 2012, we issued 500,000 shares of our common stock upon conversion of 500 shares our of series B convertible preferred stock.

In August 2012, we issued 80,000 shares of common stock to advisors for payment of \$12,800 of services.

In August 2012, we issued 250,000 shares of common stock to advisors for payment of \$40,000 of services.

In September 2012, we issued 60,000 shares of common stock to advisors for payment of \$10,200 of services.

In September 2012, we issued 725,000 shares of common stock to certain employees for payment of \$116,000 of compensation.

Between September 5, 2012 and October 11, 2012, the February 2012 investors (including the investor that exchanged and cancelled his outstanding promissory note) agreed to certain amendments to their securities purchase agreement and exchange their respective Warrants for (i) an aggregate of 6,100,000 shares of the Company's Common Stock (ii) a new series A warrant to purchase an aggregate of 6,100,000 shares of Common Stock at an exercise price of seventy-five cents (\$0.75) per share and (iii) a new series B warrant to purchase an aggregate of 6,100,000 shares of



Common Stock at an exercise price of seventy-five cents (\$0.75) per share. The new securities issued to the February 2012 Investors were issued in accordance with Section 3(a)(9) under the Securities Act.

Between October 1 2012 and October 31, 2012, the Company entered into a securities purchase agreement with two accredited investors (the "Series E Preferred Stock Investors") pursuant to which the Company sold the investors an aggregate of one hundred twenty-five (125) shares of its series E convertible preferred stock (the "Series E Preferred Stock") for aggregate gross proceeds of \$125,000. Between November 5, 2012 and November 6, 2012, the Company entered into an exchange agreement, with the Series E Preferred Stock Investors pursuant to which the Series E Preferred Investors holding an aggregate of 125 shares of the Company's Series E Preferred Stock agreed to exchange their Series E Preferred Stock for (i) an aggregate of 833,334 shares of the Company's Common Stock and (ii) a five-year warrant to purchase an aggregate of 416,667 shares of Common Stock at an exercise price of \$0.45 per share. The new securities issued to the Series E Preferred Stock Investors were issued in accordance with Section 3(a)(9) under the Securities Act.

On November 13, 2012, the Company entered into a securities purchase agreement with an accredited investor pursuant to which the Company sold the investor 833,333 units, each unit consisting of two (2) shares of the Company's common stock and a warrant to purchase a share of common stock, for aggregate gross proceeds of \$250,000. The warrant is exercisable for a period of five years from the date of issuance at an initial exercise price of \$0.45, subject to adjustment. The exercise price of the warrant is subject to customary adjustments for stock splits, stock dividends, recapitalizations and the like.

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## ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

In accordance with the Merger Agreement, the Company assumed the IntelliCell Notes, which had an aggregate principal amount of \$1,385,000 and became due and payable on September 30, 2012. As of the date hereof, the Company has not repaid any principal or accrued but unpaid interest that has become due and payable under the IntelliCell Notes. The aggregate principal amount that is due and payable under the IntelliCell Notes as of the date hereof is \$1,360,000.

On May 17, 2012, the holder of an aggregate of \$500,000 principal amount of IntelliCell Notes informed the Company that it is in default and demanded repayment under the IntelliCell Notes. Pursuant to the terms of the IntelliCell Notes, upon the occurrence, after the expiration of a cure period of fifteen (15) days with respect to monetary defaults, following the receipt by the Company of written notice from a holder of a default in the payment of any installment of principal or interest, or any part thereof, when due, a holder, at its election may accelerate the unpaid balance of the principal and all accrued interest due under this Note and declare the same payable at once without further notice or demand. Upon an event of default under the IntelliCell Notes, the holders of the IntelliCell Notes shall be entitled to, among other things (i) the principal amount of the IntelliCell Notes along with any interest accrued but unpaid thereon and (ii) costs and expenses in connection with the collection and enforcement under the IntelliCell Notes, including reasonable attorneys' fees.

As a result of the notice of default, the IntelliCell Notes in the aggregate principal amount of \$1,360,000 are immediately due and payable. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the IntelliCell Notes.

## ITEM 4. MINE SAFETY DISCLOSURES.

N/A.

## ITEM 5. OTHER INFORMATION.

Not applicable.

## ITEM 6. EXHIBITS

## EXHIBIT

| NO.         | DESCRIPTION  |
|-------------|--|
| <u>31.1</u> | <u>Certificate of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.</u> |
| <u>32.1</u> | <u>Certificate of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.</u> |
| 101.INS     | XBRL Instance Document*  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document*   |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document*   |

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101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

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\* To be filed by amendment.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLICELL BIOSCIENCES, INC.

Date: November 21, 2012

By: /s/ Steven A. Victor  
Name: Steven A. Victor  
Title: Chief Executive Officer  
(Principal Executive Officer and  
Principal Financial Officer)