

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

Commission File No. 333-49388

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  
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  
Smaller Reporting Company

Non-accelerated filer

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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 May 15, 2012 was 27,168,877.

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INTELLICELL BIOSCIENCES, INC.  
QUARTERLY REPORT ON FORM 10-Q  
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Intellicell BioSciences Inc. and Subsidiary  
CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2012<br>(Unaudited) | December<br>31, 2011<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                  |                                   |
| Current assets:  |                                  |                                   |
| Cash   | \$ 576,582                       | \$ 110,194                        |
| Total current assets   | 576,582                          | 110,194                           |
| Property & Equipment - net of accumulated depreciation of \$18,827 and \$15,226 as of March 31, 2012 and December 31, 2011   |                                  |                                   |
|  | 2,186,193                        | 556,834                           |
| Deposit - License Agreement with related party   | 100,000                          | 100,000                           |
| Restricted cash for security deposit   | 650,000                          | 650,000                           |
|  | \$ 3,512,775                     | \$ 1,417,028                      |
| <b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>   |                                  |                                   |
| Current liabilities:   |                                  |                                   |
| Convertible debentures   | \$ 1,360,000                     | \$ 1,312,859                      |
| Notes payable and accrued interest   | 642,918                          | 1,161,758                         |
| Accounts payable and accrued expenses  | 447,009                          | 584,585                           |
| Deferred income  | 1,072,500                        | 502,500                           |
| Advances from related party  | 42,882                           | 67,882                            |
| Accrued liabilities, related party   | 822,297                          | 735,932                           |
| Total current liabilities  | 4,387,606                        | 4,365,516                         |
| Long term liabilities - Derivative liabilities   |                                  |                                   |
|  | 17,591,861                       | 14,791,291                        |
| Total liabilities  | 21,979,467                       | 19,156,807                        |
| Commitments  |                                  |                                   |
| Stockholders' deficit:   |                                  |                                   |
| Convertible preferred stock; \$0.01 par value, Series B, 21,000 shares authorized, 17,933 and 18,280 issued and outstanding at March 31, 2012 and December 31, 2011, respectively  | 179                              | 183                               |
| Convertible preferred stock; \$0.01 par value, Series C, 13,000 shares authorized, 10,000 and 10,823 issued and outstanding at March 31, 2012 and December 31, 2011, respectively  | 100                              | 108                               |
| Convertible preferred stock; \$0.01 par value, Series D, 500,000 shares authorized, 113,00 and 42,000 issued and outstanding at March 31, 2012 and December 31, 2011, respectively | 1,130                            | 420                               |
| Common stock; \$0.001 par value; 250,000,000 shares authorized; 25,893,402 and 21,034,938 shares and issued and outstanding at March 31, 2012 and December 31, 2011, respectively. | 25,893                           | 21,035                            |
| Additional paid in capital   | 24,585,596                       | 15,849,217                        |
| Accumulated deficit  | (43,079,590)                     | (33,610,742)                      |
| Total stockholders' deficit  | (18,466,692)                     | (17,739,779)                      |

\$ 3,512,775 \$ 1,417,028

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

Intellicell BioSciences Inc. and Subsidiary  
CONSOLIDATED STATEMENTS OF OPERATIONS

|  | (Unaudited)                |                |
|--|----------------------------|----------------|
|  | For the three months ended |                |
|  | March 31,                  |                |
|  | 2012                       | 2011           |
| Revenues                                       | \$ 12,100                  | \$ -           |
| Cost of goods sold                             | 4,776                      | -              |
| Gross margin                                   | 7,324                      | -              |
| Operating Expenses                             |                            |                |
| Research and development                       | 48,921                     | 92,888         |
| Sales and marketing                            | 127,049                    | 36,482         |
| General and administrative                     | 583,995                    | 216,424        |
| Employee Stock Based Compensation              | 760,298                    | -              |
| Non-Employee Stock Based Compensation          | 5,053,934                  | 827,125        |
|  | 6,574,197                  | 1,172,919      |
| Loss from operations                           | (6,566,873)                | (1,172,919)    |
| Other income (expense)                         |                            |                |
| Interest expense                               | (101,405)                  | -              |
| Change in fair value of derivative liabilities | (2,800,570)                | (9,290)        |
|  | (2,901,975)                | (9,290)        |
| Loss before income taxes                       | (9,468,848)                | (1,182,209)    |
| Provision for income taxes                     | -                          | -              |
| Net loss                                       | \$ (9,468,848)             | \$ (1,182,209) |
| Loss per share:                                |                            |                |
| Basic & Diluted                                | \$ (0.42)                  | \$ (0.03)      |
| Weighted-average shares outstanding:           |                            |                |
| Basic & Diluted                                | 22,807,514                 | 34,819,070     |

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

Intellicell BioSciences Inc. and Subsidiary  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
For the Three Months Ended March 31, 2012  
(Unaudited)

|   | Convertible Series B Preferred Stock |        | Convertible Series C Preferred Stock |        | Convertible Series D Preferred Stock |        | Common Stock |          | Additional Paid In Capital | Accumulated (Deficit) |
|---|--------------------------------------|--------|--------------------------------------|--------|--------------------------------------|--------|--------------|----------|----------------------------|-----------------------|
|   | Shares                               | Amount | Shares                               | Amount | Shares                               | Amount | Shares       | Amount   |                            |                       |
| Balances, December 31, 2011   | 18,280                               | \$183  | 10,823                               | \$108  | 42,000                               | \$420  | 21,034,938   | \$21,035 | \$15,849,217               | \$(33,610,742)        |
| Proceeds from sales of common stock at \$1.00 per share, net of fees          | -                                    | -      | -                                    | -      | -                                    | -      | 2,100,000    | 2,100    | 2,042,150                  | -                     |
| Conversion of note payable and accrued interest to common stock               | -                                    | -      | -                                    | -      | -                                    | -      | 500,000      | 500      | 527,049                    | -                     |
| Stock issued for the conversion of convertible debenture and accrued interest | -                                    | -      | -                                    | -      | -                                    | -      | 29,436       | 29       | 25,875                     | -                     |
| Conversion of Series B Preferred to common stock                              | (347 )                               | (4 )   | -                                    | -      | -                                    | -      | 346,527      | 346      | (342 )                     | -                     |
| Conversion of Series C Preferred to common stock                              | -                                    | -      | (823 )                               | (8 )   | -                                    | -      | 822,500      | 823      | (815 )                     | -                     |
| Issuance of Series D  | -                                    | -      | -                                    | -      | 14,500                               | 145    | -            | -        | 229,855                    | -                     |

|  |        |       |        |       |         |         |            |          |              |                |    |
|--|--------|-------|--------|-------|---------|---------|------------|----------|--------------|----------------|----|
| Preferred shares, net of fees                                      |        |       |        |       |         |         |            |          |              |                |    |
| Issuance of additional shares for anti-dilution                    | -      | -     | -      | -     | 56,500  | 565     | -          | -        | (565         | )              | -  |
| Stock-based compensation expense related to employee stock options | -      | -     | -      | -     | -       | -       | -          | -        | 760,298      | -              | 7  |
| Compensation expense related to the issuance of warrants           | -      | -     | -      | -     | -       | -       | -          | -        | 2,720,764    | -              | 2  |
| Stock issued for professional services at fair market value        | -      | -     | -      | -     | -       | -       | 1,060,001  | 1,060    | 2,432,110    | -              | 2  |
| Net loss for the three months ended March 31, 2012                 | -      | -     | -      | -     | -       | -       | -          | -        | -            | (9,468,848     | )  |
| Balances, March 31, 2012   | 17,933 | \$179 | 10,000 | \$100 | 113,000 | \$1,130 | 25,893,402 | \$25,893 | \$24,585,596 | \$(43,079,590) | \$ |

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



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

|  | (Unaudited)<br>For the three months ended<br>March 31, |                |
|--|--|----------------|
|  | 2012   | 2011           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |                |
| Net Loss   | \$ (9,468,848)   | \$ (1,182,209) |
| Adjustments to reconcile net loss to net cash used in operating activities:                                      |  |                |
| Stock compensation issued for services in excess of proceeds   | 5,053,934  | 827,125        |
| Employee stock compensation  | 760,298  | -              |
| Depreciation expense   | 3,602  | 2,713          |
| Interest from original issue discount on convertible debentures  | 72,141   | -              |
| Change in fair value of derivative liabilities   | 2,800,570  | 9,290          |
| Changes in assets and liabilities:   |  |                |
| Decrease in accounts receivable  | -  | 59,800         |
| Increase in prepaid expenses   | -  | (12,561)       |
| Increase (Decrease) in accounts payable and accrued expenses   | (27,964)   | 66,463         |
| Increase in deferred income  | 570,000  | 45,000         |
| Increase in accrued liabilities, related party   | 86,365   | 43,932         |
| Net cash used in operating activities  | (149,902)  | (140,447)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |                |
| Purchase of equipment and leasehold improvements   | (1,632,960)  | (44,505)       |
| Cash used in investing activities  | (1,632,960)  | (44,505)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |  |                |
| Proceeds from sale of common stock, net of fees  | 2,044,250  | 176,000        |
| Proceeds from the sales of Series D Preferred Stock, net of fees   | 230,000  | -              |
| Repayments of related party advances   | (25,000)   | -              |
| Proceeds from sale of convertible debentures   | -  | 200,000        |
| Cash provided by financing activities  | 2,249,250  | 376,000        |
| Net change in cash   | 466,388  | 191,048        |
| Cash and cash equivalents at the beginning of period   | 110,194  | 3,179          |
| Cash and cash equivalents at the end of the period   | \$ 576,582   | \$ 194,227     |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>   |  |                |
| Cash paid for interest   | \$ -   | \$ -           |
| Cash paid for taxes  | \$ -   | \$ -           |
| <b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>  |  |                |
| Conversion of convertible debenture to common stock  | \$ 25,000  | \$ -           |
| Conversion of note payable to common stock and warrants  | \$ 500,000   | \$ -           |
| Original issue discount attributed to detachable 5 year warrants sold in conjunction with Convertible Debentures | \$ -   | \$ 38,710      |

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

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”).

In addition to the foregoing, in accordance with the Merger Agreement, all outstanding convertible notes issued by IntelliCell (the “IntelliCell Notes”) and warrants issued by IntelliCell (the “IntelliCell Warrants”) entitle the holder to convert or exercise, as the case may be, into and receive the same number of shares of the Company common stock as the holder of IntelliCell Notes and Warrants would have been entitled to receive pursuant to the Merger had such holder exercised such Intellicell Notes and Warrants in full immediately prior to the closing of the Merger. Thus, there was an aggregate of \$1,385,000 of Intellicell Notes outstanding which are convertible into an aggregate of 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. Subsequent to the conversion of \$25,000 of subordinated convertible debentures in the current period, the remaining \$1,360,000 subordinated convertible debentures are convertible into an aggregate of 1,533,034 shares of common stock.



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 \$43,079,590 and a working capital deficit of \$3,811,024 as of March 31, 2012, respectively. However, if the non-cash expense related to the Company's change in fair value of derivative liability and stock based compensation is excluded then the accumulated deficit amounted to \$4,121,538. Further losses are anticipated in the continued development of its business, raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with existing cash on hand and a private placement of common stock or other debt or equity securities. There can be no assurance that we will be able to obtain further financing, do so on reasonable terms, or do so on terms that would not substantially dilute our current stockholders' equity interests in us. If we are unable to raise additional funds on a timely basis, or at all, we probably will not be able to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

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.

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

Fair Value of Financial Instruments

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

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

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

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

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

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. The following table sets forth our estimate of fair value of our financial instruments that are liabilities as of March 31, 2012:

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

|                        | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total         |
|------------------------|---|---|--|---------------|
| Derivative Liabilities | \$ -  | \$ -  | \$ 17,591,861                                      | \$ 17,591,861 |

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

|  | For the Three<br>months<br>ended March<br>31, 2012 |
|--|--|
| Beginning balance  | \$ 14,791,291                                      |
| Fair value of 2012 warrants at issue date                                | 17,152,200   |
| Fair value of 2012 embedded conversion feature at issue date             | 1,884,112  |
| Change in fair value of embedded warrants included in earnings           | (11,911,280)                                       |
| Change in fair value of embedded conversion feature included in earnings | (4,324,462)  |
| Balance at March 31, 2012  | \$ 17,591,861                                      |

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

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

#### Share Based Expenses

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

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

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

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

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

#### Revenue Recognition

The Company licenses independent third parties to use the Company's technology in order to enable them to establish tissue processing centers in major metropolitan markets, as well as establishing centers it will operate. Each center will utilize the Company's proprietary technology in conjunction with a suite of laboratory equipment selected by the Company that will enable the lab to process adipose tissue into stromal vascular fraction containing adipose stem cells using the Company's technology and protocols. In certain centers, the Company will maintain ownership of the laboratory equipment and in other cases the laboratory equipment will be sold to an independent party. These license fees are payable upon signing of a license agreement and are recognized as revenue ratably over the license. As of March 31, 2012, the Company had executed license agreements and received \$1,072,500 in license fees for six centers which had not yet commenced operations. Consequently recognition of such revenue has been deferred pending commencement of operations.



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

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

#### Concentrations

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. This potentially subjects the Company to a concentration of credit risk; however the Company believes the risk is negligible. The Company's carrying amount of deposits in financial institutions did not exceed federally insured limits March 31, 2012.

The Company anticipates that it will purchase more than 50% of its lab equipment, for both its own use as well as for resale, from one vendor. This vendor sold 62% of the lab equipment purchased by the Company during the three months ended March 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 an allowance provides for doubtful accounts based on management's evaluations of the collectability of accounts receivable. Management's evaluation is based on the Company's historical collection experience and a review of past-due amounts. Based on management's evaluation of collectability, the Company did not require an allowance for doubtful accounts as of March 31, 2012 and December 31, 2011, respectively. The Company determines accounts receivable to be delinquent when collection past due under the agreed upon terms. Accounts receivable are written off when it is determined that amounts are uncollectible.

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

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

Intellicell BioSciences Inc. and Subsidiary  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### 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 year amounts were reclassified to conform with current year presentation.

## 4. PROPERTY AND EQUIPMENT

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

|   | 3/31/12      | 12/31/11   |
|---|--------------|------------|
| Lab equipment                                     | \$ 201,083   | \$ 117,690 |
| Construction in progress - Leasehold Improvements | 1,315,015    | 422,000    |
| Furniture & Fixtures                              | 362,195      | 25,140     |
| Computer Equipment                                | 326,727      | 7,230      |
|   | 2,205,020    | 572,060    |
| Less accumulated depreciation                     | 18,827       | 15,226     |
| Property and Equipment, net                       | \$ 2,186,193 | \$ 556,834 |

Depreciation expense for the three months ended March 31, 2012 and 2011 was \$3,602 and \$2,713, respectively and is included in general and administrative expenses on the Company's statement of operations. Construction in process - Leasehold improvements is not depreciated until the related asset is placed into service with the new office facility operational in the May 2012.

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5. ACCOUNTS PAYABLE, ACCOUNTS PAYABLE - RELATED PARTY AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2012 and December 31, 2011 are as follows :

|                                  | 3/31/12    | 12/31/11   |
|----------------------------------|------------|------------|
| Accounts payable                 | \$ 25,437  | \$ 44,208  |
| Accrued expenses and liabilities | 312,172    | 422,519    |
| Accrued payroll                  | 64,400     | 72,858     |
| Other                            | 45,000     | 45,000     |
| Total                            | \$ 447,009 | \$ 584,585 |

6. Notes Payable

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

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

Also on June 6, 2011, the Company and Consorteum entered into an amendment agreement (the "Amendment Agreement") to the Consorteum Purchase Agreement pursuant to which the parties agreed, among other things, that the obligations of the Parties to consummate the transactions contemplated by the Purchase Agreement 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 Consorteum Purchase Agreement, Consorteum would assume an aggregate of \$1,477,052 of principal indebtedness plus accrued interest from the Company totaling \$250,695 less unamortized note discounts of \$9,890. Upon completion of the requirements of the Consorteum Purchase Agreement and the Amendment Agreement, the note holders who consented to the assumption of their obligations by Consorteum received shares of Consorteum common stock in satisfaction of their notes. Included in the notes assumed by Consorteum were notes payable to former officers and directors of the Company prior to the Merger totaling \$450,000 in principal plus accrued interest of \$74,935. Notwithstanding the foregoing, Consorteum agreed to provide the Company a guaranty, whereby Consorteum agrees to unconditionally and irrevocably guarantee to the Company the prompt and complete payment, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of any remaining notes payable for which the Company had not received the necessary consent as of the date of the waiver. As a result of the foregoing, the transactions contemplated by the Consorteum Purchase Agreement closed on June 30, 2011.



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

The Company has recorded as liabilities the notes payable not yet assumed by Consorteum which total \$236,600 in principal plus \$31,318 in accrued interest at March 31, 2012. Notwithstanding the guaranty of Consorteum to unconditionally and irrevocably guarantee to the Company the prompt and complete payment, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of any remaining notes payable, the Company will continue to report such liabilities on the Company's balance sheet until settlement and disposition of these obligations is finalized.

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

7. Related Party Transactions

Rent

The Company is provided office facilities and related services by a company owned by the Company's Chief Executive Officer, Dr. Steven Victor. The Company has recorded rent, administrative, and office overhead expenses of \$75,000 and \$30,000, respectively, representing the Company's portion of use for such for three months ended March 31, 2012 and 2011, respectively.

Officer Salary

The Company has recorded a salary expense of \$68,750 and \$68,750 for the three months ended March 31, 2012 and 2011, respectively, for Dr. Victor as a result of his serving in the capacity of the Company's Chief Executive Officer and a salary expense totaling approximately \$70,000 and \$43,750 for the three months ended March 31, 2012 and 2011, respectively, recorded for the Company's Executive Vice President who is a related party, a shareholder and the spouse of the Company's Chief Executive Officer.

Research and Development

Research and Development costs for the three months ended March 31, 2012 and 2011 was \$0 and \$76,000, respectively, including fees accrued and payable to Dr. Steven Victor for services as the attending physician in thirty-eight (38) patient cases included as part of the Company's ongoing research of its technologies and processes. 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, 2012 and 2011, the following amounts were owed to related parties:

|                       | March 31,<br>2012 | December<br>31, 2011 |
|-----------------------|-------------------|----------------------|
| Accrued salaries      | \$ 461,297        | \$ 374,932           |
| Accrued research fees | 361,000           | 361,000              |
|                       | \$ 822,297        | \$ 735,932           |

Officer Advance

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

Dr. Steven Victor's, cumulative advances amounted to \$42,882 and \$67,882 to the Company for working capital purposes as of March 31, 2012 and December 31, 2012, respectively. These advances do not have formal repayment terms or arrangements.

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8. Convertible Debentures

In May 2011, IntelliCell completed a convertible debt offering aggregating \$1,385,000. The units offered consist of a \$50,000 subordinated convertible debenture payable one year from the date of issue with interest at a rate of 6% and convertible, at the option of the holder, into the Company's common stock at an initial conversion price of \$1.72 per share. Each unit also included a detachable five (5) year warrant to purchase 57,143 shares of IntelliCell's common stock at an exercise price of \$1.72 per share. The proceeds from the issuance of convertible debt securities with detachable warrants were allocated between the warrants and the debt security. The discount is being amortized over the life of the debt. As of March 31, 2012, the Company recorded an original issue discount of \$288,564 related to the value of the warrants that will be amortized as interest expense over the initial one year term of the convertible debentures. During the three months ended March 31, 2012, the Company recognized \$72,141 of interest expense as a result of the amortization.

The Company accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of the Company's common shares. The Company determined the value of the derivative conversion features of these debentures issued at the relevant commitment dates to be \$32,209 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a reduction to charge to income of \$3,249,215 and \$0 during the three months ended March 31, 2012 and 2011, respectively. The fair value of the derivative conversion features was determined to be \$1,232,126 at March 31, 2012.

The Company accounted for the detachable warrants included with the convertible debentures as liabilities in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued during at the relevant commitment dates to be \$332,401 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a reduction to the charge to income of \$6,435,200 and \$9,230 during the three months ended March 31, 2012 and March 31, 2011, respectively. The fair value of the derivative conversion features was determined to be \$3,874,750 at March 31, 2012.

As of March 31, 2012, the balance of the remaining convertible debenture amounted to \$1,360,000 and was due and payable on March 31, 2012. In the current period, a \$25,000 convertible debenture and the related accrued interest of \$904 was converted to common stock.

On May 17, 2012, the holder of an aggregate of \$500,000 principal amount of IntelliCell Notes informed the Company that it is in default and demanded repayment under the IntelliCell Notes. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes.

As discussed, as a result of the Company's Merger, the subordinated convertible debentures and warrants were assumed by the Company. The remaining subordinated convertible debentures are convertible into an aggregate of 1,533,034 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).

9. Derivative Liabilities



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

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#### Convertible Debentures - Derivative Liabilities

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

|   | March 31, 2012                     |                                   |
|---|------------------------------------|-----------------------------------|
|   | Embedded<br>Detachable<br>Warrants | Embedded<br>Conversion<br>Feature |
| Risk free interest rate                         | 3.00%                              | 3.00%                             |
| Expected volatility (peer group)                | 105.09%                            | 105.09%                           |
| Expected life (in years)                        | 4.00                               | .50                               |
| Expected dividend yield                         | -                                  | -                                 |
| Number outstanding                              | 3,071,542                          | 1,533,258                         |
| Fair value at issue date                        | \$ 38,710                          | \$ 25,418                         |
| Change in derivative liability for the period * | \$ (6,435,200)                     | \$ (3,249,215)                    |
| Fair value -derivative liability                | \$ 3,874,750                       | \$ 1,232,126                      |

#### Common Stock Offering - Derivative Liabilities

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

|  | March 31, 2012                     |                                   |
|--|------------------------------------|-----------------------------------|
|  | Embedded<br>Detachable<br>Warrants | Embedded<br>Conversion<br>Feature |
| Risk free interest rate  | 3.00%                              | 3.00%                             |
| Expected volatility (peer group)                                   | 105.09%                            | 105.09%                           |
| Expected life (in years)   | 5.00                               | .50                               |
| Expected dividend yield  | -                                  | -                                 |
| Number outstanding   | 10,400,000                         | 2,600,000                         |
| Fair value at issue date   | \$ 17,152,200                      | \$ 1,884,112                      |
| Change in derivative liability for the period (since issue date) * | \$ (5,476,080)                     | \$ (1,075,247)                    |
| Fair value -derivative liability                                   | \$ 11,676,120                      | \$ 808,865                        |

The risk free interest rate was based on the yields of US Treasury securities having a similar life. The expected volatility was based on the historical volatility of the share prices of a peer group of the Company as quoted on major US stock exchanges over a two year period, selected based upon similar industry category, market capitalization and total asset values. The expected dividend rate was based on the fact that the Company has not historically paid dividends on common stock and does not expect to pay dividends on common stock in the future. The valuation of the embedded conversion feature at March 31, 2011 was deemed immaterial.

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



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10. Capital Stock

As of March 31, 2012 and December 31, 2011, the Company has designated 21,000 shares of preferred stock as Series B preferred stock, with a par value of \$.01 per share, of which 17,933 and 18,280 shares of preferred stock are issued and outstanding, respectively. As of March 31, 2012 and December 31, 2011, the Company has designated 13,000 shares of preferred stock as Series C preferred stock, with a par value of \$.01 per share, of which 10,000 and 10,823 shares of preferred stock are issued and outstanding, respectively. As of March 31, 2012 and December 31, 2011, the Company has designated 500,000 shares of preferred stock as Series D preferred stock, with a par value of \$.01 per share, of which 113,000 and 42,000 shares of preferred stock are issued and outstanding, respectively. The Company has authorized 250,000,000 shares of common stock, with a par value of \$.001 per share. As of March 31, 2012 and December 31, 2011, the Company had 25,893,402 and 21,034,938, respectively, of shares of common stock issued and outstanding.

Series B Preferred Stock

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

To date, the holder of Series B Preferred Stock elected to convert 2,588 shares of Series B Preferred Stock into 2,587,116 shares into our common stock including 347 shares of Series B Preferred into 346,527 shares into our common stock in the current period. As a result, there are presently 17,933 shares of Series B Preferred Stock issued and outstanding.

Series C Preferred Stock

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

To date, certain holders of Series C Preferred Stock elected to convert 2,123 shares of Series C Preferred Stock into 2,123,000 shares into our common stock including 823 shares of Series C Preferred into 822,500 shares into our common stock in the current period. As a result, there are presently 10,000 shares of Series C Preferred Stock issued and outstanding.

Series D Preferred Stock

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

To date, the Company has sold its series D convertible preferred stock and warrants for aggregate gross proceeds of \$1,130,000 including 14,500 shares of Series D convertible preferred stock in the current period for gross proceeds of \$290,000

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

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

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

In conjunction with the February 2012 Private Placement, the Series D holders were allocated an additional 56,500 shares of Series D convertible preferred stock as an anti-dilution adjustment.

#### February 2012 Private Placement- Common Stock and Warrant Issuances

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

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

#### Common Stock Issuances

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

On January 9, 2012, The Company issued 29,436 shares of its common stock in exchange for the conversions of a \$25,000 convertible debenture and accrued interest of \$904

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

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

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

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## 11. Stock Options and Warrants

## Employee Stock Options

The following table summarizes the changes in the options outstanding at March 31, 2012, and the related prices for the shares of the Company's common stock issued to employees of the Company under a non-qualified employee stock option plan.

| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$ 4.00                  | 3,150,016          | \$ 4.00                         | 9.70  | 1,066,669          | \$ 4.00                         |
|                          | 3,150,016          |                                 | 9.70  | 1,066,669          |                                 |

A summary of the Company's stock awards for options as of March 31, 2012 and changes for the three months ended March 31, 2012 is presented below:

|                                | Stock Options | Weighted Average Exercise Price |
|--------------------------------|---------------|---------------------------------|
| Outstanding, December 31, 2011 | 3,150,016     | \$ 4.00                         |
| Granted                        | —             | —                               |
| Exercised                      | —             | —                               |
| Expired/Cancelled              | —             | —                               |
| Outstanding, March 31, 2012    | 3,150,016     | 4.00                            |
| Exercisable, March 31, 2012    | 1,066,669     | 4.00                            |

The weighted-average fair value of stock options granted to employees during the three months ended March 31, 2012 and 2011, respectively, and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes-Merton ("Black-Scholes") option pricing model are as follows:

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



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

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

There were no options exercised during the three months ended March 31, 2012 and 2011, respectively.

Total stock-based compensation expense in connection with options granted to employees recognized in the consolidated statement of operations for the three months ended March 31, 2012 and 2011 was \$760,298 and \$0, respectively, net of tax effect. Additionally, none of the options outstanding and unvested as of March 31, 2012 had any intrinsic value.

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## Warrants

The following table summarizes the changes in the warrants outstanding at March 31, 2012, and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were issued in lieu of cash compensation for services performed or financing expenses and in connection with the private placements and merger.

| Range of Exercise Prices | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable | Weighted Average Exercise Price |
|--------------------------|--------------------|---------------------------------|---|--------------------|---------------------------------|
| \$ 0.86 - 0.89           | 3,321,542          | \$ 0.88                         | 4.12  | 3,321,542          | \$ 0.88                         |
| \$ 1.00                  | 1,172,500          | \$ 1.00                         | 4.71  | 1,172,500          | \$ 1.00                         |
| \$ 1.58                  | 45,000             | \$ 1.58                         | 10.00                                       | 45,000             | \$ 1.58                         |
| \$ 2.00                  | 8,029,200          | \$ 2.00                         | 4.80  | 8,029,200          | \$ 2.00                         |
| \$ 2.45 - 2.60           | 800,000            | \$ 2.51                         | 4.76  | 800,000            | \$ 2.51                         |
| \$ 3.00                  | 750,000            | \$ 3.00                         | 4.71  | 750,000            | \$ 3.00                         |
| \$ 3.20                  | 350,000            | \$ 3.20                         | 4.68  | 350,000            | \$ 3.20                         |
| \$ 3.75                  | 5,200,000          | \$ 3.75                         | 4.89  | 5,200,000          | \$ 3.75                         |
|                          | 19,668,242         |                                 | 4.57  | 19,668,242         |                                 |

A summary of the Company's stock awards for warrants as of March 31, 2012 and changes for the three months ended March 31, 2012 is presented below:

|                                | Options and Warrants | Weighted Average Exercise Price |
|--------------------------------|----------------------|---------------------------------|
| Outstanding, December 31, 2011 | 6,931,542            | \$ 1.62                         |
| Granted                        | 12,736,700           | 2.71                            |
| Exercised                      | —                    | —                               |
| Expired/Cancelled              | —                    | —                               |
| Outstanding, March 31, 2012    | 19,668,242           | 2.28                            |
| Exercisable, March 31, 2012    | 19,668,242           | 2.28                            |

## February 2012 Private Placement

In February 2012, the Company entered into securities purchase agreements with accredited investors, as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to which the Company sold (i) an aggregate of 2,600,000 shares of the Company's common stock, par value \$0.001 per share (the

“Common Stock”), (ii) class A warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the “Class A Warrants”), and (iii) class B warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the “Class B Warrants” and together with the Class A Warrants, the “Warrants”). (See note 10)

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

#### Series D Preferred Stock

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

The Company issued 1,584,200 compensatory warrants to non-employees during the three months ended March 31, 2012. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for the grants, respectively; dividend yield of zero percent for all periods; expected volatility is 105%; risk-free interest rate from a range of .12% to 2.08%; expected lives ranging from one years to ten years. Total non-employee stock-based compensation expense in connection with warrants recognized in the consolidated statement of operations for the three months ended March 31, 2012 and 2011 was \$2,720,764 and \$0, respectively, net of tax effect.

Intellicell BioSciences Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## 12. Loss per Share

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

|  | For the three<br>months<br>ended<br>March 31,<br>2012 | For the three<br>months<br>ended<br>March 31,<br>2011 |
|--|---|---|
| Net Income (Loss)  | \$ (9,468,848)  | \$ (1,182,209)  |
| Net income (loss) per share:                                 |   |   |
| Net income (loss) per share – basic                          | \$ (0.42)   | \$ (0.03)   |
| Net income (loss) per share – diluted                        | \$ (0.42)   | \$ (0.03)   |
| Weighted average common shares outstanding – basic & diluted | 22,807,514  | 34,819,070  |

For the three months ended March 31, 2012 and and 2011 common stock equivalents totaling 33,838,758 and 227,223 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.

## 13. Commitments

On June 1, 2011, a company owned by Dr. Steven Victor, the Company's chief executive officer, entered into a 13 year lease for new office space, for which the Company unconditionally guaranteed any and all obligations owed under the lease to the landlord. In connection with the execution of the lease, the Company established a restricted cash account in the amount of approximately \$650,000 to secure a line of credit to be used as a security deposit under the lease as well as paying the initial two months' rent totaling \$53,839. Once the build out of the office space is complete, the Company will pay \$25,000 per month to sublease office space from the company owned by Dr. Victor. The Company occupied this new facility in April 2012. The Company is currently paid Dr. Victor \$15,000 per month in rent through the period ending March 31, 2012.

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

14. Subsequent Events

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

## 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, remaining are an aggregate of \$1,360,000 of Intellicell Notes outstanding which are convertible into an aggregate of 1,533,258 shares of common stock of the Company and warrants to purchase an aggregate of 3,071,342 shares of common stock of the Company. In the current period, holders of Intellicell Notes in the principal amount of \$25,000 have converted their Intellicell Notes into shares of our common stock. We have not repaid any of the principal or accrued but unpaid interest that has become due and payable under the remaining Intellicell Notes. The Company is currently working on making arrangements to honor its remaining obligations under the Intellicell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the Intellicell Notes.

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

#### 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.

#### Debt Conversions and Settlements

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 (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.

#### 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, 2012 Compared to Three months ended March 31, 2011

### Revenue

Revenue for the three months ended March 31, 2012 was \$12,500 compared to no revenue in the prior year period. 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.

### Cost of goods sold and Gross Margin

Cost of goods sold were \$4,776 three months ended March 31, 2012. These costs were primarily attributable the cost of supplies for cases processed in our tissue processing center in New York.

Gross margin were \$7,324 for the three months ended March 31, 2012. 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 \$48,921 and \$92,888 for the three months ended March 31, 2012 and 2011, respectively. The Company began to increase the research and development staff in the current year period and applicable laboratory supplies and disposables. In prior year, the principal component of research development costs consists of fees to payable to Dr. Steven Victor, the Chief Executive Officer and principal shareholder of the Company, for services as the attending physician in patient cases, for lab technicians, and for nursing staff employed by Dr. Victor's medical practice included as part of the ongoing research of our technologies and processes. These fees totaled \$0 and \$76,000 for the three months ended March 31, 2012 and 2011, respectively. Payment of these fees will be contingent upon the Company either generating \$2.0 million in revenues or completing an equity offering of the Company's common stock or other securities equal to or greater than \$5.0 million, whichever occurs first. The fees payable to Dr. Victor for these cases range from \$5,000 to \$10,000 per case.

Sales and marketing expenses were \$127,049 and \$36,482 for the three months ended March 31, 2012 and 2011, respectively. Sales and marketing expenses consist of costs associated with the development of our brochure and informational materials, our website, an informational video and travel expenses to attend professional meetings, as well as commissions on sales.

General and administrative expenses were \$583,995 and \$216,424 for the three months ended March 31, 2012 and 2011, respectively. Included in general and administrative expenses are \$75,000 and \$50,000 of costs for the three months ended March 31, 2012 and 2011, respectively, for our office facilities and related services provided by a company owned by our chief executive officer and majority shareholder. In addition, for the three months ended March 31, 2012 and 2011, we incurred salary expenses of \$277,442 and \$112,500. Included in the salary expense and related to this same shareholder as a result of this individual serving in the capacity of our Chief Executive Officer was \$68,750 and \$68,750 for the three months ending March 31, 2012, and 2011, respectively, as well as salary expenses totaling \$70,000 and \$43,750 to the spouse of our Chief Executive Officer and majority shareholder. For the three months ended March 31, 2012 and 2011, we have incurred approximately \$105,000 and \$46,000 in legal and professional fees primarily related the public company costs and/or financing transactions.

**Stock Based Compensation.** During the three months ended March 31, 2012, we incurred employee stock based compensation expenses of \$760,298 from the issuances of employee incentive stock options. The incentive stock options were valued using the Black Scholes method. There was no stock option expense in the prior year period.

**Non-Employee Stock Based Compensation.** During the three months ended March 31, 2012 and 2011, we incurred non-cash non-employee stock based compensation charges of \$5,053,934 and \$827,125, respectively. In the three month period ending 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. In addition, \$2,720,764 was expensed due to the issuance of 1,584,200 warrants amounting in exchange for consulting and professional services from unrelated third parties. The value of the warrants was determined using the Black Scholes method, the details of

which are more fully explained within the notes to the financial statements. In the three month period ending March 31, 2011, \$827,125 was expensed due to the issuance of 1,656,250 shares of common stock for services prior to Merger and recapitalization in February 2011.

#### Changes in Fair Value of Derivative Liability

#### Convertible Debentures - Derivative Liabilities

In May 2011, IntelliCell completed a convertible debt offering aggregating \$1,385,000. The offering consisted of \$50,000 units each of which consisted of a \$50,000 subordinated convertible debenture payable one year from the date of issue with interest at a rate of 6% and convertible, at the option of the holder, into IntelliCell common stock at an initial conversion price of \$1.72 per share. Each unit also included a detachable five (5) year warrant to purchase 57,143 shares of the Company's common stock at an exercise price of \$1.72 per share. As a result of the Merger, the Intellicell Notes and Intellicell Warrants were assumed by the Company, the conversion price of the Intellicell Notes and the exercise price of the Intellicell Warrants were each adjusted to \$0.88 per share, the remaining Intellicell Notes and IntelliCell Warrants are now convertible into an aggregate of 1,533,034 and 3,071,542 shares of common stock, respectively.

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

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

We accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of our common shares. We determined the value of the derivative conversion features of these debentures issued during the three months ended March 31, 2012 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 the charge to income of \$3,249,215 for the three months ended March 31, 2012.

We accounted for the detachable warrants included with the convertible debentures issued in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued during the three months ended March 31, 2012 at the relevant commitment dates to be \$332,401 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a reduction to the charge to income of \$6,435,200 for the three months ended March 31, 2012.

#### Common Stock Offering - Derivative Liabilities

In February 2012, the Company entered into securities purchase agreements with accredited investors, as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to which the Company sold (i) an aggregate of 2,600,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), (ii) class A warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class A Warrants"), and (iii) class B warrants to purchase an aggregate of 5,200,000 shares of Common Stock (the "Class B Warrants" and together with the Class A Warrants, the "Warrants"), for aggregate gross cash proceeds of \$2,627,649, which consisted of \$2,100,000 of cash and the exchange and cancellation of a promissory note (bearing principal and interest totaling \$527,549) and a warrant ("Exchange Agreement").

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

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

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

We accounted for the conversion features underlying the convertible debentures issued in accordance with GAAP, as the conversion feature embedded in the convertible debentures could result in the debentures being converted to a variable number of our common shares. We determined the value of the derivative conversion features of these debentures issued during the three months ended March 31, 2012 at the relevant commitment dates to be \$1,884,112 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the conversion feature resulted in a charge to income of \$808,865 for the three months ended March 31, 2012.

We accounted for the detachable warrants included with the convertible debentures issued in accordance with GAAP, as the warrants are subject to anti-dilution protection and could result in them being converted to a variable number of the Company's common shares. The Company determined the value of the derivative feature of the warrants issued during the three months ended March 31, 2012 at the relevant commitment dates to be \$17,152,200 utilizing a Black-Scholes valuation model. The change in fair value of the liability for the warrants resulted in a charge to income of \$11,676,120 for the three months ended March 31, 2012.

#### Loss before income tax and Net Loss

Loss before income tax for the three months ended March 31, 2012 and 2011 was \$9,468,848 and \$1,182,209, respectively, which includes charges for the non-cash change in fair value of derivative liabilities of \$2,800,570 and \$9,290, respectively, non-cash expense for Employee Stock Compensation of \$760,298 and \$0, respectively and non-employee stock based compensation of \$5,053,934 and \$827,125, respectively, as discussed above. As we are just beginning to implement our business strategy we anticipate that we will continue to have operating losses for the next several calendar quarters until such time as we have been able to establish a sufficient number of licensees generating licensing, processing, service, and management fees to us, as well as up-front territorial licensing fees, sufficient to cover our operating costs.

#### Liquidity and Capital Resources

We had a working capital deficit as of March 31, 2012 of \$3,811,024, compared to a working capital deficit at December 31, 2011 of \$4,255,322.

Our cash and cash equivalents as March 31, 2012 was \$576,582, compared to cash balances at December 31, 2011 of \$110,194. We are in the early stages of the implementation of our business strategy and anticipate we will require additional cash to fund our operations for the next twelve months inclusive of costs associated with attracting, training and acquiring laboratory equipment for licensees, costs associated with the conducting of clinical research needed to establish and protect the therapeutic benefits of our technologies, costs associated with the development and marketing and promotional and educational materials relative to our services and costs associated with building out the infrastructure necessary to manage and control our business. In the near term, we plan to utilize our existing cash balances at March 31, 2012 of \$576,582 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.

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. 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.

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

#### Net cash used in operating activities

Net cash used in operating activities was \$149,902 and \$140,447 for the three months ended March 31, 2012 and 2011, respectively. Cash was used primarily to fund our operating losses net of non-cash expenditures such as stock compensation for services and changes in the fair value of our derivative liabilities which was offset by a decrease in our accounts payable of \$27,964, increases in deferred income related to our license agreements of \$570,000 and increases in accrued liabilities of \$86,365 primarily related to salary payable to our majority shareholder. We have also paid approximately \$1.7 million towards the construction and infrastructure costs for the office space where our new laboratory and corporate office are located in New York, NY, which space is leased by a company owned by Dr. Steven Victor, our chief executive officer. In addition, we have submitted a request to the landlord to have the lease assigned to us so that we become the primary tenant under the terms of the lease. We then plan to sublease a portion of the space to Regen Medical Practice, PC and/or other medical practitioners in the regenerative medical industry and to provide them with a license to utilize our proprietary process in exchange for certain administrative and management services.

#### Net cash used in investing activities

Net cash used in investing activities was \$1,632,960 and \$44,505 for the three months ended March 31, 2012 and 2011, respectively, consisting of \$83,393 and \$0 for the purchase of lab equipment, \$319,497 and \$0 for the purchase of computer equipment, \$337,055 and \$0 for the purchase of furniture and fixtures and \$893,015 and \$0 for Construction-in-progress costs for the lease build-out in our new corporate and operations facility, respectively. The lease for the facility is to Dr. Steven Victor, our chief executive officer and will provide facilities for both our operations as well as that of Dr. Victor's medical practice.

#### Net cash provided by financing activities

Net cash provided by financing activities was \$2,249,250 and \$376,000 for the three months ended March 31, 2012 and 2011, respectively. In the current period ending March 31, 2012, the Company received \$230,000 of net proceeds from our Series D preferred stock offering, and \$2,044,250 of net proceeds from our private placement offering. Additionally, the Company repaid advances from Dr. Victor in the amount of approximately \$25,000. In the period ending March 31, 2011, \$176,000 of gross proceeds were received from the sale of our common stock at \$0.50 per share and \$200,000 in proceeds were received in the sale of convertible debentures.

#### 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

### 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, 2012, the Company had executed license agreements and received \$1,072,500 in license fees for six centers which had not yet commenced operations and therefore recognition of such revenue was deferred.



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

#### New Accounting Pronouncements

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

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES.

##### Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include, without limitation, means controls and other procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, because of the Company's limited resources and limited number of employees, management concluded that our disclosure controls and procedures were ineffective as of March 31, 2012.

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

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

These control deficiencies could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our consolidated financial statements may not be prevented or detected on a timely basis. In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the quarter ended March 31, 2012 included in this Quarterly Report on Form 10-Q were fairly stated in accordance with US GAAP. Accordingly, management believes that despite our material weaknesses, our consolidated financial statements for the quarter ended March 31, 2012 are fairly stated, in all material respects, in accordance with US GAAP.

##### Limitations on Effectiveness of Controls and Procedures

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

Changes in Internal Controls

During the fiscal quarter ended March 31, 2012, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting

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PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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

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

In January 2012, we issued 46,527 shares of our common stock upon conversion of 4.6527 shares of our series B convertible preferred stock which were gifted by Steven A. Victor, our chief executive officer, to non-affiliated third parties.

In February 2012, we issued 300,000 shares of our common stock upon conversion of 300 shares of our series B convertible preferred stock which were gifted by Steven A. Victor, our chief executive officer, to non-affiliated third parties.

In February 2012, we issued 822,500 shares of our common stock upon conversion of 82.25 shares of our series C convertible preferred stock.

In February 2012, we issued 205,951 shares of our common stock to consultants for services rendered.

In March 2012, we issued 29,436 shares of common stock upon conversion of \$25,000 of a previously issued convertible note and accrued interest of \$904.

In March 2012, we issued 35,000 shares of our common stock to consultants for services rendered.

In April 2012, we issued options to purchase an aggregate of 343,750 shares of our common stock to a former employee at a price of \$4.00 per share.

In May 2012, we issued 500,000 shares of our common stock to consultants and advisors for services rendered.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

In accordance with the Merger Agreement, the Company assumed the IntelliCell Notes, which had an aggregate principal amount of \$1,385,000 and became due and payable on March 31, 2012. As of the date hereof, the Company

has not repaid any principal or accrued but unpaid interest that has become due and payable under the IntelliCell Notes. The aggregate principal amount that is due and payable under the IntelliCell Notes as of the date hereof is \$1,360,000.

On May 17, 2012, 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. The Company is currently working with its investors on making arrangements to honor its obligations under the IntelliCell Notes, however, there can be no assurance that any such arrangements will ever materialize or be permissible or sufficient to cover any or all of the obligations under the IntelliCell Notes.

ITEM 4. MINE SAFETY DISCLOSURES.

N/A.

## ITEM 5. OTHER INFORMATION.

Not applicable.

## ITEM 6. EXHIBITS

## EXHIBIT

| EXHIBIT NO. | DESCRIPTION   |
|-------------|---|
| 31.1        | Certificate of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 32.1        | Certificate of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 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.

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: May 21, 2012

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