

Intellicell Biosciences, Inc.
Form 10-Q
October 01, 2013

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 March 31, 2013

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

Commission File No. 0-54729

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
Smaller Reporting Company

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

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 September 25, 2013 was 140,839,646

.

1

Table of Contents

INTELLICELL BIOSCIENCES, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

| | | |
|----------------|--|----|
| <u>Item 1.</u> | <u>Consolidated Financial Statements</u> | 3 |
| <u>Item 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 32 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 33 |

PART II – OTHER INFORMATION

| | | |
|-----------------|--|----|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 34 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 35 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 35 |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | 36 |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | 36 |
| <u>Item 5.</u> | <u>Other Information</u> | 36 |
| <u>Item 6.</u> | <u>Exhibits</u> | 36 |

| | | |
|-------------------|--|----|
| <u>SIGNATURES</u> | | 37 |
|-------------------|--|----|

Table of ContentsIntellicell BioSciences Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

| | March 31, 2013 (Unaudited) | December 31, 2012 (Audited) |
|--|----------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ - | \$ 10,159 |
| Due from related party | 192,084 | 285,434 |
| Total current assets | 192,084 | 295,593 |
| Property & Equipment - net of accumulated depreciation of \$321,205 and \$236,653 as of March 31, 2013 and December 31, 2012, respectively | 2,988,764 | 2,797,045 |
| Deferred Financing Costs, net of accumulated amortization of \$185,500 and \$129,850 as of March 31, 2013 and December 31, 2012, respectively | 37,100 | 92,750 |
| Deposit - License Agreement, related party | 100,000 | 100,000 |
| Restricted cash for security deposit | 650,000 | 650,000 |
| | \$ 3,967,948 | \$ 3,935,388 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) | | |
| Current liabilities: | | |
| Convertible debentures and accrued interest, net of debt discount | \$ 1,429,919 | \$ 1,409,519 |
| Notes payable and accrued interest, net of debt discount | 587,031 | 477,535 |
| Accounts payable and accrued expenses | 2,880,458 | 2,162,268 |
| Bank overdraft | 3,266 | - |
| License fee payable | 1,222,500 | 1,222,500 |
| Convertible promissory note and accrued interest | 515,000 | 515,000 |
| Advances, related party | 207,413 | 181,858 |
| Accrued liabilities, related party | 1,228,397 | 1,114,647 |
| Total current liabilities | 8,073,984 | 7,083,327 |
| Long term liabilities - Derivative liabilities | 332,022 | 987,020 |
| Total liabilities | 8,406,006 | 8,070,347 |
| Commitments | | |
| Stockholders' deficit: | | |
| Convertible preferred stock; \$0.01 par value, Series B, 21,000 shares authorized, 15,058 and 15,058 issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 151 | 151 |
| Convertible preferred stock; \$0.01 par value, Series C, 13,000 shares authorized, 7,250 and 7,250 issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 72 | 72 |
| Convertible preferred stock; \$0.01 par value, Series D, 500,000 shares authorized, 56,500 and 56,500 issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 565 | 565 |
| Common stock; \$0.001 par value; 500,000,000 shares authorized; 60,678,386 and 58,545,053 shares and issued and outstanding at March 31, 2013 and December 31, 2012, respectively. | 60,677 | 58,544 |

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

| | | |
|-----------------------------|--------------|--------------|
| Additional paid in capital | 34,321,569 | 33,568,342 |
| Accumulated deficit | (38,821,092) | (37,762,633) |
| Total stockholders' deficit | (4,438,058) | (4,134,959) |
| | \$ 3,967,948 | \$ 3,935,388 |

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

Table of Contents

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

| | For the three months ended March 31, 2013 | For the three months ended March 31, 2012 |
|--|---|---|
| Revenues | \$ - | \$ 12,100 |
| Cost of goods sold | - | 4,776 |
| Gross margin | - | 7,324 |
| Operating Expenses | | |
| Research and development | 157,078 | 48,921 |
| Sales and marketing | 4,828 | 127,049 |
| General and administrative | 715,645 | 583,995 |
| Employee Stock Based Compensation | 360,360 | 760,298 |
| Non-Employee Stock Based Compensation | 300,000 | 5,053,934 |
| | 1,537,911 | 6,574,197 |
| Loss from operations | (1,537,911) | (6,566,873) |
| Other income (expense) | | |
| Financing Costs | (130,650) | - |
| Interest expense | (44,896) | (101,405) |
| Change in fair value of derivative liabilities | 654,998 | (2,800,570) |
| | 479,452 | (2,901,975) |
| Loss before income taxes | (1,058,459) | (9,468,848) |
| Provision for income taxes | - | - |
| Net loss | \$ (1,058,459) | \$ (9,468,848) |
| Loss per share: | | |
| Basic & Diluted | \$ (0.02) | \$ (0.42) |
| Weighted-average shares outstanding: | | |
| Basic & Diluted | 60,291,720 | 22,807,514 |

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

Table of Contents

Intellicell BioSciences Inc. and Subsidiary
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 For the Three Months Ended March 31, 2013
 (Unaudited)

| | Convertible Series B Preferred Stock | | Convertible Series C Preferred Stock | | Convertible Series D Preferred Stock | | Common Stock | | Additional Paid In Capital | Accumulated (Deficit) | Total |
|---|---|--------|---|--------|---|--------|--------------|-----------|----------------------------------|--------------------------|---------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances, December 31, 2012 | 15,058 | \$ 151 | 7,250 | \$ 72 | 56,500 | \$ 565 | 58,545,053 | \$ 58,544 | \$ 33,568,342 | \$(37,762,633) | \$(4,134,000) |
| Proceeds from sales of common stock at \$0.15 per share | - | - | - | - | - | - | 133,333 | 133 | 19,867 | - | 20,000 |
| Stock-based compensation expense related to employee stock options | - | - | - | - | - | - | - | - | 360,360 | - | 360,360 |
| Stock issued for professional services at fair market value | - | - | - | - | - | - | 2,000,000 | 2,000 | 298,000 | - | 300,000 |
| Compensation expense related to the issuance of warrants | - | - | - | - | - | - | - | - | 75,000 | - | 75,000 |
| Net loss for the three months ended March 31, 2013 | - | - | - | - | - | - | - | - | - | (1,058,459) | (1,058,459) |
| | 15,058 | \$ 151 | 7,250 | \$ 72 | 56,500 | \$ 565 | 60,678,386 | \$ 60,677 | \$ 34,321,569 | \$(38,821,092) | \$(4,438,000) |

Balances,
March 31,
2013

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

5

Table of Contents

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

| | For the three months ended March 31, 2013 | For the three months ended March 31, 2012 |
|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$ (1,058,459) | \$ (9,468,848) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Stock compensation issued for services in excess of proceeds | 300,000 | 5,053,934 |
| Employee stock compensation | 360,360 | 760,298 |
| Depreciation expense | 84,551 | 3,602 |
| Interest from original issue discount | 1,126 | 72,141 |
| Amortization of financing costs | 55,650 | - |
| Financing costs | 75,000 | - |
| Change in fair value of derivative liabilities | (654,998) | 2,800,570 |
| Changes in assets and liabilities: | | |
| Increase in accrued interest payable | 28,770 | 25,795 |
| Increase in accounts payable and accrued expenses | 446,192 | (53,759) |
| Increase in deferred income | - | 570,000 |
| Increase in accrued liabilities, related party | 113,750 | 86,365 |
| Net cash used in operating activities | (248,058) | (149,902) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Due from related party | 93,350 | - |
| Purchase of equipment and leasehold improvements | (4,271) | (1,632,960) |
| Cash provided by (used in) investing activities | 89,079 | (1,632,960) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of common stock | 20,000 | 2,044,250 |
| Proceeds from the sales of Series D Preferred Stock, net | - | 230,000 |
| Proceeds from notes payable, net | 100,000 | - |
| Bank overdraft | 3,266 | - |
| Proceeds (Repayments) to related party advances | 25,554 | (25,000) |
| Cash provided by financing activities | 148,820 | 2,249,250 |
| Net change in cash | (10,159) | 466,388 |
| Cash and cash equivalents at the beginning of period | 10,159 | 110,194 |
| Cash and cash equivalents at the end of the period | \$ - | \$ 576,582 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 15,000 | \$ - |
| Cash paid for taxes | \$ - | \$ - |
| NON CASH INVESTING AND FINANCING ACTIVITIES: | | |

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

| | | | | |
|---|----|---|----|---------|
| Conversion of convertible debenture to common stock | \$ | - | \$ | 25,000 |
| Conversion of note payable to common stock and warrants | \$ | - | \$ | 500,000 |

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

Table of Contents

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. As a result of the merger, MEG’s former shareholders acquired majority of Intellicell’s outstanding common stock and all of Intellicell’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”).

Prior to the consummation of the Merger, the Company entered into agreements the holders of an aggregate of \$1,619,606 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 plus accrued interest of \$9,398 less unamortized debt discounts of \$83,264 and accrued expenses totaling \$228,414 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.

Furthermore, prior to the consummation of the Merger, the Company entered into agreements with the holders of an aggregate of \$250,000 of accrued compensation, pursuant to which such persons agreed to forgive all amounts owed to the Company.

7

Table of Contents

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

2. Going Concern

The financial statements have been prepared on 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 \$38,821,092 and a working capital deficit of \$7,881,900 as of March 31, 2013, respectively. 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 a private placements 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").

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.

Table of Contents

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.

Table of Contents

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

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.

Table of Contents

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

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.

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 as of March 31, 2013 and December 31, 2012.

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 provides an allowance 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 March 31, 2013 and December 31, 2012, respectively. The Company determines accounts receivable to be delinquent when collection is past due under the agreed upon terms. Accounts receivable are written off when it is determined that amounts are uncollectible.

Table of Contents

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

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 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 base on technical merits and on the outcome that will likely be sustained under examination.

Table of Contents

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

Net 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 March 31, 2013 and December 31, 2012 consists of the following:

| | 3/31/13 | 12/31/12 |
|-------------------------------|--------------|--------------|
| Lab equipment | \$ 203,204 | \$ 203,204 |
| Leasehold Improvements | 2,226,181 | 1,954,181 |
| Furniture & Fixtures | 463,768 | 459,498 |
| Computer Equipment | 416,816 | 416,816 |
| | 3,309,969 | 3,033,699 |
| Less accumulated depreciation | 321,205 | 236,654 |
| Property and Equipment, net | \$ 2,988,764 | \$ 2,797,045 |

Depreciation expense for the three months ended March 31, 2013 and 2012 was \$84,551 and \$3,602, respectively and is included in general and administrative expenses on the Company's statement of operations.

Table of Contents

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

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued liabilities at March 31, 2013 and December 31, 2011 are as follows :

| | 3/31/13 | 12/31/12 |
|----------------------------------|--------------|--------------|
| Accounts payable | \$ 1,998,102 | \$ 1,376,790 |
| Accrued expenses and liabilities | 466,811 | 466,811 |
| Accrued payroll | 370,545 | 273,667 |
| Other | 45,000 | 45,000 |
| Total | \$ 2,880,458 | \$ 2,162,268 |

6. License Fees Payable

During the years ended December 31, 2012 and 2011, the Company executed various license agreements and collected an aggregate of \$1,222,500 in license fees for six centers which had not yet commenced operations as of March 31, 2013. Consequently, recognition of such revenue had been deferred pending commencement of operations. The Company was unable to perform its obligations in regards to the licensing agreements and, accordingly, the agreements were cancelled. The Company has classified the amounts to be returned to the former licensees as Licensee Fees Payable on the consolidated balance sheet.

7. Notes Payable

Consorteum 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 is 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 Consortium Purchase Agreement, Consortium 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 Consortium Purchase Agreement and the Amendment Agreement, the note holders who consented to the assumption of their obligations by Consortium received shares of Consortium common stock in satisfaction of their notes. Included in the notes assumed by Consortium 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, Consortium agreed to provide the Company a guaranty, whereby Consortium 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 which the Company had not received the necessary consent for as of the date of the waiver. As a result of the foregoing, the transactions contemplated by the Consortium Purchase Agreement closed on June 30, 2011.

Table of Contents

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

Upon completion of the Consorteum Purchase Agreement, the Company had notes payable totaling \$986,600 that were not assumed in the agreement. In the year ended December 31, 2012, two of the notes payable totaling \$750,000 plus accrued interest of \$152,549 were converted to common stock and warrants.

As of March 31, 2013 and December 31, 2012, the Company's notes payable and accrued interest was as follows:

| | 3/31/13 | 12/31/12 |
|------------------|------------|------------|
| Notes Payable | \$ 236,600 | \$ 236,600 |
| Accrued interest | 45,238 | 41,768 |
| | \$ 281,838 | \$ 278,368 |

Financing Arrangement

On February 20, 2013 (the "Effective Date"), the Company entered into promissory note, as amended (the "Note") with MJM Financial (the "Investor"), pursuant to which the Investor agreed to lend the Company up to an aggregate principal amount of \$500,000 (the "Principal Sum") for an aggregate purchase price of \$450,000. The Investor provided \$100,000 to the Company on the Effective Date. The Note matures one year from the date of each payment by the Investor to the Company (the "Maturity Date").

The Company may repay the Note at any time on or before the 90th day after the Effective Date, after which the Company may not make further payments on the Note prior to the Maturity Date without written approval from the Investor. If the Company repays the Note on or before the 90th day after the Effective Date, the interest rate under the Note shall be zero percent (0%). If the Company does not repay the Note on or before the 90th day after the Effective Date, a one-time interest payment of 12% shall be applied to the Principal Sum.

The Investor may convert, beginning on the six month anniversary of the Effective Date, the outstanding principal and accrued interest on the Note into shares of the Company's common stock, par value \$0.001 per share at a conversion price per share equal to the lesser of (i) \$0.16 or (ii) 60% of the lowest trade price in the 25 trading days prior to the date of conversion (the "Conversion Price"). The Conversion Price will be subject to adjustment for, among other things, the Company's failure to be DTC eligible and only being Xclearing deposit eligible.

The Company shall include on the next registration statement the Company files with Securities and Exchange Commission (or on the subsequent registration statement if such registration statement is withdrawn) all shares issuable upon conversion of the Note. Failure to include such securities on the next registration statement will result in liquidated damages of 25% of the outstanding principal balance of the Note, but not less than \$25,000, being immediately due and payable to the Investor at its election in the form of cash or added to the Principal Sum of the Note.

The Investor has contractually agreed to restrict its ability to convert the Note such that the number of shares of the Company common stock held by the Investor and its affiliates after such conversion does not exceed 4.99% of the Company's then issued and outstanding shares of Common Stock.

So long as this Note is outstanding, upon any issuance by the Company or any of its subsidiaries of any security with any term more favorable to the holder of such security or with a term in favor of the holder of such security that was not similarly provided to the Investor in the Note, then the Company shall notify the Borrower of such additional or more favorable term and such term, at Investor's option, shall become a part of the transaction documents with the Investor.

Table of Contents

Intellicell BioSciences Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As of March 31, 2013 and December 31, 2012, the Company's notes payable and accrued interest, net of original issue discount was as follows:

| | 3/31/13 | 12/31/12 |
|--|------------|----------|
| Notes Payable | \$ 111,111 | \$ - |
| Original Issue Discount, net of amortization of \$1,126 and \$0 as of March 31, 2013 and December 31, 2012, respectively | (9,985) | - |
| Accrued interest | 4,900 | - |
| | \$ 106,026 | \$ - |

As disclosed in the subsequent events note, in August 2013 the Company was advised that the promissory note was assigned to Redwood Management, LLC.

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 was 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. The Note is currently in default and classified as a current liability accordingly.

As of March 31, 2013 and December 31, 2012, the outstanding balance on the secured promissory note is \$199,167.

As disclosed in the subsequent events note, in August 2013 the Company was advised that the promissory note was assigned to Redwood Management, LLC.

8. Related Party Transactions

Rent

In 2012, the Company was 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 and utilities expenses of \$75,000, representing the Company's portion of use for such for three months ended March 31, 2012.

Officer Salary

The Company has recorded a salary expense of \$68,750 and \$68,750 for the three months ended March 31, 2013 and 2012, respectively, related to Dr. Victor as a result of this individual serving in the capacity of the Company's Chief Executive Officer and a salary expense totaling approximately \$45,000 and \$70,000 the three months ended March 31, 2013 and 2012, 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.

Accrued Research Fees

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

As of March 31, 2013 and December 31, 2012, Accrued research fees consists of fees due 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 in 2011. 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.

As of March 31, 2013 and December 31, 2012, the following amounts were owed to related parties:

| | March 31, 2013 | December 31, 2012 |
|-----------------------|-------------------|----------------------|
| Accrued salaries | \$ 867,397 | \$ 753,647 |
| Accrued research fees | 361,000 | 361,000 |
| | \$ 1,228,397 | \$ 1,114,647 |

Officer Advance

From time to time, the Company has received advances from certain of its officers to meet short term working capital needs.

Cumulative advances received for working capital purposes amounted to \$207,413 and \$181,858 as of March 31, 2013 and December 31, 2012, respectively. These advances do not have formal repayment terms or arrangements.

Table of Contents

Intellicell BioSciences Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 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.

As noted in the subsequent event footnote, on August 26, 2013, the Company and Regen Medical entered into a termination and general release agreement (the "Termination Agreement"), effective December 31, 2012 (the "Effective Date"), pursuant to which the Company and Regen Medical agreed, among other things, that as of the Effective Date, (i) the Company shall forgive the \$514,000 owed to the Company by Regen Medical under the Regen Medical Agreement in exchange for the exclusive right to certain open label data and other data which the Company would like to have the rights to use as empirical data or evidence of the efficacy of the Company's proprietary process (the "Clinical Data"), (ii) the parties will take all necessary steps to enter into an agreement for the grant of a license to Regen Medical for the Company's proprietary process as well as a license of the Clinical Data, (iii) the Regen Medical Agreement is terminated in its entirety and shall be deemed null and void and of no further force or effect and (iii)

neither Company nor Regen Medical shall have any further rights or obligations under the Regen Medical Agreement. Each party also provided a general release to the other party with respect to the Regen Medical Agreement and all transactions contemplated by the Regen Medical Agreement.

Research and Development

Research and Development costs for the three months ended March 31, 2013 and 2012 was \$157,068 and \$48,921, respectively, including fees accrued and payable to Regen Medical for services as the attending physician in four (4) patient cases included as part of the Company's ongoing research of its technologies and processes in the amount of \$49,500. No fees were accrued in the three months ended March 31, 2012.

As of March 31, 2013 and December 31, 2012, the following advances due to the Company from related parties:

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| Regen Medical advances, net of accrued research fees due of \$49,500 and \$0 as of March 31, 2013 and December 31, 2012, respectively | \$ 192,084 | \$ 285,434 |
| | \$ 192,084 | \$ 285,434 |

Table of Contents

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

9. 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 March 31, 2012, the Company recorded an original issue discount of \$288,564 related to the value of the warrants that was amortized as interest expense over the initial one year term of the convertible debentures. During the three months ended March 31, 2012, the Company recognized \$72,141 of interest expense as a result of such amortization.

The Company accounted for the conversion features underlying the convertible debentures as 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 reduction to charge to income of \$437,013 and 3,249,215 for the three months ended March 31, 2013 and 2012, respectively. The fair value of the derivative conversion features was determined to be \$150,507 and \$587,520 at March 31, 2013 and December 31, 2012, respectively.

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 reductions to charge to income of \$211,015 and \$6,435,200 for the three months ended March 31, 2013 and 2012, respectively. The fair value of the derivative conversion features was determined to be \$177,535 and \$388,550 at March 31, 2013 and December 31, 2012, respectively.

As discussed, as a result of the Company's Merger, the subordinated convertible debentures and warrants were assumed by the Company. The subordinated convertible debentures are convertible into an aggregate of 1,561,443 shares of common stock and warrants to purchase an aggregate of 3,071,542 shares of common stock (at an exercise price of \$0.88).

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

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

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 the prior year ended December 31, 2012. Furthermore, a \$25,000 convertible debenture and related accrued interest of \$904 was converted to 29,436 shares of common stock in the prior year ended December 31, 2012.

As of March 31, 2013 and December 31, 2012, the Company's convertible debentures and accrued interest was as follows:

| | 3/31/13 | 12/31/12 |
|------------------|--------------|--------------|
| Notes Payable | \$ 1,360,000 | \$ 1,360,000 |
| Accrued interest | 69,919 | 49,519 |
| | \$ 1,429,919 | \$ 1,409,519 |

Table of Contents

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

10. 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.

As of March 31, 2013 and December 31, 2012, the Company's convertible notes payable and accrued interest was as follows:

| | 3/31/13 | 12/31/12 |
|------------------|------------|------------|
| Notes Payable | \$ 500,000 | \$ 500,000 |
| Accrued interest | 15,000 | 15,000 |
| | \$ 515,000 | \$ 515,000 |

Pursuant to the terms of the Equity Agreement, for a period of twenty-four months commencing on the effective date of a registration statement. 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 paid TCA a fee by issuing 275,000 shares of its common stock that equal to \$110,000.

As disclosed in the subsequent events note, in July 2013 the Company was advised that the TCA note was sold to Ironridge Global IV, LTD and on August 26, 2013, the convertible note payable and accrued interest was paid in full.

11. Derivative Liabilities

The Company has issued various financial instruments to investors that contain full ratchet anti-dilution provisions. GAAP provides guidance on determining what types of financial instruments or embedded features in a financial instrument would cause the financial instrument to be classified as a liability instead of equity. Under the evaluation criteria, the Company concluded that the financial instruments that contained full ratchet anti-dilution provisions are to be treated as derivative liabilities. GAAP requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value over the period reported in the statement of operations. 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.

Table of Contents

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

The following table sets forth the Company's estimate of the fair value of the financial instruments that are classified as liabilities as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | | | December 31, 2012 | | | |
|------------------------|---|---|--|---------|---|---|--|---------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Derivative Liabilities | - | - | 332,022 | 332,022 | - | - | 987,020 | 987,020 |

The following table sets forth a summary of changes in fair value of our derivative liabilities for the three months ended March 31, 2013 and year ended December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| Beginning balance | 987,020 | 14,791,291 |
| Fair value of financial instruments at issue date | - | 19,036,312 |
| Fair value of embedded conversion feature at issue date | - | - |
| Change in fair value of financial instrument included in the statement of operations | (217,985) | (28,946,762) |
| Change in fair value of embedded conversion feature included in the statement of operations | (437,013) | (3,893,821) |
| | 332,022 | 987,020 |

The following tables set forth a description of the financial instruments classified as derivative liabilities as of March 31, 2013 and December 31, 2012 and the assumption used to value the instruments.

Convertible Debentures

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:

| | March 31, 2013 | | | | December 31, 2012 | | | |
|-------------------------|------------------------------------|---|-----------------------------------|---|------------------------------------|---|-----------------------------------|---|
| | Embedded Detachable Warrants | % | Embedded Conversion Feature | % | Embedded Detachable Warrants | % | Embedded Conversion Feature | % |
| Risk free interest rate | 3.00 | % | 3.00 | % | 3.00 | % | 3.00 | % |

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

| | | | | | | | | |
|--|----------------|---|---------------|---|---------------|---|---------------|---|
| Expected volatility (peer group) | 105.09 | % | 105.09 | % | 105.09 | % | 105.09 | % |
| Expected life (in years) | 3.00 | | 0.50 | | 3.25 | | 0.50 | |
| Expected dividend yield | - | | - | | - | | - | |
| Number outstanding | 3,071,542 | | 9,066,667 | | 3,071,542 | | 9,066,667 | |
| Fair value at issue date | \$263,146 | | \$25,418 | | \$263,146 | | \$25,418 | |
| Change in derivative liability for period ending | \$(10,132,415) | | \$(4,330,834) | | \$(9,921,400) | | \$(3,893,821) | |
| Fair value at | \$177,535 | | \$150,507 | | \$388,250 | | \$587,520 | |

Private Placement Offering

The derivative liabilities related to the warrants issued as part of the private placement offering were valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| Risk free interest rate | 3.00% | 3.00% |
| Expected volatility (peer group) | 105.09% | 105.09% |
| Expected life (in years) | 4.00 | 4.25 |
| Expected dividend yield | - | - |
| Number outstanding | 200,000 | 200,000 |
| Fair value at issue date | \$ 19,036,312 | \$ 19,036,312 |
| Change in derivative liability for the period ended March 31, 2013 and December 31, 2012, respectively | \$(19,032,332) | \$(19,025,362) |
| Fair value -derivative liability | \$ 3,980 | \$ 10,950 |

Table of Contents

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

12. Capital Stock

The principal features of the Company's capital stock are as follows:

Series B Preferred Stock

As of March 31, 2013 and December 31, 2012, 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 15,058 shares of preferred stock are issued and outstanding. Each share of series B preferred stock shall be convertible into 1,000 shares of the Company's common stock. In addition, the holders of the series B preferred stock shall be entitled to notice of stockholders' meeting and to vote as a single class with the holders of the Common Stock upon any matter submitted to the stockholders for a vote, and shall be entitled to such number of votes as shall 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 such vote multiplied by (b) ten (10).

Series C Preferred Stock

As of March 31, 2013 and December 31, 2012, 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 shares of preferred stock are issued and outstanding. Each share of Series C preferred stock shall be convertible into 1,000 shares of the Company's common stock. In addition, the holders of the series C preferred stock shall be entitled to notice of stockholders' meeting and to vote as a single class with the holders of the Common Stock upon any matter submitted to the stockholders for a vote, and shall be entitled to such number of votes as shall equal to the number of shares of Common Stock into which the series C preferred stock is convertible into on the record date.

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.

Series D Preferred Stock

As of March 31, 2013 and December 31, 2012, 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 shares of preferred stock are issued and outstanding. Each share of series D convertible preferred stock is convertible at any time at an initial 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. Each share of Series D convertible preferred stock was issued with a warrant to purchase 10 shares of the Company's common stock. 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. The holders of Series D preferred stock have no voting rights.

Common Stock

The Company has authorized 500,000,000 shares of common stock, with a par value of \$.001 per share. As of March 31, 2013 and December 31, 2012, the Company had 60,678,386 and 58,445,053, respectively, of shares of common stock issued and outstanding.

During the period ended March 31, 2013, the Company issued the following equity instruments:

- In January 2013, the Company issued 2,000,000 shares of its common stock for advisory services. The Company recognized the fair market value of \$300,000 as an expense.
- In February 2013, the Company entered into securities purchase agreements, pursuant to which the Company sold 66,666 units, each unit consisting of two (2) shares of the Company's common stock, par value \$0.001 per share and a warrant to purchase a share of common stock for aggregate gross proceeds of \$20,000. 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.

Table of Contents

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

13. Stock Options and Warrants

Employee Stock Options

The following table summarizes the changes in the options outstanding at March 31, 2013, 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 |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$.01 - 0.25 | 2,400,000 | \$ 0.15 | 9.29 | 1,762,500 | \$ 0.15 |
| \$ 4.00 | 2,347,926 | \$ 4.00 | 8.75 | 1,785,422 | \$ 4.00 |
| | 4,747,926 | | 9.02 | 3,547,922 | |

A summary of the Company's stock awards for options as of March 31, 2013 and changes for the three months ended March 31, 2013 is presented below:

| | Stock Options | Weighted Average Exercise Price |
|--------------------------------|---------------|---------------------------------|
| Outstanding, December 31, 2012 | 4,747,926 | \$ 2.05 |
| Granted | — | — |
| Exercised | — | — |
| Expired/Cancelled | — | — |
| Outstanding, March 31, 2013 | 4,747,926 | 2.05 |
| Exercisable, March 31, 2013 | 3,547,922 | 2.09 |

No stock options were granted to employees during the three months ended March 31, 2013 and 2012, respectively.

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 three months ended March 31, 2013 and 2012, respectively.

Total stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the three months ended March 31, 2013 and 2012 was \$360,360 and \$760,298 respectively, net of tax effect. None of the options outstanding and unvested as of March 31, 2013 had any intrinsic value.

Table of Contents

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

Warrants

The following table summarizes the changes in the warrants outstanding at March 31, 2013, 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 |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$ 0.15 | 1,200,000 | \$ 0.15 | 3.89 | 1,200,000 | \$ 0.15 |
| \$ 0.33 | 3,071,542 | \$ 0.33 | 3.11 | 3,071,542 | \$ 0.33 |
| \$ 0.45 | 2,566,664 | \$ 0.45 | 4.65 | 2,566,664 | \$ 0.45 |
| \$ 0.75 - 0.86 | 10,780,000 | \$ 0.75 | 3.85 | 10,780,000 | \$ 0.75 |
| \$ 1.00 | 142,500 | \$ 1.00 | 1.38 | 142,500 | \$ 1.00 |
| \$ 1.58 | 45,000 | \$ 1.58 | 9.00 | 45,000 | \$ 1.58 |
| \$ 2.00 | 2,529,200 | \$ 2.00 | 3.85 | 2,529,200 | \$ 2.00 |
| \$ 2.45 - 2.60 | 800,000 | \$ 2.50 | 3.76 | 800,000 | \$ 2.51 |
| \$ 3.00 | 750,000 | \$ 3.00 | 3.71 | 750,000 | \$ 3.00 |
| \$ 3.20 | 350,000 | \$ 3.20 | 3.68 | 350,000 | \$ 3.20 |
| \$ 3.75 | 100,000 | \$ 3.75 | 3.89 | 100,000 | \$ 3.75 |
| | 22,334,906 | | 3.83 | 22,334,906 | |

A summary of the Company's stock awards for warrants as of March 31, 2013 and changes for the three months ended March 31, 2013 is presented below:

| | Options and Warrants | Weighted Average Exercise Price |
|--------------------------------|----------------------|---------------------------------|
| Outstanding, December 31, 2012 | 22,218,240 | \$ 1.01 |
| Granted | 1,266,666 | 0.17 |
| Exercised | — | — |
| Expired/Cancelled | (1,150,000) | 0.61 |
| Outstanding, March 31, 2013 | 22,334,906 | 0.96 |
| Exercisable, March 31, 2013 | 22,334,906 | 0.96 |

Total non-employee stock-based compensation expense in connection with warrants recognized in the consolidated statement of operations for the three months ended March 31, 2013 and 2012 was \$75,000 and \$2,720,764,

respectively, net of tax effect.

On March 14, 2013, in conjunction with the \$20,000 equity investment, an investor agreed to exchange their respective series A and B warrants to purchase an aggregate of 400,000 shares of common Stock each at an exercise price of seventy-five cents (\$.075) per share for (i) a new series A warrant to purchase an aggregate of 600,000 shares of Common Stock at an exercise price of fifteen cents (\$.15) per share and (iii) a new series B warrant to purchase an aggregate of 600,000 shares of Common Stock at an exercise price of fifteen cents (\$.15) per share. The new securities issued to the February 2012 Investor was issued in accordance with Section 3(a)(9) under the Securities Act. The Company recognized the fair market value net of \$75,000 as an expense.

The Company issued 1,584,200 compensatory warrants to non-employees during the three months ended March 31, 2012. The Company recognized the fair market value of \$2,720,764 as an expense. 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.

Table of Contents

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

14. Loss per Share

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

| | For the three months ended March 31, 2013 | For the three months ended March 31, 2012 |
|--|---|---|
| Net Income (Loss) | \$ (1,058,459) | \$ (9,468,848) |
| Net income (loss) per share: | | |
| Net income (loss) per share – basic | \$ (0.02) | \$ (0.42) |
| Net income (loss) per share – diluted | \$ (0.02) | \$ (0.42) |
| Weighted average common shares outstanding – basic & diluted | 60,291,720 | 22,807,514 |

For the three months ended March 31, 2013 and 2012 common stock equivalents totaling 38,644,063 and 33,838,758, 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.

15. 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. The Company's obligation to the monthly rent payment is \$33,000 per month and the remaining balance is due by Regen Medical Center, an entity owned by our chief executive officer.

The lease commenced on June 1, 2012 and expires on May 31, 2025. Upon commencement, the aggregate minimum annual lease payments under operating leases are as follows:

| | |
|--------------------------|--------------|
| 2013 (remainder of year) | \$ 484,547 |
| 2014 | 646,062 |
| 2015 | 665,555 |
| 2016 | 679,479 |
| 2017 | 679,479 |
| Thereafter | 5,440,474 |
| Total | \$ 8,595,596 |

Table of Contents

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

16. Subsequent Events

The Company has evaluated its subsequent events through September 30, 2013, the date the financial statements were available to be issued. Except as disclosed below, there were no additional significant subsequent events requiring disclosure.

Litigation

On May 1, 2013 Intellicell Biosciences, Inc. (the “Company”) entered into an agreement (the “Corcon Agreement”) with JKT Construction Inc. D/B/A Corcon (“Corcon”) to settle the previously disclosed litigation matter between the Company and Corcon (the “Corcon Litigation”) relating to that certain debt owed Corcon in the aggregate amount of \$547,000 (the “Debt”). For additional information regarding the Corcon Litigation subject to the Corcon Agreement see the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission (the “Commission”) on March 27, 2013. Under the terms of the Corcon Agreement, Corcon has agreed to dismiss the Corcon Litigation in exchange for receiving a payment of \$475,000 (the “Purchase Price”) from Hanover Holdings I, LLC (“Hanover”) under the terms of that certain a receivable purchase agreement (the “Corcon Receivable Purchase Agreement”). As condition to the Corcon Agreement, Hanover and the Company entered into an agreement for Hanover to purchase various debt obligations of, or claims against the Company and to file a civil action under Section 3(a)(10) (the “3(a)(10) Transaction”) of the Securities Act of 1933, as amended. Further, as a material inducement to enter into the Corcon Agreement, the Company agreed to escrow 19,000,000 shares of its common stock to be issued to Corcon in the event the 3(a)(10) Transaction was not approved and Purchase Price was not received. On May 21, 2013, the Supreme Court of the State of New York, County of New York, entered an order approving, among other things, the fairness of the terms and conditions of the 3(a)(10) Transaction as previously disclosed on the Company’s Current Report on Form 8-K filed with the Commission on May 24, 2013.

The Corcon Litigation was dismissed on May 10, 2013.

On May 8, 2013 (the “Effective Date”), the Company entered into a settlement agreement (the “Settlement Agreement”) with Mendel Bluming (“Bluming”) to settle the previously disclosed litigation matter between the Company and Bluming (the “Bluming Litigation”) relating to that certain promissory note, dated June 3, 2011, in the aggregate principal amount of \$500,000 (the “Note”). For additional information regarding the Bluming Litigation subject to the Settlement Agreement see the Company’s Current Report on Form 8-K filed with the Commission on March 27, 2013.

Under the terms of the Settlement Agreement, Bluming has agreed to dismiss the Bluming Litigation and defer the Company’s obligations under the Note for a period of one year from the Effective Date (the “Deferral”), in exchange for receiving a payment of \$35,000 from Hanover under the terms of that certain receivable purchase agreement for attorney’s fees owed by the Company to Bluming under the Note. As condition to the Settlement Agreement, Hanover and the Company entered into an agreement for Hanover to purchase various debt obligations of, or claims against the Company and to file a civil action under Section 3(a)(10) Transaction. On May 21, 2013, the Supreme Court of the State of New York, County of New York, entered an order approving, among other things, the fairness of the terms and conditions of the 3(a)(10) Transaction. In further consideration for the Deferral, the Company has agreed to give Bluming (i) an aggregate of 32,479 shares of the Company’s common stock; (ii) piggy back registration rights on all

shares issued to Bluming and on the shares underlying that certain warrant certificate for 1,108,860 shares of the Company's common stock; and (iii) an option to purchase 233,333 shares of the Company's common stock at price of \$0.15 per share, vesting immediately and expiring on the fifth anniversary of the Effective Date.

On May 21, 2013, the Supreme Court of the State of New York, County of New York (the "Court"), entered an order (the "Order") approving, among other things, the fairness of the terms and conditions of an exchange pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended (the "Securities Act"), in accordance with a stipulation of settlement (the "Settlement Agreement") between Intellicell Biosciences, Inc., a Nevada corporation (the "Company"), and Hanover Holdings I, LLC, a New York limited liability company ("Hanover"), in the matter entitled Hanover Holdings I, LLC v. Intellicell Biosciences, Inc., Case No. 651709/2013 (the "Action"). Hanover commenced the Action against the Company on May 10, 2013 to recover an aggregate of \$706,765.38 of past-due accounts payable of the Company, which Hanover had purchased from certain vendors of the Company pursuant to the terms of separate receivable purchase agreements between Hanover and each of such vendors (the "Assigned Accounts"), plus fees and costs (the "Claim"). The Assigned Accounts relate to certain construction, architectural, accounting, legal and financial services. The Order provides for the full and final settlement of the Claim and the Action. The Settlement Agreement became effective and binding upon the Company and Hanover upon execution of the Order by the Court on May 21, 2013.

Pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover 8,500,000 shares (the "Settlement Shares") of the Company's common stock, \$0.001 par value (the "Common Stock"). Giving effect to such issuance, the Settlement Shares represent approximately 9.93% of the total number of shares of Common Stock presently outstanding. The Settlement Agreement provides that the Settlement Shares will be subject to adjustment on the trading day immediately following the Calculation Period (as defined below) to reflect the intention of the parties that the total number of shares of Common Stock to be issued to Hanover pursuant to the Settlement Agreement be based upon a specified discount to the trading volume weighted average price (the "VWAP") of the Common Stock for a specified period of time subsequent to the Court's entry of the Order. Specifically, the total number of shares of Common Stock to be issued to Hanover pursuant to the Settlement Agreement shall be equal to the sum of: (i) the quotient obtained by dividing (A) \$706,765.38 by (B) 55% of the average of the lowest 10 VWAPs of the Common Stock over the 80-consecutive trading day period immediately following the date of issuance of the initial Settlement Shares (or such shorter trading-day period as may be determined by Hanover in its sole discretion by delivery of written notice to the Company) (the "Calculation Period"); (ii) the quotient obtained by dividing (A) the total dollar amount of legal fees and expenses incurred in connection with the Action, which shall not exceed \$57,500 (less \$5,000 heretofore paid by the Company) by (B) the VWAP of the Common Stock over the Calculation Period; and (iii) the quotient obtained by dividing (A) agent fees of \$35,338.27 by (B) the VWAP of the Common Stock over the Calculation Period, rounded up to the nearest whole share (the "VWAP Shares"). As a result, the Company ultimately may be required to issue to Hanover substantially more shares of Common Stock than the number of Settlement Shares initially issued (subject to the limitations described below). The Settlement Agreement further provides that if, at any time and from time to time during the Calculation Period, Hanover reasonably believes that the total number of Settlement Shares previously issued to Hanover shall be less than the total number of VWAP Shares to be issued to Hanover or its designee in connection with the Settlement Agreement, Hanover may, in its sole discretion, deliver one or more written notices to the Company, at any time and from time to time during the Calculation Period, requesting that a specified number of additional shares of Common Stock promptly be issued and delivered to Hanover or its designee (subject to the limitations described below), and the Company will upon such request reserve and issue the number of additional shares of Common Stock requested to be so issued and delivered in the notice (all of which additional shares shall be considered "Settlement Shares" for purposes of the Settlement Agreement). At the end of the Calculation Period, (i) if the number of VWAP Shares exceeds the number of Settlement Shares issued, then the Company will issue to Hanover or its designee additional shares of Common Stock equal to the difference between the number of VWAP Shares and the number of Settlement Shares, and (ii) if the number of VWAP Shares is less than the number of Settlement Shares, then Hanover or its designee will return to the Company for cancellation that number of shares of Common Stock equal to the difference between the number of VWAP Shares and the number of Settlement Shares.

Hanover may sell the shares of Common Stock issued to it or its designee in connection with the Settlement Agreement at any time without restriction, even during the Calculation Period.

Table of Contents

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

The Settlement Agreement provides that in no event shall the number of shares of Common Stock issued to Hanover or its designee in connection with the Settlement Agreement, when aggregated with all other shares of Common Stock then beneficially owned by Hanover and its affiliates (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations thereunder), result in the beneficial ownership by Hanover and its affiliates (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder) at any time of more than 9.99% of the Common Stock.

Furthermore, the Settlement Agreement provides that, for so long as Hanover or any of its affiliates hold any shares of Common Stock, Hanover and its affiliates are prohibited from, among other actions: (1) voting any shares of Common Stock owned or controlled by Hanover or its affiliates, or soliciting any proxies or seeking to advise or influence any person with respect to any voting securities of the Company; or (2) engaging or participating in any actions, plans or proposals that relate to or would result in, among other things, (a) acquiring additional securities of the Company, alone or together with any other person, which would result in Hanover and its affiliates collectively beneficially owning or controlling, or being deemed to beneficially own or control, more than 9.99% of the Common Stock or other voting securities of the Company (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder), (b) an extraordinary corporate transaction such as a merger, reorganization or liquidation of the Company or any of its subsidiaries, (c) a sale or transfer of a material amount of assets of the Company or any of its subsidiaries, (d) changes in the present board of directors or management of the Company, (e) material changes in the capitalization or dividend policy of the Company, (f) any other material change in the Company’s business or corporate structure, (g) changes in the Company’s charter, bylaws or similar instruments or other actions which may impede the acquisition of control of the Company by any person or entity, (h) causing a class of securities of the Company to be delisted, or (i) causing a class of equity securities of the Company to become eligible for termination of registration under the Exchange Act; or (3) any actions similar to the foregoing. These prohibitions may not be modified or waived without further order of the Court

In the period from May 23, 2013 to the date of this report, the Company has issued 50,266,171 additional settlement shares pursuant to the terms of the settlement agreement.

TCA Default Notice

On July 15, 2013, while the Company was finalizing an amendment and waiver to that certain Convertible Promissory Note (the “Note”) issued by the Company in favor of TCA Global Credit Master Fund, LP (“TCA”) on June 7, 2012 in the principal amount of \$500,000, the Company was advised that Ironridge Global IV, LTD (“Ironridge”), led by Mr. John C. Kirkland, Esq., purportedly purchased the Note from TCA. The Complaint and Motion alleged that Ironridge and TCA each served the Company with a Notice of Foreclosure and Sale, both claiming to be the “Secured Party” of the same assets.

On August 8, 2013, a Summons and Complaint (the “Complaint”) was filed along with a Motion for a Temporary Restraining Order (the “Motion”) before the Supreme Court of the State of New York, County of New York (the “Court”) under the caption Intellicell Biosciences, Inc. v Ironridge Global IV, LTD., and TCA Global Credit Master Fund, LP, Index No. 652800/13. The Motion sought to restrain the sale of the Company’s assets.

Given that Ironridge and TCA asserted that they would sell the secured assets of the Company at auction on August 12, 2013, the Motion sought to temporarily restrain both parties from so doing. On August 12, 2013, Justice Sherwood, Justice of the Supreme Court, New York County, issued a written Order granting the relief requested, thereby restraining any sale of assets (the "Temporary Restraining Order").

On August 26, 2013, despite the Company's best efforts to amicably resolve the dispute related to the Note, a subsequent hearing on the Motion was held, at which time the Company voluntarily brought with it to Court: (i) a certified check in the amount of \$535,833 constituting payment of all principal and interest owed under the Note; and (ii) a stock certificate constituting the facility fee shares owed to the Secured Party pursuant to that certain Equity Facility Agreement. Since TCA admitted in prior court filings that it has no remaining interest in the that certain Note and Equity Facility Agreement, both the check and the stock certificate were tendered to Ironridge in open court, and counsel for Ironridge confirmed receipt thereof to Justice Oing directly. The company's attorneys argued in court that with the exception of possible attorney's fees owed, the Company's obligations under the transaction documents have now been satisfied in full.

In addition, the Court found Ironridge's jurisdictional argument to be unavailing and held that the case shall remain in New York and directed all parties to file submissions with the Court on September 10, 2013, indicating why any other monies are or are not owed under those certain transaction documents. Judge Oing further directed that the Temporary Restraining Order restraining the sale of the Company's assets shall remain in place indefinitely until further order of the Court and that the auction shall not be rescheduled and that Ironridge shall not make, post or distribute any further advertisements, internet postings, blogs or otherwise in relation thereto. Finally, Judge Oing held that the balance of the \$680,000 that was being held in escrow be immediately released.

The Company intends to vigorously defend itself against Ironridge and Kirklands's improper attempts to seize the Company's assets for not giving into Kirkland's improper threats and demands. The Company will take all legal action necessary to protect the interests of the Company and its shareholders. The Company is also arranging for all outstanding principal and interest under the Note to be paid as soon as possible.

Regen Medical License Agreement

On August 26, 2013, the Company and Regen Medical entered into a termination and general release agreement (the "Termination Agreement"), effective December 31, 2012 (the "Effective Date"), pursuant to which the Company and Regen Medical agreed, among other things, that as of the Effective Date, (i) the Company shall forgive the \$514,000 owed to the Company by Regen Medical under the Regen Medical Agreement in exchange for the exclusive right to certain open label data and other data which the Company would like to have the rights to use as empirical data or evidence of the efficacy of the Company's proprietary process (the "Clinical Data"), (ii) the parties will take all necessary steps to enter into an agreement for the grant of a license to Regen Medical for the Company's proprietary process as well as a license of the Clinical Data, (iii) the Regen Medical Agreement is terminated in its entirety and shall be deemed null and void and of no further force or effect and (iii) neither Company nor Regen Medical shall have any further rights or obligations under the Regen Medical Agreement. Each party also provided a general release to the other party with respect to the Regen Medical Agreement and all transactions contemplated by the Regen Medical Agreement.

Redwood Management LLC Debt Assignment

On August 5, 2013, the Company was notified that certain debt holders had assigned and transferred debt agreements to Redwood Management LLC. as follows:

- Frank loan payable to Fred Frank in the \$200,000.

-

Two of the May 11, 2013 convertible debt notes holders assigned \$600,000 of their notes and one note holder assigned previous advances \$45,000.

The assigned debt agreements included principal and accrued interest. In conjunction with the assignment, the Company entered into a securities settlement agreement with Redwood Management LLC. whereby Redwood agreed to acquire certain debt rights and along with the rights to common stock and conversion of certain debt securities assumed by Redwood in the aggregate of approximately \$878,644.

JJK, LLC Notes Payable

On May 29, 2013 and July 26, 2013, the company issued promissory notes in the amount of \$50,000 and \$75,000, respectively, for advances from JJK, LLC. The terms of the note require repayment in 30 days and an annual interest rate of 10%. On July 2013, the company issued JJK, LLC 5,000,000 million shares of company common stock and an additional 2,000,000 shares of company common stock on September 26, 2013. The notes are currently due and payable.

Table of Contents

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, 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. As a result of the merger, MEG's former shareholders acquired majority of Intellicell's outstanding common stock and all of Intellicell'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 are an aggregate of \$1,385,000 of Intellicell Notes outstanding which are convertible into an aggregate of 1,561,443 shares of common stock of the Company and warrants to purchase an aggregate of 3,071,342 shares of common stock of the Company. 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. 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.

Table of Contents

Debt Conversions and Settlements

Prior to the consummation of the Merger, the Company entered into agreements with the holders of an aggregate of \$1,619,606 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 plus accrued interest of \$9,398 less unamortized debt discounts of \$83,264 and accrued expenses totaling \$228,414 (the "Series C Debt"), which included \$1,201,551 of accrued compensation, \$128,047 of notes payable 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.

Furthermore, prior to the consummation of the Merger, the Company entered into agreements with the holders of an aggregate of \$250,000 of accrued compensation, pursuant to which such persons agreed to forgive all amounts owed to the Company.

Asset Purchase Agreement with Consorteum Holdings, Inc.

On June 6, 2011, we entered into an asset purchase agreement (the "Consorteum Purchase Agreement") with Consorteum Holdings, Inc. ("Consorteum") pursuant to which we agreed to sell, transfer and assign to Consorteum, and Consorteum has agreed to purchase from us, 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 in exchange for Consorteum assuming an aggregate principal amount of \$1,864,152 of our indebtedness (the "Assumed Indebtedness") in accordance with the terms of that certain assignment and assumption agreement executed on June 6, 2011. Such rights include, but are not limited to, our former name, phone number and listing, goodwill and other intangible assets (including its rights to any intellectual property or proprietary technology), as well as our rights under certain licensing agreements.

On June 6, 2011, we 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 was 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, we and Consorteum agreed to waive the requirement that the conditions precedent set forth in the Consorteum Purchase Agreement be satisfied on or before closing and each party agreed that as of the date of the Consorteum Purchase Agreement, Consorteum shall assume an aggregate of \$1,477,052 of principal indebtedness from us plus accrued interest totaling \$250,695 in accordance with the terms of the Consorteum Purchase Agreement. The foregoing included notes payable to certain of our former affiliates totaling \$450,000. Notwithstanding the foregoing, Consorteum agreed to provide us with a guaranty, whereby Consorteum agreed to unconditionally and irrevocably guarantee to us the prompt and complete payment, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of the Assumed Indebtedness, including any Assumed Indebtedness which we had not received the necessary consent for 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.

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 ended March 31, 2013 Compared to Three months ended March 31, 2012

Revenue

Revenue for the three months ended March 31, 2013 and March 31, 2012 were \$0 and \$12,100, respectively. Revenues for the three months ended March 31, 2012 were primarily attributable fees from cases processed by licensees. 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.

Table of Contents

Cost of goods sold and Gross Margin

Cost of goods sold for the three months ended March 31, 2013 and March 31, 2012 were \$0 and \$4,776, respectively.

Gross margin were \$0 and \$7,324 for the three months ended March 31, 2013 and 2012, 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, depreciation costs associated with the licensed laboratory equipment and the direct sales costs associated with license fees received.

Operating expenses

Research and development expenses were \$157,078 and \$48,921 for the three months ended March 31, 2013 and 2012, respectively. The principal component of research and development costs consists of services as the attending physician in patient cases, for lab technicians, and for nursing staff employed by Regen Medical, Dr. Victor's medical practice which is included as part of the ongoing research of our technology and processes. These fees totaled \$49,500 and \$0 for the three months ended March 31, 2013 and 2012, respectively.

Sales and marketing expenses were \$4,828 and \$127,049 for the three months ended March 31, 2013 and 2012, 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 \$715,645 and \$583,995 for the three months ended March 31, 2013 and 2012, respectively. The following are the significant components of the general and administrative costs:

Salary Expense

General and administrative is comprised of salary expenses of \$246,080 and \$277,442 for the three months ended March 31, 2013 and 2012, respectively. Included in the salary expense and related to a significant shareholder as a result of this individual serving in the capacity of our Chief Executive Officer was \$68,750 for each of the three months ended March 31, 2013 and 2012. In addition, we incurred salary expenses totaling \$45,000 and \$70,000 for the three months ended March 31, 2013 and 2012, respectively, to the spouse of our Chief Executive Officer and majority shareholder.

Rent and office administrative expenses

Included in general and administrative expenses are \$103,800 and \$75,000 of office lease and administrative costs for the three months ended March 31, 2013 and 2012, respectively. The office lease costs for our 460 Park Avenue location was approximately \$96,900, net of a lease allocation of 40% of the lease costs to Regen Medical. The office lease and administrative services costs for the three months ended March 31, 2012 was \$75,000 provided by and at the former facility of Regen Medical, a company owned by our chief executive officer,

Professional fees

For the three months ended March 31, 2013 and 2012, we have incurred approximately \$241,000 and \$105,000 in legal and professional fees primarily related the FDA compliance, public company costs and financing transactions.

Depreciation

Depreciation expense is included in general and administrative costs and amounted to \$84,551 and \$3,602 for the three months ended March 31, 2013 and 2012, respectively.

Stock Based Compensation. During the three months ended March 31, 2013 and 2012, we incurred employee stock based compensation expenses of \$360,360 and 760,298, respectively, for incentive stock options and common stock issued to employees. The incentive stock options were valued using the Black Scholes method.

Non-Employee Stock Based Compensation. During the three months ended March 31, 2013 and 2012, non-employee stock based compensation of \$300,000 and \$5,053,934 were incurred as non-cash charges, respectively. Non-employee stock based compensation is comprised as follows:

- During the three months ended March 31, 2013, the Company issued 2,000,000 shares of its common stock for advisory services. The Company recognized the fair market value charge of \$300,000.
- During the three months ended March 31, 2012, the Company issued 1,060,001 shares of common stock shares for stock issuances for medical advisory and professional services and charged \$2,333,170.
- During the three months ended March 31, 2012, \$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.

Table of Contents

Changes in Fair Value of Derivative Liability

The Company has issued various instruments (as detailed below) which are accounted for as derivative liabilities and are valued at fair value at the date of issuance and at each balance sheet date. The change in value of these instruments is recorded as a charge (or as income). During the three months ended March 31, 2013 and 2012, the Company recorded income in the amount of \$654,998 and a charge to income of \$2,800,570, respectively, relating to the change in value of all its derivative liabilities.

The instruments with derivative properties are as follows:

Convertible Debt - Derivative Liabilities

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 December 31, 2011, 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. As of March 31, 2012, the Company has recognized \$72,141 of interest expense as a result of such amortization.

The Company accounted for the conversion features underlying the convertible debentures an 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 derivate conversion features of these debentures issued during the year ended December 31, 2011 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 reduction to income of \$437,013 and \$3,249,215 for the three months ended March 31, 2013, respectively, which is included in the accompanying financial statements. The fair value of the derivative conversion features was determined to be \$150,507 and \$587,520 at March 31, 2013 and December 31, 2012, respectively.

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 derivate feature of the warrants issued during year ended December 31, 2011 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 income of \$211,015 and \$6,435,200, respectively for the three months ended Mrach 31, 2013 and 2012, respectively, which is included in the accompanying financial statements. The fair value of the derivative conversion features was determined to be \$177,535 and \$388,550 at March 31, 2013 and December 31, 2012, respectively.

As discussed, as a result of the Company's Merger, and the effect of recapitalization, the exercise price of the convertible debentures and warrants was decreased from \$1.72 to \$.88. The subordinated convertible debentures are convertible into an aggregate of 1,561,443 shares of common stock and warrants to purchase an aggregate of 3,071,542 shares of common stock.

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 cancelation 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 were subject to anti-dilution protection if shares or share-indexed financing instruments were sold 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.

We determined the value of the derivative conversion features of these debentures issued at the relevant commitment dates to be \$19,036,312 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature and warrants resulted in a reduction to income of \$6,970 and \$6,551,327, respectively for the three months ended March 31, 2013 and the period of the issuance date to March 31, 2012, respectively, which is included in the accompanying financial statements

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.

As of March 31, 2013 and December 31, 2012, the Company had 100,000 Class A and 100,000 Class B warrants outstanding, that were not exchanged and retained their anti-dilutive properties. The value of the derivative liability associated with the conversion feature of the warrants was \$3,980 and \$10,950, respectively.

Loss before income tax and Net Loss

Loss before income tax for the three months ended March 31, 2013 and 2012 was \$1,058,459 and \$9,468,848, respectively, which includes a reduction in charges for the non-cash change in fair value of derivative liabilities of \$654,998 and a charges for the non-cash change in fair value of derivative liabilities of \$2,800,570 respectively. Non-cash expense for Employee Stock Compensation of \$360,360 and \$760,298, respectively and non-employee stock based compensation of \$300,000 and \$5,053,934, respectively, as discussed above. As we continue 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 March 31, 2013 of \$7,881,900, compared to a working capital deficit at December 31, 2012 of \$6,787,734.

Our cash and cash equivalents as March 31, 2013 was \$0 compared to cash balances at December 31, 2012 of \$10,159. 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 short term working capital advances and 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.

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.

Table of Contents

Net cash used in operating activities

Net cash used in operating activities was \$248,058 and \$149,902 for the three months ended March 31, 2013 and 2012, 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 and accrued liabilities of \$446,182 for the three months ended March 31, 2013 and an increase in deferred income related to our license agreements of \$570,000 for the three months ended March 31, 2012.

Net cash used in investing activities

Net cash from investing activities was provided by \$89,079 for the three months ended March 31, 2013 and was used in of \$1,632,960 for the three months ended March 31, 2012, consisting of \$0 and \$83,393 for the purchase of lab equipment, \$0 and \$319,497 for the purchase of computer equipment, \$0 and \$337,055 for the purchase of furniture and fixtures and \$4,271 and \$893,015 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. Furthermore, \$93,350 of net advances from Regen Medical was repaid during the three months ended March 31, 2013.

Net cash provided by financing activities

Net cash provided by financing activities was \$148,820 and \$2,249,250 for the three months ended March 31, 2013 and 2012, respectively. In the three months ended March 31, 2013, the Company received proceeds of \$20,000 from a private placement and proceeds of \$100,000 from a note payable. In the three months ended March 31, 2012, the Company received \$290,000 of gross proceeds from our Series D preferred stock offering, and \$2,100,000 of gross proceeds from our private placement offering. Additionally, the Company received advances of \$25,554 and repaid advances from Dr. Victor in the amount of approximately \$25,000 for the three months ended March 31, 2013 and 2012, respectively.

Intellicell Convertible Promissory Notes

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.

TCA Global MasterFund, L.P. Convertible Note

On June 7, 2012, the Company issued the Convertible Promissory Note (the "Note") in favor of TCA Global Master Fund, L.P. ("TCA") in exchange for gross proceeds of \$500,000. 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.

Committed Equity Facility Agreement

On June 7, 2012, the Company entered into the Equity Agreement with 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 shall 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 (as defined below), covering the Registrable Securities (as defined below). 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.

The "Registrable Securities" include (i) the Shares; and (ii) any securities issued or issuable with respect to the Shares by way of exchange, stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise.

As further consideration for TCA entering into and structuring the Equity Facility, the Company paid TCA a fee by issuing to TCA that number of shares of the Company's common stock that equal \$110,000.

TCA Default Notice

On July 15, 2013, while the Company was finalizing an amendment and waiver to that certain Convertible Promissory Note (the "Note") issued by the Company in favor of TCA Global Credit Master Fund, LP ("TCA") on June 7, 2012 in the principal amount of \$500,000, the Company was advised that Ironridge Global IV, LTD ("Ironridge"), led by Mr. John C. Kirkland, Esq., purportedly purchased the Note from TCA. The Complaint and Motion alleged that Ironridge and TCA each served the Company with a Notice of Foreclosure and Sale, both claiming to be the "Secured Party" of the same assets.

On August 8, 2013, a Summons and Complaint (the "Complaint") was filed along with a Motion for a Temporary Restraining Order (the "Motion") before the Supreme Court of the State of New York, County of New York (the "Court") under the caption Intellicell Biosciences, Inc. v Ironridge Global IV, LTD., and TCA Global Credit Master Fund, LP, Index No. 652800/13. The Motion sought to restrain the sale of the Company's assets.

Given that Ironridge and TCA asserted that they would sell the secured assets of the Company at auction on August 12, 2013, the Motion sought to temporarily restrain both parties from so doing. On August 12, 2013, Justice Sherwood, Justice of the Supreme Court, New York County, issued a written Order granting the relief requested, thereby restraining any sale of assets (the "Temporary Restraining Order").

On August 26, 2013, despite the Company's best efforts to amicably resolve the dispute related to the Note, a subsequent hearing on the Motion was held, at which time the Company voluntarily brought with it to Court: (i) a

certified check in the amount of \$535,833 constituting payment of all principal and interest owed under the Note; and (ii) a stock certificate constituting the facility fee shares owed to the Secured Party pursuant to that certain Equity Facility Agreement. Since TCA admitted in prior court filings that it has no remaining interest in the that certain Note and Equity Facility Agreement, both the check and the stock certificate were tendered to Ironridge in open court, and counsel for Ironridge confirmed receipt thereof to Justice Oing directly. The company's attorneys argued in court that with the exception of possible attorney's fees owed, the Company's obligations under the transaction documents have now been satisfied in full.

In addition, the Court found Ironridge's jurisdictional argument to be unavailing and held that the case shall remain in New York and directed all parties to file submissions with the Court on September 10, 2013, indicating why any other monies are or are not owed under those certain transaction documents. Judge Oing further directed that the Temporary Restraining Order restraining the sale of the Company's assets shall remain in place indefinitely until further order of the Court and that the auction shall not be rescheduled and that Ironridge shall not make, post or distribute any further advertisements, internet postings, blogs or otherwise in relation thereto. Finally, Judge Oing held that the balance of the \$680,000 that was being held in escrow be immediately released.

The Company intends to vigorously defend itself against Ironridge and Kirklands's improper attempts to seize the Company's assets for not giving into Kirkland's improper threats and demands. The Company will take all legal action necessary to protect the interests of the Company and its shareholders. The Company is also arranging for all outstanding principal and interest under the Note to be paid as soon as possible.

Table of Contents

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.

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

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of the accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

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 March 31, 2013, the Company had executed license agreements and received \$1,222,500 in license fees for six centers which had not yet commenced operations. Subsequently, the Company reclassified the 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 interpretation issued recently are expected to have a material impact on the Company's consolidated financial position, operation or cash flow.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Table of Contents

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 March 31, 2013.

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 March 31, 2013 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 March 31, 2013 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 March 31, 2013, 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

Table of Contents

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.

Ironridge Litigation

On August 8, 2013, a Summons and Complaint (the “Complaint”) was filed along with a Motion for a Temporary Restraining Order (the “Motion”) before the Supreme Court of the State of New York, County of New York (the “Court”) under the caption Intellicell Biosciences, Inc. v Ironridge Global IV, LTD., and TCA Global Credit Master Fund, LP, Index No. 652800/13. The Motion sought to restrain the sale of the Company’s assets.

As previously reported, on July 15, 2013, while the Company was finalizing an amendment and waiver to that certain Convertible Promissory Note (the “Note”) issued by the Company in favor of TCA Global Credit Master Fund, LP (“TCA”) on June 7, 2012 in the principal amount of \$500,000, the Company was advised that Ironridge Global IV, LTD (“Ironridge”), led by Mr. John C. Kirkland, Esq., purportedly purchased the Note from TCA. The Complaint and Motion alleged that Ironridge and TCA each served the Company with a Notice of Foreclosure and Sale, both claiming to be the “Secured Party” of the same assets.

Given that Ironridge and TCA asserted that they would sell the secured assets of the Company at auction on August 12, 2013, the Motion sought to temporarily restrain both parties from so doing. On August 12, 2013, Justice Sherwood, Justice of the Supreme Court, New York County, issued a written Order granting the relief requested, thereby restraining any sale of assets (the “Temporary Restraining Order”).

On August 26, 2013, despite the Company’s best efforts to amicably resolve the dispute related to the Note, a subsequent hearing on the Motion was held, at which time the Company voluntarily brought with it to Court: (i) a certified check in the amount of \$535,833.33 constituting payment of all principal and interest owed under the Note; and (ii) a stock certificate constituting the facility fee shares owed to the Secured Party pursuant to that certain Equity Facility Agreement. Since TCA admitted in prior court filings that it has no remaining interest in the that certain Note and Equity Facility Agreement, both the check and the stock certificate were tendered to Ironridge in open court, and counsel for Ironridge confirmed receipt thereof to Justice Oing directly. The company's attorneys argued in court that, with the exception of possible attorney’s fees owed, the Company's obligations under the transaction documents have now been satisfied in full.

In addition, the Court found Ironridge’s jurisdictional argument to be unavailing and held that the case shall remain in New York and directed all parties to file submissions with the Court on September 10, 2013, indicating why any other monies are or are not owed under those certain transaction documents. Judge Oing further directed that the Temporary Restraining Order restraining the sale of the Company’s assets shall remain in place indefinitely until further order of the Court and that the auction shall not be rescheduled and that Ironridge shall not make, post or distribute any further advertisements, internet postings, blogs or otherwise in relation thereto. Finally, Judge Oing held that the balance of the \$680,000 that was being held in escrow be immediately released. A hearing is scheduled for October 29, 2013.

Hanover Holdings Litigation

On May 21, 2013, the Supreme Court of the State of New York, County of New York (the “Court”), entered an order (the “Order”) approving, among other things, the fairness of the terms and conditions of an exchange pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended (the “Securities Act”), in accordance with a stipulation of settlement (the “Settlement Agreement”) between Intellicell Biosciences, Inc., a Nevada corporation (the “Company”), and Hanover Holdings I, LLC, a New York limited liability company (“Hanover”), in the matter entitled Hanover Holdings I, LLC v. Intellicell Biosciences, Inc., Case No. 651709/2013 (the “Action”). Hanover commenced the Action against the Company on May 10, 2013 to recover an aggregate of \$706,765.38 of past-due accounts payable of the Company, plus fees and costs (the “Claim”). The Order provides for the full and final settlement of the Claim and the Action. The Settlement Agreement became effective and binding upon the Company and Hanover upon execution of the Order by the Court on May 21, 2013. On May 23, 2013, the Company issued and delivered to Hanover 8,500,000 shares (the “Initial Settlement Shares”) of the Company’s common stock, \$0.001 par value (the “Common Stock”).

The Settlement Agreement provides that the Initial Settlement Shares will be subject to adjustment on the trading day immediately following the Calculation Period (as defined below) to reflect the intention of the parties that the total number of shares of Common Stock to be issued to Hanover pursuant to the Settlement Agreement be based upon a specified discount to the trading volume weighted average price (the “VWAP”) of the Common Stock for a specified period of time subsequent to the Court’s entry of the Order. Specifically, the total number of shares of Common Stock to be issued to Hanover pursuant to the Settlement Agreement shall be equal to the sum of: (i) the quotient obtained by dividing (A) \$706,765.38 by (B) 55% of the average of the lowest 10 VWAPs of the Common Stock over the 80-consecutive trading day period immediately following the date of issuance of the Initial Settlement Shares (or such shorter trading-day period as may be determined by Hanover in its sole discretion by delivery of written notice to the Company) (the “Calculation Period”); (ii) the quotient obtained by dividing (A) the total dollar amount of legal fees and expenses incurred in connection with the Action, which shall not exceed \$57,500 (less \$5,000 heretofore paid by the Company) by (B) the VWAP of the Common Stock over the Calculation Period; and (iii) the quotient obtained by dividing (A) agent fees of \$35,338.27 by (B) the VWAP of the Common Stock over the Calculation Period, rounded up to the nearest whole share (the “VWAP Shares”). As a result, the Company ultimately may be required to issue to Hanover substantially more shares of Common Stock than the number of Initial Settlement Shares issued (subject to the limitations described below). The Settlement Agreement further provides that if, at any time and from time to time during the Calculation Period, Hanover reasonably believes that the total number of Settlement Shares previously issued to Hanover shall be less than the total number of VWAP Shares to be issued to Hanover or its designee in connection with the Settlement Agreement, Hanover may, in its sole discretion, deliver one or more written notices to the Company, at any time and from time to time during the Calculation Period, requesting that a specified number of additional shares of Common Stock promptly be issued and delivered to Hanover or its designee (subject to the limitations described below), and the Company will upon such request reserve and issue the number of additional shares of Common Stock requested to be so issued and delivered in the notice (all of such additional shares of Common Stock, “Additional Settlement Shares”). At the end of the Calculation Period, (i) if the number of VWAP Shares exceeds the number of Initial Settlement Shares and Additional Settlement Shares issued, then the Company will issue to Hanover or its designee additional shares of Common Stock equal to the difference between the number of VWAP Shares and the number of Initial Settlement Shares and Additional Settlement Shares, and (ii) if the number of VWAP Shares is less than the number of Initial Settlement Shares and Additional Settlement Shares issued, then Hanover or its designee will return to the Company for cancellation that number of shares of Common Stock equal to the difference between the number of VWAP Shares and the number of Initial Settlement Shares and Additional Settlement Shares. Hanover may sell the shares of Common Stock issued to it or its designee in connection with the Settlement Agreement at any time without restriction, even during the Calculation Period.

Between May 23, 2013 and the date of this report, the Company issued and delivered to Hanover an aggregate of 50,266,171 Additional Settlement Shares pursuant to the terms of the Settlement Agreement approved by the Order.

Corcon Litigation

On February 27, 2013, JKT Construction Inc. d/b/a/ Corcon (“Corcon”) filed a complaint (the “Corcon Complaint”) against, among other parties, the Company and Dr. Victor, in the Supreme Court of the State of New York, Case No. 151778/2013, alleging, among other things, breach of contract, unjust enrichment, quantum meruit and foreclosure on a mechanic’s lien related to work performed in the build out of the Company’s office’s located at 460 Park Avenue, 17th Floor, New York, New York 10022 (the “Property”). Corcon is seeking, among other things, that their claims be determined to be a valid lien against the Property and that they be able to foreclose on and sell the Property, a judgment for any deficiency against, among other parties, the Company and Dr. Victor and an amount of compensatory damages not less than \$442,334.03, plus interest, costs, attorneys’ fees and expenses.

On May 1, 2013 Intellicell Biosciences, Inc. (the “Company”) entered into an agreement (the “Corcon Agreement”) with Corcon (“Corcon”) to settle the litigation matter between the Company and Corcon (the “Corcon Litigation”) relating to that certain debt owed Corcon in the aggregate amount of \$547,000 (the “Debt”). For additional information regarding the Corcon Litigation subject to the Corcon Agreement see the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission (the “Commission”) on March 27, 2013. Under the terms of the Corcon Agreement, Corcon has agreed to dismiss the Corcon Litigation in exchange for receiving a payment of \$475,000 (the “Purchase Price”) from Hanover Holdings I, LLC (“Hanover”) under the terms of that certain a receivable purchase agreement (the “Corcon Receivable Purchase Agreement”). As condition to the Corcon Agreement, Hanover and the Company entered into an agreement for Hanover to purchase various debt obligations of, or claims against the Company and to file a civil action under Section 3(a)(10) (the “3(a)(10) Transaction”) of the Securities Act of 1933, as amended. Further, as a material inducement to enter into the Corcon Agreement, the Company agreed to escrow 19,000,000 shares of its common stock to be issued to Corcon in the event the 3(a)(10) Transaction was not approved and Purchase Price was not received. On May 21, 2013, the Supreme Court of the State of New York, County of New York, entered an order approving, among other things, the fairness of the terms and conditions of the 3(a)(10) Transaction as previously disclosed on the Company’s Current Report on Form 8-K filed with the Commission on May 24, 2013.

Table of Contents

The Corcon Litigation was dismissed on May 10, 2013.

Bluming Litigation

On February 14, 2013, the Company was served with notice that on February 13, 2013, Menachem M. Bluming (“Bluming”) filed a complaint (the “Bluming Complaint”) in the United States District Court for the Southern District of New York, Case No. 13-cv-0978-CM, alleging, among other things, breach of contract, unjust enrichment and debt owed against the Company, in connection with, that certain promissory note, dated June 3, 2011, in the aggregate principal amount of \$500,000. Bluming is seeking, among other things, an amount not less than \$680,000, representing the principal amount, interest, attorneys’ fees and expenses. The Company is currently working on making arrangements to honor its obligations under these 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 these notes.

On May 8, 2013 (the “Effective Date”), the Company entered into a settlement agreement (the “Settlement Agreement”) with Mendel Bluming (“Bluming”) to settle the previously disclosed litigation matter between the Company and Bluming (the “Bluming Litigation”) relating to that certain promissory note, dated June 3, 2011, in the aggregate principal amount of \$500,000 (the “Note”). Under the terms of the Settlement Agreement, Bluming has agreed to dismiss the Bluming Litigation and defer the Company’s obligations under the Note for a period of one year from the Effective Date (the “Deferral”), in exchange for receiving a payment of \$35,000 from Hanover under the terms of that certain receivable purchase agreement for attorney’s fees owed by the Company to Bluming under the Note. As condition to the Settlement Agreement, Hanover and the Company entered into an agreement for Hanover to purchase various debt obligations of, or claims against the Company and to file a civil action under Section 3(a)(10) Transaction. On May 21, 2013, the Supreme Court of the State of New York, County of New York, entered an order approving, among other things, the fairness of the terms and conditions of the 3(a)(10) Transaction. In further consideration for the Deferral, the Company has agreed to give Bluming (i) an aggregate of 32,479 shares of the Company’s common stock; (ii) piggy back registration rights on all shares issued to Bluming and on the shares underlying that certain warrant certificate for 1,108,860 shares of the Company’s common stock; and (iii) an option to purchase 233,333 shares of the Company’s common stock at price of \$0.15 per share, vesting immediately and expiring on the fifth anniversary of the Effective Date.

The Bluming Litigation was dismissed on May 24, 2013.

Sherb Litigation

In February 2013, the Company was served with notice that on October 13, 2011, Sherb & Co. LLP (“Sherb”) filed a complaint (the “Sherb Complaint”) in the Supreme Court of the State of New York, County of New York, Index No. 11/111685, alleging, among other things, breach of contract, and debt owed against the Company, in connection with accounting and audit services performed from May 12, 2010 through May 31, 2011. Sherb is seeking, among other things, an amount not less than \$88,508 plus interest.

Cragmont Litigation

On August 21, 2012, a complaint for damages was filed by Ethan Einwohner and Cragmont Capital, LLC (collectively, “Cragmont”) in the Supreme Court of the State of New York, County of New York, Index No. 652924/2012, alleging, among other things, quantum meruit, unjust enrichment, fraud and breach of contract related to alleged services performed by Cragmont on behalf of the Company. The parties entered into a stipulation whereby Cragmont withdrew and dismissed the claim for fraud. The complaint was amended to add Recurrent Capital LLC as

a plaintiff. Cragmont is seeking, among other things, damages of at least \$100,400 plus interest, costs and disbursements.

BFA Litigation

On August 19, 2011, a complaint for damages (was filed by Boisseau, Felicione & Associates, Inc. (“BFA”) in the Circuit Court of the 15 th Judicial Circuit In and For Palm Beach County, Florida (the “FL Court”), Case No. 50-2011-CA-012551-XXXX-MB (AE), alleging, among other things, breach of contract under the letter retainer agreement, dated on or about May 16, 2011, by and between the Company and Plaintiff (the “BFA Agreement”). BFA sought, among other things, damages of \$55,829, prejudgment interest and court costs. On December 20, 2011, a default judgment was entered against the Company for a total of \$58,135 plus post-judgment interest. In November 2012, the parties entered into a stipulation for settlement and garnishment whereby BFA agreed to accept \$58,135 in full settlement of all amounts owed to BFA in full settlement of all claims against the Company.

The results of any litigation are inherently uncertain and there can be no assurance that we will prevail in the litigation matter stated above or otherwise. We plan to pursue our claims and defenses vigorously and expect that the litigation matter discussed above will be protracted and costly.

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 considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), provided, however, the issuance of any shares of common stock to Hanover Holdings is pursuant to the terms of a settlement agreement approved by a court order that is exempt from the registration requirements of the Securities Act pursuant to Section 3(a)(10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear.

In January 2013, the Company issued 2,000,000 shares of its common stock for \$300,000 of advisory services.

In February 2013, the Company entered into securities purchase agreements, pursuant to which the Company sold 66,666 units, each unit consisting of two (2) shares of the Company’s common stock, par value \$0.001 per share (133,333 shares issued) and a warrant to purchase a share of common stock (66,666 warrants issued) for aggregate gross proceeds of \$20,000.

In May 2013, pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover Holdings, Inc. 8,500,000 Settlement Shares of the Company’s common stock.

In June 2013, pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover Holdings, Inc. 9,850,000 Settlement Shares of the Company’s common stock.

Edgar Filing: Intellicell Biosciences, Inc. - Form 10-Q

In July 2013, pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover Holdings, Inc. 21,316,171 Settlement Shares of the Company's common stock.

In July 2013, the company issued JJK, LLC 5,000,000 million shares of company common stock for compensatory financing fees.

In August 2013, pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover Holdings, Inc. 12,300,000 Settlement Shares of the Company's common stock.

In September 2013, pursuant to the terms of the Settlement Agreement approved by the Order, on May 23, 2013, the Company issued and delivered to Hanover Holdings, Inc. 6,800,000 Settlement Shares of the Company's common stock.

In July 2013, the company issued JJK, LLC 2,000,000 million shares of company common stock for compensatory financing fees.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Table of Contents

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: October 1, 2013

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