Celsion CORP
Form 10-Q
November 12, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from ____________ to ____________

Commission file number: 001-15911

CELSION CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**52-1256615**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

997 Lenox Drive, Suite 100

Lawrenceville, NJ 08648

(Address of principal executive offices)

(609) 896-9100

(Registrant's telephone number, including area code)

NA

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer Accelerated filer

Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 11, 2013, the Registrant had 13,604,975 shares of Common Stock, $.01 par value per share, outstanding. On October 28, 2013, the Company announced that it effected a 1-for-4.5 reverse stock split of its common stock which was made effective for trading purposes as of the commencement of trading on October 29, 2013. As of that date, each 9 shares of issued and outstanding common stock and equivalents were consolidated into 2 shares of common stock. Immediately prior to the reverse stock split, the Company had 61,226,873 shares of common stock outstanding which consolidated into 13,604,975 shares of the Company’s common stock.

CELSION CORPORATION

QUARTERLY REPORT ON

FORM 10-Q

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PART I: FINANCIAL INFORMATION

Forward-Looking Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of this Quarterly Report on Form 10-Q, including, without limitation, any projections of earnings, revenue or other financial items, any statements of the plans and objectives of management for future operations (including, but not limited to, pre-clinical development, clinical trials, manufacturing and commercialization), any statements concerning proposed drug candidates or other new products or services, any statements regarding future economic conditions or performance, any changes in the course of research and development activities and in clinical trials, any possible changes in cost and timing of development and testing, capital structure, financial condition, working capital needs and other financial items, any changes in approaches to medical treatment, any introduction of new products by others, any possible licenses or acquisitions of other technologies, assets or businesses, any possible actions by customers, suppliers, partners, competitors and regulatory authorities, compliance with listing standards of the NASDAQ Capital Market and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential” or “continue,” or the negative the other comparable terminology. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our industry, business and operations, we cannot guarantee that actual results will not differ materially from our expectations. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in Part II, Item 1A “Risk Factors” below and for the reasons described elsewhere in this Quarterly Report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements, except as required by law or applicable regulations. The discussion of risks and uncertainties set forth in this Quarterly Report on Form 10-Q is not necessarily a complete or exhaustive list of all risks facing us at any particular point in time. We operate in a highly competitive, highly regulated and rapidly changing environment and our business is in a state of evolution. Therefore, it is likely that new risks will emerge, and that the nature and elements of existing risks will change, over time. It is not possible for management to predict all such risk factors or changes therein, or to assess either the impact of all such risk factors on our business or the extent to which any individual risk factor, combination of factors, or new or altered factors, may cause results to differ materially from those contained in any forward-looking statement.

Except where the context otherwise requires, in this Quarterly Report on Form 10-Q, the “Company,” “Celsion,” “we,” “us,” and “our” refer to Celsion Corporation, a Delaware corporation.

Trademarks

The Celsion brand and product names, including but not limited to Celsion® and ThermoDox® , contained in this document are trademarks, registered trademarks or service marks of Celsion Corporation in the United States (U.S.) and certain other countries. This document also contains references to trademarks and service marks of other companies that are the property of their respective owners.

PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CELSION CORPORATION

BALANCE SHEETS

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$13,170,412	$14,991,488
Investment securities – available for sale, at fair value	32,038,638	8,037,620
Accrued interest receivable on investment securities	251,298	65,925
Advances and deposits for investigator grants	118,240	246,252
Other current assets	519,378	307,699
Total current assets	46,097,966	23,648,984
Property and equipment (at cost, less accumulated depreciation of $1,149,961 and $924,961, respectively)	947,115	1,114,621
Other assets:		
Deposits, deferred fees and other assets	364,173	567,188
Patent licensing fees, net	22,500	28,125
Total other assets	386,673	595,313
Total assets	$47,431,754	$25,358,918
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,249,000	$2,339,768
Accrued liabilities	1,394,120	1,254,979
Notes payable - current portion	1,944,608	1,410,455
Deferred revenue - current portion	500,000	-
Total current liabilities	6,087,728	5,005,202
Common stock warrant liability	5,252,660	4,283,932
Notes payable – non-current portion	2,346,973	3,661,147
Deferred revenue - non-current portion	4,125,000	-
Other non-current liabilities	477,919	446,779
Total liabilities	18,290,280	13,397,060
Stockholders' equity:		

Preferred stock, $0.01 par value: 100,000 shares authorized; 20,000 and 5,000 shares issued at September 30, 2013 and December 31, 2012 and -0- shares outstanding at September 30, 2013 and December 31, 2012, respectively	-	-
Common stock, $0.01 par value; 75,000,000 shares authorized; 13,740,629 and 8,437,267 shares issued at September 30, 2013 and December 31, 2012 and 13,604,975 and 8,289,507 shares outstanding at September 30, 2013 and December 31, 2012, respectively	137,406	84,373
Additional paid-in capital	197,082,448	170,957,891
Accumulated other comprehensive loss	(305,831)	(126,607)
Accumulated deficit	(165,302,674)	(156,263,288)
Subtotal	31,611,349	14,652,369
Treasury stock, at cost (135,654 and 147,760 shares at September 30, 2013 and December 31, 2012, respectively)	(2,469,875)	(2,690,511)
Total stockholders' equity	29,141,474	11,961,858
Total liabilities and stockholders' equity	$47,431,754	$25,358,918

See accompanying notes to the financial statements.

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CELSION CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Licensing revenue	$125,000		$375,000	
Operating expenses:				
Research and development	2,269,228	3,539,309	7,494,981	12,344,559
General and administrative	1,389,539	1,420,258	5,028,988	4,586,005
Total operating expenses	3,658,767	4,959,567	12,523,969	16,930,564
Loss from operations	(3,533,767)	(4,959,567)	(12,148,969)	(16,930,564)
Other income (expense):				
(Loss) gain from change in valuation of common stock warrant liability	(518,843)	(881,127)	8,141,574	(1,250,850)
Investment income (loss), net	144,532	(5,581)	228,227	61,828
Interest expense	(162,774)	(171,720)	(519,913)	(187,995)
Other expense	(669)		(2,530)	(1,040)
Total other income (expense), net	(537,754)	(1,058,428)	7,847,358	(1,378,057)
Net loss	(4,071,521)	(6,017,995)	(4,301,611)	(18,308,621)
Non-cash deemed dividend from beneficial conversion feature on convertible preferred stock			(4,601,410)	
Net loss attributable to common shareholders	$(4,071,521)	$(6,017,995)	$(8,903,021)	$(18,308,621)
Net loss attributable to common shareholders per common share – basic and diluted	$(0.30)	$(0.80)	$(0.76)	$(2.47)
Weighted average shares outstanding – basic and diluted	13,601,800	7,475,958	11,755,611	7,425,072

See accompanying notes to the financial statements.

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CELSION CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net loss	$(4,071,521)	$(6,017,995)	$(4,301,611)	$(18,308,621)
Changes in:				
Realized loss on investment securities recognized in investment income, net	108,718	(76,146)	299,401	121,030
Unrealized loss on investment securities	(200,708)	260,440	(478,625)	24,364
Other comprehensive (loss) income	(91,990)	184,294	(179,224)	145,394
Total comprehensive loss	$(4,163,511)	$(5,833,701)	$(4,480,835)	$(18,163,227)

See accompanying notes to the financial statements.

CELSION CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net loss	$(4,301,611)	$(18,308,621)
Non-cash items included in net loss:		
Depreciation and amortization	230,625	161,865
Change in fair value of common stock warrant liability	(8,141,574)	1,250,850
Deferred revenue	(375,000)	
Stock-based compensation	995,950	850,990
Treasury shares issued for services and 401(k) matching contribution	84,271	94,189
Change in deferred rent liability	(13,752)	59,085
Deferred finance charges	98,817	21,607
Cash received for non-refundable research and development fee	5,000,000	
Net changes in:		
Prepaid expenses and other current assets	(29,469)	(11,710)
Accounts payable	(90,768)	(967,967)
Accrued liabilities	184,033	683,575
Net cash used in operating activities:	(6,358,478)	(16,166,137)
Cash flows from investing activities:		
Purchases of investment securities	(42,584,990)	(16,213,657)
Proceeds from sale and maturity of investment securities	18,219,375	12,287,030
Refund of deposit for letter of credit	50,000	-
Purchases of property and equipment	(57,494)	(381,110)
Net cash used in investing activities	(24,373,109)	(4,307,737)
Cash flows from financing activities:		
Proceeds from sale of preferred stock, net of issuance costs	13,616,442	
Proceeds from sale of common stock equity, net of issuance costs	15,628,099	
Proceeds from exercise of common stock warrants	261,944	3,823,690
Proceeds from exercise of options to purchase common stock	184,047	104,538
Proceeds from note payable		4,814,398
Principal payments on notes payable	(780,021)	(96,270)
Net cash provided by financing activities	28,910,511	8,646,356
Decrease in cash and cash equivalents	(1,821,076)	(11,827,518)
Cash and cash equivalents at beginning of period	14,991,488	20,145,854
Cash and cash equivalents at end of period	$13,170,412	$8,318,336

Supplemental disclosures of cash flow information:		
Interest paid	$390,668	$187,995

See accompanying notes to the financial statements.

CELSION CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

Note 1. Business Description

Celsion Corporation, referred to herein as “Celsion”, “We”, or “the Company,” a Delaware corporation based in Lawrenceville, New Jersey, is an oncology drug development company focused on improving treatment for those suffering with difficult-to-treat forms of cancer. We are working to develop and commercialize more efficient, effective, targeted chemotherapeutic oncology drugs based on our proprietary heat-activated liposomal technology. Our lead product ThermoDox®, is being tested in human clinical trials for the treatment of primary liver cancer, recurrent chest wall breast cancer and colorectal liver metastases.

Note 2. Basis of Presentation

The accompanying unaudited financial statements of Celsion have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, all adjustments, consisting only of normal recurring accruals considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for any other interim period(s) or for any full year. For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed on March 18, 2013 and our Amendment No. 1 to the Annual Report on Form 10-K/A filed on April 30, 2013 with the Securities and Exchange Commission.

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the amount reported in the Company’s financial statements and accompanying notes. Actual results could differ materially from those estimates.

Events and conditions arising subsequent to the most recent balance sheet date have been evaluated for their possible impact on the financial statements and accompanying notes. On October 28, 2013, the Company effected a reverse stock split of the Company's common stock such that each 4.5 shares of issued common stock were reclassified into one share of common stock. All common stock share and per-share amounts for all periods presented in these financial statements have been adjusted to retroactively reflect the reverse stock split.

Note 3. New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by Financial Accounting Standards Board (FASB) and are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued accounting pronouncements will not have a material impact on the Company’s consolidated financial position, results of operations, and cash flows, or do not apply to our operations.

In February 2013, the FASB issued *Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* , a new standard to improve the reporting of reclassifications out of accumulated other comprehensive income. The new standard requires the disclosure of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The standard is effective prospectively for interim and annual periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the financial statements on January 1, 2013, the date adopted.

Note 4. Net Loss per Common Share

Basic earnings per share is calculated based upon the net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated after adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of preferred stock, options and warrants and their equivalents are computed using the treasury stock method.

On October 28, 2013, the Company announced that it effected a 1-for-4.5 reverse stock split of its common stock which was made effective for trading purposes as of the commencement of trading on October 29, 2013. Immediately prior to the reverse stock split, the Company had 61,226,873 shares of common stock outstanding which consolidated into 13,604,975 shares of the Company's common stock. In accordance with *Accounting Standards Update (ASU) No. 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash*, the changes in the Company's common stock as a result of the reverse stock split require the per share components of the current and prior period financial statements presented be based on the new number of shares. Therefore, net loss per common share for the three and nine months ended September 30, 2013 and 2012 reflect post reverse stock split shares.

For the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, diluted loss per common share was the same as basic loss per common share as all options and warrants that were convertible into shares of the Company's common stock were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive. The total number of shares of common stock issuable upon exercise of warrants and equity awards for the three and nine month periods ended September 30, 2013 and 2012 affected for the October 28, 2013 reverse stock split were 3,939,484 and 3,031,868, respectively.

Note 5. Investment Securities - Available For Sale

Investment securities available for sale of $32,038,638 and $8,037,620 as of September 30, 2013 and December 31, 2012, respectively, consist of commercial paper and corporate debt securities. They are valued at fair value, with unrealized gains and losses reported as a separate component of Stockholders' Equity in Accumulated Other Comprehensive Loss.

Investment securities available for sale are evaluated periodically to determine whether a decline in their value is other than temporary. The term "other than temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the security. Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

A summary of the cost, fair value and bond maturities of the Company's investment securities is as follows:

	September 30, 2013		December 31, 2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Corporate bond maturities				
Within 3 months	$19,170,591	$19,015,521	$3,053,740	$3,002,350
Between 3-12 months	13,173,878	13,023,117	5,110,487	5,035,270
Total	$32,344,469	$32,038,638	$8,164,227	$8,037,620

The following table shows the Company's investment securities with unrealized holding gains and losses and their fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012. The Company has reviewed individual securities to determine whether a decline in fair value below the amortizable cost basis is other than temporary.

	September 30, 2013		December 31, 2012	
Description of Securities	**Fair Value**	**Unrealized Holding Gains (Losses)**	**Fair Value**	**Unrealized Holding Gains (Losses)**
Available for Sale (all unrealized holding gains and losses are less than 12 months at date of measurement)				
Bonds – corporate issuances with unrealized gains	$3,499,580	$1,858	$998,330	$1,063
Bonds – corporate issuances with unrealized losses	28,539,058	(307,689)	7,039,290	(127,670)
Bonds – corporate issuances	$32,038,638	$(305,831)	$8,037,620	$(126,607)

Investment income which includes interest and dividends and gross realized gains and losses on sales of available for sale securities, is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Description of Securities	**2013**	**2012**	**2013**	**2012**
Interest and dividend income	$253,250	$115,449	$527,628	$380,034
Realized losses	(108,718)	(121,030)	(299,401)	(318,206)
	$144,532	$(5,581)	$228,227	$61,828

The following table presents the changes in each component of accumulated other comprehensive loss for the first nine months of 2013.

	Accumulated Other Comprehensive Loss
Balance at January 1, 2013	$ (126,607)

Other comprehensive loss before reclassifications		(478,625)
Realized loss reclassified from other accumulated comprehensive loss		299,401
Net other comprehensive loss, net		(179,224)
Balance at September 30, 2013	$	(305,831)

Note 6. Fair Value of Measurements

FASB Accounting Standards Codification (ASC) Section 820 (formerly SFAS No. 157) "*Fair Value Measurements and Disclosures,*" establishes a three level hierarchy for fair value measurements which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date;

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The common stock warrant liability has been valued using the Black-Scholes option pricing model, the inputs of which are more fully described in Note 11 to the financial statements.

Cash and cash equivalents, other current assets, accounts payable and other accrued liabilities are reflected in the balance sheet at their estimated fair values primarily due to their short-term nature.

The following table presents information about assets and liabilities recorded at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 on the Company's Balance Sheet:

	Total Fair Value on the Balance Sheet	**Quoted Prices In Active Markets For Identical Assets /Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
As of September 30, 2013				
Short-term investments available for sale Bonds – corporate issuances	$32,038,638	$32,038,638	$	$
As of December 31, 2012				
Short-term investments available for sale Bonds – corporate issuances	$8,037,620	$8,037,620	$	$
Liabilities:				
As of September 30, 2013				
Common stock warrant liability	$5,252,660	$	$	$ 5,252,660
As of December 31, 2012				
Common stock warrant liability	$4,283,932	$	$	$ 4,283,932

There were no transfers of assets or liabilities between Level 1 and Level 2 and no transfers in or out of Level 3 during the nine month period ended September 30, 2013.

Note 7. Other Accrued Liabilities

Accrued liabilities at September 30, 2013 and December 31, 2012 include the following:

	September 30, 2013	**December 31, 2012**
Amounts due to contract research organizations and other contractual agreements	$1,124,285	$827,989
Accrued payroll and related benefits	145,231	338,365
Accrued professional fees	49,500	37,400
Accrued interest on notes payable	41,759	
Other	33,345	51,225
Total	$1,394,120	$1,254,979

Note 8. Note Payable

In June 2012, the Company entered into a Loan and Security Agreement (the "Credit Agreement") with Oxford Finance LLC ("Oxford") and Horizon Technology Finance Corporation ("Horizon"). The Credit Agreement provides for a secured term loan of up to $10 million, with 50% of any loans to be funded by Oxford and 50% to be funded by Horizon. The aggregate loan amount may be advanced in two tranches of $5 million each. The first tranche (the "Term A Loan") was made available to the Company on June 27, 2012 and the second tranche (the "Term B Loan") was to be made available, if at all, during the period beginning on the date that the Company achieved positive data in its Phase III clinical trial of RFA and ThermoDox® (the HEAT Study) and ending on March 31, 2013. On January 31, 2013, the Company announced it did not meet the primary endpoint of the HEAT Study, therefore the second tranche was not drawn down.

The Term A Loan is scheduled to mature on October 15, 2015. The obligations under the Credit Agreement are secured by substantially all assets of the Company other than its intellectual property and certain other agreed-upon exclusions.

The Term A Loan bears interest at a fixed rate of 11.75%. However, for the period extending from inception through May 1, 2013 for the Term A Loan, the Company was required to make interest payments only. The Company was also obligated to pay other customary facility fees for a credit facility of this size and type.

The Credit Agreement contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and make dispositions of assets. Upon the occurrence of an event of default under the Credit Agreement, the lenders may cease making loans, terminate the Credit Agreement, declare all amounts outstanding to be immediately due and payable and foreclose on or liquidate the Company's assets that comprise the lenders' collateral. The Credit Agreement specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, a material adverse change in the Company's business, cross-defaults to other materials indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Company is currently in compliance with all loan covenants.

As a fee in connection with the Credit Agreement, the Company issued warrants to Horizon and Oxford (the "Warrants") to purchase the number of shares of the Company's common stock equal to 3% of each loan amount divided by the exercise price, which was calculated as the average NASDAQ closing price of the Company's common stock for the three days prior to the funding of the loan amount ($13.14 per share for the Term A Loan). This resulted in 11,416 warrant shares issued in connection with the Term A Loan. The Warrants issued in connection with the Term A Loan are immediately exercisable for cash or by net exercise and will expire seven years after their issuance, which is June 27, 2019.

The Company valued the Warrants using the Black-Scholes option pricing model and recorded $73,654 as deferred financing fees. In calculating the value of the warrants, the Company assumed a volatility rate of 74.3%, risk free interest rate of 1.10%, an expected life of 3.5 years, a stock price equal to the closing price on the date of the Warrant and no expected forfeitures nor dividends.

In connection with the Credit Agreement, the Company incurred cash and other expenses of $291,369 which were recorded as deferred financing fees. These deferred financing fees are being amortized as interest expense over the life of the loan. For the first nine months of 2013, $98,817 in deferred financing fees was amortized as interest expense. Also, the Company paid $384,607 in interest expense on the Credit Agreement during this same period.

Following is a schedule of future principal payments due on the Credit Agreement:

	Credit Agreement
For the year ending September 30:	
2014	$1,917,808
2015	2,155,690
2016	191,278
	$4,264,776

In November 2011, the Company financed $144,448 of lab equipment through a capital lease. This lease obligation has thirty monthly payments of $5,651 through February 2014. During the first nine months of 2013, the Company made principal and interest payments totaling $50,863. The outstanding lease obligation is $26,800 as of September 30, 2013.

Note 9. Stockholders' Equity

During the first nine months of 2013, we received approximately $0.4 million of gross proceeds from the exercise of warrants and stock options to purchase approximately 137,032 shares of the Company's common stock.

Controlled Equity Offering

On February 1, 2013, the Company entered into a Controlled Equity Offering SM Sales Agreement (the "ATM Agreement") with Cantor Fitzgerald & Co., as sales agent ("Cantor"), pursuant to which Celsion may offer and sell, from time to time, through Cantor, shares of our common stock having an aggregate offering price of up to $25.0 million (the "ATM Shares") pursuant to the Company's previously filed and effective Registration Statement on Form S-3. Under the ATM Agreement, Cantor may sell ATM Shares by any method deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on The NASDAQ Capital Market, on any other existing trading market for the our common stock or to or through a market maker. From February 1, 2013 through February 25, 2013, the Company sold and issued an aggregate of 1,195,927 shares of common stock under the ATM Agreement, receiving approximately $6.8 million in net proceeds.

The Company is not obligated to sell any ATM Shares under the ATM Agreement. Subject to the terms and conditions of the ATM Agreement, Cantor will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of The NASDAQ Capital Market, to sell ATM Shares from time to time based upon the Company's instructions, including any price, time or size limits or other customary parameters or conditions the Company may impose. In addition, pursuant to the terms and conditions of the ATM Agreement and subject to the instructions of the Company, Cantor may sell ATM Shares by any other method permitted by law, including in privately negotiated transactions.

The ATM Agreement will terminate upon the earlier of (i) the sale of ATM Shares under the ATM Agreement having an aggregate offering price of $25 million and (ii) the termination of the ATM Agreement by Cantor or the Company. The ATM Agreement may be terminated by Cantor or the Company at any time upon 10 days' notice to the other party, or by Cantor at any time in certain circumstances, including the occurrence of a material adverse change in the Company. The Company pays Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of ATM Shares and has agreed to provide Cantor with customary indemnification and contribution rights. The Company also reimbursed Cantor for legal fees and disbursements, of $50,000, in connection with entering into the ATM Agreement. In connection with the February 2013 Preferred Stock Offering in February 2013 discussed below, the Company agreed to not sell any ATM Shares for a period of one year from February 26, 2013. In connection with the Common Stock Offering below, the Company agreed to not sell any ATM Shares until June 3, 2013.

February 2013 Preferred Stock Offering

On February 22, 2013, the Company entered into a Securities Purchase Agreement with certain institutional investors, pursuant to which the Company sold, in a registered offering, an aggregate of 15,000.00422 shares of its Series A 0% convertible preferred stock and the warrants to purchase shares of its common stock, for an aggregate purchase price of approximately $15.0 million (the February 2013 Preferred Stock Offering). The closing of the February 2013 Preferred Stock Offering occurred on February 26, 2013, in which the Company received approximately $15.0 million in gross proceeds. Subject to certain ownership limitations, shares of Series A 0% convertible preferred stock are convertible, at the option of the holder thereof, into an aggregate of up to 2,682,764 shares of common stock, and the warrants are exercisable to purchase an aggregate of up to 1,341,382 shares of common stock. Each warrant has an exercise price of $5.31 per share, equal to the closing bid price of common stock on February 21, 2013. The warrants are immediately exercisable and expire five years after the date of issuance.

Upon issuance, we estimated the fair value of the warrants issued in the February 2013 Preferred Stock Offering to be approximately $5.4 million using the Black-Scholes pricing model. Also, upon issuance, we recognized approximately $4.6 million as a one-time, non-cash deemed dividend related to the beneficial conversion feature connected to the preferred stock in the Preferred Stock Offering.

Assumptions used in the valuation of the warrants issued in the February 2013 Preferred Stock Offering are as follows:

Risk-free interest rate	0.78	%
Expected volatility	102.23	%
Expected life (in years)	5.0	
Expected forfeiture rate	0.0	%
Expected dividend yield	0.00	%

As of September 30, 2013, all 2,682,764 shares of common stock in the aggregate were issued upon conversion of all 15,000.00422 shares of the Series A 0% convertible preferred stock.

The Common Stock Offering

On May 30, 2013, the Company entered into a Securities Purchase Agreement with certain institutional investors, pursuant to which the Company sold, in a registered offering, an aggregate of 1,392,109 shares of its common stock for an aggregate purchase price of approximately $9.8 million (the “Common Stock Offering”). The closing of the Common Stock Offering occurred on June 3, 2013. The issuance of common stock in the Common Stock Offering was made pursuant to the Company’s previously filed and effective Registration Statement on Form S-3 (File No. 333-183286), the base prospectus dated September 14, 2012 filed as part of such Registration Statement, and the prospectus supplement filed with the Securities and Exchange Commission on June 3, 2013. The Securities Purchase Agreement also contained representations, warranties, indemnification and other provisions customary for transactions of this nature.

Prior to the closing of the Common Stock Offering, there were an insufficient number of authorized shares to complete the transaction. The investors in the Common Stock Offering also held warrants to purchase common stock of the Company which were issued in connection with previous offerings. Concurrent with the closing of the Common Stock Offering, the institutional investors agreed to waive their rights to exercise these warrants to purchase 1,398,816 shares of common stock of the Company (the “Waived Warrants”) until the Company has obtained stockholders’ approval to increase the number of its authorized shares of common stock in conjunction with the proposed reverse stock split of its outstanding shares of common stock. At the Company’s 2013 Annual Meeting of Stockholders held on July 19, 2013, the Company’s stockholders voted to approve the proposal to grant discretionary authority to the Board of Directors to amend the Certificate of Incorporation of the Company, as amended, to effect, at any time on or prior to the date of the 2014 Annual Meeting of Stockholders, a reverse stock split at an exchange ratio within the specified range and to set the number of authorized shares effective immediately after the reverse stock split at 75 million shares. On October 28, 2013, the Company announced that it effected a 1-for-4.5 reverse stock split of its common stock. See Reverse Stock Split below for further information.

Prior to the closing of the Common Stock Offering, the warrants described above were originally recorded as equity at the fair value on the date of issuance. In accordance with ASC 815-40, *Derivative Instruments and Hedging - Contracts in Entity's Own Equity,* the Waived Warrants are required to be liability classified immediately after the closing of the Common Stock Offering on June 3, 2013 because there were an insufficient number of common shares authorized to permit the full exercise of the warrants. Therefore, the Company has reclassified the fair value of the Waived Warrants totaling approximately $9.1 million from equity to a liability as of June 3, 2013. The Waived Warrants are required to be recorded at fair value at each balance sheet date with changes in fair value recorded in earnings until such time as there are a sufficient number of common shares authorized to permit the full exercise of the warrants (see Note 11). In connection with the Reverse Stock Split as more fully described below, these warrants will be revalued as of October 28, 2013 and reclassified from liabilities to equity.

Following is a summary list of the Waived Warrants:

Shares of common stock associated with the Waived Warrants	Expiration Date of Waived Warrants	Strike Price	Per Share Fair Value on June 3, 2013
1,323,496	2/26/2018	$5.31	$6.60
31,243	7/25/2016	$18.99	$4.41
12,628	7/6/2016	$14.09	$4.81
31,448	11/25/2017	$12.47	$5.56

Assumptions used in the June 3, 2013 valuation of the Waived Warrants associated with the Common Stock Offering are as follows:

Risk-free interest rate	0.50	-1.03	%
Expected volatility	102.9	-110.9	%
Expected life (in years)	3.1	-4.7	
Expected forfeiture rate		0.0	%
Expected dividend yield		0.00	%

January 2011 Preferred Stock Offering

The Company has reassessed the application of ASC 470-20, *Debt with Conversion and Other Options* as it relates to the 8% Series A Redeemable Convertible Preferred Stock Offering completed in January 2011 (the January 2011 Preferred Offering). The Company received gross proceeds from the January 2011 Preferred Offering of approximately $5.1 million in which it sold 5,000 shares of 8% redeemable convertible preferred stock with a stated value of $1,000 per share, each share convertible into 92.5926 shares of common stock, and warrants to purchase up to approximately 463,000 shares of common stock. All 5,000 shares of preferred stock sold in the January 2011 Preferred Offering were subsequently converted into the stated number of common stock shares as of August 2011. ASC 470-20 requires the Company to value the preferred stock and common stock warrants, any resulting beneficial conversion feature(s) resulting from the valuation of these securities and to determine and record the value of each of these securities or conversion feature as debt or equity based on the interpretation and application of ASC 470-20.

The Company allocated the proceeds of the Offering between the redeemable preferred stock and the warrants based on fair value and correctly recorded the redeemable preferred stock as a liability (debt), but did not consider the embedded beneficial conversion feature (BCF) associated with the redeemable preferred stock. ASC 470-20 required the Company to record a BCF of approximately $5 million at the time of issuance of the $5 million convertible Preferred Stock offering and to amortize the BCF as non-cash interest expense over the conversion period. Since all 462,960 shares were converted by August 8, 2011, the entire $5 million of BCF should have been amortized as interest expense during 2011. As a result, the Company's interest expense and net loss were understated by $5 million. The error had no effect on cash, cash flows or total shareholders' equity during 2011 and had no effect on cash, cash flows, net income or total shareholders' equity for any subsequent periods. After considering the quantitative and qualitative effects of the errors to the 2011 annual financial statements, as well as the quarterly period financial statements within 2011, in the opinion of management the error is not material to assessing the financial condition or operations of the Company. The Company has adjusted additional paid-in capital and a corresponding offset to retained earnings on the September 30, 2013 and December 31, 2012 balance sheets to reflect this adjustment.

Reverse Stock Split

On October 28, 2013, the Company announced that it effected a 1-for-4.5 reverse stock split of its common stock which was made effective for trading purposes as of the commencement of trading on October 29, 2013. As of that date, each 9 shares of issued and outstanding common stock and equivalents will be consolidated into 2 shares of common stock. In addition, at the market open on October 29, 2013, the Company's common stock started trading under a new CUSIP number 15117N404 although the Company's ticker symbol, CLSN, remained unchanged.

The reverse stock split was previously approved by the Company's stockholders at the 2013 Annual Meeting held on July 19, 2013, and the Company subsequently filed a Certificate of Amendment to its Certificate of Incorporation to effect the stock consolidation. The primary reasons for the reverse stock split and the amendment are:

- To increase the market price of the Company's common stock making it more attractive to a broader range of institutional and other investors,
- To provide the Company with additional capital resources and flexibility sufficient to execute its business plans including the establishment of strategic relationships with other companies and to ensure its ability to raise additional capital as necessary, and
- As previously announced, to facilitate expanding the Company's business or product lines through potential acquisitions.

Immediately prior to the reverse stock split, the Company had 61,226,873 shares of common stock outstanding which consolidated into 13,604,975 shares of the Company's common stock. No fractional shares were issued in connection with the reverse stock split. Holders of fractional shares have been paid out in cash for the fractional portion with the Company's overall exposure for such payouts consisting of a nominal amount. The number of outstanding options and warrants were adjusted accordingly, with outstanding options being reduced from approximately 3.9 million to approximately 0.9 million and outstanding warrants being reduced from approximately 13.8 million to approximately 3.1 million.

Note 10. Stock Based Compensation

Stock Options Plans

The Company has long-term compensation plans that permit the granting of incentive awards in the form of stock options. Generally, the terms of these plans require that the exercise price of the options may not be less than the fair market value of Celsion's common stock on the date the options are granted. Options granted generally vest over various time frames or upon milestone accomplishments. The Company's options generally expire ten years from the date of the grant.

In 2007, the Company adopted the Celsion Corporation 2007 Stock Incentive Plan (the "2007 Plan") under which 222,222 shares were authorized for issuance. The purpose of the 2007 Plan is to promote the long-term growth and profitability of the Company by providing incentives to improve stockholder value and enable the Company to attract, retain and reward the best available persons for positions of substantial responsibility. The 2007 Plan permits the granting of equity awards in the form of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, and performance awards, or in any combination of the foregoing. At the Annual Meetings of Stockholders of Celsion held on June 25, 2010 and June 7, 2012, the stockholders approved amendments to the Plan. The only material difference between the original Plan and the amended Plan was the number of shares of common stock available for issuance under the amended Plan which was increased by 222,222 to a total of 444,444 shares in 2010 and by 500,000 to a total of 944,444 shares in 2012.

Prior to the adoption of the 2007 Plan, the Company adopted two stock plans for directors, officers and employees (one in 2001 and another in 2004) under which 148,148 shares were reserved for future issuance under each of these plans. As these plans have been superseded by the 2007 Plan, any options previously granted which expire, forfeit, or cancel under these plans will be rolled into the 2007 Plan.

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes model was originally developed for use in estimating the fair value of traded options, which have different characteristics from Celsion's stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate.

The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	Nine Months Ended September 30,							
	2013				**2012**			
Risk-free interest rate	0.85	-	1.19	%	1.60	-	2.97	%
Expected volatility	83.41	-	97.83	%	80.2	-	82.3	%
Expected life (in years)	5.25	-	6.0		5.00	-	6.25	
Expected forfeiture rate	5.0	-	7.5	%	0.0	-	7.5	%
Expected dividend yield			0.0	%			0.0	%

Expected volatilities utilized in the model are based on historical volatility of the Company's stock price. The risk free interest rate is derived from values assigned to U.S. Treasury bonds as published in the Wall Street Journal in effect at the time of grant. The model incorporates exercise, pre-vesting and post-vesting forfeiture assumptions based on analysis of historical data. The expected life of the fiscal 2013 and 2012 grants was generated using the simplified method.

A summary of the Company's stock option and restricted stock awards for the nine month period ended September 30, 2013 is as follows:

	Stock Options		Restricted Stock Awards		Weighted
Equity Awards	**Options Outstanding**	**Weighted Average Exercise Price**	**Non-vested Restricted Stock Outstanding**	**Weighted Average Grant Date Fair Value**	Average **Contractual Terms of Equity Awards (in years)**
Equity awards outstanding at December 31, 2012	725,529	$ 14.63	4,296	$ 14.40	
Equity awards granted	187,777	$ 4.41	111	$ 5.36	
Equity awards exercised	(12,429)	$ 15.71	(444)	$ 8.42	