Celsion CORP
Form 10-Q
August 07, 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 June 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	**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 August 6, 2014, the Registrant had 19,958,121 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 unforseen 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

	June 30, 2014	**December 31,**
	(unaudited)	**2013**
ASSETS		
Current assets:		
Cash and cash equivalents	$9,597,408	$5,718,504
Investment securities – available for sale, at fair value	40,171,059	37,156,381
Accrued interest receivable on investment securities	291,147	212,048
Advances, deposits and other current assets	486,144	675,186
Total current assets	50,545,758	43,762,119
Property and equipment (at cost, less accumulated depreciation of $1,435,190 and $1,264,190, respectively)	850,995	832,886
Other assets:		
In-process research and development	25,801,728	–
Goodwill	1,938,814	–
Deposits, deferred fees and other assets	423,858	1,054,942
Patent licensing fees, net	16,875	20,625
Total other assets	28,181,275	1,075,567
Total assets	$79,578,028	$45,670,572

CELSION CORPORATION

CONDENSED CONSOLIDATED

BALANCE SHEETS

(Continued)

	June 30, 2014 (unaudited)	December 31, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,616,864	$1,452,436
Accrued liabilities	1,873,120	2,707,653
Notes payable – current portion	1,776,603	10,891
Deferred revenue – current portion	500,000	500,000
Total current liabilities	7,766,587	4,670,980
Earnout milestone liability	13,877,659	–
Common stock warrant liability	494,874	3,026
Notes payable, net of discounts	7,868,197	5,000,000
Deferred revenue	3,750,000	4,000,000
Other non-current liabilities	461,449	472,731
Total liabilities	34,218,766	14,146,737
Stockholders' equity:		
Preferred stock, $0.01 par value: 100,000 shares authorized; no shares issued or outstanding at June 30, 2014 and December 31, 2013, respectively	–	–
Common stock, $0.01 par value; 75,000,000 shares authorized; 20,082,353 and 13,737,970 shares issued at June 30, 2014 and December 31, 2013, and 19,958,121 and 13,604,975 shares outstanding at June 30, 2014 and December 31, 2013, respectively	200,824	137,380
Additional paid-in capital	228,944,110	203,139,142
Accumulated other comprehensive loss	(11,829)	(44,166)

Accumulated deficit	(181,512,022)	(169,287,157)
Subtotal	47,621,083	33,945,199
Treasury stock, at cost (124,232 and 132,995 shares at June 30, 2014 and December 31, 2013, respectively)	(2,261,821)	(2,421,364)
Total stockholders' equity	45,359,262	31,523,835
Total liabilities and stockholders' equity	$79,578,028	$45,670,572

See accompanying notes to the financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	**2013**	**June 30, 2014**	**2013**
Licensing revenue	$125,000	$125,000	$250,000	$250,000
Operating expenses:				
Research and development	3,165,473	2,022,576	6,058,641	5,225,753
General and administrative	2,305,208	1,950,720	4,739,065	3,639,449
Acquisition costs	1,067,267	–	1,067,267	–
Total operating expenses	6,537,948	3,973,296	11,864,973	8,865,202
Loss from operations	(6,412,948)	(3,848,296)	(11,614,973)	(8,615,202)
Other (expense) income:				
(Loss) gain from change in valuation of common stock warrant liability	(18,613)	4,380,120	(15,587)	8,660,417
Investment income, net	23,734	67,132	30,753	83,695
Interest expense	(263,115)	(176,211)	(493,828)	(357,139)
Other expense	(2,488)	(1,861)	(2,488)	(1,861)
Total other (expense) income, net	(260,482)	4,269,180	(481,150)	8,385,112
Net income (loss)	(6,673,430)	420,884	(12,096,123)	(230,090)
Non-cash deemed dividend from beneficial conversion feature on convertible preferred stock	–		–	(4,601,410)
Net (loss) income attributable to common shareholders	$(6,673,430)	$420,884	$(12,096,123)	$(4,831,500)
Net income (loss) attributable to common shareholders per common share				
Basic and diluted	$(0.38)	$0.03	$(0.71)	$(0.45)
Weighted average shares outstanding				
Basic	17,526,531	12,087,004	16,931,914	10,807,003

Diluted	17,526,531	13,617,726	16,931,914	10,807,003

See accompanying notes to the financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Other comprehensive (loss) gain				
Changes in:				
Realized loss on investment securities recognized in investment income, net	$3,081	$136,943	$23,691	$190,683
Unrealized gain (loss) on investment securities	12,987	(192,228)	8,646	(277,917)
Other comprehensive gain (loss)	16,068	(55,285)	32,337	(87,234)
Net (loss) income	(6,673,430)	420,884	(12,096,123)	(230,090)
Comprehensive (loss) income	(6,657,362)	$365,599	$(12,063,786)	$(317,324)

See accompanying notes to the financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$(12,096,123)	$(230,090)
Non-cash items included in net loss:		
Depreciation and amortization	174,750	153,750
Change in fair value of common stock warrant liability	15,587	(8,660,417)
Deferred revenue	(250,000)	(250,000)
Stock-based compensation	1,721,476	734,673
Treasury shares issued for services and 401(k) matching contributions	30,801	20,835
Change in deferred rent liability	(11,280)	(8,563)
Amortization of deferred finance charges and debt discount associated with notes payable	176,229	62,823
Loss on sale of investment securities	23,691	190,683
Cash received for non-refundable technology transfer fee	–	5,000,000
Net changes in:		
Accrued interest on short term investments and other current assets	109,943	(166,666)
Accounts payable	1,932,916	(817,058)
Accrued liabilities	(834,533)	572,880
Net cash used in operating activities:	(9,006,543)	(3,397,150)
Cash flows from investing activities:		
Purchases of investment securities	(22,491,879)	(39,995,066)
Proceeds from sale and maturity of investment securities	19,490,000	5,048,000
Cash used in acquisition of EGEN, Inc. (net of cash received)	(2,820,849)	–
Refund of deposit for letter of credit	50,000	50,000
Purchases of property and equipment	(119,745)	(57,494)
Net cash used in investing activities	(5,892,473)	(34,954,560)
Cash flows from financing activities:		
Proceeds from sale of common stock equity, net of issuance costs	13,788,811	15,640,213
Proceeds from sale of preferred stock, net of issuance costs		13,616,442
Proceeds from exercise of common stock warrants		261,944
Proceeds from exercise of options to purchase common stock		181,337

Proceeds from note payable	5,000,000	
Principal payments on notes payable	(10,891)	(319,188)
Net cash provided by financing activities	18,777,920	29,380,748
Increase (decrease) in cash and cash equivalents	3,878,904	(8,970,962)
Cash and cash equivalents at beginning of period	5,718,504	14,991,488
Cash and cash equivalents at end of period	$9,597,408	$6,020,526
Supplemental disclosures of cash flow information:		
Interest paid	$317,600	$247,899
Fair value of common stock issued in acquisition of Egen, Inc. assets	$10,852,766	$

See accompanying notes to the financial statements.

CELSION CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 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 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 six month periods ended June 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 six months ended June 30, 2013 have been adjusted to reflect post reverse stock split shares.

For the three and six month periods ended June 30, 2014 and the six month period ended June 30, 2013, 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 six month periods ended June 30, 2014 and 2013 were 6,948,415 and 3,979,716, respectively.

Note 5. Investment Securities - Available For Sale

Investment securities available for sale of $40,171,059 and $37,156,381 as of June 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:

	June 30, 2014	**December 31, 2013**

	Cost	Fair Value	Cost	Fair Value
Corporate bond maturities				
Within 3 months	$7,817,919	$7,817,694	$7,799,032	$7,797,689
Between 3-12 months	32,364,968	32,353,365	29,401,543	29,358,692
Total	$40,182,887	$40,171,059	$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 June 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.

	June 30, 2014		December 31, 2013	
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	$6,309,709	$ 2,882	$6,650,095	$ 1,907
Bonds – corporate issuances with unrealized losses	33,861,350	(14,711)	30,506,286	(46,073)
Total	$40,171,059	$ (11,829)	$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:

	Three Months Ended June 30,	
Description of Securities	**2014**	**2013**
Interest and dividend income	$26,815	$204,075
Realized losses	(3,081)	(136,943)
Investment income, net	$23,734	$67,132

	Six Months Ended June 30,	
Description of Securities	**2014**	**2013**
Interest and dividend income	$54,444	$274,378
Realized losses	(23,691)	(190,683)
Investment income, net	$30,753	$83,695

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

	Accumulated Other Comprehensive Loss
Balance at January 1, 2014	$ (44,166)
Unrealized gains on investment securities	8,646
Realized loss reclassified from other accumulated comprehensive loss	23,691
Net other comprehensive loss, net	32,337
Balance at June 30, 2014	$ (11,829)

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. The following table presents information about assets and liabilities recorded at fair value on a recurring basis as of June 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)**

	Sheet	For Identical Assets /Liabilities (Level 1)	(Level 2)	
Assets:				
Recurring items as of June 30, 2014				
Short-term investments available for sale Bonds – corporate issuances	$40,171,059	$40,171,059	$	$
Non-recurring items as of June 30, 2014				
In-process research and development	$25,801,728	$	$	$25,801,728
Goodwill	$1,938,814	$	$	$1,938,814
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 June 30, 2014				
Common stock warrant liability	$494,874	$	$	$494,874
Earnout milestone liability	$13,877,659	$	$	13,877,659
As of December 31, 2013				
Common stock warrant liability	$3,026	$	$	$3,026

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 six months ended June 30, 2014.

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 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 utililizing a discount rate based on the estimated time to achieve the milestone.

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	1,939,000
Total assets:	27,776,000
Accounts payable and accrued liabilities	(198,000)
Net assets acquired	$27,578,000

The preliminary purchase price exceeds the estimated fair value of the net assets acquired by approximately $1.9 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 $1,067,267 during the three and six months ended June 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 June 30,	
	2014	**2013**
Revenues	$125,000	$156,907
Loss from operations	(7,380,860)	(4,552,285)
Net loss applicable to common stock	(7,600,511)	(259,195)

	Six months ended June 30,	
	2014	**2013**
Revenues	$250,000	$281,907
Loss from operations	(13,283,198)	(10,128,260)
Net loss applicable to common stock	(13,607,553)	(6,295,625)

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 June 30, 2014. For the three and six month periods ended June 30, 2014, the Company's Statement of Operations included $169,000 of operating expenses related to the operations of the acquired business.

Note 8. Goodwill and IPR&D

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

	June 30, 2014	**December 31, 2013**

In-process research and development	$25,801,728	$ –
Goodwill	1,938,814	
Total goodwill and in-process research and development	$27,740,542	$ –

Goodwill represents the difference between the total purchase price for the net assets purchased from EGEN, Inc. 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 June 30, 2014 and December 31, 2013 include the following:

	June 30, 2014	December 31, 2013
Amounts due to contract research organizations and other contractual agreements	$1,221,577	$1,711,934
Accrued payroll and related benefits	536,408	900,434
Accrued professional fees	13,885	63,500
Accrued interest on notes payable	81,250	
Other	20,000	31,785
Total accrued liabilities	$1,873,120	$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, Inc., 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 Company anticipates that it will use any additional funding up to $10 million as provided under the Hercules Credit Agreement for working capital or in support of its previously announced strategic acquisition initiative, which is designed to identify new technologies and clinical stage products for its development pipeline.

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 $352,378 which were also 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.

As a fee in connection with the Hercules Credit Agreement, the Company issued Hercules a warrant for a total of 194,986 shares of the Company's common stock (the "Hercules Warrant") at a per share exercise price of $3.59, with 50% immediately exercisable for cash or by net exercise from November 25, 2013 and the remaining 50% to be exercisable upon Hercules funding any subsequent tranches. 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 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 50% of the warrants that were vested 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 remaining 97,493 warrants as they vested 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 warrants, 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 interest expense using the effective interest method over the life of the loan.

For the six months ended June 30, 2014, the Company incurred $317,188 in interest expense and amortized $176,229 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 June 30,
2015	$1,776,603
2016	3,865,219
2017	4,358,178
2018	–
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 half 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 Offering[SM] 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.

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 shares of issued and outstanding common stock and equivalents were combined and converted into two shares of common stock outstanding at the time of the reverse stock split. Weighted average shares outstanding and net income (loss) attributable to common stockholders of the Company for the three and six months ended June 30, 2013 have been adjusted to reflect the reverse stock split.

Note 12. 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, June 7, 2012 and June 20, 2014, 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, by 500,000 to a total of 944,444 shares in 2012 and by 2,500,000 to 3,444,444.

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:

	Six Months Ended June 30,			
	2014		2013	
Risk-free interest rate	2.63 - 2.75	%	0.85-1.19	%
Expected volatility	98.7 – 100.7	%	83.4 – 97.8	%
Expected life (in years)	10.00		5.25 – 6.0	
Expected forfeiture rate	5	%	5 – 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 2014 and 2013 grants was generated using the simplified method.

A summary of the Company's stock option and restricted stock awards for the six months ended June 30, 2014 is as follows:

Equity Awards	Stock Options		Restricted Stock Awards		
	Options Outstanding	Weighted Average Exercise Price	Non-vested Restricted Stock Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Contractual Terms of Equity Awards (in years)
Equity awards outstanding at December 31, 2013	861,905	$ 12.30	2,112	$ 16.29	
Equity awards granted	1,045,433	$ 3.55	19,250	$ 3.55	
Equity awards exercised	–	–	(6,091)	$ 8.00	
Equity awards forfeited, cancelled or expired	(44,009)	$ 22.31	–	–	
Equity awards outstanding at June 30, 2014	1,863,329	$ 7.15	15,271	$ 3.54	8.02
Aggregate intrinsic value of outstanding awards at June 30, 2014	$ –		$ 54,039		
Equity awards exercisable at June 30, 2014	1,033,290	$ 10.26			6.72
Aggregate intrinsic value of awards exercisable at June 30, 2014	$ –				

Total compensation cost related to employee stock options and restricted stock awards amounted to $1,035,196 and $471,481 for the three months ended June 30, 2014 and 2013, respectively. Total compensation cost related to employee stock options and restricted stock awards amounted to $1,721,476 and $ 734,673 for the six months ended June 30, 2014 and 2013, respectively. No compensation cost related to share-based payments arrangements was capitalized as part of the cost of any asset as of June 30, 2014 and 2013.

As of June 30, 2014, there was $2.3 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.8 years. The weighted average grant-date fair value was $3.19 and $4.41 per share for the options granted during the six months ended June 30, 2014 and 2013, respectively. The weighted average grant-date fair value was $3.72 for the restricted stock awards granted during the six months ended June 30, 2014. The Company granted 19,250 restricted stock awards during the first six months of 2014. No restricted stock grants were issued in the first six months of 2013.

Collectively, for all the stock option plans as of June 30, 2014, there were a total of 3,695,611 shares reserved, which were comprised of 1,878,600 equity awards granted and 1,817,011 equity awards available for future issuance.

Note 13. Warrants

Common Stock Warrants

Following is a summary of all warrant activity for the six months ended June 30, 2014:

Warrants	Number of Warrants Issued	Weighted Average Exercise Price
Warrants outstanding at December 31, 2013	3,268,013	$ 10.43
Warrants granted in connection with the January 2014 Common Stock Offering, as more fully described in Note 11	1,801,802	$ 4.10
Warrants exercised for common stock	–	–
Warrants outstanding at June 30, 2014	5,069,815	$ 8.18
Aggregate intrinsic value of outstanding warrants at June 30, 2014	$-	
Weighted average remaining contractual terms (in years)	2.9	

Common Stock Warrant Liability

In September 2009, the Company closed a registered direct offering with a select group of institutional investors that raised gross proceeds of $7.1 million and net proceeds of $6.3 million. In connection with this registered direct offering, the Company issued 448,478 shares of its common stock and warrants to purchase 224,239 shares of common stock. The warrants have an exercise price of $23.58 per share and are exercisable at any time on or after the six month anniversary of the date of issuance and on or prior to 66 months after the date of issuance. Under the terms of the warrants, upon certain transactions, including a merger, tender offer or sale of all or substantially all of the assets of the Company, each warrant holder may elect to receive a cash payment in exchange for the warrant, in an amount determined by application of the Black-Scholes option valuation model. Accordingly, pursuant to ASC 815.40, *Derivative Instruments and Hedging - Contracts in Entity's Own Equity,* the warrants are recorded as a liability and then marked to market each period through the Statement of Operations in other income or expense. At the end of each subsequent quarter, the Company will revalue the fair value of the warrants and the change in fair

value will be recorded as a change to the warrant liability and the difference will be recorded through the Statement of Operations in other income or expense.

The fair value of the warrants at June 30, 2014 and December 31, 2013 was $476,261 and $3,026, respectively, calculated using the Black-Scholes option-pricing model with the following ranges of assumptions:

	June 30, 2014		**December 31, 2013**	
Risk-free interest rate	0.11- 1.62	%	0.13	%
Expected volatility	31.6 – 103.4	%	64.74	%
Expected life (in years)	0.75 – 4.5		1.25	
Expected forfeiture rate	0.0	%	0.0	%
Expected dividend yield	0.00	%	0.00	%

The following is a summary of the changes in the common stock warrant liability for the six months ended June 30, 2014:

Beginning balance as of January 1, 2014	$3,026
Fair value of warrants classified as liability (see note 10)	476,261
Loss from the adjustment for the change in fair value included in net income	15,587
Ending balance as of June 30, 2014	$494,874

Prior to the closing of the May 2013 Common Stock Offering, there were an insufficient number of authorized shares to complete the transaction. The investors in the May 2013 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 May 2013 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 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 the section titled "Reverse Stock Split" in Note 12 above for further information.

Prior to the closing of the May 2013 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 were required to be liability classified immediately after the closing of the May 2013 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 on June 3, 2013, the Company reclassified the fair value of the Waived Warrants totaling approximately $9.1 million from equity to a liability. The Waived Warrants were 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 were a sufficient number of common shares authorized to permit the full exercise of the warrants (see Note 11).

As a result of this change in the warrant liability in the aggregate at June 30, 2013 (which included the valuations of warrants from both the September 2009 register direct financing and the warrants waived in the May 2013 Common Stock Offering), the Company recorded a non-cash benefit of $8.7 million in the six months ended June 30, 2013. In connection with the reverse stock split as more fully described above in Note 12, these warrants were valued as of October 28, 2013, and the Company reclassified the fair value of the Waived Warrants totaling approximately $5.3 million from a liability to equity at that time.

Following is a summary list of the Waived Warrants associated with the May 30, 2013 Common Stock Offering and warrants from the September 2009 registered direct offering:

Shares of common stock associated with the	**Expiration Date of Waived Warrants**	**Strike Price**	**Per Share Fair Value**	**Per Share Fair Value on**

Waived Warrants			on June 3, 2013	June 30, 2013
1,323,496	2/26/2018	$5.31	$6.60	$3.33
31,243	7/25/2016	$18.99	$4.41	$1.93
12,628	7/6/2016	$14.09	$4.81	$2.15
31,448	11/25/2017	$12.47	$5.56	$2.66

Shares of common stock associated with warrants issued in the September 2009 registered direct offering	Expiration Date of warrants issued in the September 2009 registered direct offering	Strike Price	Per Share Fair Value on June 30, 2013
448,478	March 31, 2015	$23.58	$0.71

Assumptions used in the valuation of the Waived Warrants associated with the May 30, 2013 Common Stock Offering and warrants from the September 2009 registered direct offering are as follows:

	June 3, 2013	June 30, 2013
Risk-free interest rate	0.50 - 1.03%	0.36 - 1.41%
Expected volatility	102.9 - 110.9%	103.4 - 147.3%
Expected life (in years)	3.1 - 4.7	1.75 - 4.70
Expected forfeiture rate	0.0 %	0.0 %
Expected dividend yield	0.00 %	0.00 %

Note 14. Contingent Liabilities and Commitments

In July 2011, the Company, as a tenant, and a landlord executed a lease (the "Lease") for a 10,870 square foot premises located in Lawrenceville, New Jersey. In October 2011, the Company relocated its offices to Lawrenceville, New Jersey from Columbia, Maryland. The Lease has a term of 66 months and provides for 6 months of free rent; with the first monthly rent payment of approximately $23,000 paid in April 2012. Also, as required by the Lease, the Company provided Brandywine with an irrevocable and unconditional standby letter of credit for $250,000, which the Company secured with an escrow deposit at its banking institution of this same amount. The standby letter of credit will be reduced by $50,000 on each of the 19th, 31st and 43rd months from the initial term, with the remaining $100,000 amount remaining until the term of the Lease has expired. In connection with two $50,000 reductions of the standby letter of credit in April 2013 and 2014, the Company reduced the escrow deposit by $50,000 each time.

Note 15. Technology Development and Licensing Agreements

Technology Development Contract and Commercial Supply Agreement with Zhejiang Hisun Pharmaceutical Co. Ltd.

On May 7, 2012 the Company entered into a long term commercial supply agreement with Zhejiang Hisun Pharmaceutical Co. Ltd. ("Hisun") for the production of ThermoDox® in mainland China, Hong Kong and Macau (the "China territory"). In accordance with the terms of the agreement, Hisun will be responsible for providing all of the technical and regulatory support services, including the costs of all technical transfer, registration and bioequivalence studies, technical transfer costs, Celsion consultative support costs and the purchase of any necessary equipment and additional facility costs necessary to support capacity requirements for the manufacture of ThermoDox®. Celsion will repay Hisun for the aggregate amount of these development costs and fees commencing on the successful completion of three registration batches of ThermoDox®. Hisun is also obligated to certain performance requirements under the agreement. The agreement will initially be limited to a percentage of the production requirements of ThermoDox® in the China territory with Hisun retaining an option for additional global supply after local regulatory approval in the

China territory. In addition, Hisun will collaborate with Celsion around the regulatory approval activities for ThermoDox® with the China State Food and Drug Administration (CHINA FDA). As of June 30, 2014, the Company has incurred approximately $371,000 in costs to be reimbursed to Hisun.

On January 18, 2013, we entered into a technology development contract with Hisun, pursuant to which Hisun paid us a non-refundable research and development fee of $5 million to support our development of ThermoDox® in the China territory. Following our announcement on January 31, 2013 that the HEAT study failed to meet its primary endpoint, Celsion and Hisun have agreed that the Technology Development Contract entered into on January 18, 2013 will remain in effect while the parties continue to collaborate and are evaluating the next steps in relation to ThermoDox®, which include the sub-group analysis of patients in the Phase III HEAT Study for the hepatocellular carcinoma clinical indication and other activities to further the development of ThermoDox® for the Greater China market. The $5.0 million received as a non-refundable payment from Hisun in the first quarter 2013 has been recorded to deferred revenue and will continue to be amortized over the 10 year term of the agreement, until such time as the parties find a mutually acceptable path forward on the development of ThermoDox® based on findings of the ongoing post-study analysis of the HEAT Study data.

On July 19, 2013, the Company and Hisun entered into a Memorandum of Understanding to pursue ongoing collaborations for the continued clinical development of ThermoDox® as well as the technology transfer relating to the commercial manufacture of ThermoDox® for the China territory. This expanded collaboration includes development of the next generation liposomal formulation with the goal of creating safer, more efficacious versions of marketed cancer chemotherapeutics.

Among the key provisions of the Celsion-Hisun Memorandum of Understanding are:

Hisun will provide the Company with non-dilutive financing and the investment necessary to complete the technology transfer of its proprietary manufacturing process and the production of registration batches for the China territory;

Hisun will collaborate with the Company around the clinical and regulatory approval activities for ThermoDox® as well as other liposomal formations with the CHINA FDA; and

Hisun will be granted a right of first offer for a commercial license to ThermoDox® for the sale and distribution of ThermoDox® in the China territory.

Development, Product Supply and Commercialization Agreement with Yakult Honsha

In the fourth quarter of 2008, the Company entered into a Development, Product Supply and Commercialization Agreement with Yakult Honsha Co. LTD (Yakult) under which Yakult was granted the exclusive right to commercialize and market ThermoDox® for the Japanese market. We were paid a $2.5 million up-front licensing fee and we have the potential to receive additional payments from Yakult upon receipt of marketing approval by the Japanese Ministry of Health, Labor and Welfare as well as upon the achievement of certain levels of sales and approval for new indications. We will receive double digit escalating royalties on the sale ThermoDox® in Japan, when and if any such sales occur. We also will be the exclusive supplier of ThermoDox® to Yakult.

In January 2011, the Company amended its Development, Product Supply and Commercialization Agreement with Yakult to provide for up to $4.0 million in an accelerated partial payment to the Company of a future drug approval milestone, which included $2.0 million paid to the Company upon the closing of the preferred equity financing the Company conducted in January 2011 and an additional $2.0 million conditioned upon the resumption of enrollment of Japanese patients in the Japan cohort of the HEAT Study. In consideration of these accelerated milestone payments from Yakult, the Company agreed to reduce future drug approval milestone payments by approximately 40%.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

Statements and terms such as "expect", "anticipate", "estimate", "plan", "believe" and words of similar import regarding our expectations as to the development and effectiveness of our technologies, the potential demand for our products, and other aspects of our present and future business operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. In evaluating such forward-looking statements, readers should specifically consider the various factors contained in our 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 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed on May 8, 2014 with the Securities and Exchange Commission, which factors include, without limitation, plans and objectives of management for future operations or programs or proposed new products or services; changes in the course of research and development activities and in clinical trials; possible changes in cost and timing of development and testing; possible changes in capital structure, financial condition, working capital needs and other financial items; changes in approaches to medical treatment; clinical trial analysis and future plans relating thereto; our ability to realize the full extent of the anticipated benefits of our acquisition of substantially all of the assests 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; introduction of new products by others; possible licenses or acquisitions of other technologies, assets or businesses; and possible actions by customers, suppliers, partners, competitors and regulatory authorities. These and other risks and uncertainties could cause actual results to differ materially from those indicated by forward-looking statements.

The discussion of risks and uncertainties set forth in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K, as well as in other filings with the SEC, is not necessarily a complete or exhaustive list of all risks facing the Company at any particular point in time. We operate in a highly competitive, highly regulated and rapidly changing environment and our business is constantly evolving. 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. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

Strategic and Clinical Overview

Celsion 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.

ThermoDox®

Our lead product ThermoDox® is being evaluated in a Phase III clinical trial, in combination with radiofrequency ablation (RFA), for hepatocellular carcinoma (HCC), also known as primary liver cancer (the HEAT Study); a Phase III clinical trial, in combination with a standardized RFA protocol, for primary liver cancer (the OPTIMA Study) and a Phase II clinical trial for recurrent chest wall breast cancer (the DIGNITY Study). ThermoDox® is a liposomal encapsulation of doxorubicin, an approved and frequently used oncology drug for the treatment of a wide range of cancers. Localized heat at mild hyperthermia temperatures (greater than 39.5 degrees Celsius) releases the encapsulated doxorubicin from the liposome enabling high concentrations of doxorubicin to be deposited preferentially in and around the targeted tumor.

The HEAT Study. On January 31, 2013, we announced that ThermoDox® in combination with RFA did not meet the primary endpoint of Progression Free Survival (PFS) for the 701 patient clinical trial (the HEAT Study) in patients with primary liver cancer. Specifically, we determined, after conferring with the HEAT Study independent Data Monitoring Committee (DMC), that the HEAT Study did not meet the goal of demonstrating persuasive evidence of clinical effectiveness that could form the basis for regulatory approval. In the trial, ThermoDox® was well-tolerated with no unexpected serious adverse events. Following the announcement of the HEAT Study results, we continue to follow patients for overall survival, the secondary endpoint of the HEAT Study, on a quarterly basis. We have conducted a comprehensive analysis of the data from the HEAT Study to assess the future strategic value of ThermoDox®. In April 2013, we announced the deferral of expenses associated with our Phase II study of ThermoDox® in combination with RFA for the treatment of colorectal liver metastases (the ABLATE Study) until such time as we finalize our plans for the continuation of its development program with ThermoDox® in HCC.

The data from the HEAT Study post-hoc analysis suggests that ThermoDox® may substantially improve overall survival, when compared to the control group, in patients if their tumors undergo optimal RFA treatment. Data from five overall survival sweeps have been conducted since the top line PFS data from the HEAT Study was announced in January 2013. In July 2014, we announced that the latest overall survival data from the post-hoc analysis of results from the HEAT Study supports continued clinical development through a prospective pivotal Phase III Study. As reported on July 28, 2014, data from the latest HEAT Study post-hoc analysis as of June 30, 2014 suggest that ThermoDox® may markedly improve overall survival, compared to RFA control, in patients whose lesions undergo RFA treatment for 45 minutes or more. These findings apply to patients with single HCC lesions (64.4% of the HEAT Study population) from both size cohorts of the HEAT Study (3-5 cm and 5-7 cm) and represent a subgroup of 285 patients (41% of the patients in the HEAT Study). For this large subgroup, clinical results indicate a 57% improvement in overall survival, a Hazard Ratio of 0.639 (95% CI 0.419 – 0.974), and a p-Value of 0.037. Median overall survival for this subgroup has not yet been reached and this information should be viewed with caution since it is based on a retrospective analysis of a subgroup that has not reached its median point for the overall survival analysis. We may choose to end this analysis of overall survival once the median is reached for either or both arms of the study.

Emerging data from the HEAT Study post-hoc analysis has been presented at various scientific and medical conferences in 2013 and 2014 by key HEAT Study investigators and leading liver cancer experts. The presentations include:

World Conference on Interventional Oncology in May 2013
International Liver Cancer Association Annual Conference in September 2013
European Conference on Interventional Oncology in June 2013 and April 2014
American Society of Clinical Oncology 50th Annual Meeting in June 2014

We also completed computational modeling with supplementary preclinical animal studies supporting the relationship between heating duration and clinical outcomes.

The OPTIMA Study. On February 24, 2014, we announced that the United States Food and Drug Administration (FDA), after its customary 30 day review period, provided and allowed, subject to compliance with regulatory standards, clearance for our planned pivotal, double-blind, placebo-controlled Phase III trial (the OPTIMA Study) of ThermoDox®, in combination with RFA in primary liver cancer, also known as hepatocellular carcinoma (HCC). The OPTIMA Study trial design is based on the comprehensive analysis of data from the HEAT Study. We launched the OPTIMA Study in the first half of 2014. The OPTIMA Study was designed with extensive input from globally recognized HCC researchers and clinicians and after receiving formal written consultation from the FDA. The OPTIMA Study is expected to enroll approximately 550 patients globally, with up to 100 sites in the United States, Europe, China and Asia Pacific, and will evaluate ThermoDox® in combination with RFA, which will be standardized to a minimum of 45 minutes across all investigators and sites for treating lesions 3 to 7 centimeters, versus standardized RFA alone. The primary endpoint for the trial is overall survival, and the secondary endpoint for the trial is PFS and Safety. The statistical plan calls for two interim efficacy analyses by an independent Data Monitoring Committee.

In addition, we met with the China State Food and Drug Administration (CHINA FDA) in 2014 to discuss the OPTIMA Phase III trial including minimum patient enrollment requirements supporting ThermoDox®'s registration in China. Based on those discussions, we are submitting an application for accelerated approval of the study in China. We plan to expand our clinical site footprint in Europe and will meet with the European Medicines Agency (EMA) during 2014. We have filed a request for a Voluntary Harmonization Procedure (VHP) in Europe, which provides for the assessment of multinational clinical trial applications across several European countries, including Germany, France and Spain.

The DIGNITY Study. On July 24, 2014, we announced interim data from our ongoing open-label Phase II trial (the DIGNITY Study) of ThermoDox® in Recurrent Chest Wall Breast Cancer (RCWBC). The trial is designed to enroll 20 patients at several U.S. clinical sites and is evaluating ThermoDox in combination with mild hyperthermia. Of the 13 patients enrolled and treated, ten were eligible for evaluation of efficacy. Based on data available to date, 60% of patients experienced a stabilization of their highly refractory disease with a local response rate of 50% observed in the ten evaluable patients, notably three complete responses (CR), two partial responses (PR) and one patient with stable disease (SD).

These data are consistent with the previously reported combined clinical data from two Phase I trials, our Phase I DIGNITY Study and the Duke University sponsored Phase I trial of ThermoDox® plus hyperthermia in RCWBC in December 2013. The two similarly designed Phase I studies enrolled patients with highly resistant tumors found on the chest wall and who had progressed on previous therapy including chemotherapy, radiation therapy and hormone therapy. There were 29 patients treated in the two trials (11 patients in our DIGNITY Study and 18 patients in the Duke study). Of the 29 patients treated, 23 were eligible for evaluation of efficacy. A local response rate of over 60% was reported in 14 of the 23 evaluable patients with five complete responses and nine partial responses.

Acquisition of EGEN

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 Asset 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 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 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 the 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 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;

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; and

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

In the acquisition, we purchased EGEN-001, a DNA-based immunotherapy for the localized treatment of ovarian and brain cancers, and 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®. EGEN-001 is currently in an early stage of clinical development for the treatment of ovarian cancer, and the delivery technology platforms that we purchased from EGEN are in preclinical stages of development. We do not expect to realize any revenue from product sales in the next several years, if at all, other than minimal revenue from the sale of reagent products we acquired from EGEN. Further, there can be no assurance that we will be able to develop and maintain a broad range of product candidates. To the extent that we are dependent on the success of one or a few product candidates, results such as those announced in relation to the HEAT Study on January 31, 2013 will have a more significant impact on our financial prospects, financial condition and market value. As demonstrated by the HEAT Study results in January 2013, drug research and development is an inherently uncertain process and there is a high risk of failure at every stage prior to approval. The timing and the outcome of clinical results is extremely difficult to predict. Clinical development successes and failures can have a disproportionate positive or negative impact on our scientific and medical prospects, financial prospects, results of operations, financial condition and market value.

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.

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	1,939,000
Total assets:	27,776,000
Accounts payable and accrued liabilities	(198,000)