Intellicell Biosciences, Inc.
Form 10-Q
November 19, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 2014**

o TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transitional period from ______ to ______

Commission File Number: **000-54729**

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

Nevada	**91-1966948**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

460 Park Avenue, 17th Floor

New York, New York 10022

(Address of principal executive offices and zip code)

(212) 249-3050

(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 ý No o

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 ý No o

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 o	Accelerated filer o	Non-accelerated filer o
	Smaller Reporting Company x	

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

Number of shares of common stock issued and outstanding as of November 19, 2014 is 7,894,037,082.

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INTELLICELL BIOSCIENCES, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Intellicell BioSciences, Inc. and Subsidiary
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013

	September 30, 2014 (Unaudited)	(Restated) December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash	$19,306	$-
Cash, restricted	28,774	-
Prepaid expenses	111,687	-
Other current assets	-	9,000
Total Current Assets	159,767	9,000
Property and equipment, net	2,423,643	2,670,499
OTHER ASSETS:		
Financing fees, net	-	8,712
Security deposit	525,453	525,453
Total Other Assets	525,453	534,165
TOTAL ASSETS	$3,108,863	$3,213,664
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		

Convertible debentures, net of discounts	$2,051,873	$452,607
Convertible promissory notes, net of discounts	2,093,460	2,755,986
Notes payable	277,100	727,545
Accounts payable and accrued liabilities	1,005,967	2,609,254
Accrued interest	592,824	388,302
License fee payable	922,500	922,500
Deferred rent liability	375,397	372,378
Accrued liabilities, related party, net	508,644	307,621
Derivative liabilities	9,707,766	6,958,822
Total Current Liabilities	17,535,531	15,495,015
TOTAL LIABILITIES	17,535,531	15,495,015
Commitments and contingencies		
STOCKHOLDERS' DEFICIT:		
Series B convertible preferred stock, $0.01 par value, 21,000 shares authorized, 15,057 and 15,057 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	151	151
Series C convertible preferred stock, $0.01 par value, 13,000 shares authorized, 7,250 and 7,250 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	73	73
Series D convertible preferred stock, $0.01 par value, 500,000 shares authorized, 56,500 and 56,500 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	565	565
Series F convertible preferred stock, no par value, 51 shares authorized, 51 and 0 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	-	-
Common stock, $0.0001 par value, 10,000,000,000 and 1,500,000,000 shares authorized, 3,717,753,280 and 922,722,023 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	371,775	92,272
Additional paid in capital	49,843,968	41,256,261
Accumulated deficit	(64,643,200)	(53,630,673)
TOTAL STOCKHOLDERS' DEFICIT	(14,426,668)	(12,281,351)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$3,108,863	$3,213,664

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

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Intellicell BioSciences, Inc.
and Subsidiary
UNAUDITED CONDENSED
CONSOLIDATED
STATEMENTS OF
OPERATIONS

	For The Three Months Ended		**For The Nine Months Ended**	
	September 30 2014	September 30 2013	September 30 2014	September 30 2013
REVENUES:				
Revenues - related party	$55,000	$-	$120,000	$-
TOTAL REVENUES	55,000	-	120,000	-
COST OF GOODS SOLD:				
Cost of goods sold	5,341	-	12,886	-
TOTAL COST OF GOODS SOLD	5,341	-	12,886	-
GROSS PROFIT	49,659	-	107,114	-
OPERATING EXPENSES:				
Research and development	117,137	14,587	387,637	516,390
Sales and marketing	39,377	1,096	73,907	5,924
General and administrative	616,494	907,111	2,409,567	2,170,230
Employee stock based compensation	732,135	342,135	1,416,405	1,044,630
Non-employee stock based compensation	-	-	93,333	300,000
TOTAL OPERATING EXPENSES	1,505,143	1,264,929	4,380,849	4,037,174
LOSS FROM OPERATIONS	(1,455,484)	(1,264,929)	(4,273,735)	(4,037,174)
OTHER INCOME (EXPENSE):				
Interest expense	(136,233)	(54,903)	(513,607)	(148,548)
Other income (expense)	-	-	(135,258)	-
Financing costs	(1,535,745)	(2,308,478)	(19,990,196)	(2,476,228)
Change in fair value of derivative liabilities	(350,562)	(851,517)	13,900,270	(2,792,412)
TOTAL OTHER (EXPENSE) INCOME	(2,022,540)	(3,214,898)	(6,738,791)	(5,417,188)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(3,478,024)	(4,479,827)	(11,012,526)	(9,454,362)
Provision for income taxes	-	-	-	-
NET INCOME (LOSS)	(3,478,024)	(4,479,827)	$(11,012,526)	$(9,454,362)

INCOME (LOSS) PER SHARE:				
Basic	$(0.00)	$(0.04)	$(0.00)	$(0.12)
Diluted	$(0.00)	$(0.04)	$(0.00)	$(0.12)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	3,001,685,610	107,883,264	2,845,436,013	77,951,031
Diluted	3,001,685,610	107,883,264	2,845,436,013	77,951,031

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

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Intellicell BioSciences, Inc. and Subsidiary
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

	September 30, 2014	**September 30, 2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,012,526)	$(9,454,362)
Adjustment to reconcile change in net loss to net cash used in operating activities:		
Common stock issued for consulting services	30,000	
Common stock issued for financing fees	122,496	
Employee stock compensation	1,416,405	1,044,630
Loss on conversion of accounts payable to common stock	-	2,562,284
Depreciation and amortization expense	313,920	300,433
Amortization of financing costs	8,712	86,133
Amortization of Debt Discounts	3,219,778	-
Financing costs	15,967,764	1,613,495
Interest from original issue discount on convertible debentures	100,000	-
Change in fair value of derivative liabilities	(13,900,270)	230,127
Guaranteed interest on convertible promissory notes	46,430	-
Promissory notes issued for services rendered	115,783	265,000
Stock compensation issued for services	328,459	300,000
Changes in operating assets and liabilities:		
Other current assets	9,000	-
Prepaid expenses	(111,687)	
Accounts payable and accrued expenses	(84,276)	2,122,335
Accrued interest	494,508	148,548
Deferred rent	3,019	
Accrued liabilities, related party	201,023	341,250
NET CASH USED IN OPERATING ACTIVITIES	(2,731,462)	(440,126)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds From related party	-	227,937
Purchase of property and equipment	(67,064)	(279,156)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(67,064)	(51,219)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible debentures	2,607,000	-
Proceeds from issuance of notes payable, net	42,000	425,000
Principal payments towards notes payable	(97,586)	-
Proceeds from related party advances	-	56,186

Proceeds from sale of common stock		295,192	-	
NET CASH PROVIDED BY FINANCING ACTIVITIES		2,846,606	481,186	
Net increase (decrease) in cash		48,080	(10,159	)
Cash, beginning of the period		-	10,159	
Cash, end of the period	$	48,080	$-	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	1,414	$-	
Cash paid for taxes	$	524	$-	
NON-CASH ACTIVITIES:				
Conversion of principal of convertible debentures to common stock	$	814,187	$-	
Conversion of principal of convertible promissory notes to common stock	$	1,041,569	$-	
Conversion of accrued interest to common stock	$	225,531	$-	
Return and re-issuance of common stock for related party liabilities	$	79,227	$-	
Common stock mistakenly returned	$	28	$-	
Issuance of convertible promissory notes in lieu of accrued salaries, related parties	$	80,000	$-	
Assignment of convertible promissory note to convertible debenture	$	500,000	$-	
Conversion of Accounts Payable and Accrued Expenses to Common Stock			587,542	
Issuance of convertible debentures in lieu of accounts payable	$	1,427,877	$-	
Reclassification of warrants to liabilities	$	500,170	-	

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

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IntelliCell BioSciences Inc. and Subsidiary

NOTES TO CONDENSED 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 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 and Chief Executive Officer ("CEO"), 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 to the product of (a) the number of shares of Common Stock into which the series B preferred stock is convertible into on the record date of the vote multiplied by (b) ten (10). The closing of the Merger took place on June 3, 2011 (the "Closing Date").

Prior to the consummation of the Merger, the Company entered into agreements with the holders of an aggregate of $1,619,606 of indebtedness to the Company, comprised of accrued compensation in the amount of $1,201,551, promissory notes in the principal amount of $263,707 plus accrued interest of $9,398 less unamortized debt discounts of $83,264 and accrued expenses totaling $228,414 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 by the Company.

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2. Restatement of Previously Issued Financial Statements

Prior to the filing of our Form 10-Q for the quarter ended June 30, 2014, the Company identified errors in accounting for application of fair value assessment for transactions involving derivative obligations, including derivative valuation at inception, conversion, assignment and period end. The Company also detected errors in the recording of debt discounts. The Company has assessed the impact of the accounting errors on its 3rd quarter 2013 financial statements, year-end December 31, 2013 financial statements and 1st quarter 2014 financial statements, and concluded that, although there was no impact on the Company's cash position, the effect on its financial statements was material.

The impact on the Company's balance sheets was to restate the balance sheet items of Notes Payables, Convertible Notes Payable Convertible Debentures Payable, additional paid in capital and accumulated deficit for the three periods of September 30, 2013, December 31, 2013 and March 31, 2014.

In addition, the items restated on the statements of operations were financing costs, gain/(loss) on conversions of debt to equity, and change in fair value of derivative liabilities.

The tables below summarize the impact of the restatement from amounts previously reported on the Company's Form 10-Q for the periods ended September 30, 2013 and March 31, 2014 and Form 10K for the period ended December 31, 2013.

	September 30, 2013	
Balance Sheet	As Filed	As Restated
Convertible Debentures	$1,725,719	$1,481,595
Derivative Instruments (long term)	6,876	2,913,730
Accumulated deficit	$(44,554,265)	$(47,216,995)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
Statement of Operations	As Filed	As Restated	As Filed	As Restated

Changes in fair value of derivative instruments	$75,581	$(1,134,691)	$980,144	$(230,128)
Financing Costs	(856,019)	(2,302,602)	(1,023,769)	(2,470,352)
Net Loss	(1,817,096)	(4,479,827)	(6,791,631)	(9,454,362)
Net Loss per share, basic and diluted	$(0.02)	$(0.04)	$(0.09)	$(0.12)

	December 31, 2013	
Balance Sheet	As Filed	As Restated
Convertible Debentures	$840,900	$452,607
Notes Payable	341,100	727,545
Convertible Promissory Notes	3,505,883	2,755,986
Derivative Instruments (long term)	3,774,790	6,958,822
Additional paid-in-capital	38,961,322	41,256,261
Accumulated deficit	$(48,903,450)	$(53,630,673)

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	Year Ended December 31, 2013	
Statement of Operations	As Filed	As Restated
Changes in fair value of derivative instruments	$(2,787,770)	$(2,944,352)
Financing Costs	(305,112)	(4,606,010)
Income (Loss) on Conversion of Debt	(2,137,266)	(2,272,409)
Net Loss	(11,140,817)	(15,868,039)
Net Loss per share, basic and diluted	$(0.07)	$(0.10)

3. Going Concern

The condensed consolidated 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 $64,643,200 and a working capital deficit of $17,375,764 as of September 30, 2014, respectively. Further losses are anticipated in the continued development of its business, raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with 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.

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4. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated balance sheet at December 31, 2013 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these condensed consolidated financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These condensed financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission (the "SEC") and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed financial statements should be read in conjunction with the financial statements and additional information as contained in our 2013 Annual Report. Results of operations for the nine-month period ended September 30, 2014 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2014.

As disclosed in Note 2, the financial statements for the year ended December 31, 2013 and the nine months ended September 30, 2013 have been restated.

Prior to the filing of our Form 10-Q for the quarter ended June 30, 2014, the Company identified errors in accounting for application of fair value assessment for transactions involving derivative obligations, including derivative valuation at inception, conversion, assignment and period end. The Company also detected errors in the recording of debt discounts. The Company has assessed the impact of the accounting errors on its 3rd quarter 2013 financial statements, year-end December 31, 2013 financial statements and 1st quarter 2014 financial statements, and concluded that, although there was no impact on the Company's cash position, the effect on its financial statements was material.

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 consolidated 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.

Financial Instruments and Fair Value Measurements

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:

For cash, cash equivalents, and trade payables, the carrying value approximates cost. For debt obligations with conversion features, the Company records a derivative liability using the Black-Scholes method of valuation.

Fair Value Measurements – The fair value of financial instruments are classified into one of the following categories:

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.

Stock Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant over the requisite service period. The Company uses the Black-Scholes-Merton (“Black-Scholes”) option pricing model to determine the fair value of stock option awards. Stock-based compensation plans, related expenses and assumptions used in the Black-Scholes option pricing model are more fully described in Note 15.

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 term.

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.

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Restricted Cash

Restricted cash consists primarily of funds received that are restricted for specific purposes or cash set aside and restricted for specific payments. As of September 30, 2014 and December 31, 2013, the Company has restricted cash of $28,774 and $0, respectively. Cash escrow agreements were executed under the YA Global financing agreement. Funds of $260,362 were placed in escrow for payment of taxes owed to Internal Revenue Service and the State of New York. Funds of $450,000 were placed in escrow for which $200,000 is to be used for the Dr. James Andrews Consulting agreement payments and $250,000 to be used solely for the legal and accounting costs associated with the Company's 2013 and 2014 review and filings of forms 10K and 10Q. During the nine months ended September 30, 2014, $422,245 was paid from the $450,000 escrow for accounting fees and Dr. Andrews Consulting agreement and $259,343 was paid to the State of New York and the United States Treasury from the $260,362 tax escrow.

Accounts Receivable

The Company extends credit to customers without requiring collateral. The Company 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. The Company determines accounts receivable to be delinquent when collection is past due under the agreed upon terms. Accounts receivable are written off when it is determined that amounts are uncollectible.

Property and equipment, net

Property and equipment is recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related asset and, 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, and other headcount related costs, contract and other outside service, and facilities and overhead costs. The Company expenses the costs associated with research and development activities when incurred.

Derivative Instruments

Derivative instruments consist of common stock warrants, and certain instruments embedded in certain convertible debentures and promissory notes which meet the criteria for bifurcation from their host contract. These derivative instruments are recorded in the balance sheets at fair value as liabilities. Changes in fair value are recognized in earnings in the period of change.

If the Company were required to settle its outstanding warrants and convertible debt as of September 30, 2014, we would be required to issue 934,021,481 common shares for the settlement of warrants and 12,190,347,336 for the settlement of outstanding convertible debt. The Company determined that the settlement of these outstanding financial instruments would exceed our authorized shares of 10,000,000,000 at September 30, 2014 by 6,842,122,097. Pursuant to FASB ASC 815-40, the Company would be required to reclassify these contracts from equity to liabilities. As permitted by FASB ASC 815-40, the Company's policy with regard to settling outstanding financial instruments is to settle those with the earliest inception date first which essentially sets the order of preference for settling the financial instruments. As a result of the Company's policy it was determined that a classification of financial instruments, namely warrants to purchase shares of common stock, initially recorded as equity, was required at September 30, 2014. $500,171 was reclassified from Equity to Derivative Liability.

Income Taxes

The Company accounts for income taxes 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. The Company recognizes accrued penalties, and interest associated with uncertain tax positions, as part of the income tax provision.

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Net Loss per Share

Basic net loss per share is calculated by dividing the net loss for the period by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is calculated by dividing 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.

5. Property and Equipment, net

The Company's property and equipment at September 30, 2014 and December 31, 2013 consists of the following:

	September 30, 2014	December 31, 2013
Lab equipment	$213,291	$206,089
Lab equipment – Licensee	41,508	-
Leasehold Improvements	2,227,078	2,226,181
Furniture & Fixtures	465,041	463,769
Computer Equipment	433,001	416,816
	3,379,919	3,312,855
Less Accumulated depreciation and amortization	956,276	642,356
Property and Equipment, net	$2,423,643	$2,670,499

Depreciation and amortization expense for the nine months ended September 30, 2014 and 2013 was $313,920 and $300,430, respectively and is included in general and administrative expenses on the Company's condensed consolidated statements of operations.

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6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at September 30, 2014 and December 31, 2013 are as follows**:**

	September 30, 2014	December 31, 2013
Accounts payable	$847,620	$2,020,971
Accrued liabilities	36,522	154,040
Accrued payroll	121,825	434,243
Total	$1,005,967	$2,609,254

7. License Fees Payable

During the years ended December 31, 2013 and 2012, the Company executed various license agreements and collected an aggregate of $1,222,500 in license fees for six centers which never commenced operations. Recognition of such revenue had been deferred pending commencement of operations. The Company was unable to perform its obligations in regards to the licensing agreements and, accordingly, the agreements were cancelled. The Company has classified the amounts to be returned to the former licensees as Licensee Fees Payable on the condensed consolidated balance sheet.

In 2013, the Company converted three different license fees outstanding into convertible debentures totaling $300,000, bringing the total balance as of September 30, 2014 to $922,500.

8. Notes Payable

Consorteum Notes Payable

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

Following completion of the Merger, the Company entered into an asset purchase agreement (the “Consorteum Purchase Agreement”) with Consorteum Holdings, Inc. (“Consorteum”), an unrelated company, pursuant to which the Company agreed to sell, transfer and assign to Consorteum all of the Company’s rights, title and interests to, and

agreements relating to, its digital trading card business and platform in exchange for Consorteum assuming an aggregate principal amount of $1,864,152 of indebtedness of the Company (the "Consorteum Notes"). Such rights include, but are not limited to, the Company's name, phone number and listing, reputation, relationships and other intangible assets (including its rights to any intellectual property or proprietary technology), as well as the Company's rights under certain licensing agreements ("Digital Trading Assets").

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

On June 30, 2011, the Company and Consorteum agreed to waive the requirement that the conditions precedent set forth in the Consorteum Purchase Agreement as amended be satisfied on or before closing and each party agreed that as of the date of the Consorteum Purchase Agreement, Consorteum would assume an aggregate of $1,477,052 of principal indebtedness plus accrued interest from the Company totaling $250,695 less unamortized note discounts of $9,890. Upon completion of the requirements of the Consorteum Purchase Agreement and the Amendment Agreement, the note holders who consented to the assumption of their obligations by Consorteum received shares of Consorteum common stock in satisfaction of their notes. Included in the notes assumed by Consorteum were notes payable to former officers and directors of the Company prior to the Merger totaling $450,000 in principal plus accrued interest of $74,935. Notwithstanding the foregoing, Consorteum agreed to provide the Company a guarantee, 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.

Upon completion of the Consorteum Purchase Agreement, the Company had notes payable totaling $986,600 that were not assumed in the agreement.

During the period ending June 30, 2012, $375,000 of the principal balance of the Consorteum Notes and accrued interest of $152,549 was converted to common stock and warrants as part of the February 2012 private placement. Furthermore, in the year ended December 31, 2012, another $375,000 of the principal balance of the Consorteum Notes was converted to common stock and warrants.

As of September 30, 2014 and December 31, 2013, the principal balance of the Consorteum Notes amounted to $236,600 and $236,600, and accrued interest amounted to $66,128 and $55,688, respectively. These Consorteum Notes are currently in default.

May Davis Partners Note Payable

On September 4, 2013, the Company issued a promissory note in the amount of $75,000, for $75,000 cash, of which $72,000 went to pay accrued expenses for accounting fees and $3,000 was expensed as legal fees, to May Davis Partners (the “May Davis Note”). The terms of the May Davis Note require repayment in 21 days and 10% compounded interest effective upon the maturity date of September 25, 2013. The May Davis Note was paid in full in January 2014. Accrued interest of $2,482 is still outstanding at September 30, 2014.

Sichenzia Ross Notes Payable

On September 16, 2013, the Company issued a promissory note in the amount of $386,445 to Sichenzia Ross Friedman Ference LP, for outstanding legal fees due (the "Sichenzia Note"). The terms of the Sichenzia Note required repayment by December 31, 2013, and annual simple interest of 10%.

On January 9, 2014 the Company was advised that the Sichenzia Notes were assigned to Redwood as part of Redwood Deal #3 (see Note 10).

In March of 2014, the Company was advised that $193,223 of the note was re-assigned from Redwood to Dominion Capital.

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MD Global Partners, LLC Notes Payable

On October 11, 2013 and November 6, 2013, the Company issued promissory notes in the amount of $15,000 and $4,000, respectively for compensation due to MD Global Partners for services of raising capital for the Company (the “MD Global Notes”). The terms of the MD Global Notes require repayment on demand and 10% interest compounded annually. The MD Global Notes were paid in full in January 2014. Accrued interest of $456 is outstanding at September 30, 2014.

Highland Capital Notes Payable

On December 11, 2013 and December 20, 2013, the Company issued promissory notes to Highland Capital (the “Highland Notes”) in the amount of $5,500 for money owed to a stock transfer agent and $5,000 for legal expenses owed, respectively. The Highland Notes were due June 25, 2014 and July 1, 2014, respectively. The interest rate on the Highland Notes is not specified. The Highland Notes are currently due and payable.

As of September 30, 2014 and December 31, 2013, the principal balance of the Highland Notes were $10,500.

Kaplan Note Payable

On March 5, 2014, the Company issued a promissory note to Jeffrey Kaplan (the “Kaplan Note”) in the amount of $30,000 for working capital advance. The Kaplan Note was due on March 10, 2014 and has simple interest of 10% per annum.

At September 30, 2014, the principal balance on the Kaplan Note was $30,000 and accrued interest was $1,725.

As of September 30, 2014 and December 31, 2013, the principal balance of the Company's notes payable were as follows:

	September 30, 2014	(Restated) December 31, 2013
Consorteum Notes	$236,600	$236,600
May Davis Notes	—	75,000
MD Global Notes	—	19,000
Highland Notes	10,500	10,500
Sichenzia Ross	—	386,445
Kaplan Note	30,000	—
Total	$277,100	$727,545

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9. Related Party Transactions

Rent

The Company is provided office and lab facilities and related services by a company owned by the Company's CEO, a significant shareholder (Note 15, Commitments). The Company has recorded rent and utilities expenses of $320,076 and $290,700, respectively, for the nine months ended September 30, 2014 and 2013.

Officer Salary

The Company has recorded a salary expense of $68,750 and $68,750 for the three months ended September 30, 2014 and 2013 and $206,250 and $206,250 for the nine months ended September 30, 2014 and 2013, respectively for the Company's CEO, and a shareholder and a salary expense totaling approximately $45,000 and $45,000 for the three months ended September 30, 2014 and 2013 and $135,000 and $135,000 for the nine months ended September 30, 2014 and 2013, respectively, recorded for the Company's Executive Vice President, a shareholder and the spouse of the Company's CEO.

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 may not have formal repayment terms or arrangements.

Advances due for working capital purposes amounted to $-0- as of September 30, 2014 and December 31, 2013, respectively.

Regen Agreement

On April 16, 2012, the Company entered into a technology license and administrative services agreement (the "Agreement") with Regen Medical P.C., the medical practice which is owned by, and through which, the Company CEO, Dr. Steven Victor, engages in the practice of Cosmetic Dermatology ("Regen Medical"). Pursuant to the

Agreement, the Company, among other things, (i) granted Regen Medical the non-exclusive and non-assignable license to utilize the Company's proprietary process and technology for its patients, (ii) granted Regen Medical a license to use a laboratory which can be used by Regen Medical for use of the Company's proprietary process and (iii) was appointed as the exclusive manager and administrator of Regen Medical's operations which relates to the implementation of the Company's proprietary process as well as Regen Medical's cosmetic dermatology practice, and (iv) was appointed the sole provider of non-medical managerial, administrative and business functions for Regen Medical's cosmetic dermatology practice. The Agreement became effective as of April 16, 2012 and was to continue until April 16, 2017. Thereafter, the Agreement was to be automatically renewed for successive five year periods unless either party notifies the other in writing of its intention not to renew the Agreement.

In consideration for the services to be provided under the Agreement, Regen Medical was to pay the Company (i) an annual administrative fee of $600,000, payable in equal monthly installments during the term of the agreement (subject to an annual increase of up to a maximum of ten percent (10%) beginning on the second anniversary of the effective date), (ii) an annual technology license fee of $120,000, payable in equal monthly installments during the term of the agreement, for the use of our proprietary process (including the laboratory and the laboratory technician) and (iii) a processing fee of $1,000 for each tissue processing case that utilizes our proprietary process. The Company is also entitled to an annual performance fee during the term of either (i) $150,000, in the event total income to Regen Medical exceeds $5,500,000 or (ii) $200,000, in the event that total income to Regen Medical exceeds $7,000,000. In addition, beginning on October 16, 2013 and on each six month anniversary thereafter during the term, the Company is entitled to a share of Regen Medical's Savings (as defined below), minus its share of any Loss (as defined below"), based upon an agreed upon base burden percentage for Regen Medical (the "Base Burden Percentage"). The Base Burden Percentage is to be calculated by dividing (a) the aggregate actual costs of Regen Medical paid by the Company during the period ending on December 31, 2011 by (b) the aggregate revenue of Regen Medical collected by the Company during the period ending on December 31, 2011; provided, however , that the Base Burden Percentage shall be recalculated on January 1, 2013 and every 12 months thereafter during the term by dividing (i) the aggregate actual costs for the Regen Medical paid by the Company during the preceding three six-month periods by (ii) the aggregate Savings or Loss is to be calculated by subtracting (a) the aggregate actual costs for the Regen Medical paid by the Company during the preceding Period from (b) an amount equal to (I) the Base Burden Percentage multiplied by (ii) the aggregate revenue of the Regen Medical collected by the Company during the preceding Period (the "Burden Amount"). If the Burden Amount exceeds the Period Actual Costs (the "Savings") or the Period Actual Costs exceed the Burden Amount (the "Loss"), Regen Medical and the Company shall share such Savings or Loss 65% for the account of the Regen Medical and 35% for the account of the Company. The Company recognized revenue of $0 and $514,000 for the year ended December 31, 2013 and 2012, respectively, under the agreements.

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

Revenue

Intellicell charges Regen Medical a processing fee of $2,500 for each tissue processing case that uses Intellicell’s proprietary process. For the nine months ended September 30, 2014, Intellicell completed 48 cases for a total revenue of $120,000. All cases were performed for Regen Medical patients.

Research and Development

Research and development costs to related parties for the nine months ended September 30, 2014 and 2013 were $353,500 and $287,000 respectively. These fees were accrued and paid to Regen Medical for services as the attending physician in thirty eight (38) and twenty three (23) patient cases respectively. These cases are included as part of the Company’s ongoing research of its technologies and processes.

As of September 30, 2014 and December 31, 2013, accrued research fees totaled $85,500 (and is included in Accounts Payable) and $361,000, respectively.

Accrued liabilities, related parties, net

The Company has ongoing transactions with related parties. These parties extend credit on behalf of the Company.

As of September 30, 2014 and December 31, 2013, the following related party amounts were due from (to) the Company:

	9/30/14	**12/31/ 2013**
Fees Receivable From Regen Medical for Processing of adipose tissues for Regen Medical patients	$(85,000)	$—
Advances to Dr. Steven Victor, CEO	110	(530,534)
Credit card payables	—	176,940
Due to Regen Medical	68,095	267,826
Accrued payroll	525,439	393,389
Totals	$508,644	$307,621