

Celsion CORP
Form 10-Q
November 10, 2014
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, 2014

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

(State or other jurisdiction of incorporation or organization)

52-1256615

(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 10, 2014, the Registrant had 19,976,546 shares of Common Stock, \$.01 par value per share, outstanding.

CELSION CORPORATION
QUARTERLY REPORT ON
FORM 10-Q

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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, our ability to realize the full extent of the anticipated benefits of our acquisition of substantially all of the assets of Egen, Inc., including achieving operational cost savings and synergies in light of any delays we may encounter in the integration process and additional unforeseen expenses, 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 thereof or 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, and its wholly-owned subsidiary CLSN Laboratories, Inc., also a Delaware corporation.

Trademarks

The Celsion brand and product names, including but not limited to Celsion®, ThermoDox®, EGEN®, TheraPlas™ and TheraSilence™, contained in this document are trademarks, registered trademarks or service marks of Celsion Corporation or its subsidiary 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****CONDENSED CONSOLIDATED****BALANCE SHEETS**

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,558,352	\$5,718,504
Investment securities – available for sale, at fair value	39,047,820	37,156,381
Accrued interest receivable on investment securities	206,171	212,048
Advances, deposits and other current assets	686,518	675,186
Total current assets	44,498,861	43,762,119
Property and equipment (at cost, less accumulated depreciation of \$1,520,690 and \$1,264,190, respectively)	1,043,761	832,886
Other assets:		
In-process research and development	25,801,728	–
Goodwill	1,976,101	–
Deposits, deferred fees and other assets	236,467	1,054,942
Patent licensing fees, net	15,000	20,625
Total other assets	28,029,296	1,075,567
Total assets	\$73,571,918	\$45,670,572

CELSION CORPORATION**CONDENSED CONSOLIDATED****BALANCE SHEETS****(Continued)**

	September 30, 2014 (unaudited)	December 31, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,435,600	\$1,452,436
Accrued liabilities	1,775,149	2,707,653
Notes payable – current portion	2,700,960	10,891
Deferred revenue – current portion	500,000	500,000
Total current liabilities	9,411,709	4,670,980
Earnout milestone liability	13,877,659	–
Common stock warrant liability	398,044	3,026
Notes payable, net of discounts	6,887,662	5,000,000
Deferred revenue	3,625,000	4,000,000
Other non-current liabilities	454,904	472,731
Total liabilities	34,654,978	14,146,737
Stockholders' equity:		
Preferred stock, \$0.01 par value: 100,000 shares authorized; no shares issued or outstanding at September 30, 2014 and December 31, 2013, respectively	–	–
Common stock, \$0.01 par value; 75,000,000 shares authorized; 20,097,103 and 13,737,970 shares issued at September 30, 2014 and December 31, 2013, and 19,976,046 and 13,604,975 shares outstanding at September 30, 2014 and December 31, 2013, respectively	200,971	137,380
Additional paid-in capital	229,447,212	203,139,142
Accumulated other comprehensive loss	(26,072)	(44,166)
Accumulated deficit	(188,501,156)	(169,287,157)
Subtotal	41,120,955	33,945,199

Treasury stock, at cost (121,057 and 132,995 shares at September 30, 2014 and December 31, 2013, respectively)	(2,204,015)	(2,421,364)
Total stockholders' equity	38,916,940	31,523,835
Total liabilities and stockholders' equity	\$73,571,918	\$45,670,572

See accompanying notes to the financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Licensing revenue	\$ 125,000	\$ 125,000	\$ 375,000	\$ 375,000
Operating expenses:				
Research and development	4,629,628	2,269,228	10,688,269	7,494,981
General and administrative	2,044,163	1,389,539	6,783,228	5,028,988
Acquisition costs	119,996	–	1,187,263	–
Total operating expenses	6,793,787	3,658,767	18,658,760	12,523,969
Loss from operations	(6,668,787)	(3,533,767)	(18,283,760)	(12,148,969)
Other (expense) income:				
Gain (loss) from change in valuation of common stock warrant liability	96,830	(518,843)	81,243	8,141,574
Investment income, net	26,515	144,532	57,268	228,227
Interest expense	(418,711)	(162,774)	(912,539)	(519,913)
Other income (expense)	21,807	(669)	19,319	(2,530)
Total other (expense) income, net	(273,559)	(537,754)	(754,709)	7,847,358
Net loss	(6,942,346)	(4,071,521)	(19,038,469)	(4,301,611)
Non-cash deemed dividend from beneficial conversion feature on convertible preferred stock	–	–	–	(4,601,410)
Net loss attributable to common shareholders	\$(6,942,346)	\$(4,071,521)	\$(19,038,469)	\$(8,903,021)
Net loss attributable to common shareholders per common share				
Basic and diluted	\$(0.35)	\$(0.30)	\$(1.06)	\$(0.76)
Weighted average shares outstanding				
Basic and diluted	19,964,389	13,601,800	17,948,841	11,755,611

See accompanying notes to the financial statements.

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CELSION CORPORATION**CONDENSED CONSOLIDATED****STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Other comprehensive (loss) gain				
Changes in:				
Realized (gain) loss on investment securities recognized in investment income, net	\$ (218)	\$ 108,718	\$ 23,473	\$ 299,401
Unrealized loss on investment securities	(14,025)	(200,708)	(5,379)	(478,625)
Other comprehensive (loss) gain	(14,243)	(91,990)	18,094	(179,224)
Net loss	(6,942,346)	(4,071,521)	(19,038,469)	(4,301,611)
Comprehensive loss	\$ (6,956,589)	\$ (4,163,511)	\$ (19,020,375)	\$ (4,480,835)

See accompanying notes to the financial statements.

CELSION CORPORATION**CONDENSED CONSOLIDATED****STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended	
	September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(19,038,469)	\$(4,301,611)
Non-cash items included in net loss:		
Depreciation and amortization	262,125	230,625
Change in fair value of common stock warrant liability	(81,243)	(8,141,574)
Cash received for non-refundable technology transfer fee	–	5,000,000
Deferred revenue	(375,000)	(375,000)
Stock-based compensation	2,253,636	995,950
Treasury shares issued for services and 401(k) matching contributions	41,819	84,271
Change in deferred rent liability	(17,825)	(13,752)
Amortization of deferred finance charges and debt discount associated with notes payable	311,595	98,817
Loss on sale of investment securities	23,473	299,401
Net changes in:		
Accrued interest on short term investments and other current assets	(5,455)	(29,469)
Accounts payable	2,714,365	(90,768)
Accrued liabilities	(932,504)	184,033
Net cash used in operating activities:	(14,843,483)	(6,059,077)
Cash flows from investing activities:		
Purchases of investment securities	(29,175,818)	(42,584,990)
Proceeds from sale and maturity of investment securities	27,279,000	17,919,974
Cash used in acquisition of EGEN, Inc. (net of cash received)	(2,849,760)	–
Refund of deposit for letter of credit	50,000	50,000
Purchases of property and equipment	(398,011)	(57,494)
Net cash used in investing activities	(5,094,589)	(24,672,510)
Cash flows from financing activities:		
Proceeds from sale of common stock equity, net of issuance costs	13,788,811	15,628,099
Proceeds from sale of preferred stock, net of issuance costs	–	13,616,442
Proceeds from exercise of common stock warrants	–	261,944

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Proceeds from exercise of options to purchase common stock	–	184,047
Proceeds from note payable	5,000,000	–
Principal payments on notes payable	(10,891)	(780,021)
Net cash provided by financing activities	18,777,920	28,910,511
Decrease in cash and cash equivalents	(1,160,152)	(1,821,076)
Cash and cash equivalents at beginning of period	5,718,504	14,991,488
Cash and cash equivalents at end of period	\$4,558,352	\$13,170,412
Supplemental disclosures of cash flow information:		
Interest paid	\$605,100	\$390,668
Fair value of common stock issued in acquisition of EGEN, Inc. assets	\$10,850,977	\$–

See accompanying notes to the financial statements.

CELSION CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

Note 1. Business Description

Celsion Corporation, a Delaware corporation based in Lawrenceville, New Jersey, and its wholly owned subsidiary, CLSN Laboratories, Inc., also a Delaware corporation, referred to herein as “Celsion”, “we”, or “the Company,” as the context requires, is a fully-integrated oncology drug development company focused on developing a portfolio of innovative cancer treatments, including directed chemotherapies, immunotherapies and RNA- or DNA-based therapies. Our lead program is ThermoDox®, a proprietary heat-activated liposomal encapsulation of doxorubicin, currently in Phase III development for the treatment of primary liver cancer. Our pipeline also includes EGEN-001, a DNA-based immunotherapy for the localized treatment of ovarian and brain cancers. We have three platform technologies for the development of treatments for those suffering with difficult-to-treat forms of cancer, novel nucleic acid-based immunotherapies and other anti-cancer DNA or RNA therapies, including TheraPlas™ and TheraSilence™. We are working to develop and commercialize more efficient, effective and targeted oncology therapies based on our technologies, with the goal to develop novel therapeutics that maximize efficacy while minimizing side-effects common to cancer treatments.

Note 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the accounts of Celsion Corporation and CLSN Laboratories, Inc., have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All intercompany balances and transactions have been eliminated. 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 condensed consolidated financial statements. Operating results for the three and nine month periods ended September 30, 2014 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, 2013 filed on March 13, 2014 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. No events and conditions would give rise to any information that required accounting recognition or disclosure in the financial statements other than those arising in the ordinary course of business.

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 May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. It will be effective for our first quarter of 2017 and early adoption is not permitted. We are currently evaluating the impact of adoption of this new accounting pronouncement on our financial statements.

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 effected a 4.5-to-1 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 were combined and converted into 13,604,975 shares of the Company's common stock as a result of the reverse stock split. All share, and per share amounts related to common stock, preferred stock, stock options, warrants and restricted stock included in these financial statements have been restated to reflect the reverse stock split. In addition, 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 have been adjusted to reflect post reverse stock split shares.

For the three and nine month periods ended September 30, 2014 and 2013, diluted loss attributable to common shareholders per common share was the same as basic loss attributable to common shareholders 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 attributable to common shareholders per common 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 nine month periods ended September 30, 2014 and 2013 were 6,831,031 and 3,939,484, respectively.

Note 5. Investment Securities - Available For Sale

Investment securities available for sale of \$39,047,820 and \$37,156,381 as of September 30, 2014 and December 31, 2013, 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, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Corporate bond maturities				
Within 3 months	\$ 14,755,066	\$ 14,754,389	\$ 7,799,032	\$ 7,797,689
Between 3-12 months	24,318,826	24,293,431	29,401,543	29,358,692
Total	\$ 39,073,892	\$ 39,047,820	\$ 37,200,576	\$ 37,156,381

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, 2014 and December 31, 2013. The Company has reviewed individual securities to determine whether a decline in fair value below the amortizable cost basis is other than temporary.

Description of Securities	September 30, 2014		December 31, 2013	
	Fair Value	Unrealized	Fair Value	Unrealized
		Holding		Holding
		Gains		Gains
	(Losses)		(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	\$6,015,770	\$ 487	\$6,650,095	\$ 1,907
Bonds – corporate issuances with unrealized losses	33,032,050	(26,559)	30,506,286	(46,073)
Total	\$39,047,820	\$ (26,072)	\$37,156,381	\$ (44,166)

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

Description of Securities	Three Months Ended September 30,	
	2014	2013
Interest and dividend income	\$26,297	\$253,250
Realized gains (losses)	218	(108,718)
Investment income, net	\$26,515	\$144,532

Description of Securities	Nine Months Ended September 30,	
	2014	2013
Interest and dividend income	\$80,741	\$527,628
Realized losses	(23,473)	(299,401)
Investment income, net	\$57,268	\$228,227

The following table presents the change, by component, in accumulated other comprehensive loss for the first nine months of 2014.

	Accumulated Other Comprehensive Loss	
Balance at January 1, 2014	\$ (44,166)
Unrealized losses on investment securities	(5,379)
Realized loss reclassified from other accumulated comprehensive loss	23,473	
Net other comprehensive loss, net	18,094	
Balance at September 30, 2014	\$ (26,072)

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 13 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. 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 months ended September 30, 2014. The following table presents information about assets and liabilities recorded at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 on the Company’s Balance Sheets:

Total Fair Value on the Balance	Quoted Prices In Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)
--	--	--	--

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	Sheet	For	(Level 2)	
		Identical		
		Assets		
		/Liabilities		
		(Level 1)		
Assets:				
Recurring items as of September 30, 2014				
Short-term investments available for sale Bonds – corporate issuances	\$39,047,820	\$39,047,820	\$	\$
Non-recurring items as of September 30, 2014				
In-process research and development	\$25,801,728	\$	\$	\$25,801,728
Goodwill	\$1,976,101	\$	\$	\$1,976,101
Recurring items as of December 31, 2013				
Short-term investments available for sale Bonds – corporate issuances	\$37,156,381	\$37,156,381	\$	\$
Liabilities:				
Recurring items as of September 30, 2014				
Common stock warrant liability	\$398,044	\$	\$	\$398,044
Earnout milestone liability	\$13,877,659	\$	\$	\$13,877,659
As of December 31, 2013				
Common stock warrant liability	\$3,026	\$	\$	\$3,026

Note 7. Acquisition of EGEN, Inc.

On June 20, 2014, Celsion completed the acquisition of substantially all of the assets of Egen, Inc., an Alabama Corporation (EGEN) pursuant to an Asset Purchase Agreement (EGEN Purchase Agreement). CLSN Laboratories, Inc., a Delaware corporation and a wholly-owned subsidiary of Celsion (CLSN Laboratories), acquired all of EGEN's right, title and interest in and to substantially all of the assets of EGEN, including cash and cash equivalents, patents, trademarks and other intellectual property rights, clinical data, certain contracts, licenses and permits, equipment, furniture, office equipment, furnishings, supplies and other tangible personal property. In addition, CLSN Laboratories assumed certain specified liabilities of EGEN, including the liabilities arising out of the acquired contracts and other assets relating to periods after the closing date.

The total aggregate purchase price for the acquisition is up to \$44.4 million, which includes potential future payments of up to \$30.4 million contingent upon achievement of certain milestones set forth in the EGEN Purchase Agreement (Earnout Payments). At the closing, Celsion paid approximately \$3.0 million in cash after expense adjustment and issued 2,712,188 shares of its common stock to EGEN. The shares of Celsion's common stock were issued in a private transaction exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) thereof. In addition, 670,070 shares of Celsion common stock are issuable to EGEN on or after August 2, 2016 pending satisfactory resolution of any post-closing adjustments of expenses and EGEN's indemnification obligations under the EGEN Purchase Agreement (Holdback Shares). The common stock issued and issuable to EGEN pursuant to the Asset Purchase Agreement were filed pursuant to Rule 415 under the Securities Act of 1933 on the Prospectus for Registration Statement No. 333-198786 and was declared effective on September 30, 2014.

The Earnout Payments of up to \$30.4 million will become payable, in cash, shares of Celsion common stock or a combination thereof, at Celsion's option, as follows:

\$12.4 million will become payable upon achieving certain specified development milestones relating to an EGEN-001 ovarian cancer study to be conducted by Celsion or its subsidiary;

\$12.0 million will become payable upon achieving certain specified development milestones relating to an EGEN-001 glioblastoma multiforme brain cancer study to be conducted by Celsion or its subsidiary; and

up to \$6.0 million will become payable upon achieving certain specified development milestones relating to the TheraSilence technology acquired from EGEN in the acquisition. Celsion's obligations to make the Earnout Payments will terminate on the seventh anniversary of the closing date.

On June 9, 2014, Celsion borrowed an additional \$5 million pursuant to a certain Loan and Security Agreement dated as of November 25, 2013, by and between Celsion and Hercules Technology Growth Capital, Inc. (see Note

10). Celsion used the loan proceeds to pay the upfront cash payment at closing and certain transaction costs incurred by Celsion in connection with the acquisition.

The EGEN Purchase Agreement contains customary representations and warranties regarding EGEN and Celsion, covenants regarding the conduct of EGEN's business prior to the consummation of the acquisition, indemnification provisions, termination and other provisions customary for transactions of this nature.

The acquisition of EGEN was accounted for under the acquisition method of accounting which required the Company to perform an allocation of the purchase price to the assets acquired and liabilities assumed. The fair value of the consideration transferred for the acquisition is approximately \$27.6 million determined as follows:

Consideration Paid at Closing

Cash, net of cash acquired	\$2,821,000
Celsion common stock (2,712,188 shares valued at \$3.48 which was the last closing price of our common stock at the time of closing the transaction on June 20, 2014)	9,438,000

Future Consideration

Holdback Shares (670,070 shares of Celsion common stock which were discounted by 38% to reflect the cost of the restriction)	1,441,000
Earnout Payments (at fair value*)	13,878,000
Total fair value of consideration	\$27,578,000

The difference between the aggregate \$30.4 million in future Earnout Payments and the \$13.9 million included in the fair value of the acquisition consideration was based on the Company's risk-adjusted assessment of each milestone and utilizing a discount rate based on the estimated time to achieve the milestone. These milestone payments will be fair valued at the end of each quarter and any change in their value will be recognized in the financial statement. The Company assessed the fair value of these milestones at September 30, 2014 and concluded there was no change in the fair value from June 30, 2014.

Under the acquisition method of accounting, the total purchase price is allocated to EGEN's net tangible and intangible assets and liabilities based on their estimated fair values as of the acquisition date. The table below summarizes the preliminary estimated fair values of EGEN's net tangible and intangible assets and liabilities on the acquisition date. The purchase price allocations are preliminary and subject to change as more detailed analyses are completed and additional information with respect to the fair values of the assets and liabilities acquired becomes available.

Property and equipment, net	\$ 35,000
In-process research and development	25,802,000
Goodwill	1,976,000
Total assets:	27,813,000
Accounts payable and accrued liabilities	(254,000)
Net assets acquired	\$ 27,559,000

The preliminary purchase price exceeds the estimated fair value of the net assets acquired by approximately \$2.0 million which was recorded as goodwill. Transaction costs associated with the EGEN are included in Acquisition

Costs in the Condensed Consolidated Statement of Operations and totaled \$119,996 and \$1,187,263 during the three and nine months ended September 30, 2014, respectively.

Acquired In-Process Research and Development (IPR&D)

Acquired IPR&D consists of EGEN's drug technology platforms: TheraPlas™ and TheraSilence™. The fair value of the IPR&D drug technology platforms was estimated to be \$25.8 million as of the acquisition date using the Multi-Period Excess Earnings Method (MPEEM) which is a form of the income approach. Under the MPEEM, the fair value of an intangible asset is equal to the present value of the asset's incremental after-tax cash flows (excess earnings) remaining after deducting the market rates of return on the estimated value of contributory assets (contributory charge) over its remaining useful life.

To calculate fair value of *the IPR&D* programs under the MPEEM, we used projected cash flows discounted at a rate considered appropriate given the significant inherent risks associated with drug development by development-stage companies. Cash flows were calculated based on estimated projections of revenues and expenses related to the IPR&D programs and then reduced by a contributory charge on requisite assets employed. Contributory assets included debt-free working capital, net fixed assets and assembled workforce. Rates of return on the contributory assets were based on rates used for comparable market participants. Cash flows were assumed to extend through a seven-year market exclusivity period. The resultant cash flows were then discounted to present value using a weighted-average cost of equity capital for companies with profiles substantially similar to that of Celsion, which we believe represents the rate that market participants would use to value the assets. The projected cash flows were based on significant assumptions, including the indication in which we will pursue development of IPR&D programs, the time and resources needed to complete the development and regulatory approval of IPR&D programs, estimates of revenue and operating profit related to the program considering its stage of development, the life of the potential commercialized product, market penetration and competition, and risks associated with achieving commercialization, including delay or failure to obtain regulatory approvals to conduct clinical studies, failure of clinical studies, delay or failure to obtain required market clearances, and intellectual property litigation.

As of the closing of the acquisition, the IPR&D is considered indefinite lived intangible assets and will not be amortized. IPR&D will be reviewed for possible impairment on an annual basis or more frequently if events are indicative of impairment.

Pro Forma Information

The following unaudited pro forma information presents our condensed results of operations as if the acquisition of EGEN had occurred on January 1, 2013:

	Three months ended	
	September 30,	
	2014	2013
Revenues	\$ 125,000	\$ 156,907
Loss from operations	(7,636,699)	(4,237,756)
Net loss applicable to common stock	(7,869,427)	(4,751,600)
	Nine months ended	
	September 30,	
	2014	2013
Revenues	\$ 375,000	\$ 406,907
Loss from operations	(19,951,985)	(13,662,027)

Net loss applicable to common stock (20,549,899) (10,367,146)

The above unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only. It is not necessarily indicative of what the results of operations actually would have been had the acquisition been completed on the date indicated. In addition, it does not purport to project the future operating results of the combined entity.

The operations of EGEN were included with our operations from the period of closing of the acquisition on June 20, 2014 to the end of September 30, 2014. The Company's Statement of Operations included \$699,800 and \$867,700 of operating expenses related to the operations of the acquired business for the three and nine month periods ended September 30, 2014, respectively.

Note 8. Goodwill and IPR&D

At September 30, 2014 and December 31, 2013, our goodwill and IPR&D consisted of the following:

	September 30, 2014	December 31, 2013
In-process research and development	\$25,801,728	\$
Goodwill	1,976,101	
Total goodwill and in-process research and development	\$27,777,829	\$

Goodwill represents the difference between the total purchase price for the net assets purchased from EGEN, and the aggregate fair values of tangible and intangible assets acquired, less liabilities assumed. We will test our goodwill for impairment annually and between annual tests if we become aware of an event or a change in circumstances that would indicate the carrying amount may be impaired.

In-process research and development consists of the estimated fair values of the IPR&D programs as of their respective acquisition dates. We will test our IPR&D for impairment annually and between annual tests if we become aware of an event or a change in circumstances that would indicate the carrying amount may be impaired.

Note 9. Accrued Liabilities

Accrued liabilities at September 30, 2014 and December 31, 2013 include the following:

	September 30,	December 31,
	2014	2013
Amounts due to contract research organizations and other contractual agreements	\$760,174	\$1,711,934
Accrued payroll and related benefits	651,725	900,434
Accrued professional fees	249,500	63,500
Accrued interest on notes payable	93,750	
Other	20,000	31,785
Total accrued liabilities	\$1,775,149	\$2,707,653

Note 10. Note Payable

Hercules Credit Agreement

In November 2013, the Company entered into a loan agreement with Hercules Technology Growth Capital, Inc. (Hercules) which permits up to \$20 million in capital to be distributed in multiple tranches (the Hercules Credit Agreement). The Company drew the first tranche of \$5 million upon closing of the Hercules Credit Agreement in November 2013 and used approximately \$4 million of the proceeds to repay the outstanding obligations under its loan agreement with Oxford Finance LLC and Horizon Technology Finance Corporation as discussed further below. On June 10, 2014, the Company closed the second \$5 million tranche under the Hercules Credit Agreement. The proceeds

were used to fund the \$3.0 million upfront cash payment associated with Celsion's acquisition of EGEN, as well as the Company's transaction costs associated with the EGEN acquisition. Upon the closing of this second tranche, the Company has drawn down a total of \$10 million under the Hercules Credit Agreement.

The obligations under the Hercules Credit Agreement are in the form of secured indebtedness bearing interest at a calculated prime-based variable rate (11.25% per annum since inception). Payments under the loan agreement are interest only for the first twelve months after loan closing, followed by a 30-month amortization period of principal and interest through the scheduled maturity date.

In connection with the Hercules Credit Agreement, the Company incurred cash expenses of \$122,378 which were recorded as deferred financing fees. These deferred financing fees are being amortized as interest expense using the effective interest method over the life of the loan. Also in connection with the Hercules Credit Facility, the Company paid loan origination fees of \$230,000 which has been classified as debt discount. This amount is being amortized as interest expense using the effective interest method over the life of the loan.

As a fee in connection with the Hercules Credit Agreement, the Company issued Hercules a warrant for a total of 97,493 shares of the Company's common stock (the Hercules Warrant) at a per share exercise price of \$3.59, exercisable for cash or by net exercise from November 25, 2013. Upon the closing of the second tranche on June 10, 2014, this warrant became exercisable for an additional 97,493 shares of the Company's common stock. The Hercules Warrant will expire November 25, 2018. Hercules has certain rights to register the common stock underlying the Hercules Warrant pursuant to a Registration Rights Agreement with the Company dated November 25, 2013. The registration rights expire on the date when such stock may be sold under Rule 144 without restriction or upon the first year anniversary of the registration statement for such stock, whichever is earlier. The common stock issuable pursuant to the Hercules Warrant was filed pursuant to Rule 415 under the Securities Act of 1933 on the Prospectus for Registration Statement No. 333-193936 and was declared effective on September 30, 2014.

The Company valued the Hercules Warrant issued at the inception of the loan using the Black-Scholes option pricing model and recorded \$521,763 in 2013 as deferred financing fees. In calculating the value of the warrants, the Company assumed a volatility rate of 102%, risk free interest rate of 1.37%, an expected life of 5 years, a stock price of \$3.55 (closing price on date of the Hercules Warrant) and no expected forfeitures nor dividends. In the second quarter of 2014, the Company reassessed the classification of the warrants and concluded the original amount should be reclassified from deferred financing fees and equity. Therefore, other assets and additional paid in capital were both reduced by the \$521,763. The Company then valued the warrant for the initial 97,493 shares of the Company's common stock as of the inception of the loan and recorded \$260,928 as a debt discount to be amortized as interest expense using the effective interest method over the life of the loan and recognized a warrant liability for this amount. In connection with the closing of the second \$5 million tranche on June 9, 2014, the Company then valued the warrant for the additional 97,493 shares of the Company's common stock which became available and exercisable as of the date and recorded \$215,333 as a debt discount to be amortized as interest expense using the effective interest method over the life of the loan and recognized a warrant liability for this amount. In calculating the value of the warrant for the additional shares of the Company's common stock on June 10, 2014, the Company assumed a volatility rate of 104%, risk free interest rate of 1.69%, an expected remaining life of 4.5 years, a stock price of \$3.07 (closing price June 9, 2014) and no expected forfeitures nor dividends. The warrant liability will be fair valued at the end of each quarter and the resulting change in fair value will be recognized in net income.

Also in connection with each of the \$5.0 million tranches, the Company will be required to pay an end of term charge equal to 3.5% of each original loan amount at time of maturity. Therefore, these amounts totaling \$350,000 are being amortized as interest expense using the effective interest method over the life of the loan.

For the nine months ended September 30, 2014, the Company incurred \$604,688 in interest expense and amortized \$307,440 as interest expense for deferred fees, debt discount and end of term charges in connection with the Hercules Credit Agreement.

The Hercules Credit Agreement contains customary covenants, including covenants that limit or restrict the Company's ability to grant 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 Hercules Credit Agreement, the lenders may cease making loans, terminate the Hercules 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 Hercules 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 effect on the Company or its assets, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Company has maintained compliance with these covenants.

Following is a schedule of future principle payments before debt discount due on the Hercules Credit Agreement:

For the

year ending**September
30,**

2015	\$2,700,960
2016	3,977,412
2017	3,321,628
2018 and thereafter	
Total	\$10,000,000

Oxford & Horizon Credit Agreement

In June 2012, the Company entered into a Loan and Security Agreement (the Oxford & Horizon Credit Agreement) with Oxford Finance LLC (Oxford) and Horizon Technology Finance Corporation (Horizon). The Oxford & Horizon Credit Agreement provided 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 could have been 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 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.

The Term A Loan was originally scheduled to mature on October 15, 2015. As a result of the Hercules Credit Agreement discussed above, the Company terminated the Oxford & Horizon Credit Agreement and repaid the outstanding principle, accrued interest and termination fees totaling approximately \$4.1 million.

The proceeds of the Oxford & Horizon Credit Agreement were used to fund the Company's working capital and general corporate purposes. The obligations under the Oxford & Horizon Credit Agreement were secured by substantially all assets of the Company other than its intellectual property and certain other agreed-upon exclusions.

As a fee in connection with the Oxford & Horizon Credit Agreement, the Company issued warrants to Horizon and Oxford (the Oxford & Horizon 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 of \$13.14 per share, 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. This resulted in 11,415 warrant shares issued in connection with the Term A Loan. The Oxford & Horizon Warrants issued in connection with the Term A Loan are exercisable for cash or by net exercise and will expire seven years after their issuance, which is June 27, 2019.

The Company valued the Oxford & Horizon 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 of \$12.60 (which was the closing price on date of issuing the Oxford & Horizon Warrant) and no expected forfeitures nor dividends. In connection with the Oxford & Horizon Credit Agreement, the Company incurred cash expenses of \$217,715 which were recorded as deferred financing fees in 2012. These deferred financing fees were amortized as interest expense over the life of the loan. During the first three months of 2013, the Company paid \$146,874 in interest expense and amortized \$31,560 of deferred financing fees as interest expense. The Term A Loan bore interest at a fixed rate of 11.75%.

Capital Lease

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 2014, the Company made principal and interest payments totaling \$11,303 to satisfy the remaining obligation under this capital lease.

Note 11. Stockholders' Equity

January 2014 Common Stock Offering

On January 15, 2014, 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 3,603,604 shares of its common stock, par value \$0.01 per share, and warrants to purchase up to 1,801,802 shares of Common Stock, for an aggregate purchase price of approximately \$15 million (the January 2014 Common Stock Offering). The shares of common stock and warrants were sold in units, with each unit consisting of one share of common stock, a Series A warrant to purchase 0.25 share of common stock and a Series B warrant to purchase 0.25 share of common stock. Each unit was sold at a purchase price of \$4.1625. Each Series A warrant will be exercisable at any time on or after its issuance date and until the five-year anniversary of the issuance date. Each Series B warrant will be exercisable at any time on or after its issuance date and until the one-year anniversary of the issuance date. Each warrant has an exercise price of \$4.10 per share. Under the purchase agreement, the Company is prohibited, for a period of nine months after the closing, from effecting or entering into an agreement to issue common stock or any other securities that are at any time convertible into, or exercisable or exchangeable for, or otherwise entitle the holder thereof to receive, common stock to the extent such issuance or sale involves certain variable conversion, exercise or exchange prices or such agreement provides for sale of securities at a price to be determined in the future.

Controlled Equity Offering

On February 1, 2013, the Company entered into a Controlled Equity OfferingSM Sales Agreement (the ATM Agreement) with Cantor Fitzgerald & Co., as sales agent (Cantor), pursuant to which the Company may offer and sell, from time to time, through Cantor, shares of its 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 January 2014 Common Stock Offering, the Company agreed to not sell any ATM Shares until July 22, 2014. In September of 2014, the Company reactivated the ATM Agreement.

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 a one-time, non-cash deemed dividend related to the beneficial conversion feature connected to the preferred stock in the Preferred Stock Offering of approximately \$4.6 million in the first three months of 2013.

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	%

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

May 2013 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.

Reverse Stock Split

On October 28, 2013, the Company effected a 4.5-to-1 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 October 28, 2013, each nine