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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2019

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-31564

Fibrocell Science, Inc.

(Exact name of registrant as specified in its Charter)

Delaware	**87-0458888**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

405 Eagleview Boulevard
Exton, Pennsylvania 19341

(Address of principal executive offices, including zip code)

(484) 713-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	FCSC	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for any 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 7, 2019, there were9,758,332 outstanding shares of the registrant's common stock, par value $0.001.

Fibrocell Science, Inc.

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Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q (this Form 10-Q) to the "Company," "Fibrocell," "we," "us," and "our" include Fibrocell Science, Inc. and its subsidiaries.

Trademark Notice

Fibrocell®, Fibrocell Science®, the Fibrocell logo and LAVIV® are trademarks of Fibrocell Science, Inc. (Exton, PA). All other trademarks, service marks or trade names appearing in this Form 10-Q are the property of their respective owners.

EXPLANATORY NOTE

The information contained in "Item 1 - Financial Statements" of this Form 10-Q gives retroactive effect to a one-for-five reverse stock split of our issued and outstanding shares of common stock effected on May 24, 2018. See Note 1 of the Notes to Condensed Consolidated Financial Statements for further information.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among others, statements relating to:

- our expectation to close the merger with Castle Creek Pharmaceuticals Holdings (CCP Holdings) in the fourth quarter of 2019;
- our expectations that we will obtain stockholder approval of the merger with CCP Holdings;
- our expectation that our existing cash resources will be sufficient to enable us to fund our operations into the first quarter of 2020;
- our future expenses and capital expenditures;
- our estimates regarding expenses, future revenues, capital requirements and needs for, and ability to obtain, additional financing;
- our plans to address our future capital requirements and the consequences of failing to do so;
- our projection to complete enrollment and dosing of patients in a Phase 3 clinical trial for FCX-007 in the third quarter of 2020 and complete data collection for the primary endpoint in the fourth quarter of 2020;
- our expectation to file a Biologics License Application (BLA) for FCX-007 in 2021 if the Phase 3 clinical trial for FCX-007 is successful and completed within our projected timeframe;
- the potential benefits of the co-development and license agreement (CCP License Agreement) between us and Castle Creek Pharmaceuticals, LLC (CCP), an affiliate of CCP Holdings;
- the potential to earn future milestone and profit share payments under the CCP License Agreement;
- our plans to complete enrollment of Phase 1 adult patients in a Phase 1/2 clinical trial for FCX-013 in the fourth quarter of 2019;
- our projection that safety and efficacy data from adult patients in the Phase 1 portion of the clinical trial of FCX-013 will be available in mid-2020;
- our product development goals under our collaborations with Intrexon Corporation for our product candidates;
- the potential benefits of Fast Track, Orphan Drug, Rare Pediatric Disease and Regenerative Medicine Advanced Therapy (RMAT) designations;
- the potential advantages of our product candidates and technologies; and
- the effect of legal and regulatory developments;

as well as other statements relating to our future operations, financial performance and financial condition, prospects, strategies, objectives or other future events. Forward-looking statements appear primarily in the sections of this Form 10-Q entitled "Item 1—Financial Statements," and "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations." In some cases, you can identify forward-looking statements by words such as "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," "continue," "ongoing," "scheduled" and similar expressions, although not all forward-looking statements contain these identifying words.

Forward-looking statements are based upon current expectations and assumptions and are subject to a number of known and unknown risks, uncertainties and other factors that could cause actual results to differ materially and adversely from those expressed or implied by such statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the 2018 Form 10-K), and in particular, the risks and uncertainties discussed under the caption "Item 1A—Risk Factors" of this Form 10-Q and our 2018 Form 10-K. As a result, you should not place undue reliance on forward-looking statements.

Additionally, the forward-looking statements contained in this Form 10-Q represent our views only as of the date of this Form 10-Q (or any earlier date indicated in such statement). While we may update certain forward-looking statements from time to time, we specifically disclaim any obligation to do so, even if new information becomes available in the future. However, you are advised to consult any further disclosures we make on related subjects in the periodic and current reports that we file with the Securities and Exchange Commission (SEC).

The foregoing cautionary statements are intended to qualify all forward-looking statements wherever they may appear in this Form 10-Q. For all forward-looking statements, we claim protection of the safe harbor for the forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

This Form 10-Q also contains estimates, projections and other information concerning our industry, our business, and the markets for certain diseases, including data regarding the estimated size of those markets, and the incidence and prevalence of certain medical conditions. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Fibrocell Science, Inc.
Condensed Consolidated Balance Sheets
(unaudited)
($ in thousands, except share and per share data)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 6,768	$ 14,430
Accounts receivable	2,525	—
Contract asset - current	8,124	—
Prepaid expenses and other current assets	1,259	105
Total current assets	18,676	14,535
Property and equipment, net of accumulated depreciation of $2,562 and $2,311, respectively	1,416	1,222
Right of use asset - operating lease	4,403	—
Contract asset - long term	3,330	—
Other assets	1	1
Total assets	$ 27,826	$ 15,758
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,640	$ 452
Related party payable	72	100
Accrued expenses	1,756	1,470
Lease liability, current - operating lease	198	—
Deferred rent, current	—	150
Total current liabilities	3,666	2,172
Convertible promissory notes, net of debt discount of $18,003 and $18,003, respectively (see Note 6)	—	—
Accrued interest payable	2,334	1,738
Warrant liability	3	152
Derivative liability	6,079	1,474
Lease liability, operating lease	5,003	—
Deferred rent	—	665
Total liabilities	17,085	6,201
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized:		
Series A nonredeemable convertible preferred stock; 8,000 shares designated, 8,000 shares issued and outstanding as of September 30, 2019 and December 31, 2018 respectively; aggregate liquidation preference of $8,860 at September 30, 2019 and $8,600 at December 31, 2018.	—	—
Common stock, $0.001 par value; 150,000,000 shares authorized, 9,758,332 shares issued and outstanding at September 30, 2019 and December 31, 2018.	10	10
Additional paid-in capital	198,938	198,627
Accumulated deficit	(188,207)	(189,080)
Total stockholders' equity	10,741	9,557
Total liabilities and stockholders' equity	$ 27,826	$ 15,758

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

Fibrocell Science, Inc.
Condensed Consolidated Statements of Operations
(unaudited)
($ in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
License revenue	$ —	$ —	$ 20,979	$ —
Collaboration revenue	1,019	—	1,832	—
Total revenues	1,019	—	22,811	—
Cost of license - related party	—	—	3,750	—
Cost of collaboration revenue	1,684	—	3,039	—
Cost of collaboration revenue - related party	2	—	69	—
Total cost of revenue	1,686	—	6,858	—
Gross profit (loss)	(667)	—	15,953	—
Research and development expense	763	1,541	3,306	4,601
Research and development expense - related party (see Note 10)	4	63	44	(134)
Selling, general and administrative expense	2,929	1,501	7,255	4,696
Operating income (loss)	(4,363)	(3,105)	5,348	(9,163)
Other income (expense):				
Warrant revaluation income	141	265	149	591
Derivative revaluation income (expense)	(3,522)	87	(4,605)	266
Interest expense	(200)	(194)	(597)	(575)
Other income, net	43	88	515	227
Income (loss) before income taxes	(7,901)	(2,859)	810	(8,654)
Income tax benefit	697	—	63	—
Net income (loss)	(7,204)	(2,859)	873	(8,654)
Dividend paid in-kind to preferred stockholders	(89)	(85)	(260)	(250)
Deemed dividend on preferred stock (see Note 12)	(150)	(130)	(435)	(377)
Net income (loss) attributable to common stockholders	$ (7,443)	$ (3,074)	$ 178	$ (9,281)
Per Share Information:				
Net income (loss):				
Basic	$ (0.76)	$ (0.33)	$ 0.02	$ (1.31)
Diluted	$ (0.76)	$ (0.33)	$ 0.02	$ (1.31)
Weighted average number of common shares outstanding:				
Basic	9,758,332	9,234,869	9,758,332	7,107,678
Diluted	9,758,332	9,234,869	9,776,888	7,107,678

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

Fibrocell Science, Inc.
Condensed Consolidated Statement of Stockholders' Equity (Deficit)
(unaudited)
($ in thousands, except share data)

	Series A Convertible Preferred Stock		Common Stock		Additional paid-in capital	Accumulated deficit	Total Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2017	8,000	$ —	5,189,755	$ 26	$ 187,784	$ (178,803)	$ 9,007
Effect of the May 2018 reverse stock split on common stock and additional paid in capital, beginning balance	—	—	—	(20)	20	—	—
Stock-based compensation expense	—	—	—	—	129	—	129
Conversion of pre-funded warrants	—	—	483,221	—	24	—	24
Net loss	—	—	—	—	—	(2,901)	(2,901)
Balance, March 31, 2018	8,000	$ —	5,672,976	$ 6	$ 187,957	$ (181,704)	$ 6,259
Stock-based compensation expense	—	—	—	—	131	—	131
May 2018 Registered Direct Offering, net of offering costs of $627	—	—	2,038,224	2	5,371	—	5,373
Exercise of warrants	—	—	129,702	—	499	—	499
Net loss	—	—	—	—	—	(2,894)	(2,894)
Balance, June 30, 2018	8,000	$ —	7,840,902	$ 8	$ 193,958	$ (184,598)	$ 9,368
Stock -based compensation expense	—	—	—	—	133	—	$ 133
May 2018 Registered Direct Offering, net of offering costs of $676	—	—	—	—	(49)	—	$ (49)
July 2018 Registered Direct Offering, net of offering costs of $494	—	—	1,474,080	1	3,590	—	$ 3,591
Net loss	—	—	—	—	—	(2,859)	$ (2,859)
Balance, September 30, 2018	8,000	$ —	9,314,982	$ 9	$ 197,632	$ (187,457)	$ 10,184

	Series A Convertible Preferred Stock		Common Stock		Additional paid-in capital	Accumulated deficit	Total Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2018	8,000	$ —	9,758,332	$ 10	$ 198,627	$ (189,080)	$ 9,557
Stock-based compensation expense	—	—	—	—	112	—	112
Net loss	—	—	—	—	—	(3,666)	(3,666)
Balance, March 31, 2019	8,000	$ —	9,758,332	$ 10	$ 198,739	$ (192,746)	$ 6,003
Stock-based compensation expense	—	—	—	—	117	—	117
Net income	—	—	—	—	—	11,743	11,743
Balance, June 30, 2019	8,000	$ —	9,758,332	$ 10	$ 198,856	$ (181,003)	$ 17,863
Stock-based compensation expense	—	—	—	—	82	—	$ 82
Net loss	—	—	—	—	—	(7,204)	$ (7,204)
Balance, September 30, 2019	8,000	$ —	9,758,332	$ 10	$ 198,938	$ (188,207)	$ 10,741

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

Fibrocell Science, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
($ in thousands)

	Nine months ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income (loss)	$ 873	$ (8,654)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation expense	311	393
Warrant revaluation income	(149)	(591)
Derivative revaluation expense (income)	4,605	(266)
Depreciation and amortization of long lived assets	251	302
Decrease (increase) in operating assets:		
Accounts receivable	(2,525)	—
Contract asset	(11,454)	—
Prepaid expenses and other current assets	(1,106)	229
Increase (decrease) in operating liabilities:		
Accounts payable	1,098	258
Related party payable	(28)	(2,240)
Accrued expenses, deferred rent	309	(223)
Accrued lease liabilities - operating lease	(66)	—
Accrued interest payable	596	575
Net cash used in operating activities	(7,285)	(10,217)
Cash flows from investing activities:		
Purchase of property and equipment	(340)	(155)
Net cash used in investing activities	(340)	(155)
Cash flows from financing activities:		
Payment of deferred offering costs	(37)	(444)
Proceeds from conversion of pre-funded warrants	—	24
Proceeds from conversion of common warrants	—	499
Proceeds from May 2018 Registered Direct Offering, net of offering costs of $640	—	5,360
Proceeds from July 2018 Registered Direct Offering, net of offering costs of $458	—	3,627
Net cash provided by (used in) financing activities	(37)	9,066
Effect of exchange rate changes on cash balances	—	—
Net decrease in cash and cash equivalents	(7,662)	(1,306)
Cash and cash equivalents, beginning of period	14,430	17,417
Cash and cash equivalents, end of period	$ 6,768	$ 16,111
Supplemental disclosures of cash flow information:		
Non-cash investing and financing activities:		
Property and equipment in accounts payable	$ 130	$ 72
Dividend paid in-kind to preferred stockholders	$ 260	$ 250
Deemed dividend on preferred stock	$ 435	$ 377

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

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Business and Organization

Organization

Fibrocell Science, Inc. (as used herein, "we," "us," "our," "Fibrocell" or the "Company") is the parent company of Fibrocell Technologies, Inc. (Fibrocell Tech). Fibrocell Tech is the parent company of Isolagen International, S.A., a company organized under the laws of Switzerland (Isolagen Switzerland). The Company's international activities are currently immaterial.

Business Overview

Fibrocell is a cell and gene therapy company focused on improving the lives of people with rare diseases of the skin and connective tissue. The Company is utilizing its proprietary autologous fibroblast technology to develop personalized biologics that target the underlying cause of disease. Fibrocell's pipeline of localized gene therapy candidates include FCX-007 for the treatment of recessive dystrophic epidermolysis bullosa (RDEB), a life-threatening genetic disorder diagnosed in infancy with no cure or treatment approved by the FDA. Fibrocell is also developing FCX-013 for the treatment of moderate to severe localized scleroderma. Currently, Fibrocell's research and development operations and focus are on gaining regulatory approvals to commercialize its gene therapy candidates in the United States; however, the Company may seek to expand into international markets in the future.

On April 12, 2019, the Company entered into a co-development and license agreement (CCP License Agreement) with Castle Creek Pharmaceuticals, LLC (CCP) with respect to the development and commercialization of the Company's lead gene therapy candidate, FCX-007, for the treatment of RDEB.

On September 12, 2019, the Company, Castle Creek Pharmaceutical Holdings, Inc. (CCP Holdings), an affiliate of CCP, and Castle Creek Merger Corp., a Delaware corporation and wholly-owned subsidiary of CCP Holdings (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement), pursuant to which, and on the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the Merger). The Company will survive the Merger as a wholly-owned subsidiary of CCP Holdings. A special meeting of the Company's common stockholders is scheduled to be held on December 10, 2019 to vote on, among other things, a proposal to adopt the Merger Agreement. The Company intends to complete the Merger as soon as reasonably practicable and currently expects to complete the Merger in the fourth quarter of 2019.

Collaboration Agreement with Castle Creek Pharmaceuticals

On April 12, 2019, the Company entered into the CCP License Agreement with CCP with respect to the development and commercialization of the Company's lead gene therapy candidate, FCX-007, for the treatment of RDEB.

Under the terms of the CCP License Agreement, CCP will receive an exclusive license to commercialize FCX-007 in the United States. CCP will be responsible for the first $20 million in development costs prior to the initial Biologics License Application (BLA) filing with U.S. Food and Drug Administration (FDA) and manufacturing costs undertaken prior to commercial launch of FCX-007. If such spending exceeds $20 million, CCP will be responsible for 70% of the excess costs and Fibrocell will cover 30% of the remaining additional expenses. The Company will maintain responsibility for the development (including pre-launch manufacturing) of FCX-007 through initial BLA approval of FCX-007, and CCP will be responsible for all post-approval development and commercialization activities for FCX-007. The parties have agreed to negotiate the terms of a manufacturing and supply agreement that will set forth the terms under which the Company will supply CCP commercial quantities of FCX-007. A joint development committee consisting of representatives from the Company and CCP will oversee the development of FCX-007 pursuant to an agreed-upon development plan and budget.

At the closing of the CCP License Agreement, the Company received an upfront payment of $7.5 million, and will receive an additional $2.5 million for the first patient enrolled in the Phase 3 clinical trial of FCX-007 and $30 million upon BLA approval of FCX-007 and FCX-007 commercial manufacturing readiness. The Company is also eligible to receive up to $75 million in sales milestones, consisting of $25 million upon the achievement of $250 million in cumulative FCX-007 net

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Business and Organization (continued)

sales and an additional $50 million upon the achievement of $750 million in cumulative FCX-007 net sales. In addition, CCP will pay the Company a 30% share of the gross profits from FCX-007 sales. The Company will retain sole ownership of the Rare Pediatric Disease Priority Review Voucher, which may be granted upon BLA approval of FCX-007.

As part of the Company's existing exclusive channel collaboration agreement with Intrexon Corporation (Intrexon), the Company will pay Intrexon 50% of all upfront, milestone and profit share payments from CCP. Payments to Intrexon do not include funds received by the Company from CCP in connection with the development and manufacturing costs or payments for supply of FCX-007.

Unless earlier terminated, the CCP License Agreement will expire on the later of (a) expiration of the last to expire valid claim of any FCX-007 patent rights in the United States and (b) forty years from the date of initial BLA approval of FCX-007.

CCP has the right to terminate the CCP License Agreement at will upon 180 days' prior written notice. If CCP elects to terminate the CCP License Agreement at will, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory pay to CCP an amount equal to five percent (5%) of FCX-007 gross profit in respect of sales of FCX-007 in the territory by the Company, its affiliates or licensees in the initial indication and any additional indications developed or commercialized by the parties as of the effective date of termination.

CCP may also terminate the CCP License Agreement at any time, upon 180 days' prior written notice to the Company, in the event (i) CCP determines, in its reasonable discretion, that further development or commercialization of FCX-007 is not commercially viable or (ii) CCP determines that development or commercialization of FCX-007 must be terminated because of safety issues outside of CCP's reasonable control. If CCP elects to terminate the CCP License Agreement due to either of the specified reasons set forth in the preceding sentence, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory pay to CCP an amount equal to five percent (5%) of FCX-007 gross profit in respect of sales of FCX-007 in the territory by the Company, its affiliates or licensees in the initial indication and any additional indications developed or commercialized by the parties as of the effective date of termination. Either party may, subject to specified cure periods, terminate the CCP License Agreement in the event of the other party's uncured material breach, and either party may terminate the CCP License Agreement under specified circumstances relating to the other party's insolvency. The upfront payment and milestone payments are non-refundable; provided, however, that certain disputed payments may be refunded in accordance with the dispute resolutions procedures set forth in the CCP License Agreement.

Based on the Company's receipt of the upfront payment from CCP and reduction of expenses associated with the development of FCX-007, the Company believes its existing cash will be sufficient to fund operations into the first quarter of 2020.

The Company concluded its strategic alternative review process announced last year, as a result of the execution of the CCP License Agreement with CCP.

Merger Agreement with Castle Creek Pharmaceutical Holdings

On September 12, 2019, the Company, CCP Holdings, and Merger Sub entered into the Merger Agreement, pursuant to which, and on the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company. The Company will survive the Merger as a wholly-owned subsidiary of CCP Holdings. A special meeting of the Company's common stockholders is scheduled to be held on December 10, 2019 to vote on, among other things, a proposal to adopt the Merger Agreement. The Company intends to complete the Merger as soon as reasonably practicable and currently expects to complete the Merger in the fourth quarter of 2019.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Business and Organization (continued)

Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the Effective Time), each share of common stock of the Company issued and outstanding immediately prior to the Effective Time (other than shares held directly by CCP Holdings or Merger Sub and shares owned by Company stockholders who have exercised their appraisal rights under Delaware law) will be converted into the right to receive $3.00 in cash, without interest (the Merger Consideration).

In addition, after the Effective Time, each share of the Company's Series A Convertible Preferred Stock (the Preferred Stock) will remain outstanding (until converted by the holders thereof pursuant to the Consent and Termination Agreement, as defined below herein), and will thereafter only represent the right to receive an amount in cash, without interest, equal to (i) the number of shares of common stock underlying each share of Preferred Stock multiplied by (ii) the Merger Consideration. After the Effective Time, each outstanding Company common stock warrant shall be generally entitled to receive (i) upon any subsequent exercise, an amount equal to the Merger Consideration less the exercise price for such warrant, or (ii) if eligible pursuant to the terms of the warrant, upon notification by the holder of such warrant to the Company within 30 days of the Effective Time, an amount equal to the Black-Scholes value of the warrant. Each stock option issued under the Company's equity incentive plans outstanding immediately prior to the Effective Time, whether vested or unvested, will accelerate and be converted into the right to receive in cash an amount equal to the Merger Consideration minus the exercise price of such stock option.

The Merger Agreement contains customary representations and warranties of the Company, CCP Holdings and Merger Sub, and customary pre-closing covenants, including covenants requiring the Company (i) to conduct its business in the ordinary course, and (ii) to refrain from taking certain actions without CCP Holdings' consent.

CCP Holdings has obtained financing commitments for the purpose of financing the Merger.

In addition, the Merger Agreement requires that the Company refrain from soliciting proposals relating to alternative transactions or, subject to certain exceptions, enter into discussions concerning, or provide information in connection with, alternative transactions. Prior to the approval of the Merger Agreement by the Company's common stockholders, the Company's Board of Directors may not, without first complying with certain conditions set forth in the Merger Agreement and solely in response to a Superior Proposal (as defined in the Merger Agreement), (i) adopt, approve or recommend, or publicly propose to adopt, approve or recommend, any Acquisition Proposal (as defined in the Merger Agreement), (ii) withdraw, change, qualify, withhold or modify, or publicly propose to withdraw, change, qualify, withhold or modify, its recommendation that the Company's common stockholders adopt the Merger Agreement, (iii) fail to include in the proxy statement to be filed in connection with the Merger the Board of Directors' recommendation that the Company's common stockholders adopt the Merger Agreement, (iv) fail to recommend against any tender offer that constitutes an Acquisition Proposal subject to Regulation 14D under the Securities Exchange Act of 1934, as amended, (v) approve, authorize or cause or permit the Company or its subsidiaries to enter into any acquisition agreement or similar agreement relating to any Acquisition Proposal, or (vi) fail to publicly affirm the Company's Board of Directors' recommendation that the Company's common stockholders adopt the Merger Agreement within five business days following receipt of a written request to do so from CCP Holdings (collectively, a Change of Board Recommendation).

Pursuant to the terms of the Merger Agreement, the consummation of the Merger is subject to certain other customary closing conditions, including, but not limited to, the approval of the Merger by the Company's common stockholders, the receipt of regulatory clearances (to the extent required), the continued effectiveness of certain of the Company's contracts, accuracy of the representations of the Company and the absence of a material adverse effect with respect to the Company, and that no more than 8% of the holders of the outstanding shares of the Company's common stock have exercised or purported to exercise statutory appraisal rights under Delaware law with respect to such shares of common stock. Subject to the satisfaction of the closing conditions, the parties anticipate that the Merger will be consummated during the fourth quarter of 2019.

The Merger Agreement contains certain termination rights for the Company and CCP Holdings. Upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay CCP Holdings a termination fee of $2.0 million.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Business and Organization (continued)

We expect that Fibrocell's employees will continue as employees of the combined company on completion of the transaction. Until that time, Fibrocell will continue to operate as a separate and independent company.

Liquidity and Financial Condition

The Company expects to continue to incur losses and will require additional capital to advance its product candidates through development to commercialization. For the nine-month period ended September 30, 2019 the Company recorded net income of approximately $0.9 million and used approximately $7.3 million in cash for operations. As ofSeptember 30, 2019, the Company had cash and cash equivalents of approximately $6.8 million, working capital of approximately $15.0 million and an accumulated deficit of approximately $188.2 million.

The Company believes that its cash and cash equivalents at September 30, 2019 and amounts paid or payable to the Company under the CCP License Agreement, including reimbursement of FCX-007 development costs and the milestone payment for the first patient enrolled in the Phase 3 clinical trial for FCX-007 will be sufficient to fund operations into the first quarter of 2020.

If the closing of the Merger has not been consummated on or before January 31, 2020, and if the Company is able to obtain all required third party consents, CCP Holdings, has agreed, upon written request by the Company, to advance up to $3 million in funds to the Company no later than January 31, 2020, representing certain future payments to be made by CCP pursuant to the terms of the CCP License Agreement. In the event the Company is unable to obtain all necessary third party consents required to effect the payments advance under the CCP License Agreement by January 15, 2020, the Company would be permitted to raise up to $3 million in additional capital through the sale and issuance of equity securities of the Company in an offering that would not sign or close until a date after the Outside Date (as defined in the Merger Agreement) of the Merger, subject to certain conditions agreed to among the parties.

However, actual cash requirements could differ from management's projections due to many factors, including costs associated with the Merger, the cost of clinical activities and outcomes related to our current and planned clinical trials, future correspondence with the FDA, enrollment rates for the Company's clinical trials and unexpected capital expenditures. Accordingly, the foregoing conditions, taken together, continue to raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Accordingly, the condensed consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

To meet its capital needs, the Company may need to raise additional capital through debt or equity financings, collaborations, partnerships or other strategic transactions. However, there can be no assurance that the Company will be able to complete any such transaction on acceptable terms or otherwise. The failure of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's business, results of operations and financial condition.

On January 23, 2018, the Company received notice (the Notice) from the Nasdaq Stock Market LLC (Nasdaq) that the Company was not in compliance with Nasdaq Listing Rule 5550(a)(2), as the minimum bid price of the Company's common stock had been below $1.00 per share for 30 consecutive business days. On May 24, 2018, the Company implemented a one-for-five reverse split of the issued and outstanding shares of the Company's common stock (the Reverse Stock Split), as authorized at the annual meeting of stockholders on May 23, 2018. The Reverse Stock Split became effective on May 24, 2018 at 5:00 pm and the Company's common stock began trading on Nasdaq on a post-split basis at the open of business on May 25, 2018. As of a result of the Reverse Stock Split, every five shares of the Company's issued and outstanding common stock were combined into one share of its common stock, except to the extent that the Reverse Stock Split resulted in any of the Company's stockholders owning a fractional share, which was rounded up to the next highest whole share. In connection with the Reverse Stock Split, there was no change in the nominal par value per share of $0.001. The Reverse Stock Split was effectuated in order to increase the per share trading price of the Company's common stock to satisfy the $1.00 minimum bid

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
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Note 1. Business and Organization (continued)

price requirement for continued listing on Nasdaq. On June 11, 2018, the Company received written notice from Nasdaq notifying the Company that the closing bid price of the Company's common stock had been at $1.00 per share or greater for a minimum of ten consecutive business days and accordingly, the Company had regained compliance with Nasdaq Listing Rule 5550(a)(2). All share and per share amounts of common stock, options and warrants in the accompanying financial statements and related notes, have been restated for all periods to give retroactive effect to the Reverse Stock Split. Accordingly, the Condensed Consolidated Statement of Stockholders' Equity reflects the impact of the Reverse Stock Split by reclassifying from "Common Stock" to "Additional paid-in capital" an amount equal to the par value of the decreased shares resulting from the Reverse Stock Split.

Nasdaq has the authority, pursuant to Nasdaq Listing Rule 5550(b)(1), to delist the Company's common stock if its stockholders' equity falls below $2.5 million. As of September 30, 2019, the Company's stockholders' equity was approximately $10.7 million. If the Company's stockholders' equity is hereafter reduced below $2.5 million as a result of operating losses or for other reasons, the Company will fail to meet Nasdaq's stockholders' equity requirement. If that occurs, or if the Company is unable to demonstrate to Nasdaq's satisfaction that it will be able to sustain compliance with this requirement, Nasdaq may delist the Company's common stock. In addition, even if the Company regains technical compliance with the stockholders' equity requirement, it will have to continue to meet other objective and subjective listing requirements to continue to be listed on Nasdaq, including the requirement that the Company's common stock continues to trade above $1.00.

The Company is actively monitoring its stockholders' equity and will consider any and all options available to it to maintain compliance. There can be no assurance, however, that the Company will be able to maintain compliance and meet Nasdaq's minimum stockholders' equity requirements.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
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Note 2. Basis of Presentation

General

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by GAAP for complete consolidated financial statements and certain information and footnote disclosures included in the Company's annual consolidated financial statements and accompanying notes included in the 2018 Form 10-K, filed with the Securities and Exchange Commission (SEC), have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to a fair statement of the results for the interim periods have been included. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and accompanying notes included in the 2018 Form 10-K. The Company's significant accounting policies are described in the Notes to the Consolidated Financial Statements in the 2018 Form 10-K and updated, as necessary, in Note 3 in this Form 10-Q. The results of the Company's operations for any interim period are not necessarily indicative of the results of operations for any other interim period or full year.

All intercompany accounts and transactions have been eliminated in consolidation. The Company's international operations are immaterial, it has no unrealized gains or losses from the sale of investments and its minimal assets and liabilities are highly liquid and approximate fair value.

Note 3. Summary of Significant Accounting Policies

Revenue

For the three and nine-month periods ended September 30, 2019 the Company earned 100% of its license and development service revenue from one collaboration partner.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606), the Company recognizes revenue when its customer obtains control of the promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To achieve this core principle, the Company applied the following five steps:

1) Identify the contract with the customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the related payment terms, (ii) the contract has commercial substance, and (iii) the Company determines that collection of substantially all consideration for goods and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's intent and ability to pay, which is based on a variety of factors including the customer's historical payment experience, or in the case of a new customer, published credit and financial information pertaining to the customer.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods and services, the Company must apply judgment to determine whether the promised goods and services are capable of

Note 3. Summary of Significant Accounting Policies (continued)

being distinct and are distinct in the context of the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods and services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period for any changes. Determining the transaction price requires significant judgment, which is discussed in further detail in Note 4.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation on a relative stand-alone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct service that forms part of a single performance obligation. The consideration to be received is allocated among the separate performance obligations based on relative stand-alone selling prices. Determining the amount of the transaction price to allocate to each separate performance obligation requires significant judgment, which is discussed in further detail in Note 4.

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized over time if either 1) the customer simultaneously receives and consumes the benefits provided by the entity's performance, 2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. If the entity does not satisfy a performance obligation over time, the related performance obligation is satisfied at a point in time by transferring the control of a promised good or service to a customer. Examples of control are using the asset to produce goods or services, enhance the value of other assets, settle liabilities, and holding or selling the asset. ASC 606 requires the Company to select a single revenue recognition method for the performance obligation that faithfully depicts the Company's performance in transferring control of the goods and services. The guidance allows entities to choose between two methods to measure progress toward complete satisfaction of a performance obligation:

1. Output methods - recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract (e.g. surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed, and units of produced or units delivered); and

2. Input methods - recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (e.g., resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to the satisfaction of that performance obligation.

Licenses of intellectual property: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, up-front fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point

Note 3. Summary of Significant Accounting Policies (continued)

in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone payments: At the inception of each arrangement that includes development, regulatory or commercial milestone payments, the Company estimates the amount to be included in the transaction price. ASC 606 suggests two alternatives to use when estimating the amount of variable consideration: the expected value method and the most likely amount method. Under the expected value method, an entity considers the sum of probability-weighted amounts in a range of possible consideration amounts. Under the most likely amount method, an entity considers the single most likely amount in a range of possible consideration amounts. Whichever method is used, it should be consistently applied throughout the life of the contract; however, it is not necessary for the Company to use the same approach for all contracts. The Company uses the most likely amount method for development and regulatory milestone payments. If it is probable that a significant cumulative revenue reversal would not occur, the associated milestone value is included in the transaction price. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis. The Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Up-front Fees: Depending on the nature of the agreement, up-front payments and fees may be recorded as deferred revenue upon receipt or when due and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts payable to the Company are recorded as accounts receivable when the Company's right to consideration is unconditional.

Government Contracts, Grant Agreements and Incentive Programs

We recognize proceeds received from the FDA under our awarded grant, as other income, as it is not part of the Company's ongoing operations to customers, and because the corresponding agreement contained no specified performance obligations other than to continue the study of RDEB through clinical trials and contains no obligations to deliver specified products or technology.

Income from the grant is recognized in the period during which the related qualifying expenses are incurred, provided that the conditions under which the grant was provided have been met. The grant contains specific quarterly financial reporting and periodic update reports on the progress of the clinical trials for FCX-007, that if not completed, would result in the forfeiture of grant monies available to be received under the awarded grant.

Grant income that is recognized upon incurring qualifying expenses in advance of receipt of grant funding, is recorded in our consolidated balance sheet as grant receivables.

Convertible Instruments

The Company has utilized various types of financing to fund its business needs, including convertible debt and convertible preferred stock with detachable warrants. The Company considers guidance within (ASC) 470-20, *Debt with Conversion and Other Options* (ASC 470-20), ASC 480, *Distinguishing Liabilities from Equity* (ASC 480), and ASC 815, *Derivatives and Hedging* (ASC 815) when accounting for the issuance of its convertible securities. Additionally, the Company reviews the instruments to determine whether they are freestanding or contain an embedded derivative and, if so, whether they should be classified in permanent equity, mezzanine equity or as a liability at each reporting period until the amount is settled and reclassified into equity.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
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Note 3. Summary of Significant Accounting Policies (continued)

When multiple instruments are issued in a single transaction, the Company allocates total proceeds from the transaction among the individual freestanding instruments identified. The allocation is made after identifying (1) all the freestanding instruments and (2) the subsequent measurement basis for those instruments. The subsequent measurement basis determines how the proceeds are allocated. Generally, proceeds are allocated based on one of the following methods:

- Fair value method - The instrument being analyzed is allocated a portion of the proceeds equal to its fair value, with the remaining proceeds allocated to the other instruments as appropriate.
- Relative fair value method - The instrument being analyzed is allocated a portion of the proceeds based on the proportion of its fair value to the sum of the fair values of all the instruments covered in the allocation.
- Residual value method - The instrument being analyzed is allocated the remaining proceeds after an allocation is made to all other instruments covered in the allocation.

Generally, when there are multiple instruments issued in a single transaction that have different subsequent measurement bases, the proceeds from the transaction are first allocated to the instrument that is subsequently measured at fair value (i.e. - instruments accounted for as a derivative liability) at its issuance date fair value, with the residual proceeds allocated to the instrument not subsequently measured at fair value. In the event both instruments in the transaction are not subsequently measured at fair value (i.e. equity-classified instruments), the proceeds from the transaction are allocated to the freestanding instruments based on their respective fair values, using the relative fair value method.

After the proceeds are allocated to the freestanding instruments, resulting in an initial discount on the host contract, those instruments are further evaluated for embedded features (i.e. conversion options) that require bifurcation and separate accounting as a derivative financial instrument pursuant to ASC 815. Embedded derivatives are initially and subsequently measured at fair value. Under ASC 815, a portion of the proceeds received upon the issuance of the hybrid contract is allocated to the fair value of the derivative. See Note 6 for additional discussion on the identified embedded derivatives associated with the Company’s convertible notes.

The Company accounts for convertible instruments in which it is determined that the embedded conversion options should not be bifurcated from their host instruments, in accordance with ASC 470-20. Under ASC 470-20, the Company records, when necessary, discounts to convertible notes or convertible preferred stock for the intrinsic value of conversion options embedded in the convertible instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the convertible instrument, unless limited by the proceeds allocated to such instrument. See Note 6 and Note 12 for additional discussion on the identified embedded features (conversion options) associated with the Company’s convertible notes and convertible preferred stock and resulting beneficial conversion features recorded.

The Company allocates issuance costs between the individual freestanding instruments identified on the same basis as proceeds were allocated. Issuance costs associated with the issuance of stock or equity contracts (i.e. equity-classified warrants and convertible preferred stock) are recorded as a charge against the gross proceeds of the offering. Issuance costs associated with the issuance of debt (i.e. convertible debt) is recorded as a direct reduction of the carrying amount of the debt liability, however, if debt issuance costs exceed the carrying amount of the debt, issuance costs are recorded to additional paid-in capital as a reduction of the beneficial conversion feature. Any issuance costs associated with the issuance of liability-classified warrants are expensed as incurred.

Income Taxes

In accordance with ASC 270, Interim Reporting, and ASC 740, Income Taxes, the Company is required at the end of each interim period to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. The Company does not have a net deferred tax asset as of either September 30, 2019 or December 31, 2018. The Company maintains a full valuation allowance against all deferred tax assets as management has determined that it is more likely than not, that the Company will be unable to realize these future tax benefits. As of September 30, 2019 and December 31, 2018, the Company had no uncertain tax positions.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
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Note 3. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB and rules are issued by the SEC that the Company adopts as of the specified date. Unless otherwise noted, management does not believe that any recently issued accounting pronouncements issued by the FASB or guidance issued by the SEC had, or is expected to have, a material impact on the Company's present or future consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exceptions. For public business entities, the amendments in Topic 842 are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Company adopted Topic 842 in the annual period beginning January 1, 2019. The Company applied the modified retrospective transition method and elected the transition option to use the effective date of January 1, 2019 as the date of initial application. The Company did not adjust its comparative period financial statements for effects of Topic 842.

The Company has elected the package of practical expedients permitted under the transition guidance within the new standard as listed below:

a. An entity need not reassess whether any expired or existing contracts are or contain leases;

b. An entity need not reassess the lease classification for any expired or existing leases (for example, all existing leases that were classified as operating leases in accordance with Topic 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with Topic 840 will be classified as finance leases);

c. An entity need not reassess initial direct costs for any existing leases;

In addition the Company elected a practical expedient, which must be applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a lessor) to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use assets.

The adoption of the new standard resulted in recording right of use assets-operating lease, of approximately$4.5 million and lease liabilities-operating lease, of approximately $5.3 million as of January 1, 2019. See Note 5 for additional information related to leases.

Fibrocell Science, Inc.
Notes to Condensed Consolidated Financial Statements
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Note 3. Summary of Significant Accounting Policies (continued)

The details of this adjustment are summarized below:

	Balance at December 31, 2018	Adjustments due to ASC 842	Balance at January 1, 2019
Assets			
Right of use asset - operating lease	$ —	$ 4,452	$ 4,452
Liabilities			
Lease liability - current - operating lease	—	111	111
Deferred rent - current	150	(150)	—
Lease liability - long term - operating lease	—	5,156	5,156
Deferred rent - long term	665	(665)	—

Fibrocell Science, Inc.
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Note 4. Revenue from Contracts with Customers

CCP Co-development and License Agreement

On April 12, 2019, the Company entered into the CCP License Agreement with CCP with respect to the development and commercialization of the Company's lead gene therapy candidate, FCX-007, for the treatment of RDEB.

Under the terms of the CCP License Agreement, CCP received an exclusive license to commercialize FCX-007 in the United States. CCP will be responsible for the first $20 million in development costs prior to the initial BLA filing with the FDA and manufacturing costs undertaken prior to commercial launch of FCX-007. If such spending exceeds $20 million, CCP will be responsible for 70% of the excess costs and the Company will be responsible for 30% of the remaining additional expenses. The Company will maintain responsibility for the development (including pre-launch manufacturing) of FCX-007 through initial BLA approval of FCX-007, and CCP will be responsible for all post-approval development and commercialization activities for FCX-007. The parties have agreed to negotiate the terms of a manufacturing and supply agreement that will set forth the terms under which the Company will supply CCP commercial quantities of FCX-007. A joint development committee consisting of representatives from the Company and CCP will oversee the development of FCX-007 pursuant to an agreed-upon development plan and budget.

The Company received an upfront payment of $7.5 million, and will receive an additional $2.5 million for the first patient enrolled in the Phase 3 clinical trial and $30 million upon BLA approval and commercial manufacturing readiness. The Company is also eligible to receive up to $75 million in sales milestones, consisting of $25 million upon the achievement of $250 million in cumulative FCX-007 net sales and an additional $50 million upon the achievement of $750 million in cumulative FCX-007 net sales. In addition, CCP will pay the Company a 30% share of the gross profits from FCX-007 sales.

As part of the Company's existing exclusive channel collaboration agreement with Intrexon, the Company will pay Intrexon 50% of all upfront, milestone and profit share payments from CCP. Payments to Intrexon do not include funds received by the Company from CCP in connection with the development and manufacturing costs or payments for supply of FCX-007.

Unless earlier terminated, the CCP License Agreement will expire on the later of (a) expiration of the last-to-expire valid claim of any FCX-007 patent rights in the United States and (b) forty years from the date of initial BLA approval of FCX-007.

CCP has the right to terminate the CCP License Agreement at will upon 180 days' prior written notice. If CCP elects to terminate the CCP License Agreement at will, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory pay to CCP an amount equal to five percent (5%) of FCX-007 gross profit in respect of sales of FCX-007 in the territory by the Company, its affiliates or licensees in the Initial Indication and any additional indications developed or commercialized by the parties as of the effective date of termination.

CCP may also terminate the CCP License Agreement at any time, upon 180 days' prior written notice to the Company, in the event (i) CCP determines, in its reasonable discretion, that further development or commercialization of FCX-007 is not commercially viable or (ii) CCP determines that development or commercialization of FCX-007 must be terminated because of safety issues outside of CCP's reasonable control. If CCP elects to terminate the CCP License Agreement due to either of the specified reasons set forth in the preceding sentence, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory pay to CCP an amount equal to five percent (5%) of FCX-007 gross profit in respect of sales of FCX-007 in the territory by the Company, its affiliates or licensees in the initial indication and any additional indications developed or commercialized by the parties as of the effective date of termination. Either party may, subject to specified cure periods, terminate the CCP License Agreement in the event of the other party's uncured material breach, and either party may terminate the CCP License Agreement under specified circumstances relating to the other party's insolvency. The upfront payment and milestone payments are non-refundable; provided, however, that certain disputed payments may be refunded in accordance with the dispute resolutions procedures set forth in the CCP License Agreement.

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Note 4. Revenue from Contracts with Customers (continued)

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, CCP, is a customer. The Company identified the following distinct performance obligations under the contract: (1) an exclusive license to the Company's know-how and patent rights to manufacture and market FCX-007 (IP); and (2) the provision of development services.

The Company determined that the initial upfront payment of $7.5 million and approximately $21.7 million of development services, totaling approximately $29.2 million, constituted all of the consideration to be included in the initial transaction price and to be allocated to the performance obligations based on their relative stand-alone selling prices. The initial transaction price also includes the $2.5 million milestone which the Company will receive with the first patient's admission into the Phase 3 clinical trial. This milestone has been fully attributed to the development services, increasing the total transaction price at inception to approximately $31.7 million.

Revenue attributable to the sale of a right to use the exclusive license for IP was recognized at a point in time when the license transferred to CCP. The Company assessed the relative stand-alone selling price of each performance obligation, utilizing a discounted cash flow model for the license and a cost plus margin model for the research and development services, then allocated the transaction price to each performance obligation based upon their relative stand-alone selling prices. The relative stand-alone selling prices were approximately a 72% / 28% split between the license and research and development services, resulting in approximately $21.0 million, being assigned to the license and approximately $8.2 million being assigned to the research and development services. Therefore the $21.0 million assigned to the license was recognized as revenue in the nine months ended September 30, 2019. A contract asset of $13.5 million has been recorded for the excess of revenue recognized over the $7.5 million upfront payment received.

The remaining revenue of $10.7 million related to the development activities will be recognized over time as those services are delivered based on the cost-to-cost input method. The Company believes the cost-to-cost method provides the most faithful depiction of value transferred to the customer. At September 30, 2019, $8.9 million of this revenue remains unrecognized and is expected be recognized through the first half of 2021 as follows (in millions).

Time Period	Amount
Remainder of 2019	2.5
2020	5.1
2021	1.3
Total	8.9

The $30 million milestone for BLA approval has been excluded from the initial transaction price, as the Company could not conclude that it was probable a significant reversal of cumulative revenue would not occur. Event driven milestones are a form of variable consideration as the payments are variable based on the occurrence of future events. As part of its estimation of the amount, the Company considered numerous factors, including that the receipt of the milestones is outside of its control and contingent upon success in future clinical trials and the licensee's efforts.

Milestones based on sales levels, will be treated as sales/use based royalties related to the license and will therefore, be earned as the sales thresholds are met and are not considered part of the transaction price..

Fibrocell Science, Inc.
Notes to Consolidated Financial Statements
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Note 4. Revenue from Contracts with Customers (continued)

Disaggregation of Revenue

The following table presents revenue (in thousands) for the three and nine-month periods ended September 30, 2019 disaggregated by revenue type.

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Revenue Type		
License revenue	$ —	$ 20,979
Collaboration revenue	1,019	1,832
	$ 1,019	$ 22,811

Contract Balances

Contract assets primarily relate to our rights to consideration for the license delivered but not billed at the reporting date. The contract assets are transferred to the receivables when the rights become unconditional. At September 30, 2019 the Company had approximately $11.4 million in contract assets, with approximately $8.1 million classified in current assets and approximately $3.3 million classified in long-term assets. The Company had no asset impairment charges related to contract assets in the period. The following table provides information about contract assets from contracts with customers (in thousands):

Year ended December 31, 2018	Balance at beginning of period	Additions	Deductions	Balance at September 30, 2019
Contract assets:				
Unbilled receivables from collaboration partners	$ —	$ 13,479	$ (2,025)	$ 11,454

During the three and nine-month periods ended September 30, 2019, the Company did not recognize any revenue from amounts included in the contract asset balances from performance obligations satisfied in previous periods. The Company has no costs to obtain or fulfill contracts that would qualify for capitalization. Amounts billed to CCP under this arrangement are payable to the Company within 60 days.

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Note 5. Leases

The Company has an operating lease for an office, manufacturing and research building, located at 405 Eagleview Boulevard, Exton, Pennsylvania, which consists of approximately 86,500 square feet of space.

The Company entered into this operating lease in April 2011. The lease agreement has a remaining lease term of 3 years, 6 months, and expires in March 2023. The lease also contains an additional five year option for the Company to extend the lease at a fair market value rate, which the Company expects to exercise. The lease term, is the period of the lease not cancellable by the Company, together with periods covered by: (i) renewal options the Company is reasonable certain to exercise, (ii) termination options the Company is reasonable certain not to exercise and (iii) renewal or termination options that are controlled by the lessor.

The Company has elected the practical expedient not to separate lease components from non-lease components for all its underlying assets. If the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate as the discount rate. The Company uses its best judgment when determining the incremental borrowing rate, which is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term to the lease payments in a similar currency.

The operating lease cost for the three and nine months ended September 30, 2019 was approximately $0.3 million and $1.0 million, respectively. For the three and nine months ended September 30, 2019, approximately $0.2 million and $0.8 million, respectively was charged to selling, general and administrative expenses and approximately $0.1 million for the three months ended September 30, 2019 and approximately $0.2 million for the nine months ended September 30, 2019 was charged to research and development expenses, with a remaining lease term of 8 years, 6 months, inclusive of the 5 year renewal option the Company expects to exercise.

Cash payments made in the nine months ended September 30, 2019 under the operating lease was approximately $1.0 million.

The rate implicit in the leases was not readily determinable, and the Company computed its incremental borrowing rate using the following methodology:

1.) Development of an estimate of the term structure of the USD senior unsecured cost of debt for the Company as of the analysis date, which entailed the selection of a benchmark yield curve that approximates the credit risk of the Company on a senior unsecured basis. The B-benchmark yield curve was selected as the curve corresponding to the lowest available credit rating.

2.) Development of estimates of yield curves as of the analysis date for debt seniorities ranging from senior secured to senior unsecured cost of debt for the Company utilizing a recovery rates model that estimates yields based on expected recoveries on defaulted debt instruments across the Company's capital structure.

Based upon the methods used above, the Company's incremental borrowing rate was determined to be 25.49%, for its office lease, which is the only lease the Company has converting to the new standard.

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Note 5. Leases (continued)

The following table provides a breakdown of our lease balances within our condensed consolidated balance sheet as of September 30, 2019:

Right of use asset - operating lease	$	4,403
Lease liabilities - current - operating lease		198
Lease liabilities - long term - operating lease		5,003
Total lease liabilities - operating lease	$	5,201

Other information related to our lease is as follows:

	September 30, 2019
Remaining lease term- operating lease, in years	8.50 years
Discount rate - operating lease	25.49%

Future minimum lease payments under our non-cancellable operating lease as of September 30, 2019 were as follows:

Year ending December 31,	2019	$	368
	2020		1,471
	2021		1,471
	2022		1,471
	2023		1,471
	2024 and thereafter		6,248
	Total		12,500
	Less: imputed interest		(7,299)
	Current and long-term operating lease liability	$	5,201

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Note 5. Leases (continued)

Future minimum lease payments under non-cancellable operating leases prior to adoption of ASC 842, Leases, as of December 31, 2018 were as follows:

Year ending December 31,	2019	$	1,416
	2020		1,471
	2021		1,471
	2022		1,471
	2023		368
	Total		6,197

Fibrocell Science, Inc.
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Note 6. Convertible Notes

2016 Private Placement

In September 2016, the Company issued an aggregate of $18,087,500 in principal of convertible promissory notes (each, a Note and collectively, the Notes) and accompanying warrants to purchase an aggregate of 1,205,840 shares of the Company's common stock (each a Warrant and collectively, the Warrants) in a private placement to institutional and accredited investors (each an Investor and collectively, the Investors).

The Notes bear interest at four percent (4%) per annum. Interest is earned daily and compounded quarterly and, at the election of the Company at the beginning of each quarter, shall accrue or be paid in cash. If the Company elects to have interest accrue, such interest will not be added to the principal amount of the Notes but such interest shall be subject to additional interest at the rate of four percent (4%) per annum, compounded quarterly, and shall be due and payable upon the earliest of the conversion of the Notes, exercise of the Put Right, exercise of the Prepayment Right or the Maturity Date (in each case, as defined below). Additionally, if the Company elects for interest to accrue, then (i) the Company may elect to repay any such accrued and unpaid interest in cash at any time and from time to time and (ii) each Investor may elect to have the Company repay any such accrued and unpaid interest by delivering such number of shares of the Company's common stock equal to (x) the amount of the accrued and unpaid interest to be repaid, divided by (y) the greater of (i) the last closing bid price of a share of the Company's common stock as reported on Nasdaq on the date of such election plus $0.12625, and (ii) the Conversion Price (as defined below). As of September 30, 2019 and for each prior quarterly period since issuance, the Company has elected to accrue interest. At September 30, 2019 the outstanding notes have a principal balance due of approximately $18 million and related accrued interest of approximately $2.3 million.

All unpaid principal of each Investor's Note is convertible, at any time and from time to time, at the option of such Investor into shares of the Company's common stock at each such Investors' applicable conversion price (as subject to adjustment, the Conversion Price) which range from $17.04375 to $18.39375 per share.

The Notes have a maturity date of the earlier of (i) September 7, 2026 and (ii) one-hundred and eighty (180) days after the date on which the Company's product candidate, FCX-007, is approved by the FDA for the treatment of RDEB (the Maturity Date). Each Investor has the right to require the Company to repay all or any portion of the unpaid principal and accrued and unpaid interest from time to time on or after September 7, 2021 (such right, a Put Right). Such Put Right must be exercised by such Investor by delivering written notice to the Company no later than one-hundred and eighty (180) days prior to such exercise date of such Put Right. In addition, upon consummation of a specified change of control transaction, each Investor may elect to accelerate the repayment of all unpaid principal and accrued interest under such Investor's Note. If an Investor does not elect to have the Company prepay its Note upon such change of control transaction, then the Company may prepay the Notes, in an amount equal to one hundred one percent (101%) of the outstanding principal due under the Notes (together with accrued and unpaid interest due thereon) (the Prepayment Right). Additionally, upon the occurrence of certain Events of Default, as defined in the Notes, each Investor may elect to accelerate the repayment of all unpaid principal and accrued interest under each Note and the Notes provide for automatic redemption upon the occurrence of certain bankruptcy related Events of Default, as defined in the Notes.

During the three and nine months ending September 30, 2019, there were no conversions of the Notes into shares of the Company's common stock.

Accounting for Convertible Notes and Embedded Derivatives

The Company accounts for debt as liabilities measured at amortized cost and amortizes the resulting debt discount from allocation of proceeds to interest expense using the effective interest method over the expected term of the Notes pursuant to ASC 835, *Interest* (ASC 835).

See Note 3 for discussion of the Company's policies for accounting for convertible instruments (i.e. convertible debt) with detachable liability-classified warrants. In connection with the issuance of the Notes and Warrants, the Company recorded a debt discount of approximately $18.1 million based on an allocation of proceeds to the Warrants of approximately $9.6

Note 6. Convertible Notes (continued)

million, an allocation to bifurcated derivatives (which consist of a contingent put option upon a change of control or acceleration upon event of default (the Contingent Put Option) and a contingent call option upon a change of control (the Contingent Call Option) included in the Notes of approximately $1.3 million, and a beneficial conversion feature of approximately $7.2 million, before issuance costs, based on the difference between the fair value of the underlying common stock at the commitment date of each Note transaction and the effective conversion price of the Notes, as limited by the proceeds allocated to the Notes.

Convertible promissory notes outstanding were as follows:

($ in thousands)	September 30, 2019	December 31, 2018
Convertible promissory notes	$ 18,003	$ 18,003
Debt discount - warrants	(9,598)	(9,598)
Debt discount - compound bifurcated derivatives	(1,267)	(1,267)
Debt discount - beneficial conversion feature	(7,138)	(7,138)
Convertible promissory notes, net	$ —	$ —

The debt discount and issuance costs are amortized using the effective interest method overfive years, the expected term of the Notes, and is included in interest expense in the Condensed Consolidated Statements of Operations. Amortization for the nine months ended September 30, 2019 and September 30, 2018, including the amortization of the issuance costs, was $0 for both periods. Based on an effective yield of approximately1157% resulting from the Notes being initially recorded at a full discount, the Company will not recognize any material amounts of amortization until years 2020 and 2021.

Assumptions Used in Determining Fair Value of Compound Bifurcated Derivative

The Company utilizes a binomial lattice model to value its bifurcated derivatives included in the Notes. ASC 815 does not permit an issuer to account separately for individual derivative terms and features embedded in hybrid financial instruments that require bifurcation and liability classification as derivative financial instruments. Rather, such terms and features must be combined together and fair valued as a single, compound embedded derivative. The Company selected a binomial lattice model to value the compound embedded derivative because it believes this technique is reflective of all significant assumptions that market participants would likely consider in negotiating the transfer of the Notes. Such assumptions include, among other inputs:

Volatility. The Company estimates stock price volatility based on the Company's historical stock price performance over a period of time that matches the volume-weighted average expected remaining life of the Notes.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve in effect at the valuation date commensurate with the expected remaining life assumption.

Expected remaining life. The expected life of the Notes is assumed to be equivalent to their remaining contractual term.

Dividend rate. The dividend rate is based on the historical rate, which the Company anticipates will remain atzero.

Scenarios. The probability of complex features of the compound bifurcated derivative being triggered is subjective (no observable inputs or available market data) and based on internal and external information known to management at the valuation date. Such assumptions include, among other inputs, probabilities related to a change of control and when it might occur as well as probabilities related to a default under the provisions of the Notes and when it might occur.

Changes to the key assumptions or to the scenarios used in the valuation model, including the probability of key events, such as a change of control transaction, and the credit spread could have a material impact to the overall valuation of the

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Note 6. Convertible Notes (continued)

compound bifurcated derivative liability. A 5% change to the probability of a change of control event occurring in 2019 and 2020 would impact the derivative fair value by approximately $0.3 million and $0.2 million, respectively. A 5% change in the estimated credit spread would impact the derivative fair value by approximately $0.2 million. The sensitivity examples provided are included for illustrative purposes only and do not reflect the changes in these assumptions used by the Company. Changes in excess of those illustrated may occur in any period.

The estimated fair value of the compound bifurcated derivative is determined to represent a Level 3 instrument. Significant inputs and assumptions used in the binomial lattice model for the derivative liability are as follows:

($ in thousands except per share data)	September 30, 2019	December 31, 2018
Calculated aggregate value	$ 6,079	$ 1,474
Closing price per share of common stock	$ 2.96	$ 1.50
Contractual remaining term	6 years, 11 months	7 years, 8 months
Contractual interest rate	4.0%	4.0%
Volume-weighted average conversion rate	$ 17.04667	$ 17.04667
Risk-free interest rate (term structure)	1.91% - 2.12%	2.44% - 2.69%
Dividend yield	—	—
Credit Rating	CC	CC
Credit Spread	29.40%	31.77%
Volatility	86.7%	87.5%

The foregoing compound bifurcated derivative was recorded at its estimated fair value at the date of issuance, with subsequent changes in estimated fair value recorded in derivative revaluation income (expense) in the Company's Condensed Consolidated Statements of Operations. The change in estimated fair value of the Company's derivative liability for the nine months ended September 30, 2019 and September 30, 2018 resulted in non-cash income (expense) of approximately $(4.6) million and approximately $0.3 million, respectively.

Note 7. Warrants

The Company accounts for common stock warrants as either equity instruments, derivative liabilities or liabilities depending on the specific terms of the warrant agreement. See Note 3 for further details on accounting policies related to the Company's convertible instruments, including common stock warrants.

In connection with various financing transactions, the Company has issued warrants to purchase the Company's common stock. In July 2018, in connection with a private placement (the July 2018 Private Placement), the Company issued unregistered warrants to purchase 958,152 shares of its common stock. Each common stock purchase warrant has an exercise price of $2.70 per share, was exercisable upon the date of issuance and expires five and one-half years from the date of the issuance. In addition, the Company also issued unregistered warrants to purchase up to an aggregate of 103,186 shares of its common stock to the designees of H.C. Wainwright & Co., LLC (Wainwright), as partial compensation for placement agent services by Wainwright in connection with the Company's registered direct public offering in July 2018 (the July 2018 Registered Direct Public Offering), and the July 2018 Private Placement. Such unregistered warrants have an initial exercise price of $3.464 per share are immediately exercisable and expire on July 3, 2023.

In May 2018 in connection with a private placement (the May 2018 Private Placement), the Company issued unregistered warrants to purchasel,528,668 shares of its common stock. Each common stock purchase warrant has an exercise price of $2.86 per share, was exercisable upon the date of the issuance and expires five and one-half years from the date of the issuance. The Company also issued unregistered warrants to purchase up to an aggregate of 142,676 shares of its common stock to the designees of Wainwright, as partial compensation for placement agent services by Wainwright in connection with the Company's registered direct public offering in May 2018 (the May 2018 Registered Direct Public Offering), and the May

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Note 7. Warrants (continued)

2018 Private Placement. Such unregistered warrants have an initial exercise price of $3.679 per share are immediately exercisable and expire on May 30, 2023.

On July 27, 2018, the Company filed a registration statement on Form S-1 (the Resale Registration Statement) registering the resale of shares of the Company's common stock underlying warrants issued in the May 2018 Private Placement and the July 2018 Private Placement. The Resale Registration Statement was declared effective by the SEC on August 8, 2018.

In December 2017, the Company issued (i) pre-funded warrants to purchase an aggregate of 1,184,442 shares of the Company's common stock and (ii) common stock purchase warrants to purchase up to an aggregate of 2,809,404 shares of the Company's common stock including warrants to purchase up to 82,118 shares, issued pursuant to the partial exercise of the underwriters option to purchase additional common stock purchase warrants (the December 2017 Offering). Each pre-funded warrant was sold together with a common stock purchase warrant to purchase one share of the Company's common stock at a combined effective price of $3.85 per share and accompanying warrant. Each common stock purchase warrant has an exercise price of $3.85 per share, was exercisable upon the date of issuance and expires five years from the date of issuance. As additional compensation, the Company issued warrants to the underwriter to purchase 87,274 shares of the Company's common stock. Each such warrant has an exercise price of $4.8125 per share, and was exercisable as of the date of the underwriting agreement, and will expire five years after the date of the underwriting agreement.

In March 2017, the Company issued warrants to purchase 687,468 shares of its common stock in connection with the Company's public offering of convertible preferred stock and warrants (each a Series A Warrant and collectively, the Series A Warrants), more fully described in Note 12. Each Series A Warrant has an exercise price of $12.69, is exercisable six months after the date of issuance and will expire five years from the date of issuance.

The Company's outstanding warrants consist of both liability-classified warrants and equity-classified warrants. The following table summarizes outstanding warrants to purchase the Company's common stock:

	Number of warrants			
	September 30, 2019	December 31, 2018	Exercise Price	Expiration Dates
Liability-classified Warrants				
Issued with September 2016 Convertible Notes	1,205,840	1,205,840	$ 22.50	Sept 2021
Total liability-classified warrants	1,205,840	1,205,840		
Equity-classified Warrants				
Issued in 2017 Series A Preferred Stock Offering	687,468	687,468	$ 12.69	Mar 2022
Issued in December 2017 Offering - common warrants	2,679,702	2,679,702	$ 3.85	Dec 2022
Issued in December 2017 Offering - underwriter warrants	87,274	87,274	$ 4.8125	Dec 2022
Issued in May 2018 Private Placement - common warrants	1,528,668	1,528,668	$ 2.86	Nov 2023
Issued in May 2018 - underwriter warrants	142,676	142,676	$ 3.679	May 2023
Issued in July 2018 Private Placement - common warrants	958,152	958,152	$ 2.70	Jan 2024
Issued in July 2018 - underwriter warrants	103,186	103,186	$ 3.464	Jul 2023
Total equity-classified warrants	6,187,126	6,187,126		
Total outstanding warrants	7,392,966	7,392,966		

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Note 7. Warrants (continued)

The table below is a summary of the Company's warrant activity during the nine months ended September 30, 2019:

	Number of warrants			Weighted-average exercise price
	Liability-classified	Equity-classified	Total	
Outstanding at December 31, 2018	1,205,840	6,187,126	7,392,966	$ 7.36
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding at September 30, 2019	1,205,840	6,187,126	7,392,966	$ 7.36

Accounting for Liability-Classified Warrants

The Company's liability-classified warrants were recorded as liabilities at their estimated fair value at the date of issuance, with the subsequent changes in estimated fair value recorded in warrant revaluation income in the Company's Condensed Consolidated Statements of Operations in each subsequent period. The change in the estimated fair value of the warrant liability for the nine months ended September 30, 2019 and September 30, 2018, resulted in non-cash income of approximately $0.1 million and $0.6 million, respectively.

Additionally, the liability-classified warrants are classified as either current or non-current on the Company's Condensed Consolidated Balance Sheets based on their contractual expiration date. The Company utilizes a Monte Carlo simulation valuation method to value its liability-classified warrants.

Assumptions Used In Determining Fair Value of Liability-Classified Warrants

The estimated fair value of warrants is determined using Level 2 and Level 3 inputs (as described below). Inherent in the Monte Carlo simulation valuation method are the following assumptions:

Volatility. The Company estimates stock price volatility based on the Company's historical stock price performance over a period of time that matches the volume-weighted average expected remaining life of the warrants.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve in effect at the valuation date commensurate with the expected remaining life assumption.

Expected remaining life. The expected life of the warrants is assumed to be equivalent to their remaining contractual term.

Dividend rate. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero.

Scenarios. The probability of complex features of the warrants being triggered is subjective (no observable inputs or available market data) and based on internal and external information known to management at the valuation date. Such assumptions include, among other inputs, probabilities related to a change of control and when it might occur as well as probabilities related to a default under the provisions of the Notes and when it might occur.

Changes to the key assumptions or to the scenarios used in the valuation model, including the probability of key events, such as a change of control transaction, could have a material impact to the overall valuation of the warrant liability.

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Note 7. Warrants (continued)

The following table summarizes the calculated aggregate fair values of the liability classified warrants, along with the inputs and assumptions utilized in each calculation:

($ in thousands except per share data)	September 30, 2019	December 31, 2018
Calculated aggregate value	$ 3	$ 152
Weighted average exercise price per share	$ 22.50	$ 22.50
Closing price per share of common stock	$ 2.96	$ 1.50
Volatility	96.7%	94.1%
Weighted average remaining expected life	1 year, 11 months	2 years, 8 months
Risk-free interest rate	1.63%	2.45%
Dividend yield	—	—

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Note 8. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company follows the guidance in ASC 820, *Fair Value Measurement*, to account for financial assets and liabilities measured on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The guidance requires fair value measurements be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each reporting period. There were no transfers between Level 1, 2 and 3 during the nine months ended September 30, 2019.

The following fair value hierarchy table presents information about each major category of the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

	September 30, 2019			
($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents, money market funds with less than 90 days maturity	$ 5,661	$ —	$ —	$ 5,661
Total Assets	$ 5,661	$ —	$ —	$ 5,661
Liabilities:				
Warrant liability	$ —	$ —	$ 3	$ 3
Derivative liability	—	—	6,079	6,079
Total Liabilities	$ —	$ —	$ 6,082	$ 6,082

	December 31, 2018			
($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents, money market funds with less than 90 days maturity	$ 12,290	$ —	$ —	$ 12,290
Total Assets	$ 12,290	$ —	$ —	$ 12,290
Liabilities:				
Warrant liability	$ —	$ —	$ 152	$ 152
Derivative liability	—	—	1,474	1,474
Total Liabilities	$ —	$ —	$ 1,626	$ 1,626

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Note 8. Fair Value Measurements (continued)

Changes in Level 3 Liabilities Measured at Fair Value on a Recurring Basis

Common Stock Warrants - Warrant Liability

The reconciliation of the Company's warrant liability measured at fair value on a recurring basis using unobservable inputs (Level 3) was as follows:

($ in thousands)		**Warrant Liability**
Balance at December 31, 2018	$	152
Change in fair value of warrant liability		(149)
Balance at September 30, 2019	$	3

The fair value of the warrant liability is based on Level 3 inputs. For this liability, the Company developed its own assumptions that do not have observable inputs or available market data to support the fair value. See Note 7 for further discussion of the warrant liability.

Bifurcated Compound Derivative - Derivative Liability

The reconciliation of the derivative liability measured at fair value on a recurring basis using unobservable inputs (Level 3) was as follows:

($ in thousands)		**Derivative Liability**
Balance at December 31, 2018	$	1,474
Change in fair value of derivative liability		4,605
Balance at September 30, 2019	$	6,079

The fair value of the derivative liability is based on Level 3 inputs. For this liability, the Company developed its own assumptions that do not have observable inputs or available market data to support the fair value. See Note 6 for further discussion of the derivative liability.

Effect of the Company's Stock Price and Volatility Assumptions on the Calculation of Fair Value of Financial Instruments Measured on a Recurring Basis

Common Stock Warrants - Warrant Liability

The fair value of the Company's warrant liability is based on Level 3 inputs. As discussed in Note 6, the Company uses a Monte Carlo simulation valuation method to value its liability-classified warrants. The determination of fair value as of the reporting date is affected by the Company's stock price as well as assumptions regarding a number of subjective variables that do not have observable inputs or available market data to support the fair value. These variables include, but are not limited to, expected stock price volatility over the term of the warrants and the risk-free interest rate. The primary factors affecting the fair value of the warrant liability are the Company's stock price and volatility as well as certain assumptions by the Company as to the likelihood of provisions to the underlying warrant agreements being triggered. The methods described above and in Note 6 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

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Note 8. Fair Value Measurements (continued)

Bifurcated Compound Derivative - Derivative Liability

The fair value of the derivative liability is based on Level 3 inputs. As discussed in Note 6, the Company uses a binomial lattice model to value the compound embedded derivative bifurcated from the Notes. The determination of fair value as of the reporting date is affected by the Company's stock price as well as assumptions regarding a number of subjective variables that do not have observable inputs or available market data to support the fair value. These variables include, but are not limited to, expected stock price volatility, changes in interest rates, assumptions regarding the adjusted conversion prices in the Notes, and early redemption or conversion of the Notes. The methods described above and in Note 6 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

Fair Value of Certain Financial Assets and Liabilities

The Company believes that the fair values of its current assets and liabilities approximate their reported carrying amounts. The fair value of the long-term convertible promissory notes with embedded derivatives was approximately $18.6 million at September 30, 2019, based on Level 3 inputs, compared to a carrying value of $0, as a result of unamortized debt discounts.

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Note 9. Stock-Based Compensation

2019 Equity Incentive Plan

The Company's Board of Directors (the Board) adopted the 2019 Equity Incentive Plan (the Plan), which was subsequently approved by the Company's stockholders, effective June 12, 2019. The Plan superseded and replaced the Company's 2009 Equity Incentive Plan in its entirety. The Plan is intended to further align the interests of the Company and its stockholders with its employees, including its officers, non-employee directors, consultants and advisers by providing equity-based incentives. The Plan allows for the issuance of up to 700,000 shares of the Company's common stock. At September 30, 2019, there were500,759 options outstanding under the Company's 2009 Equity Incentive Plan, as amended.

The types of awards that may be granted under the Plan include options (both non-qualified stock options and incentive stock options), stock appreciation rights, stock awards, stock units and other stock-based awards. The term of each award is determined by the Compensation Committee of the Board at the time each award is granted, provided that the term of the option does not exceed ten years. Vesting schedules for stock options vary, but generally vest25% per year, over four years for employee options and on the one year anniversary date for non-employee director options. The Plan had 590,000 shares available for future grants as of September 30, 2019.

Accounting for Stock-Based Compensation

The Company recognizes non-cash compensation expense for stock-based awards based on their grant date fair value, determined using the Black-Scholes option-pricing model. During the nine months ended September 30, 2019 and September 30, 2018, the weighted average fair market value for options granted was $1.82 and $2.22, respectively.

Total stock-based compensation expense recognized using the straight-line attribution method and included in operating expenses in the Condensed Consolidated Statements of Operations was approximately $0.3 million for the nine-month period ended September 30, 2019 and approximately$0.4 million for the nine-month period ended September 30, 2018.

Assumptions Used In Determining Fair Value of Stock Options

Inherent in the Black-Scholes option-pricing model are the following assumptions:

Volatility. The Company estimates stock price volatility based on the Company's historical stock price performance over a period of time that matches the expected term of the stock options.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption.

Expected term. The expected term of stock options granted is based on an estimate of when options will be exercised in the future. The Company applied the simplified method of estimating the expected term of the options, described in the SEC's Staff Accounting Bulletins 107 and 110, as the historical experience is not indicative of expected behavior in the future. The expected term, calculated under the simplified method, is applied to groups of stock options that have similar contractual terms. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

Dividend rate. The dividend rate is based on the historical rate, which the Company anticipates will remain at zero.

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Note 9. Stock-Based Compensation (continued)

The fair market value of these stock options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for the nine months ended:

	September 30, 2019	September 30, 2018
Expected term	6 years, 2 months	6 years
Interest rate	2.25%	2.61%
Dividend rate	—	—
Volatility	96.3%	88.0%

Stock Option Activity

The following table summarizes stock option activity for the nine months ended September 30, 2019:

	Number of shares	Weighted-average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2018	286,712	$ 46.01	7 years	$ —
Granted	325,500	1.82	9 years, 7 months	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	(1,453)	211.51	—	—
Outstanding at September 30, 2019[(1)]	610,759	$ 22.07	8 years, 1 month	$ 390
Exercisable at September 30, 2019	228,202	$ 55.17	5 years, 10 months	$ 11

(1) Includes both vested stock options as well as unvested stock options for which the requisite service period has not been rendered but that are expected to vest based on achievement of a service condition.

The total fair value of options vested during the nine months ended September 30, 2019 was approximately $0.5 million. Additionally, as of September 30, 2019, there was approximately $0.6 million of unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately 2 years, 6 months.

The Company accounts for forfeitures when they occur. Ultimately, the actual expense recognized over the vesting period will be for only those shares that vest.

Note 10. Related Party Transactions

The Company and Intrexon are parties to two distinct exclusive channel collaboration agreements including the Exclusive Channel Collaboration Agreement entered into in October 2012 and amended in June 2013 and January 2014 (as amended, the 2012 ECC) and the Exclusive Channel Collaboration Agreement entered into in December 2015 (the 2015 ECC). Pursuant to these agreements, the Company engages Intrexon for support services for the research and development of product candidates covered under the respective agreements and reimburses Intrexon for its cost for time and materials for such work. Additionally, the Company's future commitments pursuant to the 2012 ECC agreement includes potential cash royalties and the Company's future commitments pursuant to the 2015 ECC agreement includes potential cash royalties and various developmental milestone payments. The Company paid approximately $3.8 million in milestone payments in July 2019 to Intrexon under the 2012 ECC related to their portion of the CCP milestone payment made in April of 2019, and was expensed during the nine months ended September 30, 2019.

Fibrocell Science, Inc.
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Note 10. Related Party Transactions (continued)

For the nine months ended September 30, 2019 and 2018, the Company incurred total expenses of approximately$0.1 million and $0.4 million, respectively, for goods and services received from Intrexon for work performed under the 2012 ECC. During the same periods, no expenses were incurred for work performed under the 2015 ECC. Of the $0.1 million incurred during the nine months ended September 30, 2019, approximately$0.01 million related to direct expenses for work performed by Intrexon and approximately $0.09 million related to pass-through costs. Of the approximately $0.4 million incurred in the nine months ended September 30, 2018, approximately $0.1 million related to direct expenses for work performed by Intrexon and approximately$0.3 million related to pass-through costs. The Company's FCX-007 and FCX-013 development programs are covered under the 2012 ECC and the Company's arthritis and related conditions program is covered under the 2015 ECC. In addition to the amounts related to direct expenses for work performed, approximately $3.8 million in payments owed to Intrexon related to their portion of the initial CCP milestone payment made in April of 2019, was expensed during the nine months ended September 30, 2019. These costs are presented in the Company's "Condensed Consolidated Statement of Operations" as cost of license, cost of collaboration revenue and research and development expenses - related party.

As of September 30, 2019 and December 31, 2018, the Company had outstanding payables to Intrexon of approximately $0.1 million and $0.1 million for each period respectively. These amounts are presented in the Company's "Condensed Consolidated Balance Sheets" as related party payable.

In the second quarter of 2017, Intrexon notified the Company that it had received invoices for approximately $1.1 million in charges from a vendor who provided services to Intrexon and which are passed-through to the Company under the 2012 ECC. Additional charges were presented after the second quarter of 2017, and the total of disputed charges at March 31, 2018, was approximately $1.4 million. The Company, Intrexon and Intrexon's vendor resolved the dispute with the parties agreeing to settle all obligations for approximately $0.2 million. This was a reduction of approximately $0.5 million from the approximately $0.7 million recorded at December 31, 2017 for this liability and was recorded in the three months ended March 31, 2018. The approximately $0.2 million settlement amount was paid in the Company's third fiscal quarter of 2018.

Randal J. Kirk is the chairman of the board and chief executive officer of Intrexon and, together with his affiliates, owns more than50% of Intrexon's common stock. Affiliates of Randal J. Kirk (including Intrexon) own approximately 17% of the Company's common stock. Additionally, two of the Company's directors, Julian Kirk (who is the son of Randal J. Kirk) and Marcus Smith, are employees of Third Security, LLC, which is an affiliate of Randal J. Kirk.

Affiliates of Randal J. Kirk (including Intrexon) participated in the Company's private placement of convertible debt securities in September 2016, more fully described in Note 6, and were issued an aggregate of $6,762,500 in principal of Notes and accompanying Warrants to purchase an aggregate of450,835 shares of the Company's common stock. Affiliates of Randal J. Kirk (including Intrexon) participated in the Company's 2017 Series A Preferred Stock Offering (as defined below), more fully described in Note 11, and were issued an aggregate of 3,016 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock) and accompanying Series A Warrants to purchase 259,176 shares of the Company's common stock. Additionally, affiliates of Randal J. Kirk (including Intrexon) participated in the December 2017 Offering, and were issued an aggregate of 545,456 shares of the Company's common stock and accompanying warrants to purchase 545,456 shares of the Company's common stock.

In connection with the execution of the Merger Agreement, on September 12, 2019 the Company also entered into a Consent and Termination Agreement with MSD Credit Opportunity Master Fund L.P. (MSD), Merger Sub and CCP Holdings, and a separate Consent and Termination Agreement with Merger Sub, CCP Holdings and the following affiliates of Randal J. Kirk: Third Security, LLC, NRM VII Holdings I, LLC, Kapital Joe, LLC, Mascara Kaboom, LLC and Intrexon Corporation (the Kirk Affiliates, and collectively, the Termination Agreements). Pursuant to the terms of the Termination Agreements, that certain Securities Purchase Agreement, dated March 7, 2017, by and among the Company and the purchasers named on the signature pages therein (the Securities Purchase Agreement) will be terminated as of immediately prior to the closing of the Merger. As consideration for entry into the Termination Agreements, the Kirk Affiliates and MSD will each receive a promissory note to be issued by the surviving corporation following the Merger, in each case for an amount equal to (and in addition to) the consideration such party is entitled to pursuant to the Merger Agreement in connection with such party's ownership of shares of Series A Preferred Stock. Pursuant to the Termination Agreements and in addition to the foregoing, each of MSD and the Kirk Affiliates also agreed to the treatment of the Series A Preferred Stock under the Merger Agreement and agreed to release all claims related to such party's ownership of equity in the Company.

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Note 10. Related Party Transactions (continued)

In connection with the execution of the Merger Agreement, on September 12, 2019, CCP Holdings also entered into separate Company Security Voting and Support Agreements with the following stockholders of the Company: (i) each of the Kirk Affiliates, and (ii) MSD (collectively, the Support Agreements). Pursuant to the Support Agreements, the participating investors agreed to vote their shares of Company common stock in favor of the Merger and against any competing transaction, to support the economic treatment of such participating investors Company securities held by them as described in the Merger Agreement, and to forbear from taking certain actions detrimental to the Merger.

Note 11. Income (loss) Per Share

Basic income (loss) per share is computed by dividing net loss for the period by the weighted average number of shares of common stock outstanding during that period. The diluted income (loss) per share calculation gives effect to dilutive stock options, warrants, convertible preferred stock, convertible notes and other potentially dilutive common stock equivalents outstanding during the period. Diluted income (loss) per share is based on the if-converted method or the treasury stock method, as applicable, and includes the effect from the potential issuance of common stock, such as shares issuable pursuant to the conversion of convertible preferred stock, convertible notes and the exercise of stock options and warrants, assuming the exercise of all "in-the-money" common stock equivalents based on the average market price during the period. Common stock equivalents have been excluded where their inclusion would be anti-dilutive.

Details in the computation of basic and diluted income (loss) per share is as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in thousands except share and per share data)	**2019**	**2018**	**2019**	**2018**
Income (loss) per share - basic:				
Net income (loss)	$ (7,204)	$ (2,859)	$ 873	$ (8,654)
Less: Dividend paid in-kind to preferred stockholders	(89)	(85)	(260)	(250)
Less: Deemed dividend on preferred stock	(150)	(130)	(435)	(377)
Net income (loss) attributable to common stockholders - basic	$ (7,443)	$ (3,074)	$ 178	$ (9,281)
Numerator for basic income (loss) per share	$ (7,443)	$ (3,074)	$ 178	$ (9,281)
Denominator for basic income (loss) per share	9,758,332	9,234,869	9,758,332	7,107,678
Basic income (loss) per common share	$ (0.76)	$ (0.33)	$ 0.02	$ (1.31)
Income (loss) per share - diluted:				
Numerator for basic income (loss) per share	$ (7,443)	$ (3,074)	$ 178	$ (9,281)
Adjustments: none	—	—	—	—
Net income (loss) attributable to common stockholders - diluted	$ (7,443)	$ (3,074)	$ 178	$ (9,281)
Denominator for basic income (loss) per share	9,758,332	9,234,869	9,758,332	7,107,678
Plus: Incremental shares underlying “in the money” stock options outstanding	—	—	18,556	—
Denominator for diluted income (loss) per share	9,758,332	9,234,869	9,776,888	7,107,678
Diluted net income (loss) per common share	$ (0.76)	$ (0.33)	$ 0.02	$ (1.31)

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Notes to Condensed Consolidated Financial Statements
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Note 11. Income (Loss) Per Share (continued)

The following potentially dilutive securities have been excluded from the computations of diluted weighted-average shares outstanding, as their effect would be anti-dilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
"In the money" stock options	34,534	—	—	36,000
"Out of the money" stock options	285,259	289,514	285,259	253,514
"In the money" warrants	—	—	—	958,152
"Out of the money" warrants	7,392,966	7,497,642	7,392,966	6,539,490
Shares underlying convertible notes	1,056,068	1,056,068	1,056,068	1,056,068
Shares underlying convertible accrued interest on convertible notes	136,936	90,472	136,936	90,472
Shares underlying convertible preferred stock	760,000	728,000	760,000	728,000

Fibrocell Science, Inc.
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Note 12. Equity

Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, at a par value of $0.001 per share, in one or more series and to fix the rights, preferences, privileges, and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of the Company's preferred stock could adversely affect the voting power of holders of the Company's common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of the Company or other corporate action.

Series A Convertible Preferred Stock

In March 2017, the Board authorized the issuance of 8,000 shares of the Series A Preferred Stock. The rights, preferences and privileges of the Series A Preferred Stock are set forth in the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock dated March 7, 2017 (Certificate of Designation).

On March 7, 2017, the Company entered into a securities purchase agreement with certain of its existing accredited investors pursuant to which the Company agreed to sell a total of 8,000 units (the Units) for a purchase price of $1,000 per Unit, with each Unit consisting of (i) one share of the Series A Preferred Stock, with an initial stated value of $1,000 and which is convertible into shares of the Company's common stock with a conversion price of $11.6355 and (ii) a warrant to purchase up to a number of shares of the Company's common stock equal to 100% of the conversion shares issuable on March 7, 2017 pursuant to the shares of Series A Preferred Stock purchased by each investor (the Series A Warrants and, collectively, the 2017 Series A Preferred Stock Offering). See Note 6 for discussion of the Series A Warrants issued in connection with the 2017 Series A Preferred Stock Offering. The 2017 Series A Preferred Stock Offering closed on March 8, 2017 and resulted in gross proceeds of $8.0 million, before deducting offering costs.

The proceeds from the 2017 Series A Preferred Stock Offering (including offering costs) were allocated between the Series A Warrants and Series A Preferred Stock issued in the transaction based upon their respective fair values using the relative fair value (proportional) method. The fair value of the Series A Preferred Stock issued was calculated as the sum of (i) the value of the Series A Preferred Stock as if it had been converted into the Company's common stock on the issuance date and (ii) the value of a perpetual annuity paying a 4% dividend rate in conversion shares for five years and 8% thereafter. In connection with the valuation, the following assumptions were used: risk free interest rate of 3.15%, credit spread of 31.27% and a market yield of 34.42%. The application of the relative fair value method resulted in an allocation of gross proceeds to the Series A Preferred Stock of approximately $1.3 million, net of discounts of $3.0 million attributed to the warrants (See Note 5) and $3.7 million from a beneficial conversion feature. The discount attributed to the beneficial conversion feature was immediately amortized as the Series A Preferred Stock has no stated redemption date and is convertible at the issuance date. For the nine months ended September 30, 2019 and 2018, the Company recognized approximately $0.02 million in both periods of amortization of the discount on the Series A Preferred Stock as deemed dividends charged to additional paid-in capital (in the absence of retained earnings). The value of the beneficial conversion feature is calculated as the difference between the effective conversion price of the Series A Preferred Stock and the fair market value of the common stock into which the Series A Preferred Stock are convertible at the commitment date.

The discount attributed to the warrants is being accreted using the effective interest method and charged as a deemed dividend to additional paid-capital (in the absence of retained earnings), over the five-year period of the Series A Preferred Stock in which the stated dividend rate is 4%. For the nine months ended September 30, 2019 and 2018, the Company recognized approximately $0.4 million and $0.4 million, respectively, in deemed dividends due to the accretion of the warrant discount.

The 2017 Series A Preferred Stock Offering securities purchase agreement contains customary representations, warranties, and agreements by the Company. The securities purchase agreement also contains customary prohibitions on

Note 12. Equity (continued)

certain Company payments, the incurrence of certain senior and *pari passu* debt, certain affiliate transactions and the incurrence of certain liens.

Holders of the Series A Preferred Stock are entitled to receive cumulative dividends at a rate per share of 4% per annum (with such dividend rate increasing to 8% per annum on the five year anniversary of the original issuance of the Series A Preferred Stock), with such dividends compounded quarterly and payable only by way by increasing the stated value of the
Series A Preferred Stock in accordance with the terms of the Certificate of Designation. For the nine months ended September 30, 2019 and 2018, cumulative dividends paid in-kind to holders of the Series A Preferred Stock were approximately $0.9 million and $0.5 million, respectively.

Shares of Series A Preferred Stock generally have no voting rights, except as required by law; provided, however, that without the prior written consent of the holders of at least 70% of the then outstanding shares of Series A Preferred Stock, the Company may not: (i) alter or change adversely the powers, preferences or rights given to the Series A Preferred Stock or alter or amend the Certificate of Designation; (ii) amend the Company's certificate of incorporation or other charter documents in any manner that adversely affects any rights of a holder of the Series A Preferred Stock; (iii) authorize or create any class of stock ranking as to redemption, distribution of assets upon liquidation or dividends senior to, or otherwise *pari passu* with, the Series A Preferred Stock; (iv) declare or make any dividends other than dividend payments or other distributions payable solely in the Company's common stock; or (v) enter into any agreement with respect to any of the foregoing.

Upon a liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock are entitled to receive out of the Company's assets, whether capital or surplus, an amount equal to such holder's then stated value for each share of Series A Preferred Stock before any distribution to the holders of the Company's common stock, any class or series of preferred stock and all other common stock equivalents other than those securities which are explicitly senior or pari passu to the Series A Preferred Stock in redemption, distribution of assets upon a liquidation or dividends. If there are insufficient assets to pay in full such amounts, then the available assets will be ratably distributed to the holders of the Series A Preferred Stock in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

In connection with the execution of the Merger Agreement, on September 12, 2019 the Company also entered into a Consent and Termination Agreement with MSD, Merger Sub and CCP Holdings, and a separate Consent and Termination Agreement with Merger Sub, CCP Holdings and the Kirk Affiliates. Pursuant to the terms of the Termination Agreements, the Securities Purchase Agreement will be terminated as of immediately prior to the closing of the Merger. As consideration for entry into the Termination Agreements, the Kirk Affiliates and MSD will each receive a promissory note to be issued by the surviving corporation following the Merger, in each case for an amount equal to (and in addition to) the consideration such party is entitled to pursuant to the Merger Agreement in connection with such party's ownership of shares of Preferred Stock. Pursuant to the Termination Agreements and in addition to the foregoing, each of MSD and the Kirk Affiliates also agreed to the treatment of the Preferred Stock under the Merger Agreement and agreed to release all claims related to such party's ownership of equity in the Company.

Common Stock

In July 2016, the Company amended its Restated Certificate of Incorporation, as amended, to increase the number of shares of common stock that the Company is authorized to issue from 100,000,000 to 150,000,000.

On May 24, 2018, the Company implemented the Reverse Stock Split, as authorized at the annual meeting of stockholders on May 23, 2018. The Reverse Stock Split became effective on May 24, 2018 at 5:00 pm and the Company's common stock began trading on Nasdaq on a post-split basis at the open of business on May 25, 2018. As of a result of the Reverse Stock Split, every five shares of the Company's issued and outstanding common stock were combined into one share of its common stock, except to the extent that the Reverse Stock Split resulted in any of the Company's stockholders owning a fractional share, which was rounded up to the next highest whole share. In connection with the Reverse Stock Split, there was no change in the nominal par value per share of $0.001. The Reverse Stock Split was effectuated in order to increase the per share trading price of the Company's common stock to satisfy the $1.00 minimum bid price requirement for continued listing

Note 12. Equity (continued)

on Nasdaq. By letter dated June 11, 2018, the Nasdaq Listing Qualification Department, confirmed that the Company's common stock was in compliance with listing requirements.

December 2017 Public Offering

On December 7, 2017, the Company entered into an underwriting agreement (the Underwriting Agreement) with Wainwright, relating to the sale of 1,542,832 shares of its common stock, pre-funded warrants to purchase an aggregate of1,184,442 shares of the Company's common stock and common warrants to purchase up to an aggregate of 2,727,273 shares of the Company's common stock in connection with the December 2017 Offering. Each share of the Company's common stock or pre-funded warrant, as applicable, was sold together with a common warrant to purchase one share of the Company's common stock at a combined effective price to the public of $3.85 per share and accompanying common warrant. At March 31, 2018, all of the pre-funded warrants had been exercised for 1,184,442 shares of the Company's common stock.

Pursuant to the Underwriting Agreement, the Company granted Wainwright a thirty day option, which option ended on January 6, 2018, to purchase up to 409,091 additional shares of the Company's common stock at a purchase price of$3.80 per share and/or common warrants to purchase up to an aggregate of 409,091 shares of the Company's common stock at a purchase price of$0.01 per common warrant with an exercise price of $3.85 per share, less the underwriting discounts and commissions. On December 8, 2017, Wainwright partially exercised this option by purchasing common warrants to purchase 82,118 shares of the Company's common stock. As additional compensation, the Company issued warrants to Wainwright to purchase 87,274 shares of the Company's common stock (the Underwriter Warrants). The Underwriter Warrants, which have an exercise price of $4.8125 per share, are exercisable for five years from the date of the Underwriting Agreement and may be exercised on a cashless basis in certain circumstances specified therein.

The Company and Wainwright completed the December 2017 Offering on December 11, 2017, resulting in approximately$9.3 million of net proceeds to the Company after deducting the underwriter's discounts and commissions and other estimated offering expenses payable by the Company.

The common warrants are exercisable immediately at an exercise price of$3.85 per share and will expire five years from the date of issuance. The pre-funded warrants are exercisable immediately at an exercise price of $0.05 per share and may be exercised until they are exercised in full, and as of September 30, 2019 all pre-funded warrants had been exercised. The exercise price and number of shares of the Company's common stock issuable upon exercise of the common warrants, pre-funded warrants and Underwriter Warrants will be subject to adjustment in the event of any stock split, reverse stock split, stock dividend, recapitalization, reorganization or similar transaction, among other events as described in the common warrants and pre-funded warrants.

In the event of certain transactions involving a sale of the Company, each holder of common warrants has the right, exercisable at its option, to require the Company to purchase such holder's common warrants at a price determined using a Black Scholes option pricing model as described in the common warrants. The shares of the Company's common stock or pre-funded warrants, as applicable, and the accompanying common warrants could only be purchased together in the December 2017 Offering but were issued separately.

May 2018 Registered Direct Offering and Private Placement

On May 29, 2018, in connection with the May 2018 Registered Direct Offering, the Company entered into securities purchase agreements (May 2018 Purchase Agreements) with certain institutional and accredited investors for the sale by the Company of 2,038,224 shares of the Company's common stock, par value $0.001 per share at a purchase price of$2.85 per share. Concurrently with the May 2018 Registered Direct Offering, and pursuant to the May 2018 Purchase Agreements, the Company in connection with the May 2018 Private Placement, also sold unregistered warrants exercisable for an aggregate of 1,528,668 shares of the Company's common stock, which represents 75% of the shares of the Company's common stock sold in the May 2018 Registered Direct Offering, for a purchase price of $0.125 per warrant and with an exercise price of $2.86 per share. Subject to certain ownership limitations, the warrants were exercisable upon issuance. The warrants will expire on the

Note 12. Equity (continued)

5.5 years anniversary of the date of issuance. The May 2018 Purchase Agreements contain representations, warranties and covenants of the investors and the Company that are customary for transactions of this type.

The May 2018 Registered Direct Offering and the May 2018 Private Placement closed on May 31, 2018. The net proceeds from the transactions were approximately $5.3 million after deducting certain fees due to the placement agent and other estimated transaction expenses. In connection with the May 2018 Registered Direct Offering and the May 2018 Private Placement, the placement agent received warrants to purchase up to 7.0% of the aggregate amount of shares of Company common stock sold in the May 2018 Registered Direct Offering. The warrants issued to the placement agent have substantially the same terms as the warrants issued in the May 2018 Private Placement, except that the exercise price of the warrants issued to the placement agent is $3.679 per share and the term of the warrants issued to the placement agent is five years.

July 2018 Registered Direct Offering and Private Placement

On July 2, 2018, the Company entered into securities purchase agreements (July 2018 Purchase Agreements) with certain institutional and accredited investors for the sale by the Company of 1,474,080 shares of the Company's common stock, par value $0.001 per share at a purchase price of $2.69 per share (the July 2018 Registered Direct Offering). Concurrently with the July 2018 Registered Direct Offering, and pursuant to the July 2018 Purchase Agreements, the Company also sold unregistered warrants exercisable for an aggregate of 958,152 shares of the Company's common stock, which represents 65% of the shares of the Company's common stock sold in the July 2018 Registered Direct Offering, for a purchase price of $0.125 per warrant and with an exercise price of $2.70 per share (July 2018 Private Placement). Subject to certain ownership limitations, the warrants were exercisable upon issuance. The warrants will expire on the 5.5 years anniversary of the date of issuance.

The July 2018 Registered Direct Offering and the July 2018 Private Placement closed on July 5, 2018. The net proceeds from the transactions were approximately $3.6 million after deducting certain fees due to the placement agent and other estimated transaction expenses. In addition, the placement agent received warrants to purchase 103,186 shares of the Company's common stock. The warrants issued to the placement agent have substantially the same terms as the warrants issued in the July 2018 Private Placement, except that the exercise price of the warrants issued to the placement agent is $3.464 per share and the term of the warrants issued to the placement agent is five years.

On July 27, 2018, the Company filed a registration statement on Form S-1, registering the resale of shares of the Company's common stock underlying warrants issued in the May 2018 Private Placement and the July 2018 Private Placement. The Resale Registration Statement was declared effective by the SEC on August 8, 2018.

December 2018 Private Placement

On December 11, 2018, the Company completed the sale of 443,350 shares of its common stock (the December 2018 Private Placement), for approximately $0.9 million. After deducting offering expenses, net proceeds from the December 2018 Private Placement was approximately $0.8 million.

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Note 13. Income taxes

For the three months ended September 30, 2019 and 2018, the Company recorded a tax benefit of approximately$0.7 million and $0 respectively. This change was primarily due to the approximately $3.5 million derivative valuation expense in the 2019 period, changing the Company's estimate of year end taxable income to a loss. The effective tax rate for the three months ended September 30, 2019 and 2018 was 8.8% and 0%, respectively. The effective tax rate for the three months ended September 30, 2019 and 2018 differs from the statutory tax rate due to the expected current year and historical losses.

For the nine months ended September 30, 2019 and 2018, the Company recorded a tax benefit of approximately$0.1 million and $0, respectively. The effective tax rate for the nine months ended September 30, 2019 and 2018 was (7.80)% and 0%, respectively. The effective tax rate for the nine months ended September 30, 2019 differs from the statutory rate due primarily to the expected current year and historical losses. The Company does not have a net deferred tax asset because it maintains a full valuation allowance against all deferred tax assets as management has determined that it is more likely than not, that the Company will be unable to realize these future tax benefits. As of September 30, 2019, the Company had no uncertain tax positions.

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Note 14. Commitments and Contingencies

On October 18, 2019, October 25, 2019, and November 11, 2019, putative stockholder class actions were filed in the United States District Court for the Southern District of New York styled, respectively, *Gonzalez-Aldama v. Fibrocell Science, Inc., et al*, Case No. 1:19-cv-09659 (S.D.N.Y.) *Braschuk v. Fibrocell Science, Inc., et al.*, Case No. 1:19-cv-09915 (S.D.N.Y.) and *Burnaska v. Fibrocell Science, Inc., et al*, Case No. 1:19-cv-10450 (S.D.N.Y.). Additionally, on October 23, 2019, a putative stockholder class action was filed in the United States District Court for the District of Delaware styled *Franchi v. Fibrocell Science, Inc. et al.*, Case No. 1:19-cv-02001 (D. Del.) (together with the *Gonzalez-Aldama, Braschuk* and *Burnaska* actions, the Stockholder Actions). The Stockholder Actions assert claims against the Company and members of the Company's board of directors (the Individual Defendants).

The complaints in the Stockholder Actions allege that the Company and the Individual Defendants violated Section 14(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), and Rule 14a-9 promulgated thereunder, by failing to disclose in the preliminary proxy statement regarding the Merger that the Company filed with the SEC on Schedule 14-A on October 11, 2019 (the Proxy Statement) certain financial data regarding the Company, including certain inputs regarding Canaccord Genuity Group Inc.'s financial analyses of the Company, and the substance of confidentiality agreements that may have been executed in relation to the Merger. The complaint in the *Burnaska* action also alleges that the Proxy Statement omitted information regarding alleged conflicts of interest relating to post-transaction employment of, and benefits to members of the Company's management. The complaints in the Stockholder Actions also allege that the Individual Defendants violated Section 20(a) of the Exchange Act, as control persons who had the ability to prevent the Proxy Statement from being false and misleading. The Stockholder Actions seek, among other things, an injunction preventing consummation of the Merger, an award of damages, and an award of costs and expenses, including attorneys' fees.

On October 30, 2019, plaintiff Braschuk sent a letter to the Company's counsel demanding that the defendants issue an amendment to the Proxy Statement that provides additional disclosures that plaintiff Braschuk alleges were improperly omitted from the Proxy Statement.

On November 11, 2019, plaintiff Burnaska sent a similar letter the Company's counsel demanding that the defendants issue an amendment to the Proxy Statement that provides additional disclosures.

The Company intends to defend against the Stockholder Actions, however it's reasonably possible that a loss may be incurred. At this time, the Company is unable to estimate the potential loss or range of losses.

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

The following discussion and analysis should be read in conjunction with:

- *our unaudited Condensed Consolidated Financial Statements and accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this Form 10-Q); and*
- *our audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for 2018 (2018 Form 10-K), as well as the information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Form 10-K.*

Overview

We are a cell and gene therapy company focused on improving the lives of people with rare diseases of the skin and connective tissue. We are utilizing our proprietary autologous fibroblast technology to develop personalized biologics that target the underlying cause of disease. Fibroblasts are the most common cell in skin and connective tissue and are responsible for synthesizing extracellular matrix proteins, including collagen and other growth factors, that provide structure and support. Because fibroblasts naturally reside in the localized environment of the skin and connective tissue, they represent an ideal delivery vehicle for proteins targeted to these areas. We target the underlying cause of disease by using fibroblast cells from a patient's skin and genetically modifying them to create localized therapies that are compatible with the unique biology of the patient (i.e., which are autologous).

Our pipeline of localized gene therapy candidates include FCX-007 for the treatment of recessive dystrophic epidermolysis bullosa (RDEB), a life-threatening genetic disorder diagnosed in infancy with no cure or treatment approved by the U.S. Food and Drug Administration (FDA). We are also developing FCX-013 for the treatment of moderate to severe localized scleroderma. Currently, all of our research and development operations and focus are on gaining regulatory approvals to commercialize our gene therapy candidates in the United States; however, we may seek to expand into international markets in the future.

Collaboration Agreement with Castle Creek Pharmaceuticals

On April 12, 2019, we entered into a co-development and license agreement (CCP License Agreement) with Castle Creek Pharmaceuticals, LLC (CCP) with respect to the development and commercialization of our lead gene therapy candidate, FCX-007, for the treatment of RDEB.

Under the terms of the CCP License Agreement, CCP will receive an exclusive license to commercialize FCX-007 in the United States. CCP will be responsible for the first $20 million in development costs prior to the initial Biologics License Application (BLA) filing with U.S. Food and Drug Administration (FDA) and manufacturing costs undertaken prior to commercial launch of FCX-007. If such spending exceeds $20 million, CCP will be responsible for 70% of the excess costs and we will cover 30% of the remaining additional expenses. We will maintain responsibility for the development (including pre-launch manufacturing) of FCX-007 through initial BLA approval of FCX-007, and CCP will be responsible for all post-approval development and commercialization activities for FCX-007. The parties have agreed to negotiate the terms of a manufacturing and supply agreement that will set forth the terms under which we will supply CCP commercial quantities of FCX-007. A joint development committee consisting of representatives from our company and CCP will oversee the development of FCX-007 pursuant to an agreed-upon development plan and budget.

At the closing of the CCP License Agreement, we received an upfront payment of $7.5 million, and will receive an additional $2.5 million for the first patient enrolled in the Phase 3 clinical trial of FCX-007 and $30 million upon BLA approval of FCX-007 and FCX-007 commercial manufacturing readiness. We are also eligible to receive up to $75 million in sales milestones, consisting of $25 million upon the achievement of $250 million in cumulative FCX-007 net sales and an additional $50 million upon the achievement of $750 million in cumulative FCX-007 net sales. In addition, CCP will pay us a 30% share of the gross profits from FCX-007 sales. We will retain sole ownership of the Rare Pediatric Disease Priority Review Voucher (PRV), which may be granted upon BLA approval of FCX-007. A PRV can be used to obtain priority review for a subsequent New Drug Application or BLA, and can be sold to another entity.

As part of our existing exclusive channel collaboration agreement with Intrexon Corporation (Intrexon), we will pay Intrexon 50% of all upfront, milestone and profit share payments from CCP. Payments to Intrexon do not include funds received from CCP in connection with the development and manufacturing costs or payments for supply of FCX-007.

Unless earlier terminated, the CCP License Agreement will expire on the later of (a) expiration of the last-to-expire valid claim of any FCX-007 patent rights in the United States and (b) forty years from the date of initial BLA approval of FCX-007.

CCP has the right to terminate the CCP License Agreement at will upon 180 days' prior written notice. If CCP elects to terminate the agreement at will, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory pay to CCP an amount equal to five percent (5%) of product gross profit in respect of sales of the product in the territory by the Company, its affiliates or licensees in the Initial Indication and any additional indications developed or commercialized by the parties as of the effective date of termination.

CCP may also terminate the CCP License Agreement at any time, upon 180 days' prior written notice to the Company, in the event (i) CCP determines, in its reasonable discretion, that further development or commercialization of FCX-007 is not commercially viable or (ii) CCP determines that development or commercialization of FCX-007 must be terminated because of safety issues outside of CCP's reasonable control. If CCP elects to terminate the agreement due to either of the specified reasons set forth in the preceding sentence, then, among other things, the license granted to CCP will terminate and all rights will revert in their entirety to the Company. In the event of such a termination, the Company shall upon first commercial sale by the Company, its affiliates or licensees in the territory, pay to CCP an amount equal to five percent (5%) of FCX-007 gross profit in respect of sales of FCX-007 in the territory by the Company, its affiliates or licensees in the Initial Indication and any additional indications developed or commercialized by the parties as of the effective date of termination. Either party may, subject to specified cure periods, terminate the CCP License Agreement in the event of the other party's uncured material breach, and either party may terminate the CCP License Agreement under specified circumstances relating to the other party's insolvency. The upfront payment and milestone payments are non-refundable; provided, however, that certain disputed payments may be refunded in accordance with the dispute resolutions procedures set forth in the CCP License Agreement.

Based on our receipt of the upfront payment from CCP and reduction of expenses associated with the development of FCX-007, we believe our existing cash will be sufficient to fund operations into the first quarter of 2020.

In connection with the execution of the CCP License Agreement with CCP, we concluded our strategic alternative review process announced last year.

Merger Agreement with Castle Creek Pharmaceutical Holdings

On September 12, 2019, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Castle Creek Pharmaceutical Holdings, Inc. (CCP Holdings), and Castle Creek Merger Corp., a Delaware corporation and wholly-owned subsidiary of CCP Holdings (Merger Sub), pursuant to which, and on the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into us (the Merger). We will survive the Merger as a wholly-owned subsidiary of CCP Holdings. A special meeting of our common stockholders is scheduled to be held on December 10, 2019 to vote on, among other things, a proposal to adopt the Merger Agreement. We intend to complete the Merger as soon as reasonably practicable and currently expect to complete the Merger in the fourth quarter of 2019.

Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the Effective Time), each share of our common stock issued and outstanding immediately prior to the Effective Time (other than shares held directly by CCP Holdings or Merger Sub and shares owned by our stockholders who have exercised their appraisal rights under Delaware law) will be converted into the right to receive $3.00 in cash, without interest (the Merger Consideration).

In addition, after the Effective Time, each share of our Series A Convertible Preferred Stock (the Preferred Stock) will remain outstanding (until converted by the holders thereof pursuant to the Consent and Termination Agreement, as defined below herein), and will thereafter only represent the right to receive an amount in cash, without interest, equal to (i) the number of shares of common stock underlying each share of Preferred Stock multiplied by (ii) the Merger Consideration. After the Effective Time, each of our outstanding common stock warrants shall be generally entitled to receive (i) upon any subsequent exercise, an amount equal to the Merger Consideration less the exercise price for such warrant, or (ii) if eligible pursuant to the terms of the warrant, upon notification by the holder of such warrant to us within 30 days of the Effective Time, an amount

equal to the Black-Scholes value of the warrant. Each stock option issued under our equity incentive plans outstanding immediately prior to the Effective Time, whether vested or unvested, will accelerate and be converted into the right to receive in cash an amount equal to the Merger Consideration minus the exercise price of such stock option.

The Merger Agreement contains customary representations and warranties of us, CCP Holdings and Merger Sub, and customary pre-closing covenants, including covenants requiring us (i) to conduct our business in the ordinary course, and (ii) to refrain from taking certain actions without CCP Holdings' consent.

CCP Holdings has obtained financing commitments for the purpose of financing the Merger.

In addition, the Merger Agreement requires that we refrain from soliciting proposals relating to alternative transactions or, subject to certain exceptions, enter into discussions concerning, or provide information in connection with, alternative transactions. Prior to the approval of the Merger Agreement by our common stockholders, our Board of Directors may not, without first complying with certain conditions set forth in the Merger Agreement and solely in response to a Superior Proposal (as defined in the Merger Agreement), (i) adopt, approve or recommend, or publicly propose to adopt, approve or recommend, any Acquisition Proposal (as defined in the Merger Agreement), (ii) withdraw, change, qualify, withhold or modify, or publicly propose to withdraw, change, qualify, withhold or modify, its recommendation that our common stockholders adopt the Merger Agreement, (iii) fail to include in the proxy statement to be filed in connection with the Merger the Board of Directors' recommendation that our common stockholders adopt the Merger Agreement, (iv) fail to recommend against any tender offer that constitutes an Acquisition Proposal subject to Regulation 14D under the Securities Exchange Act of 1934, as amended, (v) approve, authorize or cause or permit us or our subsidiaries to enter into any acquisition agreement or similar agreement relating to any Acquisition Proposal, or (vi) fail to publicly affirm our Board of Directors' recommendation that our common stockholders adopt the Merger Agreement within five business days following receipt of a written request to do so from CCP Holdings (collectively, a Change of Board Recommendation).

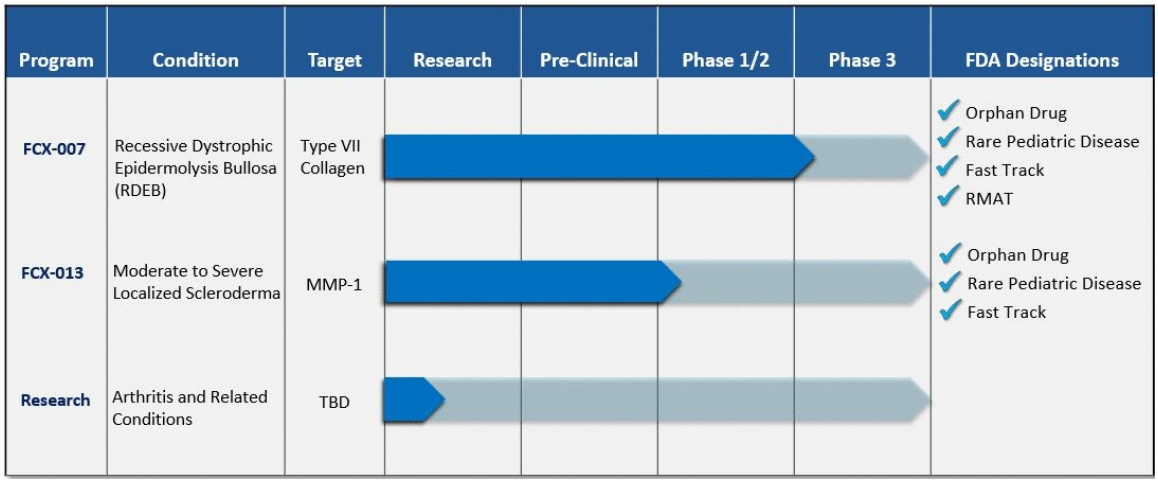
Pursuant to the terms of the Merger Agreement, the consummation of the Merger is subject to certain other customary closing conditions, including, but not limited to, the approval of the Merger by our common stockholders, the receipt of regulatory clearances (to the extent required), the continued effectiveness of certain of our contracts, accuracy of the representations of us and the absence of a material adverse effect with respect to us, and that no more than 8% of the holders of the outstanding shares of our common stock have exercised or purported to exercise statutory appraisal rights under Delaware law with respect to such shares of common stock. Subject to the satisfaction of the closing conditions, the parties anticipate that the Merger will be consummated during the fourth quarter of 2019.

The Merger Agreement contains certain termination rights for us and CCP Holdings. Upon termination of the Merger Agreement under specified circumstances, we will be required to pay CCP Holdings a termination fee of $2.0 million.

We expect that our employees will continue as employees of the combined company on completion of the transaction. Until that time, we will continue to operate as a separate and independent company.

Development Programs

Our current pipeline consists of the following product candidates, which we are developing in collaboration with Intrexon and CCP (FCX-007 only):



FCX-007 for Recessive Dystrophic Epidermolysis Bullosa (RDEB)

FCX-007 is our clinical-stage, gene therapy product candidate for the treatment of RDEB, a congenital and progressive orphan skin disease caused by the deficiency of type VII collagen (COL7). FCX-007 is a genetically-modified autologous fibroblast that encodes the gene for COL7 for localized treatment of RDEB and is being developed in collaboration with Intrexon. By genetically modifying autologous fibroblasts *ex vivo* to produce COL7, culturing them and then treating wounds locally via injection, FCX-007 offers the potential to address the underlying cause of the disease by providing high levels of COL7 directly to the affected areas, thereby avoiding systemic treatment.

Phase 2 Portion of Phase 1/2 Trial of FCX-007 for RDEB

In January 2018, Fibrocell obtained allowance from the FDA to initiate enrollment of pediatric patients in the Phase 2 portion of its Phase 1/2 clinical trial of FCX-007, based on evidence of safety and potential benefit of FCX-007 in adult patients dosed in the Phase 1 portion of the clinical trial. In May 2018, we reported on interim adult data and provided a Phase 1 trial update which included presenting at the 7th International Investigative Dermatology meeting on May 19, 2018.

We completed the targeted enrollment of six patients ages seven and older in the Phase 2 portion of the Phase 1/2 clinical trial for FCX-007, and have over-enrolled by one patient for a total of seven patients. The Phase 2 population consists of one adult and six pediatric patients. In March 2019, we reported additional positive safety and wound healing data for our ongoing Phase 1/2 trial. To date, FCX-007 has been evaluated in eight wounds across five adult patients. In addition, we completed dosing of a sixth patient—the first pediatric patient treated in the Phase 2 portion of the Phase 1/2 trial for FCX-007—using the expected Phase 3 clinical trial dose regimen. We plan to continue the remaining follow-up visits with all Phase 1/2 patients, but do not intend to dose additional patients as part of the trial. Remaining Phase 2 patients who have not received dosing will be contacted to determine if they would agree to reconsent to participate in the Phase 3 trial of FCX-007.

FCX-007 Phase 3 Clinical Trial

In October 2018, we completed a Type C meeting with the FDA to discuss the design of a Phase 3 clinical trial protocol for FCX-007. The FDA provided guidance on various clinical trial design aspects and Chemistry, Manufacturing and Control (CMC) requirements of the proposed Phase 3 clinical trial. In November 2018, we received the official minutes from the FDA for the Type C meeting. Based on FDA's feedback, we prepared a Phase 3 clinical trial protocol for FCX-007 and filed it as part of the briefing package for the Type B meeting in March 2019. We completed a Type B end-of-Phase 2 face-to-face meeting with the FDA in March 2019 to discuss the design of a Phase 3 clinical trial for FCX-007 to support a BLA filing. In

the Type B meeting, the FDA provided guidance on various design aspects of our Phase 3 clinical trial, named DEFI-RDEB (dermal fibroblasts-RDEB). Based on the FDA's guidance, we updated the CMC information filed to the IND in early July 2019. Timing of the updated CMC submission was a strategic decision by us to provide the FDA with time to review the CMC information prior to filing the Phase 3 protocol to mitigate potential review issues.

In late July 2019, we submitted the revised Phase 3 clinical trial protocol to the FCX-007 IND and initiated the Phase 3 trial of FCX-007. The Phase 3 trial is designed as an open label, multi-centered, intra-patient controlled trial expected to enroll 15-20 patients. The Phase 3 trial's primary outcome measure is the comparison of the proportion of FCX-007 treated and untreated matched wounds with complete wound closure at week 12.

We have executed several start-up tasks for the FCX-007 Phase 3 trial, including selection of a Clinical Research Organization (CRO) to manage the trial; hiring and onboarding of key internal personnel in both regulatory and clinical operations leadership; and ramp-up of staffing in manufacturing and quality.

We continue to project enrollment and dosing of Phase 3 patients will be completed in the third quarter of 2020 and data collection for the primary endpoint will be completed in the fourth quarter of 2020. If the Phase 3 trial is successful and completed within our projected timeframe, we expect to file a BLA for FCX-007 in 2021.

We have designated our existing, cGMP cell therapy manufacturing facility in Exton, PA as the production site for FCX-007 after incorporation into our IND application. Our multi-product, gene therapy manufacturing facility will be used for the remaining clinical and, if approved, future commercial manufacture of FCX-007, to serve the U.S. market for RDEB.

FCX-007 has received Orphan Drug Designation for the treatment of DEB, including RDEB, Rare Pediatric Disease Designation for the treatment of RDEB and Fast Track Designation for the treatment of RDEB from the FDA. In May 2019, the FDA granted the Regenerative Medicine Advanced Therapy (RMAT) Designation to FCX-007 for the treatment of RDEB.

FCX-013 for Moderate to Severe Localized Scleroderma

In addition, our second clinical stage gene therapy candidate, FCX-013 is in development for the treatment of moderate to severe localized scleroderma, which manifests as excess production of extracellular matrix, specifically collagen, resulting in thickening of the skin and connective tissue. FCX-013 is designed to be injected under the skin at the location of the fibrotic lesions where the genetically-modified fibroblast cells will produce matrix metalloproteinase 1 (MMP-1) to break down excess collagen accumulation. We previously completed a proof-of-concept study and pre-clinical dose-ranging study for FCX-013. In December 2017, we completed a GLP toxicology/biodistribution study. We submitted an IND application for FCX-013 to the FDA in January 2018, and in March 2018, the FDA allowed the IND to progress to clinical trials. We initiated the first investigator site for clinical enrollment for an open label, single arm Phase 1/2 clinical trial. We are currently enrolling the Phase 1 portion of the Phase 1/2 clinical trial for FCX-013, and expect to complete enrollment of Phase 1 adult patients in the fourth quarter of 2019. We project that safety and efficacy data for the adult patients in the Phase 1 portion of the trial will be available in mid-2020. In addition, we feel FCX-013 may have future potential to expand into its own pipeline, with applications in other sclerotic disorders. We plan to manufacture FCX-013 at our Exton, PA cGMP manufacturing facility.

FCX-013 has received Orphan Drug Designation from the FDA for the treatment of localized scleroderma and Rare Pediatric Disease Designation and in September 2018, Fast Track Designation for moderate to severe localized scleroderma.

Gene Therapy Research Program for Arthritis and Related Conditions

We expanded our collaboration with Intrexon to pursue the research, development and commercialization of products for the treatment of chronic inflammation and degenerative diseases of human joints through intra-articular or other local administration of genetically modified fibroblasts. We are currently in the research phase for a gene therapy to treat arthritis and related conditions under this collaboration. Our goal is to deliver a protein therapy locally to the joint to provide sustained efficacy while avoiding key side effects typically associated with systemic therapy.

Financial Condition, Liquidity and Capital Resources

Financial Condition

We have experienced losses since our inception. As of September 30, 2019, we had an accumulated deficit of approximately $188.2 million. The process of developing and commercializing our product candidates requires significant research and development efforts and clinical trial work, as well as significant manufacturing and process development. These activities, together with our selling, general and administrative expenses, are expected to continue to result in significant operating losses for the foreseeable future.

Our financial condition is summarized below as of the following dates and is intended to supplement the more detailed discussion that follows:

($ in thousands)	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 6,768	$ 14,430
Working capital:		
Total current assets	$ 18,676	$ 14,535
Less: Total current liabilities	3,666	2,172
Net working capital	$ 15,010	$ 12,363
Convertible notes payable (gross principal)	$ 18,003	$ 18,003
Stockholders' equity	$ 10,741	$ 9,557

Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents of $6.8 million and net working capital of $15.0 million as of September 30, 2019. Net working capital increased approximately $2.6 million, or 21.4%, from December 31, 2018 to September 30, 2019. This increase is the result primarily from amounts billed to CCP under the CCP License Agreement.

Under the terms of the CCP License Agreement, we will receive $2.5 million for the first patient enrolled in the Phase 3 clinical trial of FCX-007 and $30 million upon BLA approval of FCX-007 and FCX-007 commercial manufacturing readiness. We are also eligible to receive up to $75 million in sales milestones, consisting of $25 million upon the achievement of $250 million in cumulative FCX-007 net sales and an additional $50 million upon the achievement of $750 million in cumulative FCX-007 net sales. In addition, CCP will pay us a 30% share of the gross profits from FCX-007 sales.

As part of our existing exclusive channel collaboration agreement with Intrexon, we will pay Intrexon 50% of all upfront, milestone and profit share payments from CCP. Payments to Intrexon do not include funds received from CCP in connection with the development and manufacturing costs or payments for the supply of FCX-007.

We believe that our cash and cash equivalents at September 30, 2019 and amounts paid or payable to the Company under the CCP License Agreement, including reimbursement of FCX-007 development costs and the $2.5 million milestone payment for the first patient enrolled in the Phase 3 clinical trial for FCX-007 will be sufficient to fund operations into the first quarter of 2020. However, changing circumstances may cause us to consume capital faster than we currently anticipate, and we may need to spend more money than currently expected because of such circumstances. We will require additional capital to fund operations beyond that point and prior to our business achieving significant net cash from operations.

Our future capital requirements may be substantial, and will depend on many factors, including, but not limited to:

- the costs associated with the Merger and whether the Merger closes;
- the cost of clinical activities and outcomes related to our Phase 1/2 clinical trial for FCX-007 and our Phase 3 clinical trial for FCX-007;

- the costs of clinical activities related to FCX-013, for which we received FDA allowance for our IND in the first quarter of 2018;

- the cost of additional pre-clinical studies and clinical trials in order to obtain regulatory approvals for our product candidates;

- the cost of regulatory submissions, as well as the preparation, initiation and execution of clinical trials in potential new clinical indications; and

- the cost of filing, surveillance around, prosecuting, defending and enforcing patent claims.

If the closing of the Merger has not been consummated on or before January 31, 2020, and if we are able able to obtain all required third party consents, CCP Holdings, has agreed, upon written request by us, to advance up to $3 million in funds to us no later than January 31, 2020, representing certain future payments to be made by CCP pursuant to the terms of the CCP License Agreement. In the event we are unable to obtain all necessary third party consents required to effect the payments advance under the CCP License Agreement by January 15, 2020, we would be permitted to raise up to $3 million in additional capital through the sale and issuance of our equity securities in an offering that would not sign or close until a date after the Outside Date (as defined in the Merger Agreement) of the Merger, subject to certain conditions agreed to among the parties.

To meet our capital needs, we will consider multiple alternatives, including but not limited to equity financings, debt financings, corporate collaborations, partnerships and other strategic transactions and funding opportunities. However, there is no assurance that we will be able to complete any such transaction or obtain the additional required capital on acceptable terms or otherwise. Furthermore, the covenants under our convertible notes limit our ability to obtain additional debt financing. If we raise additional funds by issuing equity securities, our stockholders will experience dilution. Debt financing, if available, will result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Any debt or equity financing that we complete may contain terms, such as liquidation and other preferences, which are not favorable to us or our stockholders. If we raise additional funds through collaboration or partnership arrangements with third parties, it may be necessary to relinquish valuable rights to our technologies, future revenue streams or product candidates or to grant licenses on terms that may not be favorable to us.

If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we will need to curtail and reduce our operations and costs and modify our business strategy which may require us to, among other things:

- significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates or one or more of our other research and development initiatives;
- seek collaborators for one or more of our current or future product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available; or
- sell or license on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

Additionally, failure to obtain the necessary capital in a timely manner could require us to seek bankruptcy protection or result in our breach or default under agreements on which our business relies or pursuant to which we obtain valuable rights which could result in, among other things, the potential acceleration of payments thereunder or the termination of such agreements.

Cash Flows

Our cash flow activity is summarized below for the following periods:

	Nine months ended September 30,	
($ in thousands)	**2019**	**2018**
Net cash flows (used in) provided by:		
Operating activities	$ (7,285)	$ (10,217)
Investing activities	$ (340)	$ (155)
Financing activities	$ (37)	$ 9,066

Operating Activities. Cash used in operating activities during the nine months endedSeptember 30, 2019 was approximately $7.3 million, which is approximately $2.9 million, or 28% less than the nine months ended September 30, 2018. This decrease was primarily the result of the receipt of the $7.5 million milestone ($3.75 million, net after paying Intrexon license fee) received under the CCP License Agreement in April 2019.

Investing Activities. Cash used in investing activities during both the nine months endedSeptember 30, 2019 and 2018 was related solely to equipment and leasehold improvement purchases.

Financing Activities. Cash used in financing activities during the nine months endedSeptember 30, 2019 was for offering costs related to the December 2018 Private Placement, and cash provided by financing activities for the nine months ended September 30, 2018 was from proceeds related to the May and July 2018 Registered Direct Offerings and the conversion of warrants into common shares.

Results of Operations

Comparison of Three and Nine Months Ended September 30, 2019 and 2018

Revenue

For the three months ended September 30, 2019, we recognized approximately $1.0 million in revenue related to the reimbursement of expenses for FCX-007 in the three months ended September 30, 2019, related to the CCP License Agreement. We had no revenue for the three months ended September 30, 2018.

For the nine months ended September 30, 2019, we recognized approximately $21.2 million in revenue for the first milestone in the CCP License Agreement, related to the purchase of an exclusive license to commercialize FCX-007 in the United States. In addition we recognized approximately $1.8 million in revenue related to the reimbursement of expenses for FCX-007 in the nine months ended September 30, 2019, all related to the CCP License Agreement. See Note 4 for further details on the recognition of revenue related to the CCP License Agreement. We had no revenues for the 2018 periods.

Cost of Revenues

For the three months ended September 30, 2019, we recognized approximately $1.7 million in expenses related to revenues. These expenses were the result of approximately $1.7 million in development expenses for FCX-007, which were covered under the CCP License Agreement for reimbursement.

For the nine months ended September 30, 2019, we recognized approximately $6.9 million in expenses related to revenues. These expenses were the result of an approximately $3.8 million license fee to our clinical partner Intrexon as a result of payments under the CCP License Agreement and approximately $3.1 million in development expenses for FCX-007, which were covered under the CCP License Agreement for reimbursement.

Research and Development Expense

For each of our research and development programs, we incur both direct and indirect expenses. We track direct research and development expenses by program, which include third party costs such as contract research, consulting and preclinical development costs and clinical trial and manufacturing costs. We do not allocate indirect research and development expenses, which may include regulatory, laboratory (equipment and supplies), personnel, facility, process development and other overhead costs (including depreciation and amortization), to specific programs, as these expenses are to be deployed across all of our product candidates. We expect research and development costs to be reduced significantly for the foreseeable future as a result of our ongoing collaboration with CCP.

Direct research and development costs, by major program, and indirect research and development costs, by major component, were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
($ in thousands)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**	
Direct costs:							
FCX-007	$ 198	$ 477	(58.5)%	$ 982	$ 613	60.2 %	(1)
FCX-013	31	35	(11.4)%	100	375	(73.3)%	(2)
Other	—	5	(100.0)%	5	(36)	(113.9)%	(3)
Total direct costs	229	517	(55.7)%	1,087	952	14.2 %	
Indirect costs:							
Compensation and related expense	27	500	(94.6)%	662	1,552	(57.3)%	(4)
Other indirect R&D costs	511	587	(12.9)%	1,601	1,963	(18.4)%	(5)
Total indirect costs	538	1,087	(50.5)%	2,263	3,515	(35.6)%	
Total research and development expense	$ 767	$ 1,604	(52.2)%	$ 3,350	$ 4,467	(25.0)%	

(1) Costs for our FCX-007 program decreased approximately $0.3 million, or 58.5%, for the three months ended September 30, 2019 compared to the same period in 2018. The decrease for the three month period ended September 30, 2019 was due to the reclassification of the direct costs for this program under the CCP License Agreement, to cost of collaboration revenue.

Costs for our FCX-007 program increased approximately $.4 million, or 60.2%, for the nine months ended September 30, 2019 compared to the same period in 2018. The increase for the nine month period ended September 30, 2019 was primarily related to a $0.5 million purchase of viral vector material and a reduction of $0.5 million in costs related to the settlement of a dispute with a vendor recorded in 2018. All direct costs beginning April 12, 2019 are being reimbursed at 100% under the CCP License Agreement, and are recorded as part of cost of collaboration revenue.

Through September 30, 2019, we incurred approximately $27.8 million in direct research and development costs related to our FCX-007 program, life-to-date, which include non-cash expenses of $6.9 million in stock issuance costs associated with the 2012 ECC with Intrexon. Other costs include product and assay development, key opinion leader development, pre-clinical studies and manufacturing, the design of the Phase 3 clinical trial protocol and recruiting patients. Going forward, research and development investments for this program are expected to support clinical product manufacturing, statistical analyses, report generation and future clinical trial costs. Under the terms of the CCP License Agreement, CCP will be responsible for the first $20 million in development costs prior to the initial BLA filing with the FDA and manufacturing costs undertaken prior to commercial launch of FCX-007. If such spending exceeds $20 million, CCP will be responsible for 70% of the excess costs and we will cover 30% of the remaining additional expenses.

(2) Costs for our FCX-013 program were approximately the same for the three month periods ended September 30, 2019 and 2018.

Costs for our FCX-013 program decreased approximately $0.3 million, or 73.3%, for the nine months ended September 30, 2019 compared to the same period in 2018. The decrease for the nine month period ended September 30, 2019 was primarily related to an approximately $0.1 million decrease in costs from our clinical partner Intrexon, and decreased costs for lab supplies and consulting expenses.

Through September 30, 2019, we incurred approximately $14.4 million in direct research and development costs related to our FCX-013 program, life-to-date, which include non-cash expenses of $6.4 million in stock issuance costs with the 2012 ECC with Intrexon. Other costs include product and assay development and pre-clinical work, including execution of our proof-of concept and pre-clinical dose-ranging studies. Going forward, research and development investments for this program are expected to support ongoing product and assay development, pre-clinical study execution, key opinion leader development, National Institutes of Health Recombinant DNA Advisory Committee meeting preparation expenses, and the design and execution of clinical trials.

(3) Other costs were not significant for the three and nine months ended September 30, 2019 and 2018.

(4) Compensation and other related expense decreased approximately $0.4 million, or 94.6%, due to the allocation of compensation being reimbursed under the CCP License Agreement to cost of collaboration revenue. Without this reduction, compensation and related expense increased 25.4% to approximately $0.6 million. This increase is primarily related to increased personnel in our clinical group that is managing our clinical trial.

Compensation and other related expense decreased approximately $0.9 million, or 57.3%, for the reasons as described above. Without the reduction from the classification of some of these costs to cost of collaboration revenue, compensation and other related expense for the nine months ended September 30, 2019 increased 10.4% to approximately $1.7 million. This increase is primarily related to increased personnel in our clinical group that is managing our clinical trial.

(5) Other indirect costs decreased approximately $0.1 million, or 12.9%, for the three months ended September 30, 2019, as compared to the same period in 2018. This decrease was due primarily to the allocation of certain of these costs being reimbursed under the CCP License Agreement to cost of collaboration revenue. Without this reduction other indirect costs increased 27.3% to approximately $0.7 million. This increase was the result primarily of increased costs for contract labor, lab supplies and facility & equipment repair and maintenance.

Other indirect costs decreased approximately $0.4 million, or 18.4%, for the nine months ended September 30, 2019, as compared to the same period in 2018. This decrease was due primarily to the allocation of certain of these costs being reimbursed under the CCP License Agreement to cost of collaboration revenue. Without this reduction other indirect costs increased 12.0% to approximately $2.2 million. This increase was the result primarily of increased costs for contract labor, lab supplies and facility & equipment repair and maintenance.

Selling, General and Administrative Expense

Selling, general and administrative expense was comprised of the following:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
($ in thousands)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**	
Compensation and related expense	$ 476	$ 431	10.4%	$ 1,436	$ 1,306	10.0%	(1)
Professional fees	1,630	331	392.4%	3,256	1,140	185.6%	(2)
Facilities and related expense and other	823	739	11.4%	2,563	2,250	13.9%	(3)
Total selling, general and administrative expense	$ 2,929	$ 1,501	95.1%	$ 7,255	$ 4,696	54.5%	

(1) Compensation and related expense increased approximately $0.1 million, or 10.4% for the three months ended September 30, 2019 and 2018. This increase was related primarily to increased employee salary and other compensation related costs.

Compensation and related expense increased approximately $0.1 million, or 10.0% for the nine months ended September 30, 2019 and 2018. This increase was related primarily to increased employee salary and other compensation related costs.

(2) Professional fees increased approximately $1.3 million, or 392.4%, for the three months ended September 30, 2019 as compared to the same period in 2018. This increase was due primarily to increased consulting and legal fees related to the pending Merger with CCP Holdings.

Professional fees increased approximately $2.1 million, or 185.6%, for the nine months ended September 30, 2019 as compared to the same period in 2018. This increase was due primarily to increased consulting and legal fees related to the CCP License Agreement and the pending Merger with CCP Holdings.

(3) Facilities and related expense and other, increased approximately $0.1 million, or 11.4%, for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. This increase was due primarily to costs associated with new employee acquisition and increased insurance costs.

Facilities and related expense and other, increased approximately $0.3 million, or 13.9%, for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. This increase was due primarily to costs associated with new employee acquisition and increased insurance costs.

Warrant Revaluation Income (Expense)

During the three months ended September 30, 2019 and 2018, we recorded non-cash income of approximately $0.1 million, and $0.3 million, respectively, for warrant revaluation charges in our Condensed Consolidated Statements of Operations. The primary reason for the significant change between the warrant revaluation charges noted above was due to a change in estimate of the probability of a change of control transaction.

During the nine months ended September 30, 2019 and 2018, we recorded non-cash income approximately of $0.1 million and $0.6 million, respectively, for warrant revaluation charges in our Condensed Consolidated Statements of Operations. The primary reason for the significant change between the warrant revaluation charges noted above was due to a change in estimate of the probability of a change of control transaction.

Due to the nature and inputs of the model used to assess the fair value of our outstanding warrants, it is normal to experience significant fluctuations from period to period. These fluctuations are due to a variety of factors including changes in

our stock price, changes in the remaining contractual life of the warrants, and changes in management's estimated probability of certain events occurring that would impact the warrants.

Derivative Revaluation Income (Expense)

During the three months ended September 30, 2019 and 2018, we recorded non-cash derivative revaluation (expense) of approximately ($3.5) million and non-cash derivative revaluation income of approximately $0.1 million, respectively, for derivative liability revaluation charges in our Condensed Consolidated Statements of Operations related to a compound bifurcated derivative initially recorded in September 2016 in connection with the private placement of an aggregate of $18,087,500 in principal of convertible promissory notes and accompanying warrants to purchase an aggregate of 1,205,840 shares of our common stock to institutional and accredited investors (the 2016 Private Placement). The primary reason for the significant change between the derivative revaluation charges noted above was due to a change in estimate of the probability of a change of control transaction.

During the nine months ended September 30, 2019 and 2018, we recorded non-cash derivative revaluation (expense) of approximately $(4.6) million and non-cash derivative revaluation income of approximately $0.3 million, respectively, for derivative liability revaluation charges in our Condensed Consolidated Statements of Operations related to a compound bifurcated derivative initially recorded in September 2016 in connection with the 2016 Private Placement. The primary reason for the significant change between the derivative revaluation charges noted above was due to a change in estimate of the probability of a change of control transaction.

Due to the nature and inputs of the model used to assess the fair value of our compound bifurcated derivative, it is normal to experience significant fluctuations from period to period. These fluctuations are due to a variety of factors including changes in our stock price, changes in the remaining contractual life of the bifurcated derivative, and changes in management's estimated probability of certain events occurring that would impact the compound bifurcated derivatives.

Interest Expense

During the three months ended September 30, 2019 and 2018, we recorded interest expense of approximately $0.2 million for each period in our Condensed Consolidated Statements of Operations related to the convertible promissory notes that we issued in the 2016 Private Placement (the Convertible Notes) which bear interest at 4% per annum.

During the nine months ended September 30, 2019 and 2018, we recorded interest expense of approximately $0.6 million for each period in our Condensed Consolidated Statements of Operations related to the Convertible Notes which bear interest at 4% per annum.

Other income, net

During the three months ended September 30, 2019 and 2018, we had other income of approximately $0.04 million and $0.09 million, respectively. This decrease is due primarily to decreased earnings on lower invested cash balances.

During the nine months ended September 30, 2019 and 2018, we had other income of approximately $0.5 million and $0.2 million, respectively. This increase is due primarily to approximately $0.3 million in qualified research and development expenses being reimbursed under the FDA grant we received in 2018.

Income taxes (benefit)

During the three months ended September 30, 2019, we had an income tax benefit of approximately $0.7 million. This benefit is due primarily to the estimate of a loss for the year. We did not record a tax expense for the three months ended September 30, 2018.

During the nine months ended September 30, 2019, we had an income tax benefit of approximately $0.1 million. This benefit is due primarily to the estimate of a loss for the year. We did not record a tax expense for the nine months ended September 30, 2018.

Net income (loss)

Net loss increased approximately $4.3 million to approximately $7.2 million for the three months ended September 30, 2019, as compared to the $2.9 million loss for the three months ended September 30, 2018. The increase in net loss was due primarily to an approximately $3.6 million increase in derivative revaluation expense and an approximately $1.4 million increase in selling, general and administrative expenses, partially offset by an approximately $0.7 million income tax benefit, all as described above.

During the nine months ended September 30, 2019, net income was approximately $0.9 million, as compared to the approximately $8.7 million loss for the nine months ended September 30, 2018. This change was due primarily to an approximately $16.0 million increase in gross profits related to the CCP License Agreement, a decrease of approximately $1.1 million in research and development expense, an increase in other income of $0.3 million and an increased tax benefit of approximately $0.1 million. These increases to income were partially offset by increased derivative revaluation expense of approximately $4.9 million, a decrease of approximately $0.5 million in warrant revaluation income and an increase of approximately $2.5 million in selling, general and administrative expenses, all as described above.

Contractual Obligations

During the nine months ended September 30, 2019, there have been no material changes to our contractual obligations outside the ordinary course of business from those specified in our 2018 Form 10-K.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies and practices are both important to the portrayal of a company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ from such estimates due to changes in economic factors or other conditions that are outside the control of management.

Our summary of significant accounting policies is described in Note 3 to our Consolidated Financial Statements contained in our 2018 Form 10-K. However, please refer to Note 3 in the accompanying Notes to the Condensed Consolidated Financial Statements contained in this Form 10-Q for our new significant policy on revenue, and updated policies and estimates, if applicable, that could impact our results of operations, financial position, and cash flows.

Recently Issued Accounting Pronouncements

See Note 3 in the accompanying Notes to the Condensed Consolidated Financial Statements of this Form 10-Q for discussion on recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive officer and our principal financial officer, have evaluated 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), as of the end of the period covered by this Form 10-Q. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (b) such information is accumulated and communicated to our management, including our our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarterly period ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 18, 2019, October 25, 2019, and November 11, 2019, putative stockholder class actions were filed in the United States District Court for the Southern District of New York styled, respectively, *Gonzalez-Aldama v. Fibrocell Science, Inc., et al*, Case No. 1:19-cv-09659 (S.D.N.Y.) *Braschuk v. Fibrocell Science, Inc., et al.*, Case No. 1:19-cv-09915 (S.D.N.Y.) and *Burnaska v. Fibrocell Science, Inc., et al*, Case No. 1:19-cv-10450 (S.D.N.Y.). Additionally, on October 23, 2019, a putative stockholder class action was filed in the United States District Court for the District of Delaware styled *Franchi v. Fibrocell Science, Inc. et al.*, Case No. 1:19-cv-02001 (D. Del.) (together with the *Gonzalez-Aldama, Braschuk* and *Burnaska* actions, the Stockholder Actions). The Stockholder Actions assert claims against us and members of our board of directors (the Individual Defendants).

The complaints in the Stockholder Actions allege that we and the Individual Defendants violated Section 14(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), and Rule 14a-9 promulgated thereunder, by failing to disclose in the preliminary proxy statement regarding the Merger that we filed with the SEC on Schedule 14-A on October 11, 2019 (the Proxy Statement) certain financial data regarding us, including certain inputs regarding Canaccord Genuity Group Inc.'s financial analyses of us, and the substance of confidentiality agreements that may have been executed in relation to the Merger. The complaint in the *Burnaska* action also alleges that the Proxy Statement omitted information regarding alleged conflicts of interest relating to post-transaction employment of, and benefits to members of our management. The complaints in the Stockholder Actions also allege that the Individual Defendants violated Section 20(a) of the Exchange Act, as control persons who had the ability to prevent the Proxy Statement from being false and misleading. The Stockholder Actions seek, among other things, an injunction preventing consummation of the Merger, an award of damages, and an award of costs and expenses, including attorneys' fees.

On October 30, 2019, plaintiff Braschuk sent a letter to our counsel demanding that the defendants issue an amendment to the Proxy Statement that provides additional disclosures that plaintiff Braschuk alleges were improperly omitted from the Proxy Statement.

On November 11, 2019, plaintiff Burnaska sent a similar letter our counsel demanding that the defendants issue an amendment to the Proxy Statement that provides additional disclosures.

We intend to defend against the Stockholder Actions, however it's reasonably possible that a loss may be incurred. At this time, we are unable to estimate the potential loss or range of losses.

Item 1A. Risk Factors

You should carefully consider each of the risk factors set forth under the heading "Risk Factors" in our 2018 Form 10-K. The risk factor set forth below supplements those risk factors. The occurrence of any one or more of these risks could materially harm our business, operating results, financial condition and prospects. These risks and uncertainties could also cause actual results to differ materially and adversely from those expressed or implied by forward-looking statements that we make from time to time. Please see "Note Regarding Forward-Looking Statements" appearing at the beginning of this Form 10-Q.

Lawsuits have been filed, and other lawsuits may be filed, against us and members of our board of directors challenging the Merger, and an adverse ruling in any such lawsuit may delay or prevent the completion of the Merger or result in an award of damages against us.

On October 18, 2019 and October 25, 2019, putative stockholder class actions were filed in the United States District Court for the Southern District of New York styled, respectively, *Gonzalez-Aldama v. Fibrocell Science, Inc., et al*, Case No. 1:19-cv-09659 (S.D.N.Y.) and *Braschuk v. Fibrocell Science, Inc., et al.*, Case No. 1:19-cv-09915 (S.D.N.Y.). Additionally, on October 23, 2019, a putative stockholder class action was filed in the United States District Court for the District of Delaware styled *Franchi v. Fibrocell Science, Inc. et al*, Case No. 1:19-cv-02001 (D. Del.). The Stockholder Actions assert claims against us and the Individual Defendants.

The complaints in the Stockholder Actions allege that we and the Individual Defendants violated Section 14(a) of the Exchange Act, and Rule 14a-9 promulgated thereunder, by failing to disclose in the Proxy Statement certain financial data

regarding us, including certain inputs regarding Canaccord Genuity Group Inc.'s financial analyses of us, and the substance of confidentiality agreements that may have been executed in relation to the Merger. The complaints in the Stockholder Actions also allege the Individual Defendants violated Section 20(a) of the Exchange Act, as control persons who had the ability to prevent the Proxy Statement from being false and misleading. The Stockholder Actions seek, among other things, an injunction preventing consummation of the Merger, an award of damages, and an award of costs and expenses, including attorneys' fees.

On October 30, 2019, plaintiff Braschuk sent a letter to our counsel demanding that the defendants issue an amendment to the Proxy Statement that provides additional disclosures that plaintiff Braschuk alleges were improperly omitted from the Proxy Statement.

We and the Individual Defendants believe the Stockholder Actions are without merit and intend to vigorously defend them. Additional lawsuits arising out of or relating to the Merger Agreement or the Merger may be filed in the future. The results of complex legal proceedings are difficult to predict and could delay or prevent the completion of the Merger. The existence of litigation relating to the Merger could impact the likelihood of obtaining stockholder approval of the Merger. Moreover, the pending litigation is, and any future additional litigation could be, time consuming and expensive and could divert management's attention away from its regular business.

Failure to complete the Merger could negatively impact the price of our common stock, as well as our future business and financial results.

The Merger Agreement contains a number of conditions that must be satisfied or waived prior to the completion of the Merger. We cannot assure you that all of the conditions to the Merger will be so satisfied or waived. If the conditions to the Merger are not satisfied or waived, we may be unable to complete the Merger.

If the Merger is not completed, our ongoing business may be adversely affected as follows: (i) we may experience negative reactions from the financial markets, including negative impacts on the market price of our common stock; (ii) some of management's attention will have been directed to the Merger instead of being directed to our own operations and the pursuit of other opportunities that could have been beneficial to us; (iii) we will have expended time and resources that could otherwise have been spent on our existing business; and (iv) we may be required, in certain circumstances, to pay a termination fee of $2 million, as provided in the Merger Agreement.

Additionally, in approving the Merger Agreement, our Board of Directors considered a number of factors and potential benefits, including the fact that the Merger consideration to be received by holders of our common stock represented a 63% premium to the closing price of our common stock on September 11, 2019. If the Merger is not completed, the holders of our common stock will not realize this benefit of the Merger. Moreover, we would also have nevertheless incurred substantial transaction-related fees and costs and the loss of management time and resources.

The Merger is conditioned on, among other things, the approval of our stockholders. The special meeting of our stockholders to consider and vote upon the Merger and related matters is currently scheduled to be held on December 10, 2019.

The Merger Agreement limits our ability to pursue alternatives to the Merger and may discourage other companies from trying to acquire us for greater consideration than what CCP Holdings has agreed to pay.

The Merger Agreement contains provisions that make it more difficult for us to sell our business to a company other than CCP Holdings. These provisions include a general prohibition on us soliciting any acquisition proposal or offer for a competing transaction. If we or CCP Holdings terminate the Merger Agreement and we agree to be or are subsequently acquired by another company, we may in some circumstances be required to pay to CCP Holdings a termination fee of $2 million. Further, our Board of Directors has agreed in the Merger Agreement, subject to limited exceptions, that it will not withdraw or modify in a manner adverse to CCP Holdings its recommendation that our stockholders approve the Merger.

The CCP License Agreement is important to our business. If we or CCP fail to adequately perform under the CCP License Agreement, or if we or CCP terminate the CCP License Agreement, the development and commercialization of FCX-007 would be delayed or terminated and our business would be adversely affected.

The CCP License Agreement is important to our business. Under the terms of the CCP License Agreement, CCP will receive an exclusive license to commercialize FCX-007 in the United States. Under the terms of the CCP License Agreement, CCP will be responsible for the first $20 million in development costs prior to the initial BLA filing with the FDA and manufacturing costs undertaken prior to commercial launch of FCX-007. If such spending exceeds $20 million, CCP will be

responsible for 70% of the excess costs and we will cover 30% of the remaining additional expenses. We will maintain responsibility for the development (including pre-launch manufacturing) of FCX-007 through initial BLA approval of FCX-007, and CCP will be responsible for all post-approval development and commercialization activities for FCX-007. We will receive $2.5 million for the first patient enrolled in the Phase 3 clinical trial and $30 million upon BLA approval and commercial manufacturing readiness. We are also eligible to receive up to $75 million in sales milestones, consisting of $25 million upon the achievement of $250 million in cumulative FCX-007 net sales and an additional $50 million upon the achievement of $750 million in cumulative FCX-007 net sales. In addition, CCP will pay us a 30% share of the gross profits from FCX-007 sales.

Under the CCP License Agreement, we are dependent upon CCP to successfully commercialize FCX-007 in the United States. We cannot directly control CCP's commercialization activities or the resources it allocates to FCX-007. Our interests and CCP's interests may differ or conflict from time to time, or we may disagree with CCP's level of effort or resource allocation. CCP may internally prioritize FCX-007 differently than we do or it may not allocate sufficient resources to effectively or optimally commercialize FCX-007. If these events were to occur, our business would be adversely affected. CCP also may not be successful in its efforts to commercialize FCX-007, and we may never receive any additional milestone payments or any profit share payments from CCP.

CCP has the right to terminate the CCP License Agreement at will upon 180 days' prior written notice. CCP may also terminate the CCP License Agreement at any time, upon 180 days' prior written notice to us, in the event (i) CCP determines, in its reasonable discretion, that further development or commercialization of FCX-007 is not commercially viable or (ii) CCP determines that development or commercialization of FCX-007 must be terminated because of safety issues outside of CCP's reasonable control. Either party may, subject to specified cure periods, terminate the CCP License Agreement in the event of the other party's uncured material breach, and either party may terminate the CCP License Agreement under specified circumstances relating to the other party's insolvency.

Termination of the CCP License Agreement could cause significant delays in our product development and commercialization efforts that could prevent us from commercializing FCX-007, if approved, without first expanding our internal capabilities or entering into another agreement with a third party. Any alternative collaboration or license could also be on less favorable terms to us. In addition, under the CCP License Agreement, CCP agreed to provide funding for certain clinical development activities. If the CCP License Agreement were terminated, we would need to seek additional financing to support the research and development of FCX-007, which may not be available on commercially reasonable terms, if at all. If we are unable to obtain additional financing to support the continued development of FCX-007, we may need to discontinue our development efforts of FCX-007 and our other product candidates, which would have a materially adverse effect on our business.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Risk Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits.

EXHIBIT NO.	IDENTIFICATION OF EXHIBIT
2.1	Agreement and Plan of Merger, dated as of September 12, 2019, among Fibrocell Science Inc., Castle Creek Pharmaceutical Holdings, Inc. and Castle Creek Merger Corp. (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K filed September 13, 2019)
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed December 13, 2012)
3.2	Certificate of Amendment of the Restated Certificate of Incorporation filed April 26, 2013 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed April 29, 2013)
3.3	Certificate of Amendment to the Company's Restated Certificate of Incorporation, as amended, filed July 19, 2013 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed July 22, 2013)
3.4	Certificate of Amendment of the Restated Certificate of Incorporation filed July 12, 2016 (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed August 4, 2016)
3.5	Certificate of Amendment of the Restated Certificate of Incorporation of Fibrocell Science, Inc., as amended, dated March 10, 2017 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed on March 10, 2017)
3.6	Certificate of Amendment of the Restated Certificate of Incorporation of Fibrocell Science, Inc., as amended, dated May 24, 2018 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed on May 24, 2018)
3.7	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock) incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed on March 8, 2017)
3.8	Fourth Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed on May 8, 2015)
3.9	Amendment to Fourth Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed May 8, 2015)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed November 24, 2009)
4.2	Form of Convertible Promissory Note (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed September 8, 2016)
4.3	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K, filed September 8, 2016)
4.4	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed March 8, 2017)

4.5	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K, filed December 11, 2017)
4.6	Form of Underwriter's Common Stock Purchase Warrant issued in December 2017 offering (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed December 11, 2017)
4.7	Form of Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form *-K, filed May 31, 2018)
4.8	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K, filed May 31, 2018)
4.9	Form of Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed July 5, 2018)
4.10	Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K, filed July 5, 2018)
10.1	Consent and Termination Agreement, dated as of September 12, 2019, among Fibrocell Science, Inc. and the other signatories thereto (incorporated by reference to exhibit 10.1 to our Current Report on Form 8-K, filed September 13, 2019)
10.2	Consent and Termination Agreement, dated as of September 12, 2019 among Fibrocell Science, Inc. Castle Creek Pharmaceutical Holdings, Inc. and MSD Credit Opportunity Master Fund, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 13, 2019).
10.3	Employment Agreement, dated August 20, 2019 by and between Fibrocell Science, Inc. and Sean D. Buckley (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed August 22, 2019)
10.4	Amended and Restated Employment Agreement, dated August 20, 2019, by and between Fibrocell Science, Inc. and John M. Maslowski (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed August 22, 2019)
10.5*	Side Letter Agreement, dated September 12, 2019 by and between Castle Creek Pharmaceutical Holdings, Inc., Castle Creek Pharmaceuticals, LLC and Fibrocell Science, Inc.
*31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), required under Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), required under Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith

** Furnished herewith

† Certain exhibits of this Exhibit have been omitted pursuant to Item 601 (a)(5) of Regulation S-K. Fibrocell Science, Inc. agrees to furnish a copy of this Exhibit to the Securities and Exchange Commission on a confidential basis upon request.

SIGNATURES

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

FIBROCELL SCIENCE, INC.

By: /s/ John M. Maslowski
John M. Maslowski
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2019

FIBROCELL SCIENCE, INC.

By: /s/ Sean D. Buckley
Sean D. Buckley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: November 14, 2019

Exhibit 10.5

FIBROCELL SCIENCE, INC.
405 Eagleview Boulevard
Exton, Pennsylvania 19341

September 12, 2019

CASTLE CREEK PHARMACEUTICAL HOLDINGS, INC.
CASTLE CREEK PHARMACEUTICALS, LLC

Re: Agreement and Plan of Merger

Ladies and Gentlemen:

Reference is hereby made to the Agreement and Plan of Merger, executed contemporaneously herewith (the "Merger Agreement"), by and among Fibrocell Science, Inc., a Delaware corporation (the "Company"), Castle Creek Pharmaceutical Holdings, Inc., a Delaware corporation ("Parent"), and Castle Creek Merger Corp., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub"). Pursuant to the Merger Agreement, and on the terms and conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Parent. In consideration of the parties' execution of the Merger Agreement, and in consideration of the mutual promises and agreements herein and therein made, the undersigned parties agree as follows:

1. Advancement of Funds under License Agreement. If the Closing (as defined in the Merger Agreement) of the Merger has not occurred on or before the date of the Payments Advance, then Parent shall, upon the Company's written request made at any time on or after January 1, 2020 and prior to January 15, 2020, advance to the Company no later than January 31, 2020 funds in an amount not to exceed $3 million (the "Payments Advance"), representing certain future payments payable to the Company (which, for the avoidance of doubt, does not include any payments to be made by CCP (as defined below) for services previously performed by the Company) pursuant to that certain Co-Development and License Agreement (the "CCP Sub-License"), dated April 12, 2019, by and between Castle Creek Pharmaceuticals, LLC, a Delaware limited liability company ("CCP") and the Company; provided that: (a) payment by Parent of the Payments Advance is contingent upon (i) receipt of all consents required by the terms of any of the Company's material agreements, including the Company's Convertible Promissory Notes due September 7, 2026 and (ii) the Merger Agreement is in full force and effect on the date of the Payments Advance; and (b) if for any reason the Closing does not occur and the Merger Agreement is terminated, the amount of such Payments Advance will be offset against the future payment obligations of CCP under the CCP Sub-License.

2. No Conflicts. The execution, delivery and performance of this letter agreement by the Company, do not and will not (i) violate any laws (including securities laws) applicable to the Company, or (ii) subject to receipt of all consents required by the terms of any of the Company's

material agreements, including the Company's Convertible Promissory Notes due September 7, 2026, result in a material breach or default (or event which with the giving of note or lapse of time, or both, would result in a default) under, or violate or conflict with, any of the organizational documents or any contract, agreement or obligation of the Company, or under any order, writ, judgment, injunction, decree, determination or award of any governmental entity, in each case applicable to the Company or the Company's properties.

3. Governing Law. This letter agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without regard to principles of conflicts of law.

4. Miscellaneous. This letter agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument. This letter agreement supplements the Merger Agreement, and in the event of a conflict between the provisions of this letter agreement and the Merger Agreement, the provisions of this letter agreement shall control. Notwithstanding anything to the contrary contained in the Merger Agreement or this letter agreement, this letter agreement shall be deemed executed contemporaneously with the Merger Agreement and will survive any amendment or restatement of the Merger Agreement. Section 19.6 and Section 19.7 of the CCP Sub-License are incorporated herein by reference *mutatis mutandis*.

[The remainder of this page is intentionally left blank.]

If the foregoing meets with your approval, kindly countersign this letter agreement below to indicate your acceptance and agreement to its terms.

Very truly yours,

FIBROCELL SCIENCE, INC.

By: /s/ John Maslowski
Name: John Maslowski
Title: President and Chief Executive Officer

Agreed and accepted
as of the date first above written:

CASTLE CREEK PHARMACEUTICAL HOLDINGS, INC.

By: /s/ Greg Wujek
Name: Greg Wujek
Title: Chief Executive Officer

CASTLE CREEK PHARMACEUTICALS, LLC

By: /s/ Greg Wujek
Name: Greg Wujek
Title: Chief Executive Officer

Exhibit 31.1

OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John M. Maslowski certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fibrocell Science, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ John M. Maslowski

John M. Maslowski
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sean D. Buckley certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fibrocell Science, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Sean D. Buckley

Sean D. Buckley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 of Fibrocell Science, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Maslowski, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m or 78o(d)); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: /s/ John M. Maslowski

John M. Maslowski
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Fibrocell Science, Inc. and will be retained by Fibrocell Science, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 of Fibrocell Science, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean D. Buckley, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C 78m or 78o(d)); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: /s/ Sean D. Buckley

Sean D. Buckley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to Fibrocell Science, Inc. and will be retained by Fibrocell Science, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.