

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 March 31, 1998

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 000-14242

CELSION CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

52-1256615

State or other jurisdiction of
incorporation or organization

(I.R.S. Employer Identification No.)

10220-I Old Columbia Road
Columbia, Maryland

21046-1705

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (410) 290-5390

CHEUNG LABORATORIES, INC.

(Former name, 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 X No
--- ---

As of March 31, 1998, the Registrant had outstanding 36,014,782 shares
of Common Stock, \$.01 par value.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CELSION CORPORATION

BALANCE SHEETS

March 31, 1998 and September 30, 1997

ASSETS

3/31/1998 9/30/1997

Current assets:

| | | |
|---------------------------------------|-----------|-----------|
| Cash and cash equivalents | \$112,883 | \$267,353 |
| Accounts receivable | 33,132 | 5,891 |
| Inventories | 388,009 | 329,741 |
| Prepaid expenses | 1,259 | 8,207 |
| Other current asset | 52,362 | 26,755 |
| | ----- | ----- |
| Total current assets | 587,645 | 637,947 |
| | ----- | ----- |
| Property and equipment - at cost: | | |
| ----- | | |
| Furniture and office equipment | 185,367 | 180,348 |
| Laboratory and shop equipment | 47,048 | 92,228 |
| | ----- | ----- |
| | 232,415 | 272,576 |
| Less accumulated depreciation | 205,599 | 213,885 |
| | ----- | ----- |
| Net value of property and equipment | 26,816 | 58,691 |
| Other assets: | | |
| ----- | | |
| Patent licenses (net of amortization) | 132,104 | 126,571 |
| | ----- | ----- |
| Total other assets | 132,104 | 126,571 |
| | ----- | ----- |
| Total assets | \$746,565 | \$823,209 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 3/31/1998 ----- | 9/30/1997 ----- |
|---|--------------------|--------------------|
| Current liabilities: ----- | | |
| Accounts payable - trade | \$ 797,344 | \$ 614,173 |
| Notes payable-other | 142,542 | 1,369,800 |
| Notes payable - related parties | 32,148 | 221,943 |
| Accrued interest payable - related parties | 44,551 | 245,784 |
| Accrued interest payable - other | 153,243 | 116,604 |
| Accrued compensation | 360,216 | 331,715 |
| Accrued professional fees | 193,097 | 256,301 |
| Other accrued liabilities | 20,538 | 15,504 |
| Deferred revenues | 112,031 | 112,031 |
| | ----- | ----- |
| Total current liabilities | 1,855,710 | 3,283,855 |
| | ----- | ----- |
| Long term liabilities: ----- | | |
| Long term debt | -- | -- |
| Total long-term liabilities | -- | -- |
| | ----- | ----- |
| Total liabilities | 1,855,710 | 3,283,855 |
| | ----- | ----- |
| Stockholders' equity: ----- | | |
| Capital stock - \$.01 par value; 51,000,000 shares authorized, 36,014,782 and 29,095,333 issued and outstanding for 3/31/1998 and 9/30/1997, respectively | 360,147 | 290,953 |
| Additional paid-in capital | 15,708,412 | 12,511,923 |
| Accumulated deficit | (17,177,704) | (15,263,522) |
| | ----- | ----- |
| Total stockholders'(deficit) equity | (1,109,145) | (2,460,646) |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 746,565 | \$ 823,209 |
| | ===== | ===== |

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended March 31, | | Six Months Ended March 31 | |
|-------------------------------------|------------------------------|---------------|---------------------------|---------------|
| | 1998 | 1997 | 1998 | 1997 |
| Revenue: | | | | |
| Hyperthermia sales and parts | \$ 110,260 | \$ 19,253 | \$ 110,260 | \$ 113,293 |
| Total revenue | 110,260 | 19,253 | 110,260 | 113,293 |
| Cost of sales | 45,500 | 12,248 | 45,500 | 44,111 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 64,760 | 7,005 | 64,760 | 69,182 |
| Operating expenses: | | | | |
| Selling, general and administrative | 655,494 | 577,735 | 1,341,069 | 974,011 |
| Research and development | 458,780 | (133) | 601,107 | 42,101 |
| Total operating expenses | 1,114,274 | 577,602 | 1,942,176 | 1,016,112 |
| | ----- | ----- | ----- | ----- |
| (Loss) Income from operations | (1,049,514) | (570,597) | (1,877,416) | (946,930) |
| Loss in investment fund | -- | -- | -- | (40,000) |
| Other (expense) income | -- | 8,287 | -- | 24,865 |
| Interest income (expense) | (7,494) | (40,381) | (43,004) | (78,882) |
| Miscellaneous income-non operating | -- | -- | 6,239 | -- |
| Total other income & expenses | (7,494) | -- | (36,765) | -- |
| (Loss) Income before income taxes | (1,057,008) | (602,691) | (1,914,181) | (1,040,948) |
| Income taxes | -- | -- | -- | -- |
| Net (loss) income | (\$1,057,008) | (\$602,691) | (\$1,914,181) | (\$1,040,948) |
| | ===== | ===== | ===== | ===== |
| Net (loss) income per common share | (\$0.03) | (\$0.02) | (\$0.06) | (\$0.04) |
| | ===== | ===== | ===== | ===== |
| Weighted average shares outstanding | \$ 34,386,021 | \$ 25,638,317 | \$ 32,584,716 | \$ 25,433,061 |
| | ===== | ===== | ===== | ===== |

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended March 31, | |
|--|----------------------------|---------------|
| | 1998 | 1997 |
| Cash flows from operating activities: | | |
| Net (loss) income | (\$1,914,181) | (\$1,040,948) |
| Noncash items included in net (loss) income: | | |
| Loss in investment fund | -- | 40,000 |
| Depreciation and amortization | 9,947 | 5,655 |
| Bad debt expense | -- | 1,133 |
| Net changes in: | | |
| Accounts receivable | (27,241) | (21,528) |
| Inventories | (58,268) | (34,795) |
| Accrued interest receivable | -- | (16,376) |
| Other current assets | (18,449) | -- |
| Prepaid expenses | (210) | (1,651) |
| Accounts payable-trade | 209,420 | 457,935 |
| Accrued interest payable - related parties | (143,205) | (115,057) |
| Accrued interest payable - other | 36,639 | 48,813 |
| Accrued compensation | 28,501 | 85,384 |
| Accrued professional fees | (63,204) | 60,000 |
| Other accrued liabilities | 5,034 | (85,452) |
| | ----- | ----- |
| Net cash (used) provided by operating activities | (1,935,218) | (616,886) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | 26,394 | (3,428) |
| Investment in patents | (10,000) | -- |
| | ----- | ----- |
| Net cash provided (used) by investing activities | 16,394 | (3,428) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payment on notes (net) | (89,522) | (3,750) |

| | Six Months Ended March 31, | |
|--|----------------------------|-----------|
| | 1998 | 1997 |
| Proceeds of stock issuances | 1,853,876 | 383,889 |
| | ----- | ----- |
| Net cash provided by financing activities | 1,764,354 | 380,084 |
| | ----- | ----- |
| Net increase(decrease) in cash | (154,470) | (240,175) |
| Cash at beginning of period | 267,353 | 246,931 |
| | ----- | ----- |
| Cash at end of the period | \$ 112,882 | \$ 6,756 |
| | ===== | ===== |
| Schedule of noncash investing and financing transactions: Conversion of accounts payable, debt and accrued interest payable through issuance of common stock | \$ 1,411,808 | \$ -- |
| | ===== | ===== |

See accompanying notes.

CELSION CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed financial statements of Cheung Laboratories, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The September 30, 1997 balance sheet was derived from audited financial statements. The balance sheet as of March 31, 1998 and the statements of operations for the three and six-month periods ended March 31, 1998 and 1997, and the statements of cash flows for the six month periods ended March 31, 1998 and 1997, are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position at such dates and the operating results and cash flows for those periods. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally-accepted accounting principles has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended September 30, 1997, which were included as part of the Company's Report on Form 10-K/A.

Note 2. Common Stock Outstanding and Per Share Information

Net loss per common and common equivalent share was computed by dividing net loss by the weighted average number of shares of Common Stock. For the six months ended March 31, 1998 and the comparable prior year period, weighted average shares increased to 32,584,716 from 25,433,061. The increase is due primarily to certain conversions of convertible notes and debts, issuance of common stock for certain private placements, exercise of stock options, and executive compensation. In accordance with the requirements of Financial Accounting Standard No. 128, which the Company adopted as of December 31, 1997, common stock equivalents have been excluded from the calculation of net loss per share as their inclusion would be anti-dilutive.

Note 3. Inventories

Inventories are carried at the lower of actual cost or market and cost is determined using the average cost method. The components of inventories on 3/31/1998 and 9/30/1997 are as follows:

| | 3/31/1998 ----- | 9/30/1997 ----- |
|-------------------|--------------------|--------------------|
| Materials | \$277,406 | \$235,748 |
| Work in process | 19,993 | 16,990 |
| Finished products | 90,610 ----- | 77,003 ----- |
| | \$388,009 ===== | \$329,741 ===== |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

The statements in this report that relate to future plans, events or performance are forward-looking statements. Actual results, events or performance may differ materially due to a variety of factors, including the factors described on the Form 10-K/A for the year ended September 30, 1997. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Celsion Corporation (the "Company") was incorporated in the State of Maryland in 1982 under the name A.Y. Cheung Associates, Inc. The Company changed its name to Cheung Laboratories, Inc. on June 31, 1984 and to Celsion Corporation on May 1, 1998. It has been engaged in developing and marketing minimally invasive thermotherapy devices utilized in the treatment of cancer as well as genitourinary diseases associated with benign growth of the prostate in older males, the most common being benign prostatic hyperplasia ("BPH"). Thermotherapy (also known as hyperthermia), or heat therapy, is a historically recognized successful method of treatment. In modern thermotherapy, a controlled heat dose is targeted to treatment sites using microwave and/or other energy for therapeutic benefits. Thermotherapy is a clinically established, adjuvant modality for at least doubling tumor response to radiation therapy or chemotherapy. However, delivering the necessary heat within the body without damaging surrounding tissue has been a major impediment to the use of thermotherapy for deep seated disease. The Company has an exclusive license from the Massachusetts Institute of Technology ("MIT") for adaptive phase array ("APA") technology which the Company believes will overcome this problem. This technology, originally developed for the Strategic Defense Initiative (Star Wars) plans of the Department of Defense, applies adaptive phased arrays of microwave energy in conjunction with traditional radiation or chemotherapy for the deep heating of breast, prostate and other deep seated cancers.

The Company will be concentrating its business on the development of two recently acquired technologies: (i) from MIT, APA targeting of microwave energy, which the Company believes will have broad cancer and other medical applications, and (ii) balloon catheter technology for enhanced thermotherapy of BPH and other genitourinary tract conditions. While the balloon catheter technology is related to the Company's previous BPH thermotherapy devices, the Company believes the APA technology has the potential to serve as the core technology for a broad array of medical devices, and accordingly the Company will devote most of its resources to the exploitation of the APA technology.

Results of Operations

Six Months Ended March 31, 1997 and 1998

The Company is concentrating on the development of the new technologies it recently acquired to significantly expand the capabilities and market for its products and has ceased active sales of its current equipment. The Company received revenue of \$110,260 in the six months ended March 31, 1998, compared to revenue of \$113,293 in the same period in the prior fiscal year. With the focus on the development and marketing of the new thermotherapy systems utilizing the patented technologies, the Company anticipates that most of its future revenue will be generated by treatments administered utilizing its thermotherapy systems and the sales of disposable kits. Revenue from the new technologies is not expected until the new technologies are developed and approved for sale by governmental regulatory agencies.

Cost of sales for the six months ended March 31, 1998 was \$45,500, compared to \$44,111 in the six months ended March 31, 1997.

Research and development expense increased to \$601,107 in the six months ended March 31, 1998 from \$42,101 in the six months ended March 31, 1997 due to increased emphasis on technology enhancements. The year to year increase reflects the increased availability of funds for research during the current year period. The Company expects to significantly increase its expenditures for research and development to fund the development or enhancement of products by incorporating the APA technology and the MMTC technology.

Selling, general and administrative expenses increased substantially to \$1,341,069 in the six months ended March 31, 1998 from \$974,011 in the six months ended March 31, 1997. The higher expenses were primarily due to the increase in consulting and legal expenses, and compensation expenses, including \$234,375 in compensation expense recorded for the 250,000 shares of common stock issued to Spencer Volk. The Company expects selling and marketing expense to increase substantially as it expands its advertising and promotional activities and increases its marketing and sales force, in anticipation of the commercialization of its new thermotherapy systems.

Interest expense decreased to \$43,004 in the six months ended March 31, 1998 from \$78,882 in the six months ended March 31, 1997. The decrease was due to the repayment on certain notes.

The net loss for the six months ended March 31, 1998 was \$1,914,181. The loss per share was \$0.06. Operating losses will continue while the Company is developing its new equipment. Losses thereafter will depend upon a number of factors including the market acceptance of the new technologies.

Liquidity and Capital Resources

Since inception, the Company's expenses have significantly exceeded its revenues, resulting in an accumulated deficit of \$17,177,704 and a shareholders' deficit of \$1,109,145 at March 31, 1998. The Company has funded its operations

primarily through the sale of equity securities. At March 31, 1998, the Company had cash, cash equivalents and short-term investments aggregating approximately \$112,883. Net cash used in the Company's operating activities was \$2,019,496 for the six months ended March 31, 1998. The Company must raise additional cash to continue its operations.

The Company has incurred negative cash flows from operations since its inception, and has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts, including seeking FDA approval for the domestic sale of the Company's products, expand its sales and marketing activities. The Company expects that its existing capital resources will not be adequate to fund the Company's operations through the next twelve months. The Company is dependent on raising additional capital to fund its development of technology and to implement its business plan. Such dependence will continue at least until the Company begins marketing its new technologies. The Company does not have any firm commitments for additional capital and there can be no assurance that the Company will be able to raise sufficient additional capital to continue its operations.

The Company's future capital requirements and the adequacy of available funds will depend on numerous factors, including: the successful commercialization of the thermotherapy systems; progress in its product development efforts; the magnitude and scope of such efforts; progress with preclinical studies and clinical trials; the cost and timing of manufacturing scale-up; the development of effective sales and marketing activities; the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; the emerging of competing technological and market developments; and the development of strategic alliances for the marketing of the Company's products. To the extent that funds generated from the Company's operations are insufficient to meet current or planned operating requirements, the Company will be required to obtain additional funds through equity or debt financing, strategic alliances with corporate partners and others, or through other sources. The Company does not have any committed sources of additional financing, and there can be no assurance that additional funding, if necessary, will be available on acceptable terms, if at all. If adequate funds are not available, the Company may be required to delay, scale-back or eliminate certain aspects of its operations or attempt to obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, products or potential markets. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely effected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company presently is not a party to any litigation, and the Company is not aware of any threat of litigation, except as follows:

The Company has been named as a defendant in a lawsuit filed by Eastwell Management Services, Ltd. ("Eastwell") in the United States District Court for the District of Maryland. In the lawsuit, Eastwell is seeking damages in the amount of \$125,000, plus interest. The Company denies that any funds are

due to Eastwell and intends to defend the lawsuit. Eastwell has moved the court for permission to amend its complaint to increase the claimed damages to \$250,000 and to request punitive damages. The Company has requested that the court deny such motion.

In the normal course of business, the Company may be subject to warranty and product liability claims on its thermotherapy equipment. The Company does not have a product liability insurance policy in effect. The assertion of any product liability claim against the Company, therefore, may have an adverse affect on its financial condition. As of March 31, 1998, no liability claims against the Company have been asserted.

Item 2. Changes in Securities

At the April 27, 1998 Annual Meeting, the shareholders increased the Company's authorized capitalization to 100,000,000 shares of common stock, \$.01 par value. See Item 3 below.

During the quarter ended March 31, 1998, the Company issued the following securities without registration under the Securities Act of 1933:

1. The Company issued 1,356,166 shares to twelve persons upon conversion of previously outstanding convertible notes totalling \$556,028. The issuance was made to a limited number of accredited investors upon conversion of previously outstanding convertible securities. The Company believes the issuance was exempt from registration under the Securities Act pursuant to Sections 3(a)(9), 4(2) or 4(6) of the Securities Act and Regulation D promulgated thereunder.

2. The Company issued 1,778,000 shares to forty-one accredited investors for cash consideration totalling \$889,000. The issuance was made to a limited number of accredited investors. The Company believes the issuance was exempt from registration under the Securities Act pursuant to Section 4(2) or 4(6) of the Securities Act and Regulation D promulgated thereunder.

3. The Company issued 75,000 shares to a shareholder on exercise of a stock option. The Company received consideration of \$26,250. The issuance was made to a single accredited investor. The Company believes the issuance was exempt from registration under the Securities Act pursuant to Section 4(2) or 4(6) of the Securities Act and Regulation D promulgated thereunder.

4. The Company issued 44,942 shares to two shareholders. These two shareholders had received shares from the Company in January, 1997 on conversion of debt. The Company determined, at the prompting of one of the shareholders, that it had miscalculated the number of shares issued in 1997, and these shares were issued as an adjustment to correct such miscalculation. The issuance was made to a limited number of accredited investors. The Company believes the issuance was exempt from registration under the Securities Act pursuant to Section 4(2) or 4(6) of the Securities Act and Regulation D promulgated thereunder.

Item 3. Defaults upon Senior Securities

In its Form 10-Q for the quarter ended December 31, 1997, the Company reported on a default in its loan from the George T. Horton Trust. During the quarter ended March 31, 1998 the principal balance of such loan (other than \$100,000 which the holder has agreed to convert to common stock) has been reduced to \$18,000.

Item 4. Submission of Matters to a Vote of Securities Holders

On April 27, 1998 the Company held its Annual Shareholders meeting.

Listed below are the names of the seven directors elected at the meeting and their respective terms of office.

| Name | Term Expires |
|---------------------|--------------|
| Spencer J. Volk | 2001 |
| Augustine Y. Cheung | 2001 |
| Warren C. Stearns | 1999 |
| Walter B. Herbst | 2000 |
| Mel D. Soule | 2000 |
| Max E. Link | 2001 |
| John Mon | 1999 |

Listed below is the vote count related to the other matters approved at the meeting:

| Proposition | For | Against | Abstain |
|---|------------|---------|---------|
| To approve an amendment to the Company's by-laws adopting a staggered board of directors. | 28,531,934 | 171,083 | 142,050 |
| To ratify the appointment of Stegman & Company as auditors to examine the Company's accounts for the fiscal year ending September 30, 1998; | 32,186,822 | 5,425 | 152,768 |
| To amend the Company's Articles of Incorporation to increase the number of authorized shares to 100,000,000 shares. | 31,672,167 | 466,873 | 205,975 |
| To amend the Company's Articles of Incorporation to change the Company's name to Celsion Corporation or variations thereof approved by the Directors. | 32,016,210 | 112,147 | 216,658 |

| Proposition | For | Against | Abstain |
|--|------------|---------|---------|
| To approve an omnibus stock option plan. | 27,626,867 | 357,943 | 418,451 |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Those exhibits previously filed with the Securities and Exchange Commission as required by Item 601 of Regulation S-K, are incorporated herein by reference in accordance with the provisions of Rule 12b-32.

- 3.1 Certificate of Amendment to Certificate of Incorporation effective May 1, 1998.
- 3.2 Amendment to By-laws
- 10.1 Omnibus Stock Option Plan
- 11. Computation of per share earnings.
- 27. Financial Data Schedule

(b) Reports on Form 8-K

No report on Form 8-K was filed during the period reported upon.

SIGNATURES

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

DATE: May 15, 1998

Celsion Corporation
(Registrant)

/s/ Spencer J. Volk
Spencer J. Volk
President

/s/ John Mon
John Mon
Treasurer, Chief Accounting Officer

ARTICLES OF AMENDMENT

CHEUNG LABORATORIES, INC., a Maryland corporation, having its principal office at 10220 Old Columbia Road, Suite I, Columbia, MD 21046-1705 (hereinafter referred to as the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The Charter of the Corporation is hereby amended by striking in their entirety Articles FIRST and FOURTH, and by substituting in lieu thereof the following:

FIRST: The name of the corporation (which is hereinafter called the "Corporation") is: CELSION CORPORATION.

FOURTH: The total number of shares of stock of all classes which the Corporation has authority to issue is 100,000,000 shares of common stock, with a par value of \$.01 per share, amounting in the aggregate to \$1,000,000.00.

SECOND: Prior to such amendment the total number of shares of stock of all classes which the Corporation had authority to issue was 51,000,000 shares of common stock, with a par value of \$.01 per share, amounting in the aggregate to \$510,000.00.

THIRD: By vote, the Board of Directors of the Corporation duly advised the foregoing Articles of Amendment and, by action taken by the stockholders of the Corporation pursuant to a stockholders meeting held April 27, 1998, and proxy statement dated March 20, 1998, the stockholders of the Corporation duly approved said Articles of Amendment.

FOURTH: The foregoing amendments are to be effective on May 1, 1998.

We, the undersigned President and Secretary swear under penalties of perjury that the foregoing is a corporate act.

ATTEST: CHEUNG LABORATORIES, INC.

/s/ JOHN MON

John Mon, Secretary

By: /s/ SPENCER J. VOLK

Spencer J. Volk, President

CELSION CORPORATION
Amendment to By-Laws

ARTICLE II, "DIRECTORS" is amended as follows:

Section 2. "NUMBER AND TENURE" is amended to read, in its entirety, as follows:

Section 2. NUMBER

The number of Directors shall be seven (7), which number may be altered by a majority of the entire Board of Directors, provided that it shall never be less than three (3) nor more than nine (9). The number of Directors may be increased or decreased by the affirmative vote of not less than two-thirds (2/3) of the entire Board of Directors, but the action may not affect the tenure of office of any Director.

Section 2.5 is inserted to read as follows:

Section 2.5. Election. The Board of Directors shall be divided into three classes (designated as Class I, Class II or Class III), each class to be as nearly equal in number as possible. The term of office of directors of the initial Class I directors will expire at the first annual meeting of shareholders after their election, that of the initial Class II directors will expire at the second annual meeting after their election, and that of the initial Class III directors will expire at the third annual meeting after their election. At each annual meeting following such classification and division of the members of the Board of Directors, a number of directors equal to the number of directorships in the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting of shareholders of the Corporation.

Each Director shall hold office for the class term for which he is elected and until his successor shall be elected and qualified. Notwithstanding anything herein to the contrary, any Director may be removed from office at any time by the vote or written consent of shareholders representing not less than two-thirds of the issued and outstanding stock entitled to vote.

AS APPROVED BY THE SHAREHOLDERS ON APRIL 27, 1998.

CHEUNG LABORATORIES, INC.

OMNIBUS STOCK OPTION PLAN

ARTICLE I

Purpose

The purpose of the Omnibus Stock Option Plan (the "Plan") is to enable Cheung Laboratories, Inc. (the "Company") to offer employees and directors of, and consultants to, the Company and its subsidiaries, options to acquire equity interests in the Company, thereby attracting, retaining and rewarding such persons, and strengthening the mutuality of interests between such persons and the Company's stockholders.

ARTICLE II

Definitions

For purposes of the Plan, the following terms shall have the following meanings:

2.1 "Award" shall mean an award under the Plan of any Stock Option.

2.2 "Board" shall mean the Board of Directors of the Company.

2.3 "Change of Control" shall mean the occurrence of any one of the following: (i) the Company enters into an agreement of reorganization, merger or consolidation pursuant to which the Company or a Subsidiary is not the surviving corporation, (ii) the Company sells substantially all its assets to a purchaser other than a Subsidiary, or (iii) other than in a transaction that has been approved by the Board, shares of stock of the Company representing in excess of 50% of the total combined voting power of all outstanding classes of stock of the Company or Parent are acquired, in one transaction or a series of transactions, by a single purchaser or group of related purchasers.

2.4 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.5 "Committee" shall mean the Compensation Committee of the Board consisting of two or more Directors of the Company. If the Board has not established a Compensation Committee, the Committee shall consist of the Board.

2.6 "Common Stock" shall mean the Common stock, \$.01 par value, of the Company.

2.7 "Consultant" shall mean any individual who is a consultant to the Company or a Subsidiary.

2.8 "Director" shall mean any individual who is a member of the Board or the Board of Directors of a Subsidiary.

2.9 "Disability" shall mean a disability that results in the termination of a Participant's employment with the Company or a Subsidiary, as determined pursuant to standard Company procedures.

2.10 "Fair Market Value" for purposes of the Plan, unless

otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any date, the average of the high and low sales prices of a share of Common Stock as reported on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or, if not listed or traded on any such exchange, the Nasdaq Stock Market ("Nasdaq"), or, if such sales prices are not available, the average of the bid and asked prices per share reported on Nasdaq, or, if such quotations are not available, the fair market value as determined by the Board, which determination shall be conclusive.

2.11 "Incentive Stock Option" shall mean any Stock Option awarded under the Plan intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

2.12 "Non-Qualified Stock Option" shall mean any Stock Option awarded under the Plan that is not an Incentive Stock Option.

2.13 "Participant" shall mean an employee, Director or Consultant to whom an Award has been made pursuant to the Plan.

2.14 "Stock Option" or "Option" shall mean any option to purchase shares of Common Stock granted pursuant to Article VI.

2.15 "Subsidiary" shall mean any subsidiary of the Company, 80% or more of the voting stock of which is owned, directly or indirectly, by the Company.

2.16 "Termination for Cause" shall mean a Termination of Employment that has been designated as a "termination for cause" pursuant to standard Company procedures.

2.17 "Termination of Employment" shall mean a termination of employment with, or service as a Director or Consultant of, the Company and all of its Subsidiaries for reasons other than a military or personal leave of absence granted by the Company or any Subsidiary.

ARTICLE III

Administration

3.1 The Committee. The Plan shall be administered and interpreted by the Committee.

3.2 Awards. The Committee shall have full authority to grant Stock Options, pursuant to the terms of the Plan, to persons eligible under Article V. In particular, the Committee shall have the authority:

(a) to select the persons to whom Stock Options may from time to time be granted hereunder;

(b) to determine whether and to what extent Incentive Stock Options and Non-Qualified Stock Options, or any combination thereof, are to be granted hereunder to one or more persons eligible to receive Awards under Article V;

(c) to determine the number of shares of Common Stock to be covered by each such Award granted hereunder; and

(d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder (including, but not limited to, the option price, the term of the option, and any provision affecting the exercisability or acceleration of, any Award).

3.3 Guidelines. Subject to Article VII hereof, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award granted in the manner and to the extent it shall deem necessary to carry the Plan into effect. Notwithstanding the foregoing, no action of the Committee under this Section 3.3 shall impair the rights of any Participant without the Participant's consent, unless otherwise required by law.

3.4 Decisions Final. Any decision, interpretation or other action made or taken in good faith by the Committee arising out of or in connection with the Plan shall be final, binding and conclusive on the Company, all Participants and their respective heirs, executors, administrators, successors and assigns.

ARTICLE IV

Share Limitation

4.1 Shares. The maximum aggregate number of shares of Common Stock which may be issued under the Plan shall be 2,000,000 shares of Common Stock (subject to any increase or decrease pursuant to Section 4.2), which may be either authorized and unissued Common Stock or issued Common Stock reacquired by the Company. If any Option granted under the Plan shall expire, terminate or be cancelled for any reason without having been exercised in full, the number of unpurchased shares shall again be available for the purposes of the Plan.

4.2 Changes. In the event of any merger, reorganization, consolidation, recapitalization, dividend (other than a dividend or its equivalent which is credited to a Participant or a regular cash dividend), stock split, or other change in corporate structure affecting the Common Stock, such substitution or adjustment shall be made in the maximum aggregate number of shares which may be issued under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any Award shall always be a whole number.

ARTICLE V

Eligibility

5.1 Employees. Officers and other employees of the Company and its Subsidiaries are eligible to be granted Awards under the Plan.

5.2 Directors and Consultants. Directors and Consultants are eligible to be granted Awards under the Plan, provided that Directors and Consultants who are not employees of the Company or a Subsidiary may not be granted Incentive Stock Options.

ARTICLE VI

Stock Options

6.1 Options. Each Stock Option granted under the Plan shall be either an Incentive Stock Option or a Non-Qualified Stock Option.

6.2 Grants. The Committee shall have the authority to grant to any person eligible under Article V one or more Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options. To the extent that any Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify as an Incentive Stock Option shall constitute a separate Non-Qualified Stock Option.

6.3 Incentive Stock Options. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the Participants affected, to disqualify any Incentive Stock Option under such Section 422.

6.4 Terms of Options. Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) Stock Option Contract. Each Stock Option shall be evidenced by, and subject to the terms of, a Stock Option Contract executed by the Company and the Participant. The Stock Option Contract shall specify whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option, the number of shares of Common Stock subject to the Stock Option, the option price, the option term, and the other terms and conditions applicable to the Stock Option.

(b) Option Price. Subject to section (l) below, the option price per share of Common Stock purchasable upon exercise of a Stock Option shall be determined by the Committee at the time of grant but shall be not less than 100% of the Fair Market Value of the Common Stock on the date of grant if the Stock Option is intended to be an Incentive Stock Option.

(c) Option Term. Subject to section (l) below, the term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten years after the date it is granted.

(d) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at the time of grant; provided, however, that the Committee may waive any installment exercise or waiting period provisions, in whole or in part, at any time after the date of grant, based on such factors as the Committee shall deem appropriate in its sole discretion.

(e) Method of Exercise. Subject to such installment exercise and waiting period provisions as may be imposed by the Committee, Stock Options may be exercised in whole or in part at any time during the option term by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased and the option price therefor. The notice of exercise shall be accompanied by payment in full of the option price in such form as the Committee may accept and, if requested, by the representation described in Section 9.2. The option price may be paid in cash or check acceptable to the Company or by any other consideration as the Committee deems acceptable. Unless otherwise determined by the Committee in its sole discretion at or after grant, if there is an established trading market in the Common Stock, payment in full or in part may be made in the form of Common Stock duly owned by the Participant (and for which the Participant has good title free and clear of any liens and encumbrances), based on the Fair Market Value of the Common Stock on the last trading date preceding payment. Upon payment in full of the option price, as provided herein, a stock certificate or stock certificates representing the number of shares of Common Stock to which the Participant is entitled shall be issued and delivered to the Participant. A Participant shall

not be deemed to be the holder of Common Stock, or to have the rights of a holder of Common Stock, with respect to shares subject to the Option, unless and until a stock certificate or stock certificates representing such shares of Common Stock are issued to such Participant.

(f) Death. If a Participant's employment by the Company or a Subsidiary terminates by reason of death, unless otherwise determined by the Committee at the time of grant, any Stock Option held by such Participant which was exercisable at the date of death may be exercised by the legal representative of the Participant's estate at any time or times during the period beginning on the date of death and ending one year after the date of death or until the expiration of the stated term of such Stock Option, whichever period is shorter, and any Stock Option not exercisable at the date of death shall be forfeited.

(g) Disability. If a Participant's employment by the Company or a Subsidiary terminates by reason of Disability, unless otherwise determined by the Committee at the time of grant, any Stock Option held by such Participant which was exercisable on the date of such Termination of Employment may thereafter be exercised by the Participant at any time or times during the period beginning on the date of such termination and ending one year after the date of such termination or until the expiration of the stated term of such Stock Option, whichever period is shorter, and any Stock Option not exercisable on the date of such Termination of Employment shall be forfeited. If an Incentive Stock Option is exercised after the expiration of the exercise period that applies for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(h) Termination of Employment. In the event of a Termination of Employment by reason of retirement or for any reason other than death, Disability or Termination for Cause, unless otherwise determined by the Committee at the time of grant, any Stock Option held by such Participant which was exercisable on the date of such Termination of Employment may be exercised by the Participant at any time or times during the period beginning on the date of such Termination of Employment and ending one month after such date or until the expiration of the stated term of such Stock Option, whichever period is shorter, and any Stock Option not exercisable on the date of such Termination of Employment shall be forfeited.

(i) Termination for Cause. In the event of a Termination for Cause, any Stock Option held by the Participant which was not exercised prior to the date of such Termination for Cause shall be forfeited.

(j) Change of Control. The Committee shall have the discretion to determine, with respect to each Award, whether the Option will contain a provision accelerating the vesting of the Option upon a Change of Control.

(k) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined as of the date of grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year under the Plan and/or any other stock option plan of the Company or any subsidiary or parent corporation (within the meaning of Section 424 of the Code) exceeds \$100,000, such Options shall be treated as Options which are not Incentive Stock Options.

Should the foregoing provisions not be necessary in order for the Stock Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the stockholders of the Company.

(l) Ten-Percent Stockholder Rule. Notwithstanding any other provision of the Plan to the contrary, no Incentive Stock Option shall be granted to any person who, immediately prior to the grant, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company, unless the option price is at least 110% of the Fair Market Value of the Common Stock on the date of grant and the Option, by its terms, expires no later than five years after the date of grant.

ARTICLE VII

Termination or Amendment

7.1 Termination or Amendment of the Plan. The Committee may at any time amend, discontinue or terminate the Plan or any part thereof (including any amendment deemed necessary to ensure that the Company may comply with any regulatory requirement referred to in Article IX); provided, however, that, unless otherwise required by law, the rights of a Participant with respect to Awards granted prior to such amendment, discontinuance or termination, may not be impaired without the consent of such Participant and, provided further, without the approval of the Company's stockholders, no amendment may be made that would (i) materially increase the aggregate number of shares of Common

Stock that may be issued under the Plan (except by operation of Section 4.2); (ii) materially modify the requirements as to eligibility to participate in the Plan; or (iii) materially increase the benefits accruing to Participants.

7.2 Amendment of Awards. The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Article IV, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent. The Committee may also substitute new Stock Options for previously granted Stock Options having higher option prices.

ARTICLE VIII

Unfunded Plan

8.1 Unfunded Status of Plan. The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payment not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

ARTICLE IX

General Provisions

9.1 Nonassignment. Except as otherwise provided in the Plan, Awards made hereunder and the rights and privileges conferred thereby shall not be sold, transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of such Award, right or privilege contrary to the provisions hereof, or upon the levy of any attachment or similar process thereon, such Award and the rights and privileges conferred hereby shall immediately terminate and the Award shall immediately be forfeited to the Company.

9.2 Legend. The Committee may require each person acquiring shares pursuant to an Award under the Plan to represent to the Company in writing that the Participant is acquiring the shares without a view to

distribution thereof. The stock certificates representing such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

All certificates representing shares of Common Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange or stock market upon which the Common Stock is then listed or traded, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

9.3 Other Plans. Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

9.4 No Right to Employment. Neither the Plan nor the grant of any Award hereunder shall give any Participant or other employee any right with respect to continuance of employment by the Company or any Subsidiary, nor shall there be a limitation in any way on the right of the Company or any Subsidiary by which a Participant is employed to terminate such Participant's employment at any time. Neither the Plan nor the grant of any Award hereunder shall give any Director or Consultant any right with respect to continued service as a director or consultant, nor shall the Plan impose any limitation on the right of the Company to terminate a Consultant's services at any time or constitute evidence of any agreement or understanding by the Company's stockholders that the Company will nominate any director for reelection.

9.5 Withholding of Taxes. The Company shall have the right to reduce the number of shares of Common Stock otherwise deliverable pursuant to the Plan by an amount that would have a Fair Market Value equal to the amount of all Federal, state and local taxes required to be withheld, or to deduct the amount of such taxes from any cash payment otherwise to be made to the Participant. In connection with such withholding, the Committee may make such arrangements as are consistent with the Plan as it may deem appropriate.

9.6 Listing and Other Conditions.

(a) If the Common Stock is listed on a national securities exchange, the issuance of any shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange. The

Company shall have no obligation to issue such shares unless and until such shares are so listed, and the right to exercise any Option shall be suspended until such listing has been effected.

(b) If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise with respect to shares of Common Stock or Awards, and the right to exercise any Option shall be suspended until, in the opinion of such counsel, such sale or delivery shall be lawful or shall not result in the imposition of excise taxes.

(c) Upon termination of any period of suspension under this Section 9.6, any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Option.

9.7 Governing Law. The Plan and actions taken in connection herewith shall be governed and construed in accordance with the laws of the State of Utah.

9.8 Construction. Wherever any words are used in the Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

9.9 Liability of the Board and the Committee. No member of the Board or the Committee nor any employee of the Company or any of its subsidiaries shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving bad faith, gross negligence or fraud, for anything done or omitted to be done by himself.

9.10 Other Benefits. No payment pursuant to an Award under the Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary nor affect any benefits under any other benefit plan now or hereafter in effect under which the availability or amount of benefits is related to the level of compensation.

9.11 Costs. The Company shall bear all expenses incurred in administering the Plan, including expenses of issuing Common Stock upon the exercise of Options granted.

9.12 Severability. If any part of the Plan shall be determined to be invalid or void in any respect, such determination shall not affect, impair, invalidate or nullify the remaining provisions of the Plan which shall continue in full force and effect.

9.13 Successors. The Plan shall be binding upon and inure to the benefit of any successor or successors of the Company.

9.14 Headings. Article and section headings contained in the Plan are included for convenience only and are not to be used in construing or interpreting the Plan.

ARTICLE X

Effective Date of Plan and Amendments

10.1 The Plan as amended hereby shall be effective as of the earlier of (i) the date of first issuance of any Award under the Plan and (ii) the date of its approval by the Company's stockholders ("Stockholder Approval"); provided, that any issuance of an Award prior to Stockholder Approval will be subject to Stockholder Approval being obtained within one year of the date of the Plan as amended hereby was approved by the Company's board of directors.

ARTICLE XI

Term of Plan

11.1 No Stock Option shall be granted pursuant to the Plan on or after the tenth anniversary of its original approval by the Company's stockholders, but Awards granted prior to such tenth anniversary may extend beyond that date.

As adopted by the Board of Directors on January 19, 1998 and approved by the stockholders on April 27, 1998.

A True Copy.

/s/ JOHN MON

Secretary

EXHIBIT 11

CELSION CORPORATION
COMPUTATION OF EARNINGS PER SHARE

| | Three Months Ended March 31, | | Six Months Ended March 31 | |
|--|------------------------------|------------|---------------------------|-------------|
| | 1998 | 1997 | 1998 | 1997 |
| Net (loss) income | (1,057,008) | (602,691) | (1,914,181) | (1,040,948) |
| Weighted average shares outstanding | 34,386,021 | 25,638,317 | 32,584,716 | 25,433,061 |
| Net (loss)income per common share | (0.03) | (\$0.024) | (0.06) | (\$0.04) |

* Common stock equivalents have been excluded from the calculation of net loss per share as their inclusion would be anti-dilutive.

6-MOS

SEP-30-1998
OCT-01-1997
MAR-31-1998
112883
0
33132
0
388009
587645
232415
205599
746565
1855710
0
0
(1109145)
0
746565
110260
110260
45500
45500
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0
43004
(1914181)
0
(1914181)
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(1914181)
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