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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2000

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)

| Delaware | 52-1256615 |
|---|---|
| State or other jurisdiction of incorporation or organization | (I.R.S. Employer Identification No.) |
| 10220-I Old Columbia Road<br>Columbia, Maryland | 21046-1705 |
| (Address of principal executive offices) | (Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.01 per share
(Title of Class)

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
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of November 30, 2000, 64,487,634 shares of the Registrant's Common Stock were issued and outstanding. As of November 30, 2000, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $74,759,418 based on the closing price for the Registrant's Common Stock on that date as quoted on the American Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Report on Form 10-K: None.

## PART I

## ITEM 1. BUSINESS

### General

We develop medical treatment systems primarily to treat breast cancer and a chronic prostate enlargement condition, common in older males, known as benign prostatic hyperplasia, or BPH, using minimally invasive focused heat technology. Also, we are working with Duke University in the development of heat-sensitive liposome compounds for use in the delivery of chemotherapy drugs to tumor sites, and with Sloan-Kettering on the development of heat-activated gene therapy compounds.

Breast Cancer Treatment System

Current Treatment for Breast Cancer

According to statistics published in the American Cancer Society's A Cancer Journal for Clinicians, there were an average of 183,000 newly diagnosed breast cancer cases in each of the years from 1995 through 1999, and breast cancer is one of the leading causes of death among women in the United States. This form of cancer is presently treated by mastectomy, the surgical removal of the entire breast, or by lumpectomy, the surgical removal of the tumor and surrounding tissue. Both procedures are often followed by radiation therapy or chemotherapy. The more severe forms of surgical intervention can result in disfigurement and a need for extended prosthetic and rehabilitation therapy.

Heat Therapy in Conjunction with Radiation; Earlier Celsion Equipment

Heat therapy (also known as hyperthermia or thermotherapy) is a historically recognized method of treatment of various medical conditions, and heat therapy has been used in the past to treat malignant tumors in conjunction with radiation and chemotherapy. As summarized in the Fourth Edition of Radiobiology for the Radiologist, published in 1994 by J.B. Lippincott Company, in 24 independent studies on an aggregate of 2,234 tumors, treatment consisting of heat plus radiation resulted in an average doubling of the complete response rate of tumors, compared to the use of radiation alone. The complete response rate for this purpose means the total absence of a treated tumor for a minimum of two years. Comparable increases in the complete response rate were reported with the use of heat combined with chemotherapy. In addition, it has been demonstrated on numerous occasions that properly applied heat, alone and without the concurrent use of radiation, can also kill cancer cells.

In 1989 we obtained FDA pre-marketing approval for our microwave-based Microfocus 1000 heat therapy machine for use on surface and subsurface tumors in conjunction with radiation therapy. Until 1995, we marketed our Microfocus equipment for this use in 23 countries, but microwave heat therapy was not widely accepted in the United States medical community as an effective cancer treatment. Moreover, due to the limitations of microwave technology available at that time, it was difficult to deliver a controlled amount of heat to subsurface tumors without overheating surrounding healthy tissue.

New Microwave Technology from MIT

In 1993 we began working with researchers at MIT who had developed, originally for the United States Defense Department, the microwave control technology known as adaptive phased array, or APA. This technology permits properly designed microwave equipment to focus and concentrate energy targeted at diseased tissue areas deep within the body and to heat them selectively, without adverse impact on surrounding healthy tissue. In 1996 MIT granted us an exclusive worldwide license to use this technology for medical applications, and we concentrated our efforts on developing a second generation of Microfocus equipment capable of focusing microwave energy on specific tissue areas. We have now incorporated the APA technology in our second generation microwave therapy equipment.

Celsion Breast Cancer Treatment System

Using the APA technology, we have developed a prototype breast cancer treatment system intended to destroy localized breast tumors through the application of heat alone. The system consists of a microwave generator and conductors, a computer and computer software programs that control the focusing, application and duration of the thermotherapy and a specially designed patient treatment table.

In 1998 we completed preclinical animal testing of our prototype system at the Massachusetts General Hospital, a teaching hospital for Harvard Medical School in Boston, Massachusetts. Using breast tissue-equivalent phantoms and tumors in live animals, these studies demonstrated that our system is capable of selectively heating tumors at temperatures up to 46(0) Celsius without damage to surrounding healthy tissues. High temperatures maintained for eight to ten minutes can cause complete tumor necrosis (death), leading to the death of viable cancer cells within the tumor and in its immediate vicinity. A second prototype clinical breast cancer treatment system at Oxford University in England was used to demonstrate successfully the ability of our equipment to focus heat deep into animal tissue at precise locations and in small target areas. In our view, these animal tests demonstrate that it is possible to eliminate tumors by heat alone and without the use of radiation. Using the preclinical data from Massachusetts General, the FDA granted Celsion a supplemental pre-marketing approval to incorporate the APA technology with Celsion's already approved Microfocus 1000 system. The APA technology enhances the ability of the Microfocus 1000 system to focus energy.

Testing and FDA Approval Process

In January 1999 we received an Investigational Device Exemption, or IDE, approval from the FDA to permit clinical testing of our breast cancer treatment system, and also received FDA approval to proceed with Phase I human clinical studies. In August 2000 we completed the treatment of ten patients in the Phase I study at Columbia Hospital in West Palm Beach, Florida, and at Harbor UCLA Medical Center in Torrance, California, using our breast cancer equipment. In the study, our equipment was clinically tested on female breast tumors on a minimally invasive basis through a single application of precisely controlled and targeted heat. In December 2000, we received approval from the FDA to commence Phase II trials for our breast cancer system. We are planning multi-site Phase II clinical trials to obtain the safety and efficacy data necessary to apply for the addition of two new indications of use to the existing FDA pre-marketing approval for our Microfocus equipment

Ultimate FDA approval for a device such as our equipment typically requires two phases of clinical testing. The purpose of Phase I testing is to show feasibility and safety and involves a small group of patients. Phase II testing may involve as many as 160 patients and is designed to show safety and efficacy. We have completed Phase I testing of our breast cancer treatment system and received approval to commence Phase II clinical trials in December 2000. If Phase II tests are successful, we expect to apply for the addition of a new indication of use to the existing FDA pre-marketing approval for our Microfocus equipment, denoting that the system can be used to destroy cancerous tumors and viable cancer cells within the human breast through the application of focused microwave heat energy alone. If testing and approvals proceed as planned, we expect the breast cancer system will be available for marketing in 2002 through a strategic partner that we expect to identify and select as the approval process nears completion.

BPH Treatment System

Benign Prostatic Hyperplasia

Millions of aging men experience symptoms resulting from a non-cancerous urological disease in which the prostate enlarges and constricts the urethra. This condition is known medically as benign prostatic hyperplasia, or BPH. The prostate is a walnut-sized gland surrounding the male urethra that produces seminal fluid and plays a key role in sperm preservation and transportation. The prostate frequently enlarges with age. As the prostate expands, it compresses or constricts the urethra, thereby restricting the normal passage of urine. This restriction of the urethra may require a patient to exert excessive bladder pressure to urinate. Because the urination process is one of the body's primary means of cleansing impurities, the inability to urinate adequately increases the possibility of infection and bladder and kidney damage.

Prevalence of BPH

Because BPH is an age-related disorder, its incidence increases with maturation of the population. Industry estimates suggest that more than 17 million men in the United States aged 50 and over experience BPH symptoms and that more than 26 million men in similar age categories are affected by BPH worldwide. As the U.S. population continues to age, it is expected that the prevalence of BPH will continue to increase. It is generally estimated that approximately 50% of all men over 55 and 90% of all men over 75 will have BPH symptoms at various times. Also, industry studies estimate the overall costs of BPH therapy at approximately $2.5 to $3.0 billion annually in the United States and $8.0 to $10.0 billion worldwide for patients currently seeking treatment.

Current Treatment Alternatives for BPH

Like cancerous tumors, BPH historically has been treated by surgical intervention or by drug therapy. The primary treatment for BPH currently is transurethral resection of the prostate, or TURP, a surgical procedure in which the prostatic urethra and surrounding diseased tissue in the prostate are trimmed, thereby widening the urethral channel for urine flow. While the TURP procedure typically has been considered the most effective treatment available for the relief of BPH symptoms, the procedure has shortcomings. A large number of patients who undergo TURP encounter significant complications, which can include painful urination, infection, impotence, incontinence and excessive bleeding. Furthermore, the cost of the TURP procedure and the related hospitalization is high, ranging from $8,000 to $12,000. This cost does not take into account the costs of lost work time, which could amount to several weeks, and of reduction in quality of life.

Other less radical surgical procedures are available as alternatives to the TURP procedure. For example, interstitial RF therapy and laser therapy are procedures which employ, respectively, concentrated radio frequency waves or laser radiation to reduce prostate swelling by cauterization of tissue instead of removal of tissue with a surgical knife. However, these procedures require puncture incisions to be made in order to insert cauterizing RF or laser probes into the affected tissue, and therefore also involve the use of a full operating facility and anesthesia, as well as the burning of prostate tissue by the probes. Although these procedures result in less internal bleeding and damage to the urethra compared with the TURP procedure and may decrease the adverse effects and costs associated with surgery, anesthesia and post-operative tissue recovery, they do not entirely eliminate these adverse consequences.

Finally, drug therapy has emerged as an alternative to surgery in the last several years. There are several drugs available for BPH treatment, the two most widely prescribed being Hytrin and Proscar. Hytrin works by relaxing

certain involuntary muscles surrounding the urethra, thereby easing urinary flow, and Proscar is intended actually to shrink the enlarged gland. However, industry studies have asserted that drug therapy costs $500 to $800 per year or more, must be maintained for life, and does not offer consistent relief to a large number of BPH patients. Also, all of the BPH drugs have appreciable side effects. Accordingly, neither the medicinal treatments nor the surgical alternatives available for BPH appear to provide fully satisfactory, cost-effective treatment solutions for BPH sufferers.

Celsion BPH Treatment System

We have developed a BPH treatment system that combines our microwave thermotherapy capability with a proprietary balloon compression technology licensed from MMTC, Inc. The treatment system is intended to deal with the problem of enlarged prostates in two ways. A catheter incorporating a balloon enlargement device delivers computer-controlled transurethral microwave heating that damages and kills the enlarged prostate cells constricting the wall of the urethra. Simultaneously, the balloon device inflates and expands to press the walls of the urethra from the inside outward as the surrounding prostate tissue is heated.

Preclinical animal studies have demonstrated that a natural "stent," or reinforced opening, in the urethra of the animals tested forms after the combined heat plus compression treatment. Also, the BPH system's relatively low temperature (43?C to 45?C) appears to be sufficient to kill prostatic cells surrounding the urethra wall, thereby creating space for the enlargement of the urethra opening. However, the temperature is not high enough to cause swelling in the urethra.

The FDA approved an IDE to allow clinical testing of our BPH system in June 1998 and we completed initial Phase I clinical feasibility human trials of the BPH system at Montefiore Medical Center in May 1999. In the Phase I trials, the combination of computer-controlled microwave heat and balloon catheter expansion was able to increase peak flow rates and to provide immediate relief of symptoms caused by BPH. In addition, we undertook an expanded Phase I study to test an accelerated treatment protocol, which was completed in May 2000, at Montefiore Medical Center. In July 2000 the FDA approved the commencement of multiple-site Phase II studies to collect the safety and efficacy data necessary for FDA pre-marketing approval for commercialization. Montefiore Medical Center commenced Phase II studies effective October 18, 2000. We expect approval from Bayview Johns Hopkins Medical Center and other hospitals shortly. If Phase II testing produces anticipated results and if our BPH system meets all other requirements for FDA approval and receives such approval, we intend to begin marketing the BPH system by early 2002, using a strategic partner that we expect to identify and select prior to that time.

Based on the information we have collected to date, we believe that our BPH system has the potential to deliver a treatment that is performed in one hour or less on an outpatient basis, would not require post-treatment catheterization and would deliver symptomatic relief and an increase in urinary flow rates promptly after the procedure is completed.

Thermo-Liposomes; Duke University Technology

Liposomes are man-made microscopic spheres with a liquid membrane, developed in the 1980's to encapsulate drugs for targeted delivery. Commercial liposomes can now encapsulate chemotherapeutic drugs, enabling them to avoid destruction by the body's immune system, and allowing them to accumulate in tumors. However, with presently available technology, it often takes two to four hours for commercial liposomes to release their drug contents to the tumors, severely limiting the clinical efficacy of liposome chemotherapy treatments.

A team of Duke University scientists has developed heat-sensitive liposomes comprised of materials that rapidly change porosity when heated to a specific point. For application to mammalian tissue, the heat-sensitive liposomes are injected into the blood stream. As the heat-sensitive liposomes circulate within the small arteries, arterioles, and capillaries, the drug contents of the liposomes are released in significantly higher levels in those tissue areas which have been heated for 30 to 60 minutes than in areas that do not receive heat. In animal trials it has been determined that 50 times the amount of drugs carried by heat-sensitive liposomes were deposited at a specific heated tissue site, when compared to conventional liposomes. We have been a sponsor of this research, which is part of a larger Duke University project to develop new temperature-sensitive liposomes, temperature-sensitive gene promoters and related compounds.

Celsion and Duke University are pursuing further development work and preclinical studies aimed at using the new thermo-liposome technology in conjunction with our APA focused heat technology for a variety of applications, including cancer chemotherapy. We view the Duke thermo-liposome technology as a highly promising improvement in the delivery of medicines used to combat serious diseases. For example, the drugs used in chemotherapy regimens to fight cancer are often toxic when administered in large quantities, and produce nausea, vomiting, and exhaustion -- all side effects of the body being poisoned. However, if such a drug can be delivered directly to a tissue area where it is needed, as opposed to being distributed through the entire circulatory system, the local concentration of the drug could be increased without the side effects that accompany large systemic dosing.

On November 10, 1999 Celsion and Duke University entered into a licensing agreement under which we received exclusive rights (subject to certain exceptions) to commercialize and use Duke's thermo-liposome technology. The license is for a term that is the longer of 20 years or the end of any term for which any relevant patents are issued by the U.S. Patent and Trademark Office and includes the right to sub-license. For portions of the technology, our rights are worldwide, and, for various patent rights, the license covers the United States, Canada, the United Kingdom, France, Germany and Japan, and other countries in which we desire to seek patent protection, provided that we will be responsible for the costs of obtaining this protection. We believe that the thermo-liposome technology, once tested satisfactorily, has potential for serving as a basis for new, more effective drug therapies.

The license agreement contains annual royalty and minimum payment provisions and also requires us to make milestone-based royalty payments measured by various events, including product development stages, FDA applications and approvals, foreign marketing approvals and achievement of significant sales. However, in lieu of such milestone-based cash payments, Duke has agreed to accept shares of our common stock to be issued in installments at the time each milestone payment is due, with each installment of shares to be calculated at the average closing price of the common stock during the 20 trading days prior to issuance. The total number of shares issuable to Duke under these provisions is subject to adjustment in certain cases, and Duke has "piggyback" registration rights for public offerings taking place more than one year after the effective date of the license agreement.

In addition, in the July 1, 2000 issue of Cancer Research, a Duke University research scientist reported on his initial use of heat to activate gene therapy and to increase the production in animals of Interleukin-12, a genetic protein, in order to delay tumor growth. On August 8, 2000 we entered into an agreement with Duke University, under which Celsion has the right, for a period of six months thereafter, to negotiate an exclusive license for this technology.

Sloan-Kettering / Celsion Heat-Activated Gene Therapy Compounds

We have also been working with Sloan-Kettering on the development of a thermo-genetic technology for cancer treatment that employs a heat-activated genetic modifier. The modifier is designed to improve the effectiveness of, and

lower the treatment dose for, chemotherapy, heat, and radiation treatment of localized cancers by suppressing the action of the protein responsible for DNA damage repair in tumor cells. Once heated, the genetic modifier multiplies rapidly in the cancer cells. The genetic modifier deletes the repairing protein from the cancer cells, rendering them temporarily incapable of reversing DNA damage incurred during chemotherapy, heat, and radiation treatment. Preclinical studies in vitro suggest that the genetic modifier has the potential to reduce significantly the levels of a radiation or chemotherapy dose required to destroy a tumor, thus decreasing the toxicity and associated side effects of such treatment on other areas of the body.

Celsion and scientists from Sloan-Kettering are conducting initial preclinical tests to evaluate the safety and efficacy of the modifier in an animal model.

In May 2000 we entered into an exclusive worldwide agreement with Sloan-Kettering for the commercial rights to the heat-activated gene therapy technology developed by Sloan-Kettering.

Development, Marketing and Sales Strategy

We are not currently engaged in marketing and sales, and are focusing our activities on the development and testing of our products. Our strategic plan is based upon our expertise and experience in the medical application of focused microwave heat and our relationships with and license rights from our institutional research partners. Our goal has been to employ these resources to develop minimally invasive or non-invasive, non-toxic treatment technologies with efficacy significantly exceeding that available from other sources. Using our management and staff, scientific advisory personnel and available financial resources, we are focusing our efforts on the following goals:

Short-Term Goals; 12 to 24 Months
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- complete the development, testing, and commercialization of our second generation technology for the eradication of cancerous breast tumors;

- complete the clinical testing and commercialization of our BPH treatment system; and

- pursue the development and testing of targeted drug delivery via heat-sensitive liposomes for the purpose of concentrating chemotherapeutic drugs at tumor sites.

Longer-Term Goals; 18 Months and Beyond
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- continue the development of gene therapy to significantly improve the effectiveness of radiation and chemotherapy on tumors; and

- initiate, either alone or with partners, the development of cost-effective enhancements and variations of our technology, including a version of our Microfocus equipment for treating prostate and other cancers, and additional potential applications for heat-sensitive liposome therapy and heat-activated gene therapy in the treatment of inflammatory, infectious and genetic diseases.

If we successfully complete our product development efforts, we plan to place our new products with hospitals, clinics, health maintenance organizations and pharmaceutical companies at modest initial cost. The emphasis of our marketing strategy for our breast cancer and BPH systems will be to create

ongoing cash flow by selling disposable medical procedure kits for each patient use and by charging a per-usage fee. We intend to stimulate demand for our treatment systems by educating patients through various forms of media publicity, consistent with FDA regulations.

We anticipate that, in the near term (up to 24 months), the source of our revenues will be our proprietary technology for BPH and for treatment of breast cancer and deep-seated tumors through the use of focused microwave heat therapy equipment, if the necessary testing and regulatory approval processes are completed. We intend to generate initial sales through a combination of direct marketing and development of marketing alliances.

In the longer term (from 18 months to 36 months and beyond), we will seek to develop new revenue streams from our current work with Duke University in targeted drug delivery systems and with Sloan-Kettering in gene therapy. We anticipate that revenues will come from the licensing of this technology to pharmaceutical manufacturers and major institutional health care providers who would employ these technologies to deliver drug regimens or gene therapy throughout the body. Also, because this technology is designed to be used in conjunction with our APA-improved microwave equipment, we expect that the acceptance of the technology will generate demand for our equipment which, in turn, is expected to create equipment sales revenues. To prepare for future marketing of our heat-sensitive drug delivery systems, we intend to explore the possibilities of forming alliances with pharmaceutical companies, major hospitals and health maintenance organizations.

License Agreements and Proprietary Rights

We do not own any patents. Although we do have two U.S. patents pending which we plan to file internationally. The pending U.S. applications are directed to our breast cancer and BPH treatments. Through our license agreements with MIT and MMTC, we have exclusive rights within defined fields of use to seven U.S. patents. Four of the patents relate to thermotherapy for cancer, including the APA technology, and three relate to the treatment of BPH.

The term of our exclusive rights under the MIT license agreement expires on the earlier of ten years after the first commercial sale of a product using the licensed technology or October 24, 2009, but our rights continue on a non-exclusive basis for the life of the MIT patents. Our exclusive rights under the MIT license agreement relate to use of the technology in conjunction with application of heat to breast tumor conditions, the application of heat to prostate conditions and all other medical uses. MIT has retained certain rights in the licensed technology for non-commercial research purposes.

Our exclusive rights under the MMTC license agreements extend for the life of MMTC's patents. The patent terms expire at various times from May 2011 to November 2014.

Our rights under our license agreement with Duke University extend for the longer of 20 years or the end of any term for which any relevant patents are issued by the U.S. Patent and Trademark Office. For portions of the technology, our rights are worldwide, and for the various patent rights, the license covers the United States, Canada, the United Kingdom, France, Germany and Japan.

Our rights under our license agreement with Sloan-Kettering will terminate at the later of 20 years after the date of the license agreement or the last expiration date of any patent rights covered by the agreement.

The MIT, MMTC, Duke University and Sloan-Kettering license agreements each contains license fee, royalty and/or research support provisions, testing and regulatory milestones, and other performance requirements that we must meet by certain deadlines with respect to the use of the licensed technologies. In conjunction with the patent holders, we intend to file international applications for certain of the U.S. patents.

In addition to the rights available to us under completed or pending license agreements, we rely on our own proprietary know-how and experience in the development and use of microwave thermotherapy equipment, which we seek to protect, in part, through proprietary information agreements with employees, consultants and others. We cannot offer assurances that these information agreements will not be breached, that we will have adequate remedies for any breach or that these agreements, even if fully enforced, will be adequate to prevent third-party use of our proprietary technology. Similarly, we cannot guarantee that technology rights licensed to us by others will not be successfully challenged or circumvented by third parties, or that the rights granted will provide us with adequate protection. We are aware of patent applications and issued patents belonging to other companies, and it is uncertain whether any of these, or patent applications filed of which we may not have any knowledge, will require us to alter our potential products or processes, pay licensing fees, or cease certain activities.

Manufacturing of Products

We believe we are best suited to conduct basic research and development activities, to pursue a prototype product through clinical testing and regulatory approval and to market the final product. Accordingly, we do not intend to engage in manufacturing, but instead intend to outsource the manufacture of final commercial products, components and disposables. Based on past experience, we do not anticipate any significant obstacles in identifying and contracting with qualified suppliers and manufacturers

Third-party Reimbursement

Third-party reimbursement arrangements will likely be essential to commercial acceptance of our new devices, and overall cost-effectiveness and physician advocacy will be keys to obtaining such reimbursement. We believe that our equipment can be used to deliver treatment at substantially lower total cost than surgical treatments for BPH or cancer or continuous drug therapy. Consequently, we believe that third-party payors seeking procedures that provide quality clinical outcomes at lower cost will help drive acceptance of our products.

Our strategy for obtaining new reimbursement authorizations in the United States is to obtain appropriate reimbursement codes and to perform studies in conjunction with clinical trials to establish the efficacy and cost-effectiveness of the procedures as compared to surgical and drug treatments for BPH and cancerous breast tumors. We plan to use this information when approaching health care payors to obtain new reimbursement authorizations.

With the increasing use of managed care and capitation as a means to control health care costs in the United States, we believe that physicians may view our products as a tool to treat BPH and breast cancer patients at a lower total cost, thus providing them with a competitive advantage when negotiating managed care contracts. This is especially important in the United States, where a significant portion of the aging, Medicare-eligible population is moving into a managed care system.

Subject to regulatory approval for the use of our equipment to treat breast cancer and BPH, we anticipate that physicians will submit insurance claims for reimbursement for such procedures to third-party payors, such as Medicare carriers, Medicaid carriers, health maintenance organizations and private insurers. In the United States and in international markets, third-party reimbursement is generally available for existing therapies used to treat cancer and BPH. The availability and level of reimbursement from such payors for the use of our new products will be a significant factor in our ability to commercialize these systems.

We expect that new regulations regarding third-party reimbursement for certain investigational devices in the United States will allow us to pursue early reimbursement from Medicare with individual clinical sites prior to receiving FDA approval. However, FDA approval likely will be necessary to obtain a national coverage determination from Medicare. The national coverage determination for third-party reimbursement will depend on the determination of the United States Health Care Financing Administration, or HCFA, which establishes national coverage policies for Medicare carriers, including the amount to be reimbursed, for coverage of claims submitted for reimbursement related to specific procedures. Private insurance companies and health maintenance organizations make their own determinations regarding coverage and reimbursement based upon "usual and customary" fees. Reimbursement experience with a particular third-party payor does not reflect a formal reimbursement determination by the third-party payor. New outpatient procedure codes were instituted on August 1, 2000. Our ability to petition successfully for these new reimbursement codes will ultimately determine the degree of success we achieve in implementing our business model.

Internationally, we expect to seek reimbursement approvals for procedures utilizing our new products on an individual country basis. Some countries currently have established reimbursement authorizations for transurethral microwave therapy. We expect to use clinical studies and physician advocacy to support reimbursement requests in countries in which there is currently no reimbursement for such procedures.

United States Regulation

In the United States, our products are comprehensively regulated by FDA as medical devices under the Federal Food, Drug, and Cosmetic Act ("FD&C Act"). The FD&C Act and FDA's implementing regulations and policies govern, among other things, the manufacturing, safety, efficacy, labeling, storage, and marketing of medical devices. The FDA classifies medical devices as Class I, Class II or Class III, depending on the nature of the medical device and the existence in the market of any similar devices. Class I medical devices are subject to general controls, including labeling, premarket notification and good manufacturing practice requirements. Class II medical devices are subject to general and special controls, including performance standards, postmarket surveillance, patient registries and FDA guidelines. Class III medical devices are those which must receive premarket ("PMA") approval by FDA to ensure their safety and effectiveness, typically including life-sustaining, life-supporting, or implantable devices or new devices which have been found not to be substantially equivalent to currently marketed medical devices.

Before a new device can be introduced into the U.S. market, it must, in most cases, receive either premarket notification clearance under section 510(k) of the FD&C Act or approval pursuant to the more costly and time-consuming PMA process. A PMA application must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device, typically including the results of clinical trials pursuant to an approved IDE, bench tests, laboratory and animal studies. Thus far, the FDA has classified our products as Class III products requiring PMAs. If we fail to obtain PMA approval for any of our new systems, or if the PMA process is extended for a considerable length of time, the commencement of commercial sales of any such system could be delayed substantially or indefinitely.

The Federal Communications Commission, or FCC, regulates the frequencies of microwave and radio-frequency emissions from medical and other types of equipment to prevent interference with commercial and governmental communications networks. The FCC has approved the frequency of 915 MHZ for medical applications, and machines utilizing that frequency do not require shielding to prevent interference with communications. Our Microfocus and BPH treatment products utilize the 915 MHZ frequency.

In December 1984 the HCFA approved reimbursement under Medicare and Medicaid for thermotherapy treatment when used in conjunction with radiation therapy for the treatment of surface and subsurface tumors. At this time, most of the large medical insurance carriers in the United States have approved reimbursement for this type of thermotherapy treatment under their health policies. Thermotherapy treatment administered using equipment that has received pre-marketing approval is eligible for such reimbursement.

We are subject to inspection by the FDA at any time to ensure compliance with FDA regulations in the production and sale of medical products. We believe that we are substantially in compliance with FDA regulations governing the manufacturing and marketing of medical devices. Previously, we received pre-marketing approval from the FDA for our original Microfocus 1000 cancer treatment equipment for surface and subsurface tumors in conjunction with radiation. We have also received a supplemental pre-marketing approval to add the APA technology from MIT to the Microfocus 1000 equipment. We are seeking a new indication of use to enable our improved Microfocus equipment with APA to be used for breast tumor ablation using heat alone.

We also received approval to conduct an expanded Phase I study using our BPH treatment system. The purpose of the expanded Phase I study was to test a revised protocol, intended both to shorten significantly the BPH treatment time for each patient application and to lower the manufacturing cost for a disposable device used during the treatment. This expanded Phase I study was completed in May 2000. In July 2000 the FDA approved the commencement of multiple-site Phase II studies, and the first of such studies commenced effective October 18, 2000.

In August 2000 we completed the treatment of ten patients in a Phase I Study of our breast cancer treatment system and, in December 2000, we received FDA approval to commence Phase II clinical trials.

Regulation of Foreign Sales

Sales of domestically produced medical devices outside of the United States are subject to United States export requirements and foreign regulatory controls. Export sales of investigational devices that are subject to pre-marketing approval requirements and have not received FDA marketing approval generally may be subject to FDA export permit requirements under the FD&C Act, depending upon, among other things, the purpose of the export (investigational or commercial) and on whether the device has valid marketing authorization in a country listed in the FDA Export Reform and Enhancement Act of 1996. In order to obtain a permit, when required, we must provide the FDA with documentation that the medical device regulatory authority of the country in which the purchaser is located has approved the device. In addition, the FDA must find that export of the device is not contrary to public health and safety of the country in which the purchaser is located.

We have sold our original products in 23 countries in Asia, Europe, and South America. Meeting the registration requirements within these countries was the responsibility of our distributors in each of these countries. Legal restrictions on the sale of imported medical devices vary from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. We expect to receive approvals for marketing in a number of countries outside the United States prior to the time that we will be able to market our products in the United States. However, the timing for such approvals currently is not known.

Competition

Many companies and institutions are engaged in research and development of thermotherapy technologies for both cancer and prostate disease products that seek treatment outcomes similar to those we are pursuing. In addition, a number of companies and institutions are pursuing alternative treatment strategies through the use of radio frequency, laser and ultrasound energy sources, all of which appear to be in the early stages of development and testing. We believe that the level of interest by others in investigating the potential of thermotherapy and alternative technologies will continue and may increase. Potential competitors engaged in all areas of cancer and prostate treatment research in the United States and other countries include, among others, major pharmaceutical and chemical companies, specialized technology companies, universities and other research institutions. Most of our competitors and potential competitors have substantially greater financial, technical, human and other resources, and may also have far greater experience than we have, both in preclinical testing and human clinical trials of new products and in obtaining FDA and other regulatory approvals. One or more of these companies or institutions could succeed in developing products or other technologies that are more effective than any which we have been or are developing, or which could render our technology and products obsolete and non-competitive. Furthermore, if we are permitted to commence commercial sales of products, we will also be competing, with respect to manufacturing efficiency and marketing, with companies having greater resources and experience in these areas.

Several U.S. and overseas companies, including BSD Medical Corporation and Labthermics Technology, Inc., have marketed equipment using heat produced by microwaves or ultrasound to treat surface and subsurface cancer, either with or without the concurrent use of radiation or chemotherapy. To our knowledge, among these entities, BSD Medical Corporation has the longest business history and has sold the largest number of microwave thermotherapy units for the treatment of surface and subsurface cancer, but we do not believe that BSD Medical Corporation has a dominant competitive position or that its equipment has been widely accepted for use in the treatment of cancer. We believe BSD Medical Corporation is attempting to develop more advanced versions of its equipment for use in treating deep-seated tumors.

In the treatment of BPH, EDAP TMS S.A., a French company, has marketed a device named the "Prostatron," both in the U.S. and overseas, which uses microwave-generated heat to destroy enlarged prostate tissue. Also, Urologix, Inc., a domestic company, has introduced a BPH medical device similar to the Prostatron. In October 2000, Urologix acquired the Prostatron product line from EDAP. While we believe these devices have not been widely used or accepted by providers of medical treatment for BPH, there is no guarantee that EDAP TMS S.A. or Urologix, Inc. will not seek to introduce improved equipment for the treatment of BPH. We are aware of other companies currently developing or marketing devices using other forms of energy, including laser, radio frequency, ultrasound and infrared technologies, for the treatment of BPH. If any of these treatment technologies become widely accepted by the medical community in the future, such acceptance could pose a pose a significant competitive risk to us.

Product Liability and Insurance

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing, and marketing of human therapeutic products. We presently have product liability insurance limited to $5,000,000 per incident, and, if we were to be subject to a claim in excess of this coverage or to a claim not covered by our insurance and the claim succeeded, we would be required to pay the claim out of our own limited resources.

Employees

We presently utilize the services of 28 individuals on a regular basis, including 13 full-time employees and 15 part-time consultants. In addition, our Scientific Advisory Board and Business Advisory Board each actively assists our management with advice on various projects. None of our employees are represented by a collective bargaining organization, and we consider our relations with our employees to be good.

ITEM 2. PROPERTIES

Our present facilities consist of approximately 7,000 square feet of administrative office, laboratory and workshop space at 10220-I Old Columbia Road, Columbia, Maryland 21046-1705. We lease the premises from an unaffiliated party under a five-year lease that expires May 31, 2005. The monthly rent under the lease is $9,300

ITEM 3. LEGAL PROCEEDINGS

On April 27, 2000, we commenced an action in the United States District Court for the District of Maryland against Warren C. Stearns, a former director, Mr. Stearn's management company, SMC, and a number of Mr. Stearns' family members and colleagues who hold certain warrants for the purchase of approximately 3.4 million shares of our common stock. These warrants were intended as compensation for certain investment banking, brokerage and financing services rendered and to be rendered by Mr. Stearns and SMC. We have reviewed with our attorneys the circumstances surrounding the issuance of these warrants and the services that were performed or purported to be performed by Mr. Stearns and SMC, and have concluded that these warrants should be rescinded. We believe that the issuance of these warrants was in violation of Section 15 of the Securities and Exchange Act of 1934 and constitutes a voidable transaction under the provisions of Section 29 of that Act.

The defendants in the litigation have moved to dismiss the complaint on various technical grounds, including statute of limitations. We are opposing this motion and intend to prosecute the litigation vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

## PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price for Our Common Stock

Since May 31, 2000, our common stock has traded on The American Stock Exchange. Prior to that time, the common stock traded on the over-the-counter market. The following table sets forth the high and low sales prices for our common stock reported by The American Stock Exchange since, May 31, 2000 and, prior to that date, the high and low bid prices for our shares as quoted in the Electronic Bulletin Board operated by The Nasdaq Stock Market, Inc. The quotations set forth below do not include retail markups, markdowns or commissions, and, with respect to periods before May 31, 2000, may not necessarily represent actual transactions.

| | High | Low |
|---|---|---|
| Fiscal Year ended September 30, 1999 | | |
| First Quarter (October 1-- December 31, 1998) | $ 0.34 | $0.23 |
| Second Quarter (January 1-- March 31, 1999) | $ 2.26 | $0.25 |
| Third Quarter (April 1-- June 30, 1999) | $ 0.84 | $0.75 |
| Fourth Quarter (July 1-- September 30, 1999) | $ 1.21 | $0.81 |
| Fiscal Year ended September 30, 2000 | | |
| First Quarter (October 1-- December 31, 1999) | $ 4.13 | $0.71 |
| Second Quarter (January 1-- March 31, 2000) | $10.25 | $1.68 |
| Third Quarter (April 1-- June 30, 2000) | $ 6.00 | $2.84 |
| Fourth Quarter (July 1-- September 30, 2000) | $ 3.56 | $1.88 |

On December 12, 2000, the last reported sale price for our common stock on The American Stock Exchange was $1.5625. As of December 12, 2000, there were approximately 1,242 holders of record of our common stock. This does not include holders of approximately 32,000,0000 shares of common stock held in "street name".

Dividend Policy

We have never declared or paid any cash dividends on our common stock or other securities and do not currently anticipate paying cash dividends in the foreseeable future.

Issuance of Shares Without Registration

During the fiscal quarter ended September 30, 2000, we issued a the following securities without registration under the Securities Act of 1933, as amended (the "Securities Act"):

- At various times throughout the quarter, we issued a total of 284,037 shares of our common stock to holders of outstanding options and warrants, upon exercise of such options and warrants, for aggregate cash consideration of $127,497.

- On August 1, 2000, we issued a total of 10,719 shares of our common stock to an outside consultant in return for services valued at $35,000.

- On August 9, 2000, we issued a total of 10,588 shares of our common stock to an outside consultant in return for services valued at $22,499.

- On September 30, 2000, we issued a total of 32,820 shares valued at $80,000 to four non-employee directors in lieu of cash fees for their services as directors during the fiscal year ended September 30, 2000. '.

The certificates representing all of the shares issued as described above were endorsed with Celsion's standard restricted stock legend, and a stop transfer instruction was recorded by the transfer agent. Accordingly, the Company views such issuances as exempt from registration under Sections 4(2) and/or 4(6) of the Securities Act as transactions by an issuer not involving any public offering.

ITEM 6. SELECTED FINANCIAL DATA

The following table contains certain financial data for the Company for the five fiscal years ended September 30, 2000 is qualified in its entirety by, and should be read in conjunction with, the "Item 8. Financial Statements and Supplementary Data and Financial Disclosure" and "Item 7. '"Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| Statement of Operations Data: | | | | | |
| Revenues: | | | | | |
| Product Sales (Net) | $ 74,006 | $ 121,257 | $ 174,182 | $ -- | $ 3,420 |
| Research and development contracts | -- | -- | -- | -- | -- |
| Total revenues | 74,006 | 121,257 | 174,182 | -- | 3,420 |
| Cost of sales | 64,406 | 46,734 | 136,500 | -- | 246 |
| Gross profit on product sales | 9,600 | 74,523 | 37,682 | -- | 3,174 |
| Other costs and expenses: | | | | | |
| Selling, general and administrative | 1,321,361 | 2,283,245 | 2,515,822 | 1,371,161 | 2,661,333 |
| Research and development | 94,012 | 185,974 | 1,534,872 | 1,019,941 | 2,238,292 |
| Total operating expenses | 1,415,373 | 2,469,219 | 4,050,694 | 2,391,102 | 4,899,625 |
| (Loss) from operations | (1,405,773) | (2,394,696) | (4,013,012) | 2,391,102 | (4,896,451) |
| Other income (expense) | (442,192) | (471,631) | 11,870 | 15,744 | -- |
| Interest income (expense) | (85,506) | (185,562) | (199,346) | (60,834) | 349,236 |
| Net (loss) | $ (1,933,471) | $ (3,051,889) | $ (4,200,488) | $ (2,436,192) | $ (4,547,215) |
| Net loss per share | $ (0.05) | $ (0.11) | $ (0.12) | $ (0.05) | $ (0.08) |
| Weighted average shares outstanding | 39,499,650 | 28,386,145 | 34,867,001 | 45,900,424 | 59,406,921 |

| | As of September 30, | | | | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| Balance Sheet Data: | | | | | |
| Cash and cash equivalents | $ 246,931 | $ 267,353 | $ 54,920 | $ 1,357,464 | $ 8,820,196 |
| Working Capital | (646,754) | (2,645,908) | (2,000,351) | 906,926 | 8,509,173 |
| Total Assets | 9,321,600 | 823,209 | 330,738 | 1,558,684 | 9,117,821 |
| Long-term debt, less current maturities | 1,213,000 | -- | -- | -- | -- |
| Accumulated deficit | (12,211,633) | (15,263,522) | (21,900,202) | (26,447,417) | |
| Total stockholders' equity (deficit) | 6,755,874 | 2,460,646 | (1,851,067) | 1,037,125 | 8,726,429 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain of the statements contained in this Annual Report on Form 10-K, including certain in this section, are forward looking. In addition, from time to time, we may publish forward looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under "--Risk Factors" below and elsewhere in this Annual Report on Form 10-K. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue" or the negative of such terms or other comparable terminology. Forward-looking statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results.

General

Since inception, we have incurred substantial operating losses. We expect operating losses to continue and possibly increase in the near term and for the foreseeable future as we continue our product development efforts, conduct clinical trials and undertake marketing and sales activities for new products. Our ability to achieve profitability is dependent upon our ability successfully to integrate new technology into our thermotherapy systems, conduct clinical trials, obtain governmental approvals, and manufacture, market and sell our new products. We have faced a number of major obstacles over the last several years, including inadequate funding, a negative net worth, and the slow development of the thermotherapy market due to technical shortcomings of the thermotherapy equipment previously available commercially. We have not continued to market our older thermotherapy system, principally because of the system's inability to provide precise and consistent heat treatment for other than surface and subsurface tumors. Instead, we have concentrated on a new generation of thermotherapy products.

Our operating results have fluctuated significantly in the past on an annual and a quarterly basis. We expect that operating results will continue to fluctuate significantly from quarter to quarter for the foreseeable future and will depend on a number of factors, many of which are outside of our control.

Material Non-Operating Transactions and Losses in 1997

For the year ended September 30, 1997, we had a non-operating loss of ($438,803) resulting from our 1996 investment in Ardex Equipment, LLC, or Ardex. The Ardex investment arrangements were originally made with persons who were then directors of Celsion and principals of Ardex, as described under "Certain Relationships and Related Transactions." After Ardex experienced financial difficulties, we reviewed the financial status of Ardex and determined that the entire amount due from Ardex, including accrued interest, was uncollectible as of September 30, 1997.

Results of Operations

Comparison of Fiscal Year Ended September 30, 2000 and Fiscal Year Ended September 30, 1999

Product sales for the year ended September 30, 2000 were only $3,420, as compared to none for the prior fiscal year. The limited revenue in the current period resulted from a parts reorder for older, previously sold equipment. Additional significant product revenues are not expected unless and until development of our second generation, of equipment incorporating APA technology, is completed and such equipment is clinically tested and receives necessary approvals from governmental regulatory agencies.

Research and development expense increased by 120%, to $2,238,292 for the year ended September 30, 2000 from $1,019,941 for the fiscal year ended September 30, 1999. The increase of $1,218,351 in the year ended September 30, 2000 was attributable to the issuance of shares of common stock to Duke University under a license agreement for thermo-liposome technology, research on thermo-liposome technology during the period, expenditures for Phase I breast cancer trials at Harbor UCLA Medical Center and Columbia Hospital, expenditures for our upcoming Phase II BPH and breast cancer treatment trials and payments made to Sloan-Kettering for licensing of its gene therapy technology during the year ended September 30, 2000. We expect expenditures on research and development expenses to increase for fiscal year 2001 as we conduct our Phase II clinical trials for our breast cancer and BPH treatment systems, and begin developing the thermo-liposome technology.

Selling, general and administrative expense increased by 94%, to $2,661,333 for the year ended September 30, 2000 from $1,371,161 from the fiscal year ended September 30, 1999. The increase of $1,290,172 was due primarily to increased legal and financial services associated with our recent securities offerings and technology licensing, increased office staffing, costs associated with our annual meeting, and increased public relations activities.

Due mainly to the increase in the expenditures listed above for the year ending September 30, 2000, the loss from operations for the period rose by $2,505,349, to ($4,896,451) from $(2,391,102) in the prior year.

Interest income net of interest expense increased to $349,236 for the year ended September 30, 2000 from ($60,834) for the period ended September 30, 1999. The $410,070 increase was due to the high cash balances from our private placement in January 2000 invested in money market instruments and time deposits. Because we currently have no revenues, these balances will decrease as we draw on our cash reserves to pay for our ongoing operations.

Comparison of Fiscal Year Ended September 30, 1999 to Fiscal Year Ended September 30, 1998

There were no product sales for the year ended September 30, 1999, compared with sales of $174,182 for the year ended September 30, 1998. The earlier year sales represented re-orders of our older equipment. Additional significant product revenues are not expected unless and until development of our second generation equipment, incorporating APA technology, is completed and such equipment is clinically tested and receives necessary approvals from governmental regulatory agencies.

There was no cost of sales for the year ended September 30, 1999, as compared with the cost of sales for the prior year of $136,500.

Research and development expense decreased substantially, to $1,019,941 for the year ended September 30, 1999 from $1,534,872 for the prior year. The difference in expenditure levels reflects the fact that the major portion of development work on our new generation of equipment took place in the earlier period. However, we expect research and development expenses to increase over the next several months as BPH clinical trials and Phase II breast cancer testing begin.

Selling, general and administrative expense decreased substantially, to $1,371,161 for the year ended September 30, 1999 from $2,515,822 for the previous year. The decrease was due to the absence, in fiscal 1999, of the following expenses which were recorded in the earlier period: incentive stock issued to our President, recorded in the amount of $700,640; consulting fees and expenses paid to Stearns Management, a company affiliated with a former officer and director, in the amount of $195,297; legal fees in the amount of $145,000; and a write-off of approximately $112,000 of inventory stocked as replacement parts for older equipment sold in prior years.

Due primarily to the absence of expenditures for equipment development and for clinical trials for the year ended September 30, 1999 and the absence of or decrease in executive bonus, legal, and consulting fees, our net loss decreased by $1,764,296, to ($2,436,192) for the fiscal year ended September 30, 1999 from ($4,200,488) in the prior year.

Comparison of Fiscal Year Ended September 30, 1998 to Fiscal Year Ended September 30, 1997

Product sales for the fiscal year ended September 30, 1998 were $174,182. These sales represented limited re-orders of our older equipment. During the year ended September 30, 1997, product sales, taking returns and allowances into consideration, were $121,257. Additional significant product revenues are not expected unless and until development of our second generation of equipment incorporating APA technology, is completed and such equipment is clinically tested and receives necessary approvals from governmental regulatory agencies.

Cost of sales increased to $136,500 in the year ended September 30, 1998 from $46,734 in the prior year. Cost of sales as a percentage of sales increased to 78.4% for the year ended September 30, 1998 from 38.5% for the prior year, because newer components and enhancements were added to existing inventory in conjunction with upgrading our products to incorporate new technology.

Research and development expense grew substantially, to $1,534,872 in the year ended September 30, 1998 from $185,974 in the prior year. During fiscal 1998, we increased our research and development efforts to enhance our products and to incorporate APA and other technological advances into our equipment. The increase during fiscal year 1998 included $561,238 for engineering work performed by outsider parties on our breast cancer treatment device, $289,868 for animal studies for the improved BPH system, $245,976 for animal studies and other development work on the new breast cancer equipment and $76,000 for work at Duke University in connection with the development of targeted drug delivery and genetherapy technology. In addition, after a review of our inventory, approximately $175,000 of components and parts acquired in the course of developing older equipment, including slower, DOS-based electronic components, were deemed to be unusable for the development of our newer models, and were therefore classified as obsolete and written off as additional research and development expense during fiscal 1998. We expect to continue our higher levels of expenditures for research and development in order to continue to enhance our products.

Selling, general and administrative expense increased to $2,515,822 in the year ended September 30, 1998 from $2,283,245 in the prior year. Such increased expense included a write-off of approximately $112,000 of inventory stocked as replacement parts for older equipment sold in prior years, which inventory was being carried at the lower of cost or market value and which, in light of the absence of demand, was determined to have no appreciable market value at year end. The remainder of the increase was attributable to somewhat higher outside consulting, advertising and administrative expenses. We expect selling and marketing expense to increase substantially as we complete the development and testing of our new thermotherapy systems and expand our related advertising and promotional and marketing activities.

Due mainly to increased research and development activities in the year ended September 30, 1998, the loss from operations increased by $1,618,316, to ($4,013,012) from ($2,394,696) in the prior year. However, the increase in the 1998 loss before income taxes was not as large compared with 1997 because of the non-operating losses reflected in the earlier year as described above.

Liquidity and Capital Resources

Since inception, our expenses have significantly exceeded our revenues, resulting in an accumulated deficit of $26,447,417 at September 30, 2000. We have incurred negative cash flows from operations since our inception and have funded our operations primarily through the sale of equity securities. As of September 30, 2000, we had cash of $8,820,196 and total current assets of $8,900,565, compared with current liabilities of $391,392, resulting in a working capital surplus of $8,509,173. As of September 30, 1999, we had $1,357,464 in cash and total current assets of $1,424,058, compared with current liabilities of $517,132, which resulted in a working capital surplus of $902,499 at fiscal year end. The increase in working capital at September 30, 2000 as compared to September 30, 1999 was due to the closing of a private placement offering on January 31, 2000, from which we received net proceeds of approximately $4,200,000, the exercise of warrants (primarily Series 700 and 800) from which we received proceeds of $5,467,118, and the exercise of warrants (primarily Series 500 and 550) during the quarter ended June 30, 2000, from which we received proceeds of $1,588,889.

We do not have any bank financing arrangements and have funded our operations in recent years primarily through private placement offerings of equity securities. For all of fiscal year 2001, we expect to expend a total of approximately $8,000,000 for breast cancer and BPH clinical testing and for corporate overhead, which will be funded from our current resources. The foregoing amounts are estimates based upon assumptions as to the availability of funding, the scheduling of institutional clinical research and testing personnel, the timing of clinical trials and other factors, not all of which are fully predictable. Accordingly, estimates and timing concerning projected expenditures and programs are subject to change.

Our dependence on raising additional capital will continue at least until we are able to begin marketing our new technologies. Our future capital requirements and the adequacy of our financing depend upon numerous factors, including the successful commercialization of our thermotherapy systems, progress in product development efforts, progress with preclinical studies and clinical trials, the cost and timing of production arrangements, the development of effective sales and marketing activities, the cost of filing, prosecuting, defending and enforcing intellectual property rights, competing technological and market developments and the development of strategic alliances for the marketing of our products. We will be required to obtain such funding through equity or debt financing, strategic alliances with corporate partners and others, or through other sources not yet identified. We do not have any committed sources of additional financing, and cannot guarantee that additional funding will be available in a timely manner, on acceptable terms, or at all. If adequate funds are not available, we may be required to delay, scale back or eliminate certain aspects of our operations or attempt to obtain funds through unfavorable arrangements with partners or others that may require us to relinquish rights to certain of our technologies, product candidates, products or potential markets or which otherwise may be materially unfavorable to us. Furthermore, if we cannot fund our ongoing development and other operating requirements, particularly those associated with our obligation to conduct clinical trials under our licensing agreements, we will be in breach of our commitments under these licensing agreements and could therefore lose our license rights, which could have material adverse effects on our business.

Risk Factors

Among numerous risk factors which may affect the future performance of the Company and its ability to achieve profitable operations are the following:

We have a history of losses and expect continued losses for the foreseeable future.

Since our inception in 1982, our expenses have substantially exceeded our revenues, resulting in continuing losses and an accumulated deficit of ($26,447,417) at September 30, 2000, including losses of ($2,436,192) for the year ended September 30, 1999 and ($4,547,215) for the year ended September 30, 2000. Because we presently have no significant source of revenues and are committed to continuing our product research and development program, we will continue to experience significant operating losses until and unless we complete the development of new products and these products have been clinically tested, approved by the FDA and successfully marketed. In addition, we have funded our operations for many years primarily through the sale of our securities and have limited working capital for our desired product development and other activities.

We do not expect to generate significant revenue in the foreseeable future.

We marketed and sold our original microwave thermotherapy products, which produced modest revenues from 1990 to 1994, but ceased marketing these products in 1995. We have devoted our resources in recent years to developing a new generation of thermotherapy products, but we cannot market these products unless and until we complete clinical testing and obtain all necessary governmental approvals. Accordingly, we have no current source of revenues, much less profits, to sustain our present operations, and no revenues will be available until and unless our new products are clinically tested, approved by the FDA and successfully marketed. We cannot guarantee that any or all of our products will be successfully tested, approved by the FDA or marketed at any time in the foreseeable future or at all.

Our microwave heat therapy technology is still in the initial of human testing and may not be sufficiently accepted by the medical community to sustain our business.

To date, microwave heat therapy has not been widely accepted in the United States medical community as an effective cancer treatment, with or without the concurrent use of radiation. We believe that this is due primarily to the inability of earlier technology adequately to focus and control heat directed at specific tissue locations and to conclusions that were drawn from a widely publicized study by the Radiation Oncology Therapy Group that purported to show that thermotherapy in conjunction with radiation was only marginally effective. Subsequent to the publication of this study, the U.S. Health Care Financing Administration ("HCFA") established a low medical reimbursement rate for all thermotherapy equipment designed to be used in conjunction with radiation. While we believe our new technology is capable of overcoming the limitations of the earlier technology, the medical community may not embrace the perceived advantages of our APA-focused heat therapy without more extensive testing and clinical experience than we will be able to provide. To date, our new cancer treatment technology and new BPH system have been subjected only to Phase I testing on humans. Accordingly, our technology may not prove as effective in practice as we anticipate based on preliminary testing. If further testing and clinical practice do not confirm the safety and efficacy of our technology or, even if further testing and practice produces positive results but the medical community does not view this new form of heat therapy as effective and desirable, our efforts to market our new products may fail, with material adverse consequences to our business. We intend to petition HCFA for new reimbursement codes for both breast cancer and BPH treatments. The success of our business model depends significantly upon our ability to successfully petition for the new reimbursement codes.

If we are not able to obtain necessary funding, we will not be able to complete the development, testing and commercialization of our treatments and products.

We will need substantial additional funding in order to complete the development, testing and commercialization of our cancer treatment and BPH products, as well as other potential new products. We currently plan to expend approximately $8.0 million in the fiscal year ending September 30, 2001, and currently have available a total of approximately $8.8 million for that purpose. It is our current intention both to increase the pace of development work on our present products and to make a significant commitment to thermosensitive liposome and gene therapy research and development projects. The increase in the scope of present development work and the commitment to these new projects will require additional external funding, at least until we are able to begin marketing our products. We do not have any committed sources of financing and cannot offer any assurance that additional funding will be available in a timely manner, on acceptable terms or at all. See """Management's Discussion and Analysis of Financial Condition and Results of Operations."

If adequate funding is not available in the future, we may be required to delay, scale back or eliminate certain aspects of our operations or to attempt to obtain funds through unfavorable arrangements with partners or others that may force us to relinquish rights to certain of our technologies, products or potential markets or that could impose onerous financial or other terms. Furthermore, if we cannot fund our ongoing development and other operating requirements, particularly those associated with our obligation to conduct clinical trials under our licensing agreements, we will be in breach of our commitments under these licensing agreements and could therefore lose our license rights, which could have material adverse effects on our business.

Our business is subject to extensive government regulation and we may not be able to secure the government approvals needed to develop and market our products.

The FDA and similar government agencies in foreign countries impose substantial requirements upon the introduction of medical products including lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these requirements typically takes several years or more and varies substantially based upon the type, complexity, and novelty of the product. For medical systems such as our breast cancer treatment product, the FDA has thus far required data from a Phase I clinical feasibility and safety demonstration using at least ten patients. For a Phase II patient study that addresses safety and efficacy, we anticipate a requirement of testing 173 patients in order to support an application for commercialization approval. Similarly, the BPH treatment system will require data from a Phase II study.

Government regulation, including the need for FDA approval, may delay marketing of our new products for a considerable period of time, impose costly procedures upon our activities and provide an advantage to larger companies that compete with us. There can be no assurance that we will receive FDA or other regulatory approvals for any products we develop on a timely basis or at all. Any delay in obtaining, or failure to obtain, necessary approvals would materially and adversely affect the marketing of any of our contemplated products and our ability to generate revenue. Further, regulation of manufacturing facilities by federal, state, local, and other authorities is subject to change. Any additional regulation could result in limitations or restrictions on our ability to utilize any of our technologies, thereby adversely affecting our business.

Our business depends on license agreements that we have entered into with third parties to use patented technologies and the loss of any of our rights under these agreements could impair our ability to develop and market our products.

Currently, we have two utility patents pending in the U.S. Patent & Trademark Office. One is directed to Celsion's breast cancer treatment, and the other is directed to our BPH treatment. However, our business still would depend on license agreements that we have entered into with third parties until the third parties' patents expire, even when our pending applications mature into U.S. patents.

Our success will depend, in substantial part, on our ability to maintain our rights under license agreements granting us rights to use patented technology. We have entered into exclusive license agreements with MIT for APA technology and with MMTC, Inc., or MMTC, a privately owned developer of medical devices, for microwave balloon catheter technology. We have also entered into a license agreement with Duke University, under which we have exclusive rights to commercialize medical treatment products and procedures based on Duke University's thermo-liposome technology and a license agreement with Sloan-Kettering under which we have rights to commercialize certain gene therapy products. The MIT, MMTC, Duke University and Sloan-Kettering agreements each contains license fee, royalty and/or research support provisions, testing and regulatory milestones, and other performance requirements that we must meet by certain deadlines. If we were to breach these or other provisions of our license and research agreements, we could lose our ability to use the applicable technology as well as compensation for our efforts in developing or exploiting the technology. Also, loss of our rights under the MIT license agreement would prevent us from proceeding with most of our current product development efforts, which are dependent on licensed APA technology. Any such loss of rights and access to technology would have a material and adverse effect in our business.

Further, we cannot guarantee that any patent or other technology rights licensed to us by others will not be challenged or circumvented successfully by third parties, or that the rights granted will provide adequate protection to us. We are aware of patent applications and issued patents belonging to others, and it is not clear whether any of these patents or applications, or patent applications of which we may not have any knowledge, will require us to alter our potential products or processes, pay licensing fees or cease certain activities. Litigation, which could result in substantial costs, may also be necessary to enforce any patents issued to or licensed by us or determine the scope and validity of others' claimed proprietary rights. We also rely on trade secrets and confidential information that we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees, and consultants. We cannot guarantee that these agreements will not be breached, that we will have adequate remedies for any such breach or that our trade secrets will not otherwise become known or will not be discovered independently by competitors.

Technologies for the treatment of cancer are subject to rapid change and the development of treatment strategies that are more effective than our thermotherapy technology could render our technology obsolete.

Various methods for treating cancer are the subject of extensive research and development. Many possible treatments that are being researched, if successfully developed, may not require, or may supplant, the use of our thermotherapy technology. These alternate treatment strategies include the use of radio frequency, laser and ultrasound energy sources. The successful development and acceptance of any of these alternative forms of treatment could render our technology obsolete.

We may not be able to hire or retain key officers or employees whom we need to implement our business strategy.

Our success depends on the continued contributions of our executive officers, scientific and technical personnel and consultants, and on our ability to attract new personnel as we seek to implement our business strategy. During our operating history, we have assigned many key responsibilities to a relatively small number of individuals. The competition for qualified personnel is intense, and the loss of services of certain key personnel could adversely affect our business. ""

The success of our products may be harmed if the government, private health insurers and other third-party payors do not provide sufficient coverage or reimbursement for the use of our products.

Our ability to commercialize our thermotherapy technology successfully will depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. The reimbursement status of newly approved medical products is subject to significant uncertainty. We cannot guarantee that adequate third-party insurance coverage will be available for us to establish and maintain price levels sufficient for realization of an appropriate return on our investment in developing new therapies. Government, private health insurers and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products approved by the FDA for marketing. Accordingly, even if coverage and reimbursement are provided by government, private health insurers and third-party payors for uses of our products, the market acceptance of these products would be adversely affected if the reimbursement available for the use of our therapies proves to be unprofitable for health care providers.

We face intense competition and the failure to compete effectively could adversely affect our ability to develop and market our products.

There are many companies and institutions engaged in research and development of thermotherapy technologies for both cancer and prostate disease products, that seek treatment outcomes similar to those we are pursuing. In addition, a number of companies and institutions are pursuing alternative treatment strategies through the use of microwave, infrared, and radio frequency, laser and ultrasound energy sources, all of which appear to be in the early stages of development and testing. We believe that the level of interest by others in investigating the potential of thermotherapy and alternative technologies will continue and may increase. Potential competitors engaged in all areas of cancer and prostate treatment research in the United States and other countries include, among others, major pharmaceutical and chemical companies, specialized technology companies, universities and other research institutions. Most of our competitors and potential competitors have substantially greater financial, technical, human and other resources, and may also have far greater experience than we do, both in preclinical testing and human clinical trials of new products and in obtaining FDA and other regulatory approvals. One or more of these companies or institutions could succeed in developing products or other technologies that are more effective than the products and technologies we have been or are developing, or which would render our technology and products obsolete and non-competitive. Furthermore, if we are permitted to commence commercial sales of products, we will also be competing, with respect to manufacturing efficiency and marketing, with companies having substantially greater resources and experience in these areas.

Legislative and regulatory changes affecting the health care industry could adversely affect our business.

There have been a number of federal and state proposals during the last few years to subject the pricing of health care goods and services to government control and to make other changes to the United States health care system. It is uncertain which legislative proposals, if any, will be adopted (or when) or what actions federal, state, or private payors for health care treatment and services may take in response to any health care reform proposals or legislation. We cannot predict the effect health care reforms may have on our business, and we can offer no assurances that any of these reforms will not have a material adverse effect on our business.

We may be subject to significant product liability claims and litigation.

Our business exposes us to potential product liability risks inherent in the testing, manufacturing, and marketing of human therapeutic products. We presently have product liability insurance limited to $5,000,000 per incident. If we were to be subject to a claim in excess of this coverage or to a claim not covered by our insurance and the claim succeeded, we would be required to pay the claim with our own limited resources, which could have a material adverse effect on operations. In addition, liability or alleged liability could harm our business by diverting the attention and resources of our management and by damaging our reputation.

We depend on third-party suppliers to provide us with components required for our products and may not be able to obtain these components on favorable terms or at all.

We are currently not manufacturing any products, but are using our facilities to assemble prototypes of our equipment for research and development purposes. We currently purchase certain specialized microwave and thermometry components and applicator materials and the catheter unit used for our BPH equipment from single or limited source suppliers because of the small quantities involved. While we have not experienced any significant difficulties in obtaining these components, the loss of an important current supplier could require us to obtain a replacement supplier, which might result in delays and additional expense in being able to make prototype equipment available for clinical trials and other research purposes. Also, in the event we succeed in marketing our products, we will most likely use outside contractors to supply components and to assemble finished equipment, at which time we could become dependent on key vendors.

The exercise or conversion of our outstanding options, warrants and convertible preferred stock could result in significant dilution of your ownership interest in common stock.

Options and Warrants. As of November 30, 2000, we had outstanding a total of 7,726,094 warrants and options, having exercise prices ranging from $0.16 to $3.00 per share (and a weighted average exercise price of approximately $0.46 per share). Most of the prices are below the current market price of our common stock, which has ranged from a low of $1.25 to a high of $2.06 over the 20 trading days ending November, 30, 2000. If holders choose to exercise such warrants and options, the resulting purchase of a substantial number of shares of our common stock at prices below the current market price of the common stock would have a dilutive effect on our stockholders and could adversely affect the market price of our issued and outstanding common stock. Also, the holders of a substantial portion of such warrants and options have various registration rights which, if exercised, would require us to register such shares for sale in the public market. Furthermore, even without such registration, holders of the warrants and options who are able, after the exercise of such warrants and options, to satisfy the one-year holding period and other requirements of Rule 144 of the Securities and Exchange Commission, will be able to sell shares of common stock purchased upon such exercise in the public market.

Preferred Stock. As of November 30, 2000, we had outstanding a total of 4,853.5 shares of Series A 10% Convertible Preferred Stock (plus 323 shares in accrued dividends as of September 30, 2000). The shares of Series A Preferred Stock are subject to exchange and conversion privileges upon the occurrence of major events, including a public offering of our securities or the merger into a public company. If we do not consummate this a public offering by January 31, 2001, the holders of the Series A Preferred Stock will be entitled to convert their preferred shares into shares of common stock at a conversion price of $0.41 per share of common stock, subject to certain adjustments. Even if a public offering is completed by January 31, 2001, holders of the Series A Preferred Stock will be able to convert half of such shares at a price of $0.41 per share and the other half at a price equal to 70% of the price of shares in this offering. In either event, conversion of the Series A Preferred Stock would have a dilutive effect on our stockholders and could adversely affect the market price of our issued and outstanding common stock. The holders of the Series A Preferred Stock also have registration rights at the time we undertake a registered public offering of securities and may require registration of the common stock issued upon conversion even if we do not otherwise undertake a public offering for our own account. Even without a registration, holders of the Series A Preferred Stock who satisfy the requirements of Rule 144 of the Securities and Exchange Commission, will be able to sell in the public market shares of common stock acquired upon the conversion of Series A Preferred Stock.

If the price of our shares remains low, it may be delisted by the American Stock Exchange and become subject to special rules applicable to low priced stocks.

Our stock currently trades on the American Stock Exchange. The Amex, as a matter of policy, will consider the suspension of trading in, or removal from listing of any stock when, in the opinion of the Amex (i) the financial condition and/or operating results of an issuer of stock listed on the Amex appear to be unsatisfactory, (ii) it appears that the extent of public distribution or the aggregate market value of the stock has become so reduced as to make further dealings on the Amex inadvisable, (iii) the issuer has sold or otherwise disposed of its principal operating assets, or (iv) the issuer has sustained losses which are so substantial in relation to its overall operations or its existing financial condition has become so impaired that it appears questionable, in the opinion of Amex, whether the issuer will be able to continue operations and/or meet its obligations as they mature. For example, the Amex will consider suspending dealings in, or delisting the stock of an issuer if the issuer has sustained losses from continuing operations and/or net losses in its five most recent fiscal years. Another instance where the Amex would consider suspension or delisting of a stock is if it has been selling for a substantial period of time at a low price per share and the issuer fails to effect a reverse split of such stock within a reasonable time after being notified that the Amex deems such action to be appropriate. The aggregate market value of our stock has been significantly higher than the Amex's delisting thresholds for market value. However, we have sustained net losses for our last five fiscal years and our stock has been trading at relatively low prices. Therefore our stock may be at risk of getting delisted by the Amex. Upon any such delisting, the stock would become subject to the penny stock rules of the Securities and Exchange Commission, which generally are applicable to equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system)). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock, not otherwise exempt from such rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. If 'our common stock becomes subject to the penny stock rules, investors in this offering may find it more difficult to sell their shares.

Our stock price could be volatile.

Market prices for our common stock and the securities of other medical and high technology companies have been volatile. Factors such as announcements of technological innovations or new products by us or our competitors, government regulatory action, litigation, patent or proprietary rights developments, and market conditions for medical and high technology stocks in general can have a significant impact on the market for our common stock.

Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control.

Our Certificate of Incorporation and Bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable by authorizing the issuance of "blank check" preferred stock. Certain provisions of Delaware law may also discourage, delay or prevent a third party from acquiring or merging with us.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not currently hold any derivative instruments and do not engage in hedging activities and currently do not enter into any transactions denominated in a foreign currency. Thus, our exposure to interest rate and foreign exchange fluctuations is minimal.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA AND FINANCIAL DISCLOSURE

The financial statements, supplementary data and report of independent public accountants are filed as part of this report on pages F-1 through F-17.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth, as of November 30, 2000, certain information concerning our executive officers and directors:

| Name | Age | Position |
|---|---|---|
| Spencer J. Volk | 66 | President, Chief Executive Officer and Director |
| Augustine Y. Cheung | 53 | Chairman of the Board, Chief Scientific Officer and Director |
| Max E. Link | 60 | Director |
| LaSalle D. Leffall, Jr. | 70 | Director |
| Claude Tihon | 55 | Director |
| Anthony P. Deasey | 51 | Senior Vice President-Finance and Chief Financial Officer |
| John Mon | 48 | Vice President, Secretary, Treasurer, General Manager and Director |
| Dennis Smith | 47 | Vice President, Engineering |

Spencer J. Volk. Mr. Volk has been a director, President, and Chief Executive Officer of Celsion since May 22, 1997. From 1994 to 1996 Mr. Volk was President and Chief Operating Officer of Sunbeam International. From 1991 to 1993, Mr. Volk was President and Chief Executive Officer of Liggett Group Inc. From 1989 to 1991 he was the President and Chief Operating Officer of Church & Dwight Co., Inc. (Arm and Hammer), and from 1984 to 1986 he was the President and Chief Executive Officer of Tropicana Products, Inc. Prior to that, he spent 13 years in various staff and management positions at PepsiCo., Inc., ultimately as Senior Vice President for the Western Hemisphere. Mr. Volk holds an Honors BA in Economics and Math from Queens University in Ontario, Canada and a BA in Economics from Royal Military College in Ontario, Canada.

Augustine Y. Cheung. Dr. Cheung is Chairman of the Board of Directors and has served as a directorand Chief Scientific Officer of Celsion since 1982. Dr. Cheung was the founder of Celsion and served as President from 1982 to 1986 and Chief Executive Officer from 1982 to 1996. From 1982 to 1985 Dr. Cheung was a Research Associate Professor in the Department of Electrical Engineering and Computer Science at George Washington University and from 1975 to 1981 was a Research Associate Professor and Assistant Professor at the Institute for Physical Science and Technology and the Department of Radiation Therapy at the University of Maryland. Dr. Cheung holds a Ph.D. and an MS degree from the University of Maryland. Dr. Cheung is the brother-in-law of John Mon, a director and executive officer of Celsion.

Max E. Link. Dr. Link has been a director of Celsion since September 23, 1997. Dr. Link currently serves on the Board of Directors of several pharmaceutical and biotechnology companies. From 1993 to 1994 Dr. Link served as Chief Executive Officer of Corange, Ltd., a medical diagnostics and pharmaceuticals company acquired by Hoffman-LaRoche. From 1971 to 1993 Dr. Link served in numerous positions with Sandoz Pharma AG, culminating in his appointment as Chairman of the Board of Directors in 1992. Dr. Link serves on the Board of Directors of the following publicly held companies: Human Genome Sciences, Inc., Alexion Pharmaceuticals, Inc., Cell Therapeutics, Inc., Access Pharmaceuticals, Inc., Protein Design Labs., Inc., Osiris Therapeutics, Inc., Heavenly Door.com, Inc., Discovery Laboratories, Inc. and CytRx Corporation. Dr. Link holds a Ph.D. in Economics from the University of St. Galen (Switzerland).

La Salle D. Leffall, Jr. Dr. Leffall has been a director of Celsion since May 27, 1999. Dr. Leffall has served as Professor of Surgery at Howard University College of Medicine since 1970 and in 1992 was named the Charles R. Drew Professor of Surgery. Dr. Leffall also served as Chairman of the College's Department of Surgery from 1970 to 1995. He is also a Professorial Lecturer in Surgery at Georgetown University. Dr. Leffall holds a BS from Florida A&M and a medical degree from Howard University. Dr. Leffall is a director of Mutual of America, Chevy Chase Bank, F.S.B. and the Charles A. Dana Foundation. He is a former President of the American College of Surgeons and the American Cancer Society. He is also a consultant for the National Cancer Institute, a diplomate of the American Board of Surgery and a fellow of the American College of Surgeons.

Claude Tihon. Dr. Tihon has been a director of Celsion since May 27, 1999. Dr. Tihon is currently President and Chief Executive Officer of ContiMed, Inc., a medical device company engaged in developing urological products to manage women's stress incontinence and men's prostate obstruction. From 1987 to 1995 Dr. Tihon served in numerous positions with Pfizer, Inc., culminating in his appointment as Vice President of Research and Technology Assessment of American Medical Systems, Inc., a Pfizer subsidiary. From 1983 to 1987 Dr. Tihon served as Director of Cellular Diagnostics Development of Miles Scientific, a division of Miles Laboratories, Inc. From 1979 to 1983 Dr. Tihon served as Senior Research Scientist and Assistant Director of Clinical Cancer Research of Bristol Laboratories, Inc., a division of Bristol-Myers Squibb Company. Dr. Tihon holds a Ph.D. in Pathology from Columbia University.

Anthony P. Deasey. Mr. Deasey joined the Company as Senior Vice President-Finance and Chief Financial Officer on November 27, 2000. Prior to joining Celsion he was Senior Vice President-Finance and Chief Financial Officer of World Kitchen, Inc. (formerly Corning Consumer Products Company) from June 1998 to October 2000. From March 1996 to March 1998 he was Senior Vice President-Chief Financial Officer of Rollerblade Inc. and from 1988 to October 1995 he was Senior Vice President, Chief Financial Officer of Church & Dwight Co. Inc.

John Mon. Mr. Mon has been employed by Celsion since 1986 and has served as our Treasurer and General Manager since 1989, and as Secretary and a director since June 1997. During the first two years of his employment with Celsion, Mr. Mon was responsible for our FDA filings, which resulted in obtaining pre-marketing approval for the Microfocus 1000. From 1983 to 1986 he was an economist with the U.S. Department of Commerce in charge of forecasting business sales, inventory and prices for all business sectors in the estimation of Gross National Product. Mr. Mon holds a BS degree from the University of Maryland. Mr. Mon is the brother-in-law of Dr. Cheung.

Dennis Smith. Mr. Smith has served as our Vice President of Engineering since June 2000. From 1985 to 1995 Mr. Smith was our Director of Engineering, and also served as a member of our Board of Directors. >From 1995 to 2000 Mr. Smith was Director of Engineering and a member of the executive staff of Talla-Com Industries Inc, a division of Tadiran Electronics Industries (Israel), manufacturing and designing high power RF amplifiers for the U.S. military communications marketplace. During his original service with Celsion, Mr. Smith was responsible for the development of electronic components and design elements for our original Microfocus and BPH products, portions of which are incorporated in our current products.

Committees of the Board of Directors

The Board of Directors presently maintains an Audit Committee, a Compensation Committee and a Research and Development Oversight Committee. The Audit Committee's principal responsibilities are to recommend annually a firm of independent auditors to the Board of Directors, to review the annual audit of our financial statements and to meet with our independent auditors from time to time in order to review our general policies and procedures with respect to audits and accounting and financial controls and to perform the various acts required by the rules and regulations of the Securities and Exchange Commission. The principal responsibilities of the Compensation Committee are to establish compensation policies for our executive officers and the administration of our incentive plans. The Research and Development Oversight Committee is responsible for reviewing the performance, scheduling and cost-effectiveness of our research and development programs. Drs. Link, Leffall and Tihon serve on the Audit Committee, Mr. Volk and Drs. Tihon and Link comprise the Compensation Committee and Drs. Cheung and Leffall are the members of the Research and Development Oversight Committee.

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between the Compensation Committee or the Board of Directors and any other company's board of directors or compensation committee. Mr. Volk's 1997 employment agreement with Celsion was entered into prior to the formation of the Compensation Committee. New employment agreements with Mr. Volk and Dr. Cheung, entered into in January 2000, were reviewed by the Compensation Committee and approved by the full Board, and neither Mr. Volk nor Mr. Cheung participated in the deliberations concerning their respective agreements. The Compensation Committee believes that the compensation arrangements for Mr. Volk and Dr. Cheung align their respective interests with those of the stockholders. See "Item 11. Executive Compensation" and "Item 13. Certain Relationships and Related Transactions" for a more detailed discussion of our compensation arrangements with Mr. Volk and Dr. Cheung.

Directors' Compensation

For the year ended September 30, 2000, each of the four members of the Board of Directors who is not an officer of Celsion was paid in shares of common stock equivalent to $20,000 for their service. The shares were valued at $2.44 per share.

Officers who also act as directors previously received 2,000 shares each of common stock for a full year of service on the Board, but, beginning in the 2000 fiscal year, no separate compensation was paid to any of our officers for service on the Board or any Board committee.

Scientific Advisory Board

We currently have a Scientific Advisory Board, or SAB, which is chaired by Dr. Cheung, our Chief Scientific Officer, and is comprised of the persons listed below. The main purpose of the SAB is to assist our management in identifying and developing technology trends and business opportunities within our industry. The SAB members, with the exception of Dr. Barnett, who is employed as Medical Director, operate as consultants of Celsion.

Robert Barnett. Dr. Barnett is currently employed at Celsion as our Medical Director. He holds an American Board of Surgery Diplomate, and is the former President of the Maryland Chapter of the American Cancer Society.

Donald Beard. Mr. Beard is a retired businessman and is the former senior program manager for the United States Department of Energy. Mr. Beard consults with us in connection with technology and business development matters.

Mark Dewhirst, Ph.D. Dr. Dewhirst currently serves as a Professor of Radiology and Oncology and the Director of the Tumor Microcirculation Laboratories in the Department of Radiation & Oncology at Duke University. Dr. Dewhirst consults with us in connection with research on temperature-sensitive liposomes.

Gloria Li, Ph.D. Dr. Li currently serves as the Director of the Radiation Biology Laboratory at Memorial Sloan-Kettering Hospital. Dr. Li consults with us on heat shock and gene therapy.

Arnold Melman, M.D. Dr. Melman currently serves as the Chairman of the Department of Urology at Albert Einstein College of Medicine. Dr. Melman consults with us on clinical studies in urology and is our primary investigator on BPH.

David Needham, Ph.D. Dr. Needham currently serves as the Director of Cell and Micro-carrier Research and as an Associate Professor in the Duke University Department of Mechanical Engineering and Materials Science. Dr. Needham consults with us in connection with research on temperature-sensitive liposomes.

Thomas Ripley, Ph.D. Dr. Ripley currently serves as Director of Operations for the Grace Biomedical Division at W.R. Grace & Co. Dr. Ripley consults with us on technology and business development.

Mays Swicord, Ph.D. Dr. Swicord currently serves as Director of Research at Motorola, Inc. Dr. Swicord consults with us on the biological effects of microwave technology.

All members of the SAB serve at the discretion of the Board of Directors. Each member of the SAB, other than Dr. Cheung and Dr. Swicord, received an option to purchase 5,000 shares of our common stock at the time they were appointed. The options are exercisable for a five-year term at $0.50 per share. In addition, each member of the SAB will receive an option exercisable over a five-year term to purchase 3,000 shares of our common stock for each 12 months served by such member on the SAB, exercisable at the market price of the common stock on the date of grant. For fiscal year 2000, each member of the SAB, other than Drs. Cheung and Swicord, received an option to purchase 3,000 shares of our common stock at $2.44 per share. Beginning from fiscal year 2001, each member of the SAB, other than Drs. Cheung and Swicord, will receive an option to purchase 5,000 shares of our common stock for each full year service. The exercise price of the option will be equal to the market closing price of Celsion's common stock on September 30, the last day of the fiscal year. In addition, members of the SAB (except for Dr. Cheung) are compensated at the rate of $125 per hour or a maximum of $1,000 per day, together with expenses, on consulting matters undertaken by such member.

Business Advisory Board

Our Business Advisory Board presently consists of the following members

| | |
|---|---|
| Anthony Buono | Mr. Buono is the General Manager of the Hartz Group, a consumer packaged goods company, who advises us on our sales agreement and business strategy |
| Brian Cunningham | Mr. Cunningham is the former Chairman/Chief Executive Officer, Computer Entry Systems Corp. Mr. Cunningham is a successful entrepreneur who built a $180 million company through acquisitions. He has assisted with our American Stock Exchange Listing and on strategy issues. |
| William Federman | Mr. Federman is a principal of the law firm of Dreier, Baritz & Federman, LLP. He advises on legal matters. |

| | |
|---|---|
| Margaret Grayson | Ms. Grayson is the CEO of V1 Corporation. Ms. Grayson provides start-up company experience to Celsion. |
| William F. Leimkuhler | Mr. Leimkuhler is the former Vice President/General Counsel, Allen & Company Incorporated, Mr. Leimkuhler has been available to provide legal advice. |
| Gordon S. Macklin | Mr. Macklin was first President of the National Association of Securities Dealers, Inc. (NASD) and is a former Chief Executive Officer of Hambrecht & Quist. Mr. Macklin was instrumental in Celsion being listed on The American Stock Exchange. |
| Jonathan J. Prinz | Mr. Prinz is a consultant and former President of The Schechter Group. Mr. Prinz created Celsion's name and logo and consults on matters relating to our business plan. |
| Alan Pottash | Mr. Pottash was the senior creative head for PesiCo's brands. He consults on Celsion's planned BPH advertising to consumers and medical trade. |

Members of the Business Advisory Board serve at the discretion of the Board of Directors, provide consulting services as needed on specific projects from time to time, and are compensated through the issuance of shares or options. The compensation for each member of the Business Advisory Board for their first year service on the Business Advisory Board is 10,000 shares of common stock and an option to purchase 10,000 shares of common stock at $1.00 per share. Beginning from fiscal year 2001, each member of the Business Advisory Board will receive an option to purchase 5,000 shares of our common stock for a full year service. The exercise price of the option will be equal to the market closing price of Celsion's common stock on September 30, the last day of the fiscal year.

Company Performance and Chief Executive Officer Compensation

The compensation of Spencer Volk was established prior to organization of the Compensation Committee. The Committee believes that Spencer Volk's compensation package aligns his interests with those of the stockholders.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the National Association of Securities Dealers. Officers, directors and greater than ten-percent shareholders are required by Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company between October 1, 1999 and September 30, 2000, and on discussions with directors and officers, the Company believes that during the last fiscal year all applicable 16(a) filing requirements were met.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the aggregate cash compensation paid during each year in the three-year periods ended September 30, 2000 to our Chief Executive Officer and to each of our other executive officers whose annual salary and bonus for the most recent fiscal year exceeded $100,000 (the "Named Executive Officers").

Summary Compensation Table

| Annual Compensation | | | | Long-Term Compensation Awards | |
|---|---|---|---|---|---|
| Name and Principal Position | Fiscal Year | Salary ($) | Other Annual Compensation ($) | Restricted Stock Awards ($) | Stock Options (#) |
| Augustine Y. Cheung, Chairman of the Board of Directors | 2000 | $220,000 | $3,600 | | 100,000 |
| | 1999 | $180,000 | | $1,760(1) | |
| | 1998 | $125,000(3) | | $ 640(1) | |
| Spencer J. Volk, President and Chief Executive Officer | 2000 | $240,000 | $3,600 | $75,000 | 650,000 |
| | 1999 | $240,000 | | $1,760(1) | |
| | 1998 | $240,000(3) | | $700,640 (1)(2) | |

(1) In each of fiscal years 1998 and 1999, Dr. Cheung received 2,000 shares of our common stock for his services as a member of our Board of Directors. For his services on the Board, Mr. Volk received 2,000 shares of common stock for fiscal years 1998 and 1999.

(2) See "Item 11. Executive Compensation" for more information on compensation to Mr. Volk in the form of shares.

(3) A major portion of the salaries due Dr. Cheung, and Mr. Volk during the 1998 fiscal year was accrued and not paid, due to our limited working capital at the time. All accrued amounts were paid through the issuance of shares of common stock to Dr. Cheung and Mr. Volk . See "Item 13. Certain Relationships and Related Transactions."

Aggregate Option Exercises and Year-End Option Values in 2000

The following table summarizes, for each of the Named Executive Officers, the number of stock options held at September 30, 2000 and the aggregate dollar value of in-the-money unexercised options. The value of unexercised, in-the-money options at September 30, 2000 is the difference between the exercise price and the fair market value of the underlying stock on September 30, 2000, which was $2.44 per share based on the closing price of our common stock on September 30, 2000. The options described have not been and may never be exercised, and actual gains, if any, on exercise will depend on the value of our common stock on the actual date of exercise.

Aggregate Option Exercises in Fiscal 2000 and Year-End Option Values

| | | | Number of Unexercised Options at 9/30/00 | | Value of Unexercised In-the-Money Options at 9/30/00 | |
|---|---|---|---|---|---|---|
| Name | Shares Acquired on Exercise | Value Realized ($) | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Augustine Y. Cheung | | | 500,000 | | $998,000 | |
| Spencer J. Volk | | | 650,000 | | $1,035,999 | |

Option Grants in Fiscal Year 2000

The following table provides information concerning grants of options to purchase our common stock that we made to our chief executive officer Named Executive Officers during the fiscal year ended September 30, 2000.

Option Grants in Fiscal Year 2000 (1)

| | Individual Grants | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(8) | |
| Name | Number of Securities Underlying Options Granted(2) | Percentage of Total Options Granted to Employees in Fiscal 2000 | Exercise Price Per Share | Expiration Date | 5% | 10% |
| Augustine Y. Cheung .... | 100,000 | | $1.22 (3) | Jan. 1, 2005 | $253,000 | $531,340 |
| Spencer J. Volk..... | 400,000 | | $0.75 (4) | Jan. 6,2005 | $1,474,242 | $2,018,495 |
| | 250,000 | | $1.22 (5) | Jan. 14, 2005 | | |

(1) Since the end of fiscal year 2000, an exercisable option to purchase 167,000 shares of common stock at an exercise price of $1.4375 was issued to Anthony P. Deasey, the new Senior Vice President -- Finance and Chief Financial Officer pursuant to the employment agreement between the Company and Mr. Deasey.

(2) All of the options listed in the table above are exercisable.

(3) Pursuant to Mr. Cheung's employment agreement, the exercise price is equal to the closing price of the common stock during the fiscal quarter ended December 31, 1999.

(4) Of the options to purchase the 650,000 shares owned by Mr. Volk, the option to purchase 250,000 shares was granted pursuant to the new employment contract between Celsion and Mr. Volk. The exercise price of the 250,000 is equal to the average closing price of the common stock during the fiscal quarter ended December 31, 1999.

(5) Separately, 100,000 shares of common stock and an option to purchase 400,000 shares were granted to Mr. Volk in exchange of the 400,000 shares of common stock due to Mr. Volk pursuant to the first employment contract between Celsion and Mr. Volk. The exercise price of the option to purchase 400,000 shares is equal to 66.67% of the average closing price of the common stock during the three trading days prior to November 11, 1999.

(6) Potential Realizable Value assumes that the common stock appreciates at the indicated annual rate (compounded annually) from the grant date until the expiration of the option term and is calculated based on the rules promulgated by the Securities and Exchange Commission. Potential Realizable Value does not represent our estimate of future stock price performance. The potential realizable value at 5% and 10% appreciation is calculated by assuming that the estimated fair market value on the date of grant appreciates at the indicated rate for the entire term of the option and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price. The public offering price is higher than the estimated fair market value on the date of grant, and the potential realizable value of the option grants would be significantly higher than the numbers shown in the table if future stock prices were projected to the end of the option term by applying the same annual rates of stock price appreciation to the public offering price.

Stock Option Plan

At our annual meeting held on April 27, 1998, our stockholders approved a stock option plan. The plan reserved up to 2,000,000 shares for option grants to directors, employees and consultants, of which options for 1,635,000 shares were available for grant as of November 30, 2000. We have agreed to allow Spencer J. Volk, our President and Chief Executive Officer, to recommend the recipients of such options, subject to approval by the Board of Directors.

Executive Employment Agreements

Pursuant to an agreement with the placement agent that conducted the private placement offering that we consummated on January 31, 2000, we entered into three-year employment agreements with Augustine Y. Cheung, our Chairman and Chief Scientific Officer, and Spencer J. Volk, our President and Chief Executive Officer. The new agreements are intended to encourage continuity of management and were effective as of January 1, 2000. The terms of our prior executive employment arrangements and a summary of the new agreements are described below.

The new executive employment agreement with Dr. Cheung provides for an annual salary of $240,000 per year commencing as of January 1, 2000. As a form of bonus, the agreement grants Dr. Cheung an option to purchase up to 300,000 shares of common stock at intervals until October 1, 2002 at an exercise price of $1.22 per share, which is equal to the average closing price of our common stock during our fiscal quarter ended December 31, 1999. If Dr. Cheung continues to be employed by Celsion on each exercise date, he will be entitled to exercise the bonus option in three separate installments of 100,000 shares each. The first installment became exercisable on March 16, 2000, the next installment will become exercisable after October 1, 2001, with the final installment exercisable after October 1, 2002. Shares purchased under the bonus option will be subject to restrictions on transfer for a minimum period of two years after purchase. Dr. Cheung's employment agreement also grants to him performance-based options to purchase up to a maximum of 700,000 incentive shares of common stock, at exercise prices ranging from a low of $0.80 to a high of $1.60 per share, on achieving five significant corporate milestones. Those performance objectives include obtaining final FDA approval for our products, consummating alliances with strategic marketing and distribution partners and attaining annual pre-tax earnings of at least $1,000,000. A performance-based option may be exercised only after the milestone has been achieved and during the term of Dr. Cheung's employment. Shares issued on exercise of performance-based options will be subject to restrictions comparable to those imposed on the annual bonus option shares.

In May 1997 we entered into a one-year executive employment agreement with Spencer J. Volk to serve as our President and Chief Executive Officer, which agreement was automatically renewable annually for additional one-year periods unless terminated by either party at least 90 days prior to the end of the then-current one-year period. The agreement provided for an initial annual salary of $240,000, which was to be adjusted to at least $360,000 upon our successful raising of an aggregate of at least $5,000,000 in additional capital. In addition, Mr. Volk received 500,000 shares of our common stock at the commencement of his employment as incentive compensation. He also had the right to receive up to 1,400,000 additional shares subject both to an increase in our capital base and to Mr. Volk's continued employment. Under Mr. Volk's leadership, we achieved the specified capital goals, but as of September 30, 1999, Mr. Volk had received only 1,000,000 of the additional shares. At our request, he deferred receipt of the remaining 400,000 shares to a later date. Similarly, although the pre-condition for Mr. Volk's salary adjustment had been met, Mr. Volk agreed, at our request, to waive the salary increase due him for any period prior to September 30, 1999.

With regard to the deferred 400,000 shares, on November 11, 1999, we requested Mr. Volk to waive his right under his existing employment agreement to receive these shares. Simultaneously, we granted him an option to purchase 400,000 shares of restricted common stock at a price equal to two-thirds of the average closing price of common stock during the prior three trading days (which closing price amounted to approximately $0.75 per share) and we agreed to issue 100,000 shares of common stock to him no later than February 15, 2000. Mr. Volk agreed to our proposal.

At our request and the request of the placement agent, Mr. Volk agreed to terminate his prior employment agreement and to enter into a new three-year employment agreement, effective January 1, 2000. Mr. Volk's salary currently is $240,000. His compensation arrangements contain annual bonus and performance-based option provisions similar to those contained in Dr. Cheung's employment agreement, except that Mr. Volk was issued an initial annual bonus option for the purchase of 250,000 shares in fiscal year 2000 instead of the 100,000 share bonus option provided for that year in Dr. Cheung's agreement. Mr. Volk's annual bonus for each of fiscal 2001 and 2002 will be 100,000 shares, as in Dr. Cheung's agreement. For the 2001 fiscal year and the balance of the contract term, Mr. Volk's annual salary will be $360,000, of which, at Celsion's option, only $240,000 may be paid on a current basis. In the event that Celsion elects to defer the increase, the salary differential will accrue as an unpaid obligation to Mr. Volk at the rate of $10,000 per month, and will be represented by a junior convertible note of Celsion, carrying interest at an annual rate of 8.75%, payable interest only until September 30, 2001. After October 1, 2001, the outstanding principal amount of the note will be payable in four quarterly installments of principal and interest. However, the balance of the note will become payable in full, and regular salary payments will be made at the annual rate of $360,000 at such time, if any, as we achieve annual revenues of at least $2.5 million. At the option of Mr. Volk, the balance payable at any time under the note will be convertible into shares of our common stock at a price equal to 80% of the average closing price of such common stock during any ten consecutive trading days selected by Mr. Volk within the 40 trading days immediately prior to the date of any conversion of the note.

The new agreements for each executive provide for continued payment of salary and benefits during the full terms of the agreements in the event of a change of control of Celsion. A change of control is defined as a merger, asset sale, tender offer or other substantial change in voting control, or the election of a new majority of the Board of Directors or of three or more directors whose election is opposed by a majority of the Board. In addition, the agreements provide for Consumer Price Index adjustments, restrictive covenants and confidentiality and other protections in the form generally included in employment agreements for senior management.

In addition, in May of 2000, we entered into a three-year employment agreement with Dennis Smith, our Director of Engineering. Mr. Smith's agreement provides for an annual salary of $100,000. The agreement also provides for

performance-based incentive options to purchase up to 150,000 shares of common stock, exercisable only if certain corporate milestones are reached during his employment, at exercise prices ranging from $2.80 to $3.20. In addition, the agreement grants Mr. Smith an option, not subject to performance conditions, for the purchase of 100,000 shares of common stock at a purchase price of $2.82 per share.

Finally, in June 2000 we entered into a three-year employment agreement with John Mon, a director and our Treasurer, Secretary and General Manager. Mr. Mon's agreement provides for an annual salary of $100,000. Dr. Cheung's agreement also provides for performance-based incentive options to purchase up to 250,000 shares of common stock, exercisable only if certain corporate milestones are reached during his employment, on terms similar to those governing the incentive options provided for Mr. Volk and Dr. Cheung. In addition, the agreement grants Mr. Mon an option, not subject to performance conditions, for the purchase of 50,000 shares of common stock at a price of $2.75 per share.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding shares of voting securities of the Company beneficially owned as of September 30, 2000, determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, by: (i) each person known by the Company to beneficially own 5% or more of the outstanding voting securities; (ii) by each current director, (iii) by each current executive officer and (iv) by all current directors and executive officers of the Company as a group. Unless otherwise indicated, the persons included in the table have sole voting and investment power with respect to all shares beneficially owned. Shares of common stock subject to options that are currently exercisable or are exercisable within 60 days of November 30, 2000 are treated as outstanding and beneficially owned with respect to the person holding such options for the purpose of computing the percentage ownership of such person. However, these shares are not treated as outstanding for purposes of computing the percentage ownership of any other person.

| Name of Beneficial Owner | Shares of Common Stock Beneficially Owned (1) | Percentage of Common Stock Beneficially Owned |
|---|---|---|
| Directors, Named Executive Officers* and more than 5% Stockholders: | | |
| Augustine Y. Cheung (2) | 7,131,176 | 10.95% |
| Spencer J. Volk (3) | 3,439,485 | 5.28% |
| John Mon (4) | 1,058,288 | 1.62% |
| Max E. Link (5) | 242,970 | ** |
| LaSalle D. Leffall, Jr. (6) | 65,781 | ** |
| Claude Tihon (7) | 81,781 | ** |
| Anthony P. Deasey (8) | 243,667 | ** |
| Dennis Smith (9) | 34,000 | ** |
| Executive Officers and Directors as a group (8 individuals) | 12,251,148 | 18.83% |

* The address of each of the named principal stockholders is c/o Celsion Corporation, 10220-I Old Columbia Road, Columbia, MD 21046-1705.

** Less than 1%.

(1) Except as noted, the percentages shown in the above table do not give effect to outstanding options and warrants, shares reserved for issuance under our stock option plan, or shares of preferred stock which are convertible into shares of common stock. Outstanding options, warrants and shares of preferred stock do not carry voting rights.

(2) Includes currently exercisable options to purchase 500,000 shares of common stock.

(3) Includes currently exercisable options to purchase 650,000 shares of common stock.

(4) Includes currently exercisable options to purchase 650,000 shares of common stock.

(5) Includes currently exercisable options to purchase 50,000 shares of common stock

(6) Includes currently exercisable options to purchase 50,000 shares of common stock.

(7) Includes currently exercisable options to purchase 61,000 shares of common stock.

(8) Includes currently exercisable options to purchase 167,000 shares of common stock.

(9) Includes options to purchase 34,000 shares of common stock, which will be exercisable within 60 days.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Compensation to Warren C. Stearns

Warren C. Stearns, a former director and financial consultant to Celsion, was previously engaged to provide services to Celsion for a two-year period beginning May 1996 under a consulting agreement between Celsion and Mr. Stearns' company, SMC. Pursuant to the agreement, Mr. Stearns was to perform various services related to financing and investment banking for Celsion. In consideration for such services, the agreement provided for the issuance of, and we issued to designees of SMC and Mr. Stearns, five-year warrants to purchase shares of our common stock.

We have reviewed with our attorneys the circumstances surrounding the issuance of the above warrants and the services that were performed or purported to be performed by Mr. Stearns and SMC. We believe that the issuance of such warrants constituted a voidable transaction under provisions of the Securities Exchange Act of 1934 and have commenced litigation against SMC, Mr. Stearns and the warrant holders to cancel the warrants.

See "Item 3. Legal Proceedings."

George T. Horton Trust Loan

We were obligated under a secured note to the George T. Horton Trust in the original principal amount of $220,000, which bore interest at 1% per month, was payable December 15, 1997, and was secured by certain equipment and software. The George T. Horton Trust is a part equity owner of SMC. In full satisfaction of such note, we paid $120,000 and issued 200,000 shares of our common stock.

HLB

We previously used the services of HLB, an engineering firm, to assist in the development of commercial versions of our new breast cancer and BPH treatment systems. Walter B. Herbst, one of our directors until October 2000, was the founder and is a director of HLB. In the 1998 fiscal year, HLB billed Celsion $561,238 for extensive engineering and design work it performed, on terms which, in the judgment of the Board of Directors, were comparable to terms which would be available from a non-affiliated vendor. Of this amount, HLB was paid $106,500 in cash, and on September 23, 1998, HLB converted $250,000 of the amount owed into 833,334 shares of restricted common stock at the then-current market price of $0.30 per share. On June 16, 1999 HLB converted the remaining balance of $204,738 into 409,476 shares of restricted common stock at $0.50 per share.

Promissory Notes and Conversions into Common Stock; Purchase of Common Stock

From 1987 through 1998 we borrowed sums needed for working capital at various times from related parties, and issued promissory notes as follows:

- A note dated January 26, 1987 payable to Dr. Augustine Cheung, accruing interest at the rate of 12% per annum, in the principal amount of $78,750 due December 31, 1998.

- A note dated June 30, 1994 payable to Dr. Augustine Cheung, accruing interest at the rate of 10% per annum, in the principal amount of $42,669 due December 31, 1998.

All of such notes and accrued interest have been converted into common stock at prices equal to fair market value at the time of conversion. In addition to conversion of the foregoing notes, on September 23, 1998, Mr. Volk converted $50,134 of amounts we owed him for unpaid expense reimbursements into 167,114 shares of our common stock at $0.30 per share.

On June 16, 1999, certain officers converted accrued salary payable to them into restricted common stock as follows: Spencer J. Volk converted $289,884 into 579,768 shares at $0.50 per share. Dr. Augustine Cheung converted $177,884 into 355,768 shares at $0.50 per share. John Mon converted $68,538 into 137,076 shares at $0.50 per share.

Rescission of Ardex Acquisition

On or about March 31, 1995, we paid $400,000 to Ardex Equipment, LLC and $50,000 to Charles C. Shelton and Joseph Colino in exchange for an aggregate 19.25% interest in Ardex. At the time, Messrs. Shelton and Colino were directors of Celsion. In 1996, we received a $50,000 distribution from Ardex.

On August 2, 1996, we entered into an agreement with Ardex rescinding our investment in Ardex. Pursuant to the Rescission Agreement, we were to receive a 5-year negotiable promissory note for $350,000 bearing interest at 8% per annum. Interest only was to be paid until the principal became due. Principal was due upon the first of the following events to occur: (i) completion of public or private offerings by Ardex in the aggregate of $1,500,000 or more; (ii) 90 days following the year end in which sales have been or exceed $3,000,000; or (iii) Ardex having a cash balance of $800,000 or more from operations; or (iv) five years from the date of the note. The note was to be secured by a limited guarantee of Charles C. Shelton, Joseph Colino and John Kohlman, but only to the extent of their interest in Ardex and their options in Celsion. In addition, Messrs. Shelton, Colino and Kohlman were to deliver their personal promissory notes for a total of $50,000.

The terms of the Recission Agreement were not performed by Ardex and Messrs. Shelton, Colino and Kohlman, and we were advised by Ardex and these persons that they could not honor the terms of the Recission Agreement because Ardex had not been successful and the Ardex individuals were in financial difficulties. We are no longer continuing with our efforts to obtain the documents contemplated by the Rescission Agreement.

On September 30, 1998, we entered into a settlement agreement with Charles Shelton pursuant to which we released any claims against Mr. Shelton and Mr. Shelton waived his right to an option to purchase 420,000 shares of our common stock at a price of $.35 per share and his claim for approximately $110,000 against us in exchange for 50,000 shares of our common stock. At the time of such settlement, our shares were trading at a price of approximately of $0.30 per share.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a)

1. Financial Statements

The following is a list of the financial statements of Celsion Corporation, together with the report of its independent public accountants.



2. Financial Statement Schedules.

No schedules are provided because of the absence of conditions under which they are required.

3. Exhibits.

The following documents are included as exhibits to this report:

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 3.1.1+ | Certificate of Incorporation of Celsion Corporation (the "Company") as filed with the Secretary of State of the State of Delaware on May 17, 2000. |
| 3.1.2+ | Certificate of Designations regarding the Series A 10% Preferred Stock of the Company as filed with the Secretary of State of the State of Delaware on August 17, 2000. |
| 3.1.3+ | Certificate of Ownership and Merger of Celsion Corporation (a Maryland Corporation) into Celsion (Delaware) Corporation (inter alia, changing our name to "Celsion Corporation" from "Celsion (Delaware) Corporation) as filed with the Secretary of State of the State of Delaware on August 17, 2000. |
| 3.2+ | By-laws of the Company adopted June 1, 2000. |
| 4.1+ | Form of Common Stock Certificate, par value $0.01 per share. |

| | |
|---|---|
| 10.1 | Patent License Agreement between the Company and Massachusetts Institute of technology dated June 1 1996, Incorporated herein by reference to Exhibit 10.1 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1996 (Confidential Treatment Requested). |
| 10.2 | License Agreement between the Company and MMTC, Inc. dated August 23, 1996, incorporated herein by reference to Exhibit 10.2 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1996 (Confidential Treatment Requested). |
| 10.3 | Letter Agreement between the Company and H.B.C.I., Inc., dated September 17, 1996, incorporated herein by reference to Exhibit 10.3 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1996. |
| 10.4 | Patent License Agreement between the Company and Massachusetts Institute of Technology dated October 17, 1997, incorporated herein by reference to Exhibit 10.7 to the Annual Report on Form 10-K (amended) of the Company for the year ended September 30, 1998. (Confidential Treatment Requested). |
| 10.5 | Amendment dated November 25, 1997 to the License Agreement between the Company and MMTC, Inc. dated August 23, 1996, incorporated herein by reference to Exhibit 10.8 to the Annual Report on Form 10-K (amended) of the Company for the year ended September 30, 1998. (Confidential Treatment Requested). |
| 10.6 | Patent License Agreement between the Company and Duke University dated November 10, 1999, incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1999 (Confidential Treatment Requested). |
| 10.7 | Amendment dated March 23, 1999 to the License Agreement between the Company and MMTC, Inc. dated August 23, 1996, incorporated herein by reference to Exhibit 10.10 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1999. (Confidential Treatment Requested). |
| 10.8 | Amendment dated August 31, 1999 to the Option Agreement between the Company and Sloan-Kettering Institute for Cancer Research dated February 26, 1999, incorporated herein by reference to Exhibit 10.11 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1999. (Confidential Treatment Requested). |
| 10.9 | Amendment Letter dated August 31, 1999 to the Option Agreement between the Company and Sloan-Kettering Institute for Cancer Research dated February 26, 1999, incorporated herein by reference to Exhibit 10.12 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1999. |
| 10.10 | Omnibus Stock Option Plan, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company for the quarter ended March 30, 1998. |
| 10.11 | Form of Series 200 Warrant issued to certain employees, directors and consultants to Purchase Common Stock of the Company, incorporated herein by reference to Exhibit 10.11 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |

| | |
|---|---|
| 10.12 | Form of Series 250 Warrant issued to DunnHughes Holding, Inc. to Purchase Common Stock of the Company, incorporated herein by reference to Exhibit 10.12 to the Annual Report on Form 10-K of the Company for the year ended September 30,1998 |
| 10.13 | Form of Series 300 Warrant issued to Nace Resources, Inc. to purchase Common Stock of the Company, incorporated herein by reference to Exhibit 10.13 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |
| 10.14 | Form of Series 400 Warrant issued to Stearns Management Company Assignees to Purchase Common Stock of the Company, incorporated herein by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |
| 10.15 | Form of Series 500 Warrant to Purchase Common Stock of the Company pursuant to the Private Placement Memorandum of the Company dated January 6, 1997, as amended, incorporated herein by reference to Exhibit 10.15 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |
| 10.16 | Form of Series 600 Warrant issued to Certain Employees and Directors on May 16, 1996 to Purchase Common Stock of the Company, incorporated herein by reference to Exhibit 10.17 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |
| 10.17 | Form of Registration Rights Agreement pursuant to the Private Placement Memorandum of the Company dated September 10, 1998, as amended, incorporated herein by reference to Exhibit 10.20 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1998. |
| 10.18+ | License Agreement between the Company and Sloan-Kettering Institute for Cancer Research dated May 19, 2000. |
| 10.19 | Employment Agreement between the Company and Spencer J. Volk dated January 14, 2000, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (amended) of the Company for the quarter ended December 31, 1999. |
| 10.10 | Employment Agreement between the Company and Augustine Y. Cheung dated January 1, 2000, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (amended) of the Company for the quarter ended December 31, 1999. |
| 10.21+ | Employment Agreement between the Company and John Mon dated June 8, 2000. |
| 10.22+ | Employment Agreement between the Company and Dennis Smith dated May 19, 2000. |
| 10.23+ | Option Agreement between the Company and Duke University dated August 8, 2000. |
| 10.24+ | Service Agreement between the British Columbia Cancer Agency, Division of Medical Oncology, Investigational Drug Section, Propharma Pharmaceutical Clean Room and the Company dated September 20, 2000. (Confidential Treatment Requested). |

| | |
|---|---|
| 21.1 | Subsidiaries of the Registrant, incorporated herein by reference to Exhibit 21.1 to the Annual Report on Form 10-K of the Company for the year ended September 30, 1996. |
| 23.1+ | Consent of Stegman & Company, independent public accountants of the Company. |
| 27.1 + | Financial Data Schedule. |

+ Filed herewith.

(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the fourth quarter of its fiscal year ended September 30, 2000.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused its annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Spencer J. Volk<br>Spencer J. Volk | Director, President and Chief Executive Officer<br>(Principal Executive Officer) | December 20, 2000 |
| /s/ Anthony P. Deasey<br>Anthony P. Deasey | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | December 20, 2000 |
| /s/ John Mon<br>John Mon | Vice President, Secretary, Treasurer and Director | December 20, 2000 |
| /s/ Augustine Y. Cheung<br>Augustine Y. Cheung | Chairman of the Board | December 20, 2000 |
| /s/ Max E. Link<br>Max E. Link | Director | December 20, 2000 |
| /s/ LaSalle D. Leffall, Jr.<br>LaSalle D. Leffall, Jr. | Director | December 20, 2000 |
| /s/ Claude Tihon<br>Claude Tihon | Director | December 20, 2000 |

CELSION CORPORATION
REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2000, 1999 AND 1997

TABLE OF CONTENTS

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Celsion Corporation
Columbia, Maryland

We have audited the accompanying balance sheets of Celsion Corporation as of September 30, 2000 and 1999, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Celsion Corporation as of September 30, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000 in conformity with generally accepted accounting principles.

/s/ Stegman & Co.
- -----------------
Stegman & Co.
Baltimore, Maryland
October 20, 2000

CELSION CORPORATION
BALANCE SHEETS
SEPTEMBER 30, 2000 AND 1999

ASSETS

| | 2000 | 1999 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $8,820,196 | $1,357,464 |
| Accounts receivable - trade | 2,307 | 1,812 |
| Accrued interest receivable | 7,751 | -- |
| Inventories | 13,538 | 22,059 |
| Prepaid expenses | 22,417 | 3,520 |
| Other current assets | 34,356 | 39,203 |
| Total current assets | 8,900,565 | 1,424,058 |
| PROPERTY AND EQUIPMENT - at cost: | | |
| Furniture and office equipment | 146,287 | 203,156 |
| Laboratory and shop equipment | 52,978 | 47,983 |
| | 199,265 | 251,139 |
| Less accumulated depreciation | 74,540 | 224,874 |
| Net value of property and equipment | 124,725 | 26,265 |
| OTHER ASSETS: | | |
| Patent licenses (net of accumulated amortization of $97,419 and $81,589 in 2000 and 1999, respectively) | 92,531 | 108,361 |
| TOTAL ASSETS | $9,117,821 | $1,558,684 |

See accompanying notes.

CELSION CORPORATION
BALANCE SHEETS
SEPTEMBER 30, 2000 AND 1999

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2000 | 1999 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable - trade | $ 60,472 | $ 130,792 |
| Notes payable - other | 114,778 | 114,778 |
| Notes payable - related parties | -- | 10,000 |
| Accrued interest payable - related parties | -- | 13,800 |
| Accrued interest payable - other | 155,373 | 155,373 |
| Accrued compensation | -- | 91,009 |
| Other accrued liabilities | 60,769 | 88 |
| Capital lease - current | -- | 1,292 |
| Total current liabilities | 391,392 | 517,132 |
| LONG-TERM LIABILITIES: | | |
| Capital lease - long-term | -- | 4,427 |
| Total liabilities | 391,392 | 521,559 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock - $.01 par value; 150,000,000 shares authorized, 64,372,067 and 53,370,498 issued and outstanding for 2000 and 1999, respectively | 643,721 | 533,705 |
| Series A 10% Convertible Preferred Stock, $1,000 par value, 7,000 shares authorized, 5,176 shares issued and outstanding | 5,176,000 | -- |
| Additional paid-in capital | 29,354,125 | 22,403,622 |
| Accumulated deficit | (26,447,417) | (21,900,202) |
| Total stockholders' equity | 8,726,429 | 1,037,125 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 9,117,821 | $ 1,558,684 |

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| REVENUES: | | | |
| Equipment sales and parts | $ 3,420 | $ -- | $ 174,182 |
| Returns and allowances | -- | -- | -- |
| Total revenues | 3,420 | -- | 174,182 |
| COST OF SALES | 246 | -- | 136,500 |
| GROSS PROFIT | 3,174 | -- | 37,682 |
| OPERATING EXPENSES: | | | |
| Selling, general and administrative | 2,661,333 | 1,371,161 | 2,515,822 |
| Research and development | 2,238,292 | 1,019,941 | 1,534,872 |
| Total operating expenses | 4,899,625 | 2,391,102 | 4,050,694 |
| LOSS FROM OPERATIONS | (4,896,451) | (2,391,102) | (4,013,012) |
| INTEREST INCOME | 350,526 | 15,744 | 11,870 |
| INTEREST EXPENSE | (1,290) | (60,834) | (199,346) |
| LOSS BEFORE INCOME TAXES | (4,547,215) | (2,436,192) | (4,200,488) |
| INCOME TAXES | -- | -- | -- |
| NET LOSS | $ (4,547,215) | $ (2,436,192) | $ (4,200,488) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | $ (.08) | $ (.05) | $ (.12) |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 59,406,921 | 45,900,424 | 34,867,001 |



See accompanying notes.

CELSION CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

| | Common Stock | | Series A 10% Convertible Preferred Stock | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balances at October 1, 1997 | 29,095,333 | $ 290,953 | -- | $ -- |
| Sale of common stock | 4,315,000 | 43,150 | -- | -- |
| Issuance of 6,535,493 shares of common stock as payment of indebtedness and expenses | 6,535,493 | 65,355 | -- | -- |
| Net loss | -- | -- | -- | -- |
| Balances at September 30, 1998 | 39,945,826 | 399,458 | -- | -- |
| Sale of common stock | 9,545,500 | 95,455 | -- | -- |
| Issuance of 3,879,172 shares of common stock as payment of indebtedness and expenses | 3,879,172 | 38,792 | -- | -- |
| Net loss | -- | -- | -- | -- |
| Balances at September 30, 1999 | 53,370,498 | 533,705 | -- | -- |
| Sale of common stock | 10,248,544 | 102,485 | -- | -- |
| Issuance of 753,025 shares of common stock as payment of indebtedness and expenses | 753,025 | 7,531 | -- | -- |
| Issuance of 4,853 shares of Series A 10% convertible preferred stock (net of issuance costs) | -- | -- | 4,853 | 4,852,500 |
| Preferred stock dividend | 323 | 323,500 | | |
| Net loss | -- | -- | -- | -- |
| Balances at September 30, 2000 | 64,372,067 | $ 643,721 | 5,176 | $5,176,000 |

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

| | Additional Paid-In Capital | Deficit | Total |
|---|---|---|---|
| Balances at October 1, 1997 | $ 12,511,923 | $(15,263,522) | $ (2,460,646) |
| Sale of common stock | 1,981,850 | -- | 2,025,000 |
| Issuance of 6,535,493 shares of common stock as payment of indebtedness and expenses | 2,719,712 | -- | 2,785,067 |
| Net loss | -- | (4,200,488) | (4,200,488) |
| Balances at September 30, 1998 | 17,213,485 | (19,464,010) | (1,851,067) |
| Sale of common stock | 3,517,420 | -- | 3,612,875 |
| Issuance of 3,879,172 shares of common stock as payment of indebtedness and expenses | 1,672,717 | -- | 1,711,509 |
| Net loss | -- | (2,436,192) | (2,436,192) |
| Balances at September 30, 1999 | 22,403,622 | (21,900,202) | 1,037,125 |
| Sale of common stock | 7,122,893 | -- | 7,225,378 |
| Issuance of 753,025 shares of common stock as payment of indebtedness and expenses | 771,965 | -- | 779,496 |
| Issuance of 4,853 shares of Series 10% convertible preferred stock (net of issuance costs) | (620,855) | -- | 4,231,645 |
| Preferred stock dividend | (323,500) | -- | -- |
| Net loss | -- | (4,547,215) | (4,547,215) |
| Balances at September 30, 2000 | $ 29,354,125 | $(26,447,417) | $ 8,726,429 |

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (4,547,215) | $ (2,436,192) | $ (4,200,488) |
| Noncash items included in net loss: | | | |
| Depreciation and amortization | 39,478 | 28,674 | 24,291 |
| Loss on disposal of property and equipment | -- | -- | 45,180 |
| Inventory valuation | 17,000 | 20,000 | 287,682 |
| Common stock issued for operating expenses | 542,745 | 200,304 | 796,745 |
| Net changes in: | | | |
| Accounts receivable | (495) | -- | 4,079 |
| Inventories | (8,479) | -- | -- |
| Accrued interest receivable - related parties | (7,751) | -- | -- |
| Prepaid expenses | 197,103 | 73,424 | 5,430 |
| Other current assets | 4,847 | (21,594) | 10,085 |
| Accounts payable and accrued interest payable | (73,370) | (223,255) | 903,900 |
| Accrued compensation | (91,009) | 189,239 | 168,732 |
| Accrued professional fees | -- | (100,000) | (156,300) |
| Other accrued liabilities | 60,681 | (13,551) | (1,865) |
| Net cash used in operating activities | (3,866,465) | (2,282,951) | (2,112,529) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of patent licenses | -- | -- | (10,000) |
| Purchase of property and equipment | (122,108) | (8,297) | (21,935) |
| Net cash used in investing activities | (122,108) | (8,297) | (31,935) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from notes payable | -- | -- | 50,000 |
| Payment on notes payable - related parties | -- | -- | (63,240) |
| Payment on notes payable - other | -- | (18,000) | (79,254) |
| Payment on capital lease obligation | (5,719) | (1,083) | (475) |
| Proceeds of stock issuances | 11,457,024 | 3,612,875 | 2,025,000 |
| Net cash provided by financing activities | 11,451,305 | 3,593,792 | 1,932,031 |
| NET INCREASE (DECREASE) IN CASH | 7,462,732 | 1,302,544 | (212,433) |
| CASH AT BEGINNING OF YEAR | 1,357,464 | 54,920 | 267,353 |
| CASH AT END OF YEAR | $ 8,820,196 | $ 1,357,464 | $ 54,920 |

See accompanying notes.

Celsion Corporation
Statements of Cash Flows (Continued)
For the Years Ended September 30, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Conversion of accounts payable, debt and accrued interest payable through issuance of common stock | $ 20,750 | $ 1,511,205 | $ 1,988,322 |
| Prepaid expenses funded through issuance of common stock | $ 216,000 | $ -- | $ -- |
| Acquisition of equipment: | | | |
| Cost of equipment | $ -- | $ -- | $ 7,277 |
| Capital lease payable | -- | -- | (7,277) |
| Cash down payment for equipment | $ -- | $ -- | $ -- |
| Payment on notes payable: | | | |
| Decrease in notes payable | $ -- | $ -- | 16,670 |
| Offset of accounts receivable | -- | -- | (16,670) |
| Net cash paid | $ -- | $ -- | $ -- |
| Cash paid during the year for interest | $ 1,290 | $ 21,356 | $ 103,470 |

See accompanying notes.

CELSION CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Celsion Corporation ("Celsion" or the "Company") develops medical treatment systems primarily to treat breast cancer and a chronic prostate enlargement condition, common in older males, known as benign prostatic hyperplasia ("BPH"), using minimally invasive focused heat technology. The Company has also been working with Duke University on the development of heat-sensitive liposome compounds for use in the delivery of chemotherapy drugs to tumor sites, and with Memorial Sloan-Kettering Cancer Center on the development of heat-activated gene therapy compounds.

Cash and Cash Equivalents

The Company classifies highly liquid investments with original maturities of 90 days or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the related assets of three to seven years using the straight-line method. Major renewals and betterments are capitalized at cost and ordinary repairs and maintenance are charged against operations as incurred. Depreciation expense was $23,648, $12,845 and $11,910 for the years ended September 30, 2000, 1999 and 1998, respectively.

Patent Licenses

The Company has purchased several licenses to use the rights to patented technologies. Patent license costs are amortized straight-line over the remaining patent life.

Revenue Recognition

Revenue is recognized when systems, products or components are shipped and when consulting services are rendered. Deferred revenue is recorded for customer deposits received on contingent sale agreements.

Research and Development

Research and development costs are expensed as incurred. Equipment and facilities acquired for research and development activities which have alternative future uses are capitalized and charged to expense over their estimated useful lives.

Net Loss Per Common Share

Basic and diluted net loss per common share was computed by dividing net loss by the weighted average number of shares of common stock outstanding during each period. The impact of common stock equivalents has been excluded from the computation of weighted average common shares outstanding, as the effect would be antidilutive.

Nonmonetary Transactions

Nonmonetary transactions are accounted for in accordance with Accounting Principles Board Opinion No. 29 "Accounting for Nonmonetary Transactions" which requires that the transfer or distribution of a nonmonetary asset or liability generally is based on the fair value of the asset or liability that is received or surrendered whichever is more clearly evident.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

For most financial instruments, including cash, accounts payable and accruals, management believes that the carrying amount approximates fair value, as the majority of these instruments are short-term in nature.

2. FINANCIAL CONDITION

Since inception, the Company has incurred substantial operating losses, principally from expenses associated with the Company's research and development programs, the clinical trials conducted in connection with the Company's thermotherapy systems and applications for submission to the Food and Drug Administration. The Company believes these expenditures are essential for the commercialization of its technologies. The Company has experienced significant operating losses and as of September 30, 2000 had an accumulated deficit of approximately $26 million. The Company expects such operating losses to continue and possibly increase in the near term and for the foreseeable future as it continues its product development efforts, and undertakes marketing and sales activities. The Company's ability to achieve profitability is dependent upon its ability to successfully obtain governmental approvals, produce, market and sell its new technology and integrate such technology into its thermotherapy systems. The Company has not been able to successfully market its older thermotherapy cancer treatment system because of its inability to provide heat treatment for other than surface and sub-surface tumors. There can be no assurance that the Company will be able to successfully commercialize its newer technology or that profitability will ever be achieved. The operating results of the Company have fluctuated significantly in the past. The Company expects that its operating results will fluctuate significantly from quarter to quarter in the future and will depend on a number of factors, many of which are outside the Company's control.

The Company will need substantial additional funding in order to complete the development, testing and commercialization of its cancer treatment and BPH products and of potential new products. It is the Company's current intention both to increase the pace of development work on its present products and to make a significant commitment to thermosensitive liposome and gene therapy research and development projects. The increase in the scope of present development work and such new projects will require additional funding, at least until the Company is able to begin marketing its products. The Company does not have any committed sources of financing, and cannot guarantee that such additional funding will be available on acceptable terms, if at all.

If adequate funding is not available in the future, the Company may be required to delay, scale-back or eliminate certain aspects of its operations or to attempt to obtain funds through onerous arrangements with partners or others that may force the Company to relinquish rights to certain of

its technologies, products or potential markers. Furthermore, if the Company cannot fund its ongoing development and other operating requirements, and particularly those associated with its obligation to conduct clinical trials under its licensing agreements, it will be in breach of its commitments under such licensing agreements and could therefore lose its license rights, with material adverse effects on the Company.

3. INVENTORIES

Inventories are comprised of the following:

| | 2000 | 1999 |
|---|---|---|
| Materials | $13,538 | $ 5,059 |
| Finished products | -- | 17,000 |
| | $13,538 | $22,059 |

During the year ended September 30, 1998, management completed a thorough review of all its components inventory. As a result of this review the Company identified and wrote off approximately $287,000 of parts and components inventory acquired in the course of developing older equipment now considered to be obsolete. This includes approximately $175,000 of components and parts acquired in the course of developing the Company's older equipment, which was deemed unusable in the Company's newer models that incorporate advanced microwave technology, and $112,000 of replacement parts inventory for older equipment sold in prior years by the Company which was determined to have no appreciable market value because of absence of demand. The write off of $175,000 is included in research and development expenses and the write off of $112,000 is included in operating expenses. During the years ended September 30, 2000 and 1999 additional write-offs of $17,000 and $20,000, respectively, were recognized through a charge to operating expenses.

4. NOTES PAYABLE - OTHER

Notes payable - other consists of a term note without interest and payable on demand.

5. INCOME TAXES

A reconciliation of the Company's statutory tax rate to the effective rate for the years ended September 30 is as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Federal statutory rate | 34.0% | 34.0% | 34.0% |
| State taxes, net of federal tax benefit | 4.6 | 4.6 | 4.6 |
| Valuation allowance | (38.6) | (38.6) | (38.6) |
| | .0% | .0% | .0% |

As of September 30, 2000, the Company had net operating loss carryforwards of approximately $24 million for federal income tax purposes that are available to offset future taxable income through the year 2020.

The components of the Company's deferred tax asset for the years ended September 30 is as follows:

| | 2000 | 1999 |
|---|---|---|
| Net operating loss carryforwards | $ 9,215,000 | $ 7,893,000 |
| Valuation allowance | (9,215,000) | (7,893,000) |
| | $ -- | $ -- |

The evaluation of the realizability of such deferred tax assets in future periods is made based upon a variety of factors for generating future taxable income, such as intent and ability to sell assets and historical and projected operating performance. At this time, the Company has established a valuation reserve for all of its deferred tax assets. Such tax assets are available to be recognized and benefit future periods.

6. RETIREMENT PLAN

The Company provides a SAR-SEP savings plan to which eligible employees may make pretax payroll contributions up to 15% of compensation. The Company does not make contributions to the plan.

7. PREFERRED STOCK

During the year ended September 30, 2000 the Company issued 4,852.5 shares of Series A 10% convertible preferred stock. Holders of shares of preferred stock are entitled to receive when, as and if declared by the Company's Board of Directors, dividends at the annual rate of 10% per share payable semi-annually on March 31 and September 30. Such dividends are payable in shares and fractional shares of preferred stock, valued for this purpose at the rate of $1,000 per share.

The shares of preferred stock are subject to exchange and conversion provisions based on certain capital raising initiatives of the Company whereby holders may exchange preferred shares for common shares at various conversion rates. If the holder does not exercise these exchange on conversion provisions, the Company will redeem the shares at a redemption price of 105% of par value of the shares. If certain capital raising initiatives of the Company do not occur within 12 months of the close of the preferred stock offering, the shares may be converted into shares of the Company's common stock at a conversion price of $0.41 per share of common stock. The Company may call all or any portion of the outstanding shares of preferred stock as a redemption price equal to 105% of the par value of such share plus all accrued and unpaid dividends.

8. STOCK OPTIONS AND WARRANTS

The Company has issued stock options to employees, directors, vendors and debt holders. Options are granted at market value at the date of the grant and are generally exercisable immediately.

A summary of the Company's stock option activity and related information for the years ended September 30, 2000, 1999 and 1998 is as follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Common Stock Options | Weighted Average Exercise Price | Common Stock Options | Weighted Average Exercise Price | Common Stock Options | Weighted Average Exercise Price |
| Price | | | | | | |
| Outstanding at beginning of year | 2,147,500 | $ .31 | 2,745,000 | $ .30 | 3,565,000 | $ .29 |
| Granted | -- | -- | -- | -- | -- | -- |
| Exercised | (705,030) | .35 | (587,500) | .25 | (125,000) | .45 |
| Expired/cancelled | -- | -- | (10,000) | .69 | (695,000) | .25 |
| Outstanding at end of year | 1,442,470 | $ .29 | 2,147,500 | $ .31 | 2,745,000 | $ .30 |

FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

Additionally, the Company has issued warrants to purchase the Company's stock as follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Common Stock Options | Weighted Average Exercise Price | Common Stock Options | Weighted Average Exercise Price | Common Stock Options | Weighted Average Exercise Price |
| Outstanding at beginning of year | 14,506,270 | $ .60 | 7,858,983 | $ .42 | 3,276,818 | $ .28 |
| Issued | 1,125,214 | .94 | 6,749,627 | .81 | 4,582,165 | .52 |
| Expired/cancelled | (9,542,044) | .73 | (102,340) | .50 | -- | .00 |
| Outstanding at end of year | 6,089,440 | $ .47 | 14,506,270 | $ .60 | 7,858,983 | $ .42 |

The following summarizes information about options and warrants at September 30, 2000:

| Options/Warrants Outstanding and Exercisable | | | |
|---|---|---|---|
| Range of Exercise Prices | Number | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
| $.16 - $3.00 | 7,531,910 | 4.83 years | $.43 |

In connection with the issuance of the Series A 10% convertible preferred stock, the Company issued 728 warrants to purchase preferred stock at $1,100 per share. These warrants expire January 31, 2005.

Additionally, certain agreements with stockholders have antidilutive provisions which require that additional shares and options be issued under certain circumstances.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), but applies Accounting Principles Board Opinion No. 25 and related interpretations. No compensation expense related to the granting of stock options was recorded during the three years ended September 30, 1999. The fair value of these equity awards was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998 and 1997: risk-free interest rate of 6.54%, 5.16% and 5.75% for 2000, 1999 and 1998, respectively; expected volatility of 50%; expected option life of 3 to 5 years from vesting and an expected dividend yield of 0.0%. If the Company had elected to recognize cost based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, net loss and loss per share would have been changed to the pro forma amounts as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Net loss | $(5,032,715) | $(2,448,402) | $(5,272,699) |
| Net loss per common share - basic | (.07) | (.05) | (.12) |

9. LICENSE AGREEMENTS AND PROPRIETARY RISKS

The Company owns no patents. Through the Company's license agreements with Massachusetts Institute of Technology ("MIT") and MMTC, Inc., the Company has exclusive rights within defined fields of use to seven U.S. patents. Four of the patents relate to thermotherapy for cancer, including adaptive phased array ("APA") technology and three relate to the treatment of BPH.

The term of the Company's exclusive rights under the MIT license agreements expires ten years after the first commercial sale of a product using the licensed technology or October 24, 2009, whichever occurs first, but the Company's rights continue on a non-exclusive basis for the life of the MIT patents. The Company's exclusive rights under the MIT license agreement relate to use of the technology in conjunction with (i) application of heat to breast tumor conditions, (ii) the application of heat to prostate conditions, and (iii) all other medical uses. MIT has retained certain rights in the licensed technology for non-commercial research purposes.

The Company's exclusive rights under the MMTC license agreements extend for the life of MMTC's patents. The patent terms expire at various times from May 2011 to November 2014.

The Company's rights under the license agreement with Duke University extend for the longer of 20 years or the end of any term for which any relevant patents are issued by the U.S. Patent and Trademark Office. For portions of the technology, the Company's rights are world wide, and the various patent rights, the license covers the United States, Canada, the United Kingdom, France, Germany and Japan and other countries in which Celsion desires to seek patent protection.

The Company's rights under its license agreement with Sloan-Kettering will terminate at the later of 20 years after the date of the license agreement or the last expiration date of any patent rights covered by the agreement.

The MIT, MMTC, Duke University and Sloan-Kettering license agreements each contain license fee, royalty and/or research support provisions, testing and regulatory milestones, and other performance requirements which the company must meet by certain deadlines with respect to the use of the licensed technologies. In conjunction with the patent holders, the Company intends to file international applications for certain of the U.S. patents.

10. RELATED PARTY TRANSACTIONS

Note Payable - Related Parties

Note payable to related parties as of September 30 are comprised of the following:

| | 1999 | 2000 |
|---|---|---|
| Term notes payable to interested parties of the Company accruing interest at 12% per annum. | $ - | 10,000 |
| Less current portion | - | 10,000 |
| Long-term portion - due in 1998 | $ - | $ - |

Accrued interest payable on these notes amounted to $0 and $13,800 at September 30, 2000 and 1999, respectively.

Stock Based Compensation Plan

As part of the Company's employment agreement with the current chief executive officer (CEO), the Company has granted to the CEO 1,900,000 shares of the Company's capital stock which vests in certain milestones throughout the term of employment. The shares become fully vested provided that the CEO remains with the Company through the term of the contract. Under the Plan the amount of compensation expense recognized in the years ended September 30, 2000, 1999 and 1998 were $75,000, $0 and $699,375, respectively.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has entered into a lease for their facilities located in Columbia, Maryland. Future lease obligations are as follows:

| | |
|---|---|
| 2001 | $ 93,704 |
| 2002 | $ 96,385 |
| 2003 | $ 99,207 |
| 2004 | $ 102,100 |
| 2005 | $ 76,205 (through June 30, 2005) |

Rent expense for the years ended September 30, 2000, 1999 and 1998 was $70,848, $67,796 and $75,018, respectively.

Product Liability Insurance

The Company's business exposes it to potential product liability risks which are inherent in the testing, manufacturing, and marketing of human therapeutic products. The Company presently has product liability insurance limited to $5,000,000 per incident, and, if the Company were to be subject to a claim in excess of such coverage and such claim succeeded, the Company would be required to pay such claim out of its own limited resources.

12. CONCENTRATIONS OF CREDIT RISK

As of September 30, 2000, the Company has a concentration of credit represented by cash balances in one large commercial bank in amounts which exceed current federal deposit insurance limits. The financial stability of this institution is continually reviewed by senior management.

13. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Gross profit on sales | $ - | $ 3,174 | $ - | $ - |
| General and administrative expenses | (486,465) | (746,081) | (460,233) | (968,554) |
| Research and development expenses | (355,578) | (400,196) | (644,106) | (838,412) |
| Other income/expense | 7,380 | 60,562 | 142,040 | 139,254 |
| Net loss | $ (834,663) | $ (1,082,541) | $ (962,299) | $ (1,667,712) |
| Net loss per share - basic and diluted | $(0.016) | $(0.014) | $(0.02) | $(0.03) |

EXHIBIT 3.1.1

APPENDIX B

CERTIFICATE OF INCORPORATION OF CELSION (DELAWARE) CORPORATION

The undersigned, a natural person of legal age, for the purpose of organizing a corporation pursuant to the General Corporation Law of the State of Delaware, hereby certifies that:

FIRST: The name of the Corporation is

CELSION (DELAWARE) CORPORATION

SECOND: The address, including street, number, city, and county, of the registered office of the Corporation in the State of Delaware is c/o United Corporate Services, Inc., 15 East North Street, in the City of Dover, County of Kent, State of Delaware 19901, and the name of the registered agent at said address is United Corporate Services, Inc.

THIRD: The nature of the business and the purposes to be conducted and promoted by the Corporation are to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is one hundred fifty million one hundred thousand (150,100,000) shares, consisting of (i) one hundred fifty million (150,000,000) shares of Common Stock, par value $0.01 per share ("Common Stock"), and (ii) one hundred thousand (100,000) shares of Preferred Stock par value $0.01 per share ("Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series.

The Corporation shall from time to time in accordance with the laws of the State of Delaware increase the authorized amount of its Common Stock if at any time the number of shares of Common Stock remaining unissued and available for issuance shall not be sufficient to permit the conversion of the Preferred Stock into Common Stock in accordance with any terms governing such conversion established by the Board of Directors under applicable law.

The Board of Directors is hereby authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, by resolution to provide for the issuance of Preferred Stock in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, privileges, preferences and relative participating, optional or other rights, if any, of the shares of each such series and the qualifications, limitations or restrictions thereof.

The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but shall not be limited to, determination of the following:

(a) The number of shares constituting that series (including an increase or decrease in the number of shares of any such series (but not below the number of shares in any series then outstanding) and the distinctive designation of that series;

(b) Whether a dividend shall be payable on any series, and, if so, the dividend rate on the shares in that series, whether dividends shall be in cash or in kind, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(c) Whether that series shall have voting rights (including multiple or fractional votes per share) in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such privileges, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;



(e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption rates;

(f) Whether that series shall have a sinking fund or sinking funds for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund or funds;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment with respect to shares of that series; and

(h) Any other relative rights, preferences and limitations of that series.

No holder of shares of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe for, purchase or receive any securities convertible to or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation, except in the case of any shares of Preferred Stock to which such rights are specifically granted by any resolution or resolutions of the Board of Directors adopted pursuant to this Article FOURTH.

FIFTH: The name and address of the incorporator are as follows:

| NAME | ADDRESS |
|---|---|
| Michael Barr | 10 Bank Street<br>White Plains, NY 10606 |

SIXTH: The Corporation is to have perpetual existence.

SEVENTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution of any receiver or receivers appointed for this Corporation under Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the indebtedness held by such creditors or class of creditors, and/or three-fourths of the shares held by the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on the Corporation.

EIGHTH: For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation, and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

(a) The management of the business and the conduct of the affairs of the Corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-Laws.

(b) The Board of Directors shall have power without the assent or vote of the stockholders:

(1) To make, alter, amend, change, add to or repeal the By-Laws of the Corporation; to fix and vary the amount to be reserved for any proper purpose; to authorize and cause to be executed mortgages and liens upon all or any part of the property of the Corporation; to determine the use and disposition of any surplus or net profits; and to fix the times for the declaration and payment of dividends.

(2) To determine from time to time whether, and at what times and places, and under what conditions the accounts and books of the Corporation (other than the stock ledger) or any of them, shall be open to the inspection of the stockholders.

(c) In addition to the powers and authorities hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation; subject, nevertheless, to the provisions of the General Corporation Law of the State of Delaware, of this Certificate, and to any By-Laws from time to time made by the stockholders; provided, however, that no By-Laws so made shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been made.

NINTH:

(a) The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by the provisions of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented from time to time, and, in accordance therewith, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

(b) The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director, officer or employee of the Corporation or any predecessor or subsidiary of the Corporation or serves or served at any other enterprise as a director, officer or employee at the request of the Corporation or any predecessor or subsidiary of the Corporation.

(c) Neither any amendment nor repeal of this Article NINTH, nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article NINTH, shall eliminate or reduce the effect of this Article NINTH with respect to any matter occurring, or any action or proceeding accruing or arising or that, but for this Article NINTH, would accrue or arise, prior to such amendment, repeal, or adoption of an inconsistent provision.

TENTH: From time to time any of the provisions of the Corporation's Certificate of Incorporation may be amended, altered, or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted as prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Certificate of Incorporation are granted subject to the provisions of this Article TENTH.

IN WITNESS WHEREOF, the undersigned hereby executes this document and affirms that the facts set forth herein are true under the penalties of perjury this 17(th) day of May, 2000.

/s/ Michael Barr
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Michael Barr
Incorporator

CERTIFICATE OF DESIGNATION

OF

CELSION (DELAWARE) CORPORATION

Certificate of Designations, Preferences Rights and Limitations of SERIES A 10% CONVERTIBLE PREFERRED STOCK under Section 151 of the Delaware General Corporation Law

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Spencer J. Volk and John Mon HEREBY CERTIFY that they are, respectively, the President and Chief Executive Officer, and the Secretary, of CELSION (DELAWARE) CORPORATION (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, and that, pursuant to (i) authority conferred upon the Board of Directors by the Corporations' Certificate of Incorporation and (ii) Section 151 of the Delaware General Corporation Law, the Board of Directors of the Corporation has duly adopted the following resolution providing for the issuance of a series of convertible preferred stock, as follows:

RESOLVED, that pursuant to authority expressly granted to and vested in the Board of Directors by the provisions of the Certificate of Incorporation and Section 151 of the Delaware General Corporation Law, the Board of Directors hereby creates a series consisting of 7,000 shares of Series A 10% Convertible Preferred Stock of the Corporation, and hereby fixes the powers, designation, preferences and rights of the shares of such Series, and the qualifications, limitations, or restrictions thereof (in addition to those provisions set forth in the Certificate of Incorporation which may be applicable to the Preferred Stock), as follows:

FIRST: Pursuant to authority contained in the Corporation's Charter, Seven Thousand (7,000) authorized but unissued shares of the Corporation's capital stock, $.01 par value, have been duly reclassified by the Board of Directors of the Corporation as authorized but unissued shares of Series A 10% Convertible Preferred Stock.

SECOND: A description of the Series A 10% Convertible Preferred Stock and of the powers, designation, preferences and rights of the shares of such Series, and the qualifications, limitations, or restrictions thereof, is as follows:

1. Designation and Par Value.

The formal designation of the shares so reclassified by the Board of Directors shall be Series A 10% Convertible Preferred Stock (referred to herein for convenience as "Series A Preferred Stock" or as "Preferred Shares"). The par value of Series A Preferred Stock is $.01 per share.

2. Liquidation Preference and Ranking.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the business and affairs of the Corporation, and before the holders of shares of Common Stock or any other class or series of stock of the Corporation ranking junior on liquidation to the Series A Preferred Stock shall be entitled to any payment on account of such shares, the holders of Series A Preferred Stock then outstanding shall be entitled to receive, as a liquidation preference, an amount equal to One Thousand ($1,000.00) dollars per share (the "Original Cost"), plus any accrued but unpaid dividends (the Original Cost plus such dividends being referred to as the "Liquidation Preference") to which such shareholders have become entitled and which have not theretofore been paid. After the holders of Series A Preferred Stock shall have received such payment of the Liquidation Preference plus all accrued and unpaid dividends in the course of such liquidation, dissolution or winding up, they shall have no right or claim to any of the remaining assets of the Corporation.



(b) If upon any liquidation, dissolution or winding up, the Corporation shall have insufficient funds to permit payment to the holders of Series A Preferred Stock then outstanding of the entire amount to which they are entitled as a Liquidations Preference thereunder, then such funds as are available for such purpose shall be distributed among such holders on the basis of the number of shares of Series A Preferred Stock held by each such holder so that, as nearly as may be practicable, the amount each such holder shall receive shall represent the same proportion of such available funds as such holder's total holding of shares of Series A Preferred Stock represents of the total shares of Series A Preferred Stock at the time outstanding.

(c) For all purposes under this Certificate of Designation, all shares of Series A Preferred Stock shall be of equal rank with each other.

3. Dividends.

(a) The holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors of the Corporation, out of capital surplus or earnings at the time legally available therefor, dividends at the annual rate of 10% per share, payable in fully-paid and non-assessable shares of Series A Preferred Stock which shall be valued, for this purpose, at an amount equal to the Original Cost. Dividends shall accrue, whether or not

declared, unless such dividends are then prohibited by the provisions of the Delaware General Corporation Law or the Corporation's Certificate of Incorporation.

(b) Dividends shall be cumulative and shall be payable semi-annually on March 31 and on September 30 in each year commencing January 1, 2000, to stockholders of record on the immediately preceding March 15th and September 15th, respectively, or such other record date fixed for the purpose by the Board of Directors. Dividends payable with respect to any shares of Series A Preferred Stock for the initial dividend period and for any period less than a full six-month period shall accrue from the date of issuance of such shares of Series A Preferred Stock on which such dividends are payable, and shall be computed and apportioned on the basis of a 180-day period composed of six 30-day months. Holders of Series A Preferred Stock shall not be entitled to any dividends in excess of the full dividends provided for herein, and no interest or sum of money in lieu of interest shall be payable in respect of any dividend payment which may be in arrears. No dividends shall be payable on any fractional or full shares of Series A Preferred Stock which shall have been declared, paid or distributed as dividends on outstanding Preferred Shares.

4. No Dividends or Distributions to Junior Securities.

Except as may be otherwise provided in this Certificate of Designation, so long as any shares of Series A Preferred Stock are outstanding, no dividends shall be declared or paid or set aside for payment, and no other distribution shall be declared or made, upon any Common Stock of the Corporation or upon any other shares of a class or series of stock which is junior in right and ranking to the Series A Preferred Stock, unless all amounts then due to the holders of Series A Preferred Stock, including the dividends provided for herein, have been paid.

5. Voting Rights.

Except as otherwise expressly provided herein or as provided by law, the Series A Preferred Stock shall have no voting rights. However, notwithstanding the foregoing, the written consent or affirmative vote of the holders of a majority of the outstanding Series A Preferred Stock is required to approve (i) any proposed amendment to the Company's Certificate of Incorporation that would materially alter or change the powers, preferences, or special rights of the Series A Preferred Stock so as to affect the holders adversely, and (ii) any plan of merger or consolidation that contains provisions which, if contained in a proposed amendment to the Company's Certificate of Incorporation, would have entitled the holders of the Series A Preferred Stock to vote, as a class, on the issue.

6. Exchange and Conversion Rights.

The Preferred Shares and any fractional Preferred Shares (including, for such purposes, any shares and fractional shares issued or issuable as dividends) will be entitled to the following rights of exchange and conversion, subject to any limitations and conditions provided in this Certificate of Designation:

(a) (i) If the Corporation undertakes a public securities offering (Public Offering") registered with the Securities and Exchange Commission ("SEC") consisting of either (i) equity securities of the Corporation or (ii) units ("Units") comprised of equity securities of the Corporation and of shares of any subsidiary of the Corporation (the securities and/or Units to be sold in such public offering being referred to as "Public Offering Securities"), and provided that such Public Offering is consummated by the first anniversary of the date of sale in a private placement (the "Private Placement") offering of at least $2,500,000 in aggregate Original Cost of Series A Preferred Stock (such date being referred to as the "Minimum Closing Date"), the Corporation will promptly furnish each holder with written notice of the Corporation's filing with the SEC of a registration statement concerning the Public Offering. Within 30 days after the giving of such notice (the "30-day Election Period"), each such holder will be required to notify the Corporation, by returning a form to be furnished to each holder of Preferred Shares by the Corporation, that such holder elects, contingent on the consummation of the Public Offering, either (1) to exchange 100% of the Preferred Shares then held by such holder (including Preferred Shares and fractional Preferred Shares issued as dividends) for such Public Offering Securities at an exchange price which will be equal to 70% of the public offering price of the Public Offering Securities, or (2) to exchange 50% of the Preferred Shares then held by such holder (including Preferred Shares and fractional Shares issued as dividends) for Public Offering Securities at an exchange price which will be equal to 70% of the public offering price of the Public Offering Securities and to convert the remaining 50% of such Preferred Shares into the Company's Common Stock ("Common Stock") at a conversion price of $0.41 per share of Common Stock, as such price may be adjusted from time to time in accordance with the provisions of Section 7 below (as so adjusted, the "Conversion Price"). Concurrently with the consummation of the Public Offering, each holder who has made such an election shall surrender and deliver to the Corporation or to the exchange agent or transfer agent designated for such purpose by the Corporation, certificates for the Preferred Shares being exchanged, or exchanged and converted as the case may be, as set forth in such holder's election as described in the immediately preceding sentence. Within five (5) business days thereafter, the Corporation will cause to be issued to each holder certificates representing the Public Offering Securities being issued in exchange for such Preferred Shares, and, as the case may be, certificates representing shares of Common Stock into which 50% of such Preferred Shares are being converted if such holder has so elected in accordance with this Paragraph (a).

(ii) In addition, if the Corporation shall, within 12 months after the Minimum Closing Date, consummate the sale of any subsidiary of the Corporation (or all or substantially all of the assets of such subsidiary) to a public company, or shall complete a merger of such subsidiary into a public company (a "Disposition Transaction"), for consideration consisting of securities of such public company (the "Disposition Securities"), each holder of Preferred Shares will be promptly notified of such Disposition Transaction in a manner similar to that provided for in the immediately preceding sub-paragraph, and will have similar 30-day Election Period to elect either (1) to exchange 100% of the holder's Preferred Shares for such Disposition Securities at an exchange price equal to 70% of the price of the Disposition Securities established in the Disposition Transaction, or (2) to exchange 50% of such holder's Preferred Shares for Disposition Securities on the same terms and to convert the remainder of such Preferred Shares into Common Stock at the Conversion Price. Within 20 days after the expiration of the applicable 30-day Election Period, each holder who had made such an election shall surrender and deliver to the Corporation or to the exchange agent or transfer agent designated for such purpose by the Corporation, certificates for the Preferred Shares being exchanged, or exchanged and converted as the case may be, as set forth in such holder's election as described in the immediately preceding sentence. Within five (5) business days thereafter, the Corporation will cause to be issued to each holder certificates representing the Disposition Securities being issued in exchange for such Preferred Shares, and, as the case may be, certificates representing shares of Common Stock into which 50% of such Preferred Shares are being converted if such holder has so elected.

(b) If any holder of Preferred Shares does not elect either exchange alternative (1) or exchange alternative (2) described in sub-paragraph (a)(i) or (a)(ii) above, as the case may be, within the applicable 30-day Election Period, all rights of any such non-electing holder to exchange such Preferred Shares for Public Offering Securities (or Disposition Securities, as the case may be) or to convert such Preferred Shares into Common Stock at such time or at any time thereafter shall, provided the Public Offering or the Disposition Transaction, as the case may be, is consummated by the first anniversary of the Minimum Closing Date, immediately lapse and completely terminate. The Corporation will, within a reasonable time thereafter, redeem the Preferred Shares held by such non-electing holder at a redemption price per share equal to 105% of the Liquidation Preference, in accordance with the provisions of Section 8 below, except that such non-electing holder shall not be permitted to exercise any right to convert the Preferred Shares into Common Stock granted under the provisions of paragraph (c) of this Section 6.

(c) Other than as set forth in Paragraph (a) of this Section 6, the holders of Series A Preferred Stock will not have any right to convert their Preferred Shares prior to the earlier of (i) the first anniversary of the Minimum Closing Date or (ii) the Corporation's issuance of a Redemption Notice as defined in paragraph (b) of Section 8. If the Public Offering is not consummated by the

first anniversary of the Minimum Closing Date, then, at the election of any holder of Preferred Shares at any time thereafter, and subject to the condition set for in Paragraph (d) of this Section 6, such holder may convert his Preferred Shares (including any whole or fractional Preferred Shares received as dividends under the provisions of Section 3) in whole or in part into shares of the Company's Common Stock at the Conversion Price, in accordance with the conversion procedure set fort in Paragraph (e) of this Section 6.

(d) In addition, if at any time subsequent to the first anniversary of the Minimum Closing Date (no sale of Public Offering Securities having been consummated by such first anniversary), the Corporation undertakes a public offering consisting of the sale of Common Stock for its own account, then, at the specific election of the Corporation and upon notice to me holders of the Preferred Stock, such holders may be required to convert their shares of Preferred Stock (including any whole or fractional Preferred Shares received as dividends under the provisions of Section 3) into shares of Common Stock at the Conversion Price. Such election by the Corporation may be exercised by the giving of notice to holders of Preferred Shares, establishing a period of least 30 days from the date of such notice, during which holders shall convert their Preferred Shares into shares of Common Stock at the Conversion Price, and after which all conversion rights of such holders shall lapse and completely terminate.

(e) A right to convert Preferred Shares into shares of Common Stock under paragraph (c) or (d) of this Section 6 shall be exercised by a holder by delivering to the Corporation during regular business hours, or to such agent as may be designated by the Corporation, the original certificate or certificates for the shares to be converted, duly endorsed or assigned either in blank or tot he Corporation, accompanied by written notice in substantially the form annexed hereto as Exhibit A, stating that the holder elects to convert such shares (or the amount thereof as to which the conversion right is to be exercised, which amount shall be not less than that represented by shares having an aggregate Original Cost of $5,000) and stating the name or names (with address and Social Security or Federal Taxpayer Identification Number) in which the certificate or certificates for the shares of Common Stock are to be issued. Conversion shall be deemed to have been effected on the date when the aforesaid delivery is made (the "Conversion Date"). As promptly as practicable thereafter, the Corporation shall issue and deliver to such holder (or upon the written order of such holder) to the place designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder is entitled. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a stockholder of record on the applicable Conversion Date unless the transfer books of the Corporation are closed on that date, in which event such person shall be deemed to have become a stockholder of record on the next succeeding date on which the transfer books are open. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series A Preferred Stock surrendered for conversion, the Corporation shall issue and deliver to such holder, or upon the written order of the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of Series A Preferred Stock representing the unconverted portion of the certificate so surrendered.

(f) The Corporation shall, at all times when Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock.

(g) All shares of Common Stock which may be issued in connection with the conversion provisions set forth herein will, upon issuance by the Corporation, be validly issued, fully paid and non-assessable. No adjustment shall be made for dividends on any share of Series A Preferred Stock which is being converted (unless such dividends have been accrued and are unpaid as the Conversion Date) or on any share of Common Stock issued on exercise of a holder's Conversion Right.

(h) No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock and, in lieu of any fractional shares to which the holder would otherwise be entitled, the number of shares of Common Stock issuable upon conversion shall be rounded to the nearest whole number.

(i) All shares of Series A Preferred Stock which shall have been surrendered for conversion or exchange as herein provided shall no longer be deemed to be outstanding, and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall immediately cease and terminate on the Conversion Date, with respect Preferred Shares which have been converted, and on the specified effective date of exchange for Preferred Shares which have been exchanged, except only the right of the holders thereof to receive shares of Common Stock, or Public Offering Securities, in conversion or exchange therefor. Any shares of Series A Preferred Stock so converted or exchanged shall be retired and canceled and shall not be reissued, and the Corporation (without the need for stockholder action) may from time to time take such appropriate action as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

(j) The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series A Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series A Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

7. Adjustments to Conversion Price.

The Conversion Price (which is initially established at $.41 per share of Common Stock) in effect from time to time shall be subject to adjustment (to the nearest cent) from time to time as follows:

(a) If the Corporation, at any time after the Minimum Closing Date and at any time prior to the conversion of a Preferred Share shall have subdivided its outstanding shares of Common Stock by recapitalization, reclassification or split-up thereof, or if the Corporation shall have declared a stock or distributed shares of Common Stock to its stockholders, the Conversion Price immediately prior to such conversion shall be proportionately increased; and if the Corporation, prior to such conversion, shall have at any time combined the outstanding shares of Common Stock by recapitalizatoin, reclassification or comparable combination thereof, the Conversion Price immediately prior to such conversion shall be proportionately increased.

(b) In case the Corporation, after the Minimum Closing Date, shall consolidate with or merge into another corporation or convey all or substantially all of its assets to another corporation, then, and in each such case, the Conversion Prices shall be adjusted in such manner that the holder of Preferred Shares, upon the conversion thereof as provided in Section 6 above, at any time after the consummation of such consolidation, merger or conveyance, shall be entitled to received the securities or property to which such holder would have been entitled upon such consummation if such holder had exercised his right to convert such Preferred Shares immediately prior thereto.

(c) For purposes hereof, the term "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Corporation after the Minimum Closing Date, or shares of Common Stock issuable upon conversion or exchange of any securities (including, for this purpose, preferred stock other than the Preferred Shares, and notes and debentures) convertible into Common Stock ("Convertible Securities"), but not warrants or options issued after the Minimum Closing Date, except to the extent such warrants or options are actually exercised. If the Corporation at any time or from time to time after the Minimum Closing Date shall agree to issue any Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the conversion such Convertible Securities shall be deemed to be Additional Shares of Common Stock, but only as of the time of such issuance of Convertible Securities or, in case such a record date shall have been fixed, only as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to paragraph (e) of this Section 7) of such Additional Shares of Common Stock would be less than the Adjustment Base Price as defined below in effect on the date of an immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued pursuant to this paragraph (c), no further adjustment in the Conversion Price shall be made upon the subsequent issuance of Common Stock at the time of the actual conversion of such Convertible Securities.

(d) In the event the Corporation shall at any time after the Minimum Closing Date issue Additional Shares of Common Stock, including Additional Shares of Common Stock deemed to be issued pursuant to paragraph (c) of this Section 7 (except for issuances of Common Stock described in paragraph (f) below) without consideration or for a consideration per share less than the greater of (a) the applicable conversion Price in effect immediately prior to such issuance, and (B) 50% of the Current Market Value per share of Common Stock (as defined below) as of the date of such issuance (such greater amount being defined as the "Adjustment Base Price"), then and in such event, such Conversion Prices shall be reduced, concurrently with such issuance, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction: (A) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issuance plus (2) the quotient derived by dividing the aggregate consideration received from such issuance of Addition Shares of Common Stock by the Adjustment Base Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued. For purposes hereof, Current Market Value shall mean the Common Stock average closing price over a period of 60 trading days ending on the day immediately preceding the date of issuance of the shares which are the subject of the above calculations.

(e) for purposes of Paragraph (d) of this Section 7, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock referred to therein shall be computed as follows:

Cash and Property: Such consideration shall:

(i) insofar as it consists of cash, be computed at the gross amount of aggregate cash received by the Corporation, excluding amounts paid or payable for accrued interest and the costs of the issuance;

(ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration so received, computed as provided in clauses (i) and (ii) above, as determined in good faith by the Board of Directors.

(f) Notwithstanding anything to the contrary contained in this Section 7 or elsewhere in these Certificate of Designation, the following issuances, transactions or occurrences shall be excluded from those events requiring any adjustment in accordance with Paragraph (d):

(i) The accrual or payment in kind of dividends on the Series A Preferred Stock;

(ii) The issuance or re-issuance of the Preferred Shares to any investors in the Private Placement (or any subsequent issuance or reissuance to their transferees) and any exchange, conversion or redemption of any Preferred Shares (and of any shares of Series A Preferred Stock representing dividends paid in kind) in accordance with provisions governing such exchange, conversion or redemption as set forth in the corporation's Articles of Incorporation, Certificate of Designation and By-Laws;

(iii) The issuance to any of the Corporation's executives, directors, employees and consultants of options, warrants or shares granted under any incentive, stock option, bonus or other benefit plan, program or policy of the Corporation, provided that such issuances in the aggregate do not exceed 15% in the aggregate of the Corporation's then outstanding shares of Common Stock;

(iv) The issuance of shares of Common Stock upon the exercise of any option or warrant of the Corporation outstanding on the Minimum Closing Date (including all warrants to be issued to the placement agent in the Private Placement, whether issued on or after the Minimum Closing Date);

(v) The issuance of shares of Common Stock, or warrants or options for the purchase of shares of Common Stock, to pay, settle or compromise Corporation obligations to suppliers, vendors, contractors, licensors and joint venture partners, including, without limiting the generality of the foregoing, Duke University and assignees or designees of Warren C. Stearns and Stearns Management Company; and

(vi) The future issuance of shares, or options or warrants for the purchase of shares, at a discount from the current market value, to the placement agent in the Private Placement or to another placement agent, or to an underwriter, bank, commercial lender or other institution, or to a broker-dealer or investor which is furnishing or arranging financing for the Company, provided that any such issuance is not at a price which is less than the Adjustment Base Price, it being understood that, if such price is less than the Adjustment Base Price, the provisions of Paragraph (d) of this Section 7 shall govern the adjustment to be made to the Conversion Price.

(g) The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or preformed hereunder by the Corporation, will at all times in good faith assist in the carrying out of all the provisions of this Section 7 and in the taking of all such actions as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred Stock against impairment.

(h) Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 7, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preferred Stock, upon the request of such holder, a certificate setting forth such adjustment or readjustment and showing the facts upon which such adjustment or readjustment is based and the then Conversion Price.

8. Redemption.

(a) Beginning six (6) months after the Minimum Closing Date the Corporation, at its sole option, expressed by resolution of its Board of Directors, may call for redemption and may redeem shares of Series A Preferred Stock in whole, or from time to time in part, upon notice as set forth below. the redemption price per share of Series A Preferred Stock shall be equal to 105% of the Liquidation Preference plus accrued and unpaid dividends.

(b) Notice of any redemption of the Series A Preferred Stock (the "Redemption Notice") shall be given at least 30 days prior to the date fixed in such notice for such redemption (the "Redemption Date") to each holder of record of shares of Series A Preferred Stock, at such holder's address as the same shall appear on the books of the Corporation. Such noticed shall specify the time and place of redemption, the redemption price, and, if less than all the outstanding Preferred Shares are to be redeemed, shall also specify the proportion of shares which are to be redeemed.

(c) If any such notice of redemption shall have been duly given and if, on or before the Redemption Date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, al shares so called for redemption shall no longer be deemed outstanding on and after the Redemption Date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such Redemption Date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption, without interest.

(d) From and after the giving of the notice of redemption, holders of Series A Preferred Stock shall continue to have the conversion rights provided in Section 6, which rights shall continue in effect until the Redemption Date.

(e) Shares of Series A Preferred Stock which have been redeemed, purchased or otherwise acquired by the Corporation shall be canceled and shall not be subject to re-issuance by the Corporation for any purpose.

9. General.

(a) The corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series A Preferred Stock so as to affect adversely the Series A Preferred Stock, without the written consent or affirmative vote of the holders of a majority of the then outstanding shares of Series A Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, in accordance with applicable law. For this purpose, without limiting the generality of the foregoing, the authorization of any shares of capital stock with preference or priority over the Series A Preferred Stock as to the right to receive either dividends or amounts distributable upon liquidation, dissolution or winding up of the Corporation shall be deemed to affect adversely the Series A Preferred Stock, and the authorization of any shares of capital stock on a parity with Series A Preferred Stock as to the right to receive either dividends or amounts disbributable upon liquidation, dissolution or winding up of the Corporation shall not be deemed to affect adversely the Series A Preferred Stock.

(b) The number of authorized shares of Series A Preferred Stock may be increased (but only for the purpose of providing a sufficient number of authorized Preferred Shares of the payment of dividends on outstanding Preferred Shares) or decreased (but not below the number of shares then outstanding) by the directors of the Corporation.

(c) Any of the rights of the holders of Series A Preferred Stock set forth herein may be waived by the affirmative vote of the holders of a majority of the shares of Series A Preferred Stock then outstanding.

(d) Fractional shares of Series A Preferred Stock may be issued as required in connection with the payment of dividends or transfers of Preferred Shares among holders.

10. Notices.

(a) Any notices required to be given to any holder of Series A Preferred Stock shall be deemed properly given if deposited in the United States mail, postage prepaid, or sent by facsimile or by overnight or express delivery service, followed by duplicate notice via United States first class mail, postage prepaid, and addressed to the holder of record at such holder's address appearing at the books of the Corporation.

(b) In case:

i. of any capital reorganization of the Corporation, any reclassification of the capital stock of the Corporation, any consolidation or merger of the Corporation with or into another corporation, or any conveyance of all or substantially all of the assets of the Corporation to another corporation; or

ii. of any voluntary or involuntary dissolution, liquidation or winding up of the Corporation; or

iii. any other event specified in this Certificate requiring the taking of such a record.

Then, and in each such case, the Corporation shall mail or cause to be mailed to each holder a notice specifying, as the case may be, the date on which a record is to be taken for the foregoing purposes and providing the information reasonably required in order enable to holders of record of Preferred Shares to exercise the rights conferred by this Certificate of Designation.

THIRD: The reclassification of authorized but unissued shares as set forth in this Certificate of Designation does not increase the authorized capital of the Corporation or the aggregate par value thereof.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation for its Series A 10% Convertible Preferred Stock to be duly executed by its President and by its Secretary, respectively, this 15th day of August 2000.

CELSION (DELAWARE) CORPORATION

By: /S/SPENCER J. VOLK
---
Spencer J. Volk
President and Chief Executive Officer

By: /S/JOHN MON
---
John Mon, Secretary

EXHIBIT A

CELSION (DELAWARE) CORPORATION

NOTICE OF CONVERSION OF SERIES A 10% CONVERTIBLE PREFERRED STOCK

(To be Executed by the Registered Holder in order to Convert the Series A Preferred Stock)

The undersigned Holder hereby irrevocably elects to convert ___ shares of Series A Preferred Stock, represented by stock certificate No(s). _____ (the "Preferred Stock Certificates") into shares of common stock ("Common Stock") of Celsion Corporation according to the conditions set forth in the Certificate of Designation for Series a Preferred Stock, as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any. A copy of each of the Preferred Stock Certificates being converted is attached hereto.

Date of Submission:_____

Number of Share of Series A 10% Convertible
Preferred Stock to be Converted:_____

Name of Holder:_____

By:_____

Title:_____

Address:_____

Social Security or

Federal Taxpayer ID No:_____

IMPORTANT

No shares of Common Stock will be issued until the original Series A Preferred Stock Certificates(s) to be converted and the Notice of Conversion are received by the Company. The Holder shall fax, or otherwise deliver, a copy of this completed and fully executed Notice of Conversion to the Corporation at the office of the Corporation or such other location designated by the Corporation and shall deliver, at the same time, the original Series A Preferred Stock Certificate(s) representing the Series A Preferred Stock being converted, duly endorsed for transfer.

EXHIBIT 3.1.3

CERTIFICATE OF OWNERSHIP AND MERGER

OF

CELSION CORPORATION

(A MARYLAND CORPORATION)

INTO

CELSION (DELAWARE) CORPORATION

(A DELAWARE CORPORATION)

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PURSUANT TO SECTION 253 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

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Celsion Corporation, a corporation organized and existing under the laws of the State of Maryland (hereinafter the "Corporation", DOES HEREBY CERTIFY THAT:

FIRST: The Corporation was incorporated in 1982 under the name of A.Y. Cheung Associates, Inc., which then changed its name to Cheung Laboratories, before changing its name to its present corporate name. This Certificate is prepared and filed pursuant to the General Corporation of the State of Maryland, the provisions of which permit the merger of a parent corporation organized and existing under the laws of said State into a subsidiary corporation organized and existing under the laws of a foreign state.

SECOND: The Corporation owns all of the outstanding shares of Celsion (Delaware) Corporation, a corporation incorporated pursuant to the General Corporation Law of the State of Delaware of May 17, 2000.

THIRD: The Corporation, by resolution of its Board of Directors, duly adopted by the unanimous written consent of the members thereof and filed with the minutes of such Board on May 25, 2000, determined to, and effective upon the filing of this Certificate of Ownership and Merger with the Secretary of State of the State of Delaware hereby does, merger itself into said Celsion (Delaware) Corporation, resolving as follows:

WHEREAS, the Corporation is the legal and beneficial owner of all the outstanding shares of Celsion (Delaware) Corporation, a Delaware corporation (hereinafter the "Surviving Corporation"), and desires to merge itself into the Surviving Corporation, vesting in the Surviving Corporation all of the estate, property, rights, privileges and franchises now held and enjoyed by this Corporation; therefore it is

"RESOLVED, that the Plan and Agreement of Merger, which provides for the merger of the Corporation into Celsion (Delaware) Corporation, a Delaware corporation (the "Surviving Corporation"), and each and every term and condition thereof, is hereby ADOPTED, APPROVED, RATIFIED and CONFIRMED in all respects, including, without limitation (i) the exchange of each outstanding share of Common Stock of the Corporation for one (1) share of Common Stock of the Surviving Corporation; (ii) the change of name of the Surviving Corporation to Celsion Corporation; (iii) the designation and election of the present directors and officers of the Corporation as the directors and officers of the Surviving Corporation; and (iv) the adoption of the By-Laws of the Surviving Corporation; and it is further

RESOLVED, that the Plan and Agreement of Merger shall be submitted to the holders of the Corporation's Common Stock entitled to vote for their review and action in connection therewith; and it is further



RESOLVED, that, subject to the approval of the Plan and Agreement of Merger by such shareholders, the chief executive officer and treasurer and secretary of the Corporation are hereby authorized and directed to prepare, execute and file appropriate certificates of ownership and merger and any and all other documents required in order to effectuate such merger as promptly as possible, including, without limitation, any corporate tax and estimated tax returns for the Corporation for any state requiring same; and it is further

RESOLVED, that the chief executive officer and treasurer and secretary of the Corporation are hereby authorized and directed to take any and all other actions, and to prepare, execute and deliver or file any other documents, agreements or certificates necessary or desirable in connection with, and in order to carry out intent of, such merger and the transactions related thereto, including, without limitation, (i) the obtaining of authorizations for the Surviving Corporation to do business in the states in which the Corporation has previously been authorized to do business and in such other states and jurisdictions as the officers of the Surviving Corporation shall determine, and (ii) the withdrawal by the Corporation of its qualification to do business in each of those states in which the Surviving Corporation will be authorized to do business".

FOURTH: The merger of this Corporation into the Surviving Corporation shall become effective upon the filing of this Certificate with the Secretary of State of the Surviving Corporation.

FIFTH: The merger has been approved by the shareholders of the Corporation entitled to vote thereon at the Corporation's annual meeting of shareholders, which meeting took place on June 1, 2000.

SIXTH: All steps necessary to approve and authorize the merger of the Corporation into the Surviving Corporation have been duly taken.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this 1st day of June, 2000, and affirms that the statements herein and the contents hereof are true under the penalties of perjury.

CELSION CORPORATION
(a Maryland corporation)
/s/Spencer J. Volk
---
Spencer J. Volk
President and Chief Executive Officer

EXHIBIT 3.2

APPENDIX C

# BYLAWS

# OF

# CELSION (DELAWARE) CORPORATION

## ARTICLE I

## CORPORATE OFFICES

1.1 REGISTERED OFFICE. The registered office of the corporation shall be fixed in the Certificate of Incorporation of the corporation.

1.2 OTHER OFFICES. The board of directors may at any time establish the principal office and any branch or subordinate offices of the corporation at any place or places deemed advisable.

## ARTICLE II

## MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS. Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors.

2.2 ANNUAL MEETING.

(a) The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected, and any other proper business may be transacted.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date specified in the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting:



(i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (b), the chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting in accordance with the provisions of this paragraph (b), and, if he should so determine, he shall declare at the meeting that any such business not properly brought before the meeting shall not be transacted. (c) Only persons who are nominated in accordance with the procedures set forth in this paragraph (c) shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (c). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 2.2. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to

nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including, without limitation, such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 2.2. At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (c). The chairman of the meeting shall, if the facts warrants, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

2.3 SPECIAL MEETING. A special meeting of the stockholders may be called at any time by the board of directors, the president or the chairman, but such special meeting may not be called by any other person or persons. Only such business shall be considered at a special meeting of stockholders as shall have been stated in the notice for such meeting.

2.4 ORGANIZATION. Meetings of stockholders shall be presided over by the president, the chairman or, in his or her absence, by a chairman designated by the board of directors, or in the absence of such designation, by a chairman chosen at the meeting by the vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote thereat. The secretary, or in his or her absence an assistant secretary, or in the absence of the secretary and any assistant secretary, a person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

The board of directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the board of directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting. Unless determined by the board of directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS. All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.6 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE. Notice of any meeting of stockholders shall be given either personally or by mail, telecopy, telegram or other electronic or wireless means. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telecopy, telegram or other electronic or wireless means.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice or report.

2.7 QUORUM. The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders by the vote of the holders of a majority of the stock, present in person or represented by proxy shall have power to adjourn the meeting.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the Certificate of Incorporation or these Bylaws, a vote of a greater number or voting by classes is required, in which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

2.8 ADJOURNED MEETING; NOTICE. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the voting power of the shares represented at that meeting, either in person or by proxy. In the absence of a quorum, no other business may be transacted at that meeting except as provided in Section 2.7 of these Bylaws.

When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at the meeting at which the adjournment is taken. However, if a new record date for the adjourned meeting is fixed or if the adjournment is for more than thirty (30) days from the date set for the original meeting, then notice of the adjourned meeting shall be given. Notice of any such adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 2.5 and 2.6 of these Bylaws. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.9 VOTING. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these Bylaws, subject to applicable provisions of the General Corporation Law of Delaware.

Except as may be otherwise provided in the Certificate of Incorporation, by instruments setting forth the voting rights of specific classes or series of stocks, by these Bylaws or by applicable law, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Any stockholder entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, except when the matter is the election of directors, may vote them against the proposal; but if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

2.10 VALIDATION OF MEETINGS; WAIVER OF NOTICE; CONSENT. The transactions of any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though they had been taken at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy.

Attendance by a person at a meeting shall constitute a waiver of notice of and presence at that meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

2.11 ACTION BY WRITTEN CONSENT. Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof having a preference over the Common Stock as dividend or upon liquidation, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS. For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by applicable law.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these Bylaws.

2.13 PROXIES. Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy, which may be in the form of a telegram, cablegram, or other means of electronic transmission, signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the secretary of the corporation.

A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the corporation.

2.14 INSPECTORS OF ELECTION. Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment and to determine such matters as quorum, validity of proxies and ballots, voting eligibility, and the tabulation of votes. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

## ARTICLE III

## DIRECTORS

3.1 POWERS. Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER AND TERM OF OFFICE. The authorized number of directors shall be not less than three (3) nor more than nine (9). Within such limits, the number of directors shall be initially fixed at seven (7), which number may be changed by resolution of the board of directors. An indefinite number of directors may be fixed, or the definite number of directors may be changed, by a duly adopted amendment to the Certificate of Incorporation or by an amendment to this bylaw duly adopted by the stockholders or the board of directors.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS. Except as provided in Section 3.4 of these Bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. Directors need not be stockholders unless so required by the Certificate of Incorporation or by these Bylaws.

3.4 RESIGNATION AND VACANCIES. Any director may resign on giving written notice to the president, the chairman, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective.

Unless otherwise provided in the Certificate of Incorporation or by these Bylaws, vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director. Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified. Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the Certificate of Incorporation or these Bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

3.5 REMOVAL. Unless otherwise restricted by statute, by the Certificate of Incorporation or by these Bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

3.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE. Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board of directors. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such directors shall be deemed to be present in person at the meeting.

3.7 REGULAR MEETINGS. Regular meetings of the board of directors may be held without notice if the times of such meetings are fixed by the board of directors.

3.8 SPECIAL MEETINGS; NOTICE. Special meetings of the board of directors for any purpose or purposes may be called at any time by the president, the chairman, the secretary or by any two (2) or more of the directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by mail, telecopy, telegram or other electronic or wireless means, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation or if the address is not readily ascertainable, notice shall be addressed to the director at the city or place in which the meetings of directors are regularly held. If the notice is mailed, it shall be deposited in the United States mail at least three (3) days before the time of the holding of

the meeting. If the notice is delivered personally or by telephone, telecopy, telegram or other electronic or wireless means, it shall be delivered personally or by telephone or other electronic or wireless means at least twenty-four (24) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. A notice of special meeting need not state the purpose of such meeting, and, unless indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.9 QUORUM. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to fill vacancies in the board of directors as provided in Section 3.4 and to adjourn as provided in Section 3.11 of these Bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the Certificate of Incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.10 WAIVER OF NOTICE. Notice of a meeting need not be given to any director (i) who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or (ii) who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such directors. The transactions of any meeting of the board, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice. All such waivers shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

3.11 ADJOURNMENT. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

3.12 NOTICE OF ADJOURNMENT. Notice of the time and place of holding an adjourned meeting need not be given if announced unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given.

3.13 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING. Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board of directors individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board.

3.14 ORGANIZATION. Meetings of the board of directors shall be presided over by the president, the chairman, or, in his or her absence, by a president pro tem chosen by a majority of the directors present. The secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

3.15 FEES AND COMPENSATION OF DIRECTORS. Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

## ARTICLE IV

## COMMITTEES

4.1 COMMITTEES OF DIRECTORS. The board of directors may designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the board of directors. The board of directors may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The purposes and authority of any committee shall be as provided in the resolution of the board, but no such committee shall have power or authority by itself to (i) approve or adopt or recommend to the stockholders any action or matter that requires the approval of the stockholders or (ii) adopt, amend or repeal any Bylaw of the corporation.

4.2 MEETINGS AND ACTION OF COMMITTEES. To the extent feasible, meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.6 (place of meetings), Section 3.7 (regular meetings), Section 3.8 (special meetings and

notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment), Section 3.12 (notice of adjournment), and Section 3.13 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members, provided, however, that the board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

## ARTICLE V

## OFFICERS

5.1 OFFICERS. The officers of this corporation shall consist of a president, a chairman, a chief scientific officer, one or more vice presidents, a secretary, a treasurer, and such other officers as may be determined from time to time by the board of directors, all of whom shall be chosen in such manner and hold their offices for such terms as the board of directors may prescribe. Any two or more of such offices may be held by the same person. The board of directors may designate one or more vice presidents as executive vice presidents or senior vice presidents. The board of directors may from time to time designate the president or any other officer as the chief operating officer of the corporation.

5.2 TERMS OF OFFICE AND COMPENSATION. The term of office and salary of each of said officers and the manner and time of the payment of such salaries shall be fixed and determined by the board of directors and may be altered by said board from time to time at its pleasure, subject to the rights, if any, of said officers under any contract of employment.

5.3 REMOVAL; RESIGNATION OF OFFICERS AND VACANCIES. Any officer of the corporation may be removed at the pleasure of the board of directors at any meeting or by vote of stockholders entitled to exercise the majority of voting power of the corporation at any meeting or at the pleasure of any officer who may be granted such power by a resolution of the board of directors. Any officer may resign at any time upon written notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. If any vacancy occurs in any office of the corporation, the board of directors may elect a successor to fill such vacancy for the remainder of the unexpired term and until a successor is duly chosen and qualified.

5.4 PRESIDENT. The president shall be the chief executive officer of the corporation and shall have general direction of the affairs of the corporation and general supervision over its several officers, subject, however, to the control of the board of the board of directors. The president shall at each annual meeting and from time to time report to the stockholders and the board of directors all matters within his knowledge which the interest of the corporation may require to be brought to their notice, may sign with the treasurer or an assistant treasurer, if any, or the secretary or an assistant secretary, if any, any or all certificates of stock of the corporation. The president shall preside at all meetings of the stockholders and at all meetings of the board of directors, may sign and execute in the name of the corporation all contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated or permitted by the board of directors or by these Bylaws to some other officer or agent of the corporation, and in general shall perform such duties and, subject to the other provisions of these Bylaws and to the control of the board of directors, have such powers incident to the office of president and perform such other duties and have such other powers as from time to time may be assigned to him by the board of directors.

5.5 CHAIRMAN OF THE BOARD. The chairman shall be a senior executive officer of the corporation and shall exercise and perform such powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these Bylaws. The chairman shall report to the board of directors.

5.6 UNAVAILABILITY OF PRESIDENT. In case of the absence, disability or death of the president, the chairman or, if he is not available, a vice president, shall exercise all the powers and perform all the duties of the president. If there is more than one elected vice president, the order in which the elected vice presidents shall succeed to the powers and duties of the president shall be as fixed by the board of directors.

5.7 SECRETARY. The powers and duties of the secretary are:

(a) To keep a book of minutes at the principal office of the corporation, or such other place as the board of directors may order, of all meetings of its directors and stockholders with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

(b) To keep the seal of the corporation and affix the same to all instruments which may require it.

(c) To keep or cause to be kept at the principal office of the corporation, or at the office of the transfer agent or agents, a share register, or duplicate share registers, showing the names of the stockholders and their addresses, the number of and classes of shares, and the number and date of cancellation of every certificate surrendered for cancellation.

(d) To keep a supply of certificates for shares of the corporation, to fill in all certificates issued, and to make a proper record of each such issuance; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.

(e) To transfer upon the share books of the corporation any and all shares of the corporation; provided, that so long as the corporation shall have one or more duly appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents, and the method of transfer of each certificate shall be subject to the reasonable regulations of the transfer agent to which the certificate is presented for transfer, and also, if the corporation then has one or more duly appointed and acting registrars, to the reasonable regulations of the registrar to which the new certificate is presented for registration; and provided, further that no certificate for shares of stock shall be issued or delivered or, if issued or delivered, shall have any validity whatsoever until and unless it has been signed or authenticated in the manner provided in Section 8.5 hereof.

(f) To make service and publication of all notices that may be necessary or proper, and without command or direction from anyone. In case of the absence, disability, refusal, or neglect of the secretary to make service or publication of any notices, then such notices may be served and/or published by the president or a vice president, or by any person thereunto authorized by either of them or by the board of directors or by the holders of a majority of the outstanding shares of the corporation.

(g) Generally to do and perform all such duties as pertain to the office of secretary and as may be required by the board of directors.

## ARTICLE VI

## INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS. The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation; provided, however, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers and, provided, further, that the corporation shall not be required to indemnify any director or officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized in advance by the board of directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the General Corporation Law of Delaware or (iv) such indemnification is required to be made pursuant to an individual contract. For purposes of this Section 6.1, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS. The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 INSURANCE. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

6.4 EXPENSES. The corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or officer in connection with such proceeding, upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this Bylaw or otherwise; provided, however, that the corporation shall not be required to advance expenses to any director or officer in connection with any proceeding (or part thereof) initiated by such person unless the proceeding was authorized in advance by the board of directors of the corporation.

Notwithstanding the foregoing, unless otherwise determined pursuant to Section 6.5, no advance shall be made by the corporation to an officer of the corporation (except by reason of the fact that such officer is or was a director of the corporation in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to the proceeding, or (ii) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

6.5 NON-EXCLUSIVITY OF RIGHTS. The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the General Corporation Law of Delaware.

6.6 SURVIVAL OF RIGHTS. The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

6.7 AMENDMENTS. Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

## ARTICLE VII

## RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS. The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTOR. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

## ARTICLE VIII

## GENERAL MATTERS

8.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING. For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the Certificate of Incorporation, by these Bylaws, by agreement or by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

8.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS. From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.3 CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The board of directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.4 FISCAL YEAR. The fiscal year of this corporation shall begin on the first day of October of each year and end on the last day of September of the following year.

8.5 STOCK CERTIFICATES. There shall be issued to each holder of fully paid shares of the capital stock of the corporation a certificate or certificates for such shares. Every holder of shares of the corporation shall be entitled to have a certificate signed by, or in the name of the corporation by the president or the chairman or the president or a vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

8.6 SPECIAL DESIGNATION ON CERTIFICATES. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.7 LOST CERTIFICATES. The corporation may issue a new share certificate or new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate. The board of directors may adopt such other provisions and restrictions with reference to lost certificates, not inconsistent with applicable law, as it shall in its discretion deem appropriate.

8.8 CONSTRUCTION; DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.9 PROVISIONS ADDITIONAL TO PROVISIONS OF LAW. All restrictions, limitations, requirements and other provisions of these Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

8.10 PROVISIONS CONTRARY TO PROVISIONS OF LAW. Any article, section, subsection, subdivision, sentence, clause or phrase of these Bylaws which upon being construed in the manner provided in Section 8.9 hereof, shall be contrary to or inconsistent with any applicable provisions of law, shall not apply so long as said provisions of law shall remain in effect, but such result shall not affect the validity or applicability of any other portions of these Bylaws, it being hereby declared that these Bylaws would have been adopted and each article, section, subsection, subdivision, sentence, clause or phrase thereof, irrespective of the fact that any one or more articles, sections, subsections, subdivisions, sentences, clauses or phrases is or are illegal.

8.11 NOTICES. Any reference in these Bylaws to the time a notice is given or sent means, unless otherwise expressly provided, the time a written notice by mail is deposited in the United States mails, postage prepaid; or the time any other written notice is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or the time any oral notice is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

## ARTICLE IX

## AMENDMENTS

Subject to Section 6.7 hereof, the original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

EXHIBIT 4.1

NUMBER

CELSION SHARES

COMMON STOCK

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE | CORPORATION | SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT
IS THE OWNER OF
FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, $.01 PAR VALUE, OF

CELSION CORPORATION

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed.

This certificate is not valid until countersigned by the Transfer Agent.

WITNESS the facsimile seal of the Corporation and facsimile signatures of its duly authorized officers.

Dated: [Celsion Corporation]

/s/ JOHN MON SECRETARY | CORPORATE SEAL DELAWARE] | /s/ AUGUSTINE Y. CHEUNG CHAIRMAN OF THE BOARD

Countersigned: AMERICAN STOCK TRANSFER & TRUST COMPANY

BY Transfer Agent Authorized Officer

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT --as tenants by the entireties
UNIF GIFT MIN ACT--.....Custodian....
..... (Cust) (Minor)

JT TEN -- as joint tenants with right of survivorship and not as tenants in common
under Uniform Gifts to Minors
ct.....
..... (State)

Additional abbreviations may also be used though not in the above list.

For value received,_____hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE
- ----------



- ----------

- ----------
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE OF ASSIGNEE)

- ----------

- ----------

_____shares of the capital stock represented by the

within Certificate, and do hereby irrevocably constitute and appoint_____

_____Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated_____

---

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

| | |
|---|---|
| SIGNATURE(S) | GUARANTEED: THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15. |

KEEP THIS CERTIFICATE IN A SAFE PLACE IF IT IS LOST, STOLEN, MUTILATED OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

EXHIBIT 10.18

RESEARCH AND LICENSE AGREEMENT (SK#4826)

for SKI's technology

"Heat Sensitive Gene Therapy"

(SK 797)

TABLE OF CONTENTS



This Agreement is effective on the date last subscribed below (the "Effective Date"), and is by and between SLOAN-KETTERING INSTITUTE FOR CANCER RESEARCH (HEREINAFTER referred to as "SKI"), a New York, membership corporation with principal offices at 1275 York Avenue, New York, New York 10021, and CELSION CORPORATION, a corporation with principal offices located at 10220-1 Old Columbia Road, Columbia, Maryland 210461705 ("LICENSEE").

WITNESSETH

WHEREAS, SKI is the owner of certain Patent Rights (as later defined herein) and has the right to grant licenses under said Patent Rights; and

WHEREAS, SKI desires to have the Patent Rights utilized in the public interest and is willing to grant a license to its interest thereunder; and

WHEREAS, LICENSEE seeks to commercially develop the Patent Rights through a thorough, vigorous and diligent program of exploiting the Patent Rights whereby public utilization shall result therefrom; and

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

ARTICLE I - DEFINITIONS

For the purpose of this Agreement, the following words and phrases shall have the following meanings:



1.1. "LICENSEE" shall include Affiliates, that is, any person, firm, corporation or other entity controlling, controlled by, or under common control with a party hereto. The term "control" wherever used throughout this Agreement shall mean ownership, directly or indirectly, of more than 50% of the equity capital. With regard to SKI, "Affiliate" shall mean the Memorial Sloan-Kettering Cancer Center and the Memorial Hospital for Cancer and Allied Diseases.

1.2. "Patent Rights" shall mean all of the following SKI intellectual property:

(a) The United States and foreign patents and patent applications listed in Exhibit A;

(b) United States and foreign patents issued from the applications listed in Exhibit A, and from divisionals and continuations of these applications;

(c) claims of U.S. and foreign continuation-in-part applications, and of the resulting patents, which are directed to subject matter specifically described in the U.S. and foreign patent applications listed in Exhibit A;

(d) any reissues or re-examinations of patents described in (a), (b), or (c), above.

1.3. A "Licensed Process" shall mean any process which is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the Patent Rights in any country in which such process is practiced.

1.4. A "Licensed Product" shall mean any product or part thereof made, leased, used or sold by or on behalf of LICENSEE which:

(a) is covered in whole or in part by an issued, unexpired claim or a pending claim contained in the Patent Rights in the country in which any product or part thereof is made, leased, used or sold; or

(b) is manufactured by using a Licensed Process.

1.5. "Net Sales" shall mean LICENSEE's and its sublicensees' billings for sales of Licensed Products or Licensed Processes produced hereunder less the sum of the following:

(a) Discounts allowed in amounts customary in the trade;

(b) Sales, tariff duties and/or use taxes directly imposed and with reference to particular sales;

(c) Outbound transportation prepaid or allowed;

(d) Amounts allowed or credited on returns; and

(e) Bad debts and uncollectible receivables.

No deductions shall be made for commissions paid to individuals whether they be with independent sales agencies or regularly employed by LICENSEE or Affiliates and on its payroll, or for cost of collections. Licensed Products shall be considered "sold" when billed or invoiced.

1.6. "Royalty Year" shall mean each twelve-month period commencing January 1 and ending December 31 during the term of this Agreement. For the first year of this Agreement, the Royalty Year shall be the period of time between the signing of the Agreement and December 31.

1.7. "Field of Use" shall mean the use of the Patent Rights in the field of treatment of human disease.

1.8. "Research Program" shall mean investigations to be conducted by SKI under this Agreement, as described in Exhibit B attached hereto, and as described in revisions of Exhibit B which may be agreed upon in writing by the parties.

## ARTICLE II - RESEARCH PROGRAM

2.1. SKI shall perform studies of Research Program. The Principal Investigator assigned by SKI for directing the performance of the work is Dr. Gloria Li. If for any reasons the Principal Investigator becomes unavailable, SKI shall notify the LICENSEE . If a mutually acceptable successor is not identified, the Research Program will be terminated in accordance with Section 2.9 below.

2.2. It is understood that SKI and the personnel performing the Research Program hereunder may be or become involved in other activities and projects which entail commitments to other sponsors. SKI will use its best efforts to avoid conflicts with the Research Program; however, it is agreed that unless provided to the contrary herein, SKI's Research Program obligations outlined in Article II are subject to SKI's commitments to such other sponsors.

2.3. In consideration of SKI carrying out the Research Program, LICENSEE shall pay to SKI annually in advance such sums as are agreed and set out in Exhibit B. Subject to prior written notification by SKI, LICENSEE shall also pay additional sums for salaries (and reasonable overheads thereon) in order to accommodate reasonable salary increases which take effect after the Effective Date, the timing of such additional payment to be agreed between the parties.

2.4. SKI shall inform LICENSEE of the progress of the Research Program on a regular basis as mutually agreed to by both parties. A final written report shall be submitted by SKI to LICENSEE within one month of completion of the Research Program.

2.5. While it is understood that SKI is free to publish the results of its research carried out under this Article 2, LICENSEE shall be given an opportunity to review any proposed manuscripts regarding this work prior to submission for publication. LICENSEE agrees to complete its review and to inform SKI of its comments within thirty (30) days of receipt of SKI's manuscripts; if no response is received within such thirty (30) days, it may be conclusively presumed that the publication may proceed without delay. If LICENSEE determines that the proposed publication contains patentable matter which requires protection, LICENSEE may require the delay of the publication for a period of time not to exceed sixty (60) days for the purpose of allowing the pursuit of such protection. Without the prior written consent of LICENSEE, SKI shall not publish or permit to be published any information which LICENSEE reasonably deems to be LICENSEE's Confidential Information. When publishing, SKI shall appropriately acknowledge LICENSEE's financial support of this research.

2.6. All original research results, data, records and work product generated under this Agreement, including all tangible and intangible property, shall be owned by SKI.

2.7.(a) Any inventions or discoveries ("Inventions") made under the Research Program solely by SKI employees shall belong to SKI. SKI shall promptly disclose potentially patentable Inventions to LICENSEE, provided that LICENSEE shall hold all such disclosures in confidence and shall not further disclose or use same in ways not previously approved in writing by SKI. At LICENSEE's request and expense, SKI shall promptly prepare, file and/or maintain patent applications or issued patents in the United States and foreign countries for any such Inventions. Any inventions or discoveries made during the Research Program jointly by SKI employees and by the LICENSEE's employees shall be jointly owned by SKI and LICENSEE. LICENSEE shall have the rights to obtain patent protection in the United States and foreign countries for such joint inventions, at its expense, unless otherwise agreed upon by the parties.

(b) SKI grants to LICENSEE an option to obtain a license to each Invention solely owned by SKI, and to SKI's interest in any joint inventions, through good faith negotiations and on commercially reasonable terms. The option shall extend for a period of three (3) months following disclosure of the Invention to the LICENSEE. In the event the parties, acting in good faith, fail to reach a mutually acceptable agreement within three (3) months after commencing negotiations, SKI shall be entitled to negotiate a license with a third party for such Invention.

2.8. SKI MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, REGARDING ITS PERFORMANCE UNDER THE RESEARCH PROGRAM, INCLUDING BUT NOT LIMITED TO THE MARKETABILITY, USE OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE RESULTS DEVELOPED UNDER THIS WORK, OR THAT SUCH RESULTS DO NOT INFRINGE UPON ANY THIRD PARTY PROPERTY RIGHTS. LICENSEE shall indemnify, defend and hold harmless SKI and its affiliates and its employees from any liability resulting from LICENSEE's use of the Results or materials provided by SKI, or other LICENSEE's activities in the course of the Research Program.

2.9. The Research Program may be terminated by either party giving to the other a minimum of ninety (90) days prior written notice. In the event of termination of the Research Program, LICENSEE shall pay to SKI, within thirty (30) days of invoice from SKI, for all direct costs, up to and including the effective date of termination, and all applicable indirect costs and all non-cancelable obligations made before receipt of notice of termination, even though such obligations may extend beyond the termination date.

## ARTICLE III - GRANT

3.1. SKI hereby grants to LICENSEE an exclusive worldwide right and license in the Field of Use, including the right to sublicense, to make, have made, use, lease and sell Licensed Products and to use Licensed Processes derived from the Patent Rights until the Patent Rights expire, unless this Agreement is terminated before that time according to the terms hereof, and subject to the rights reserved or observed in Section 2.2 below.

3.2. Notwithstanding any other provisions of this Agreement, it is agreed that SKI and its Affiliates shall retain the right to practice the licensed Patent Rights for its own teaching, research and patient care activities. All rights reserved to the United States Government and others under 35 USC 33200-212, as amended, shall remain and shall in no way be affected by this Agreement.

3.3. LICENSEE hereby agrees that every sublicensing agreement to which it shall be party and which shall relate to the rights, privileges and license granted hereunder shall contain a statement describing the date upon which LICENSEE'S exclusive rights, privileges and license hereunder shall terminate.

3.4. LICENSEE agrees that any sublicenses granted by it shall provide that the obligations to SKI of Article IV, VI, VIII, IX, X, XI, XII, XIII and XV of this Agreement shall be binding upon the sublicensee as if it were a party to this Agreement. LICENSEE further agrees to attach copies of these Articles to sublicense agreements.

3.5. LICENSEE agrees to forward to SKI a copy of any and all fully executed sublicense agreements, and further agrees to timely forward to SKI a copy of such reports received by LICENSEE from its sublicensees during the preceding Royalty Year.

3.6. If LICENSEE receives from sublicensees anything of value in lieu of cash payments based upon payment obligations of any sublicense under this Agreement, LICENSEE shall pay SKI royalty or other payments as required by Clause 5.1(b), based on the fair market value of such payment, unless SKI waives in writing such payment obligation.

3.7. The license granted hereunder shall not be construed to confer any rights upon LICENSEE by implication, estoppel or otherwise as to any technology not included in the Patent Rights.

## ARTICLE IV - DUE DILIGENCE

4.1. LICENSEE and its sublicensees shall use their best efforts to bring Licensed Products or Licensed Processes to market through a thorough, vigorous and diligent program for exploitation of the Patent Rights and to continue active, diligent marketing efforts for one or more Licensed Products or Licensed Processes throughout the life of this Agreement.

4.2. In addition, LICENSEE shall adhere to the following milestones:

(a) Within three (3) months of LICENSEE's receipt of final report of Research Program or within eighteen (18) months of the Effective Date of this Agreement, whichever is earlier, LICENSEE shall deliver to SKI, its detailed business, research and development plan including, for example, relevant schedules of capital investments needed to implement the plan, financial, equipment, facility plans, number and kind of personnel and time planned for each phase of development of the Patents Rights for a three year period. Similar reports shall be provided to SKI annually to relay update and status information on LICENSEE's business, research and development progress, including projections of activity anticipated for the next reporting year. In the event SKI, after full examination of each such report, determines the report is insufficient in detail or in LICENSEE's progress in bringing a Licensed Product to market in accordance with Section 4.1, SKI shall notify LICENSEE. If within two (2) months of such notification, LICENSEE fails to so satisfy SKI, then SKI shall give notice of same and may terminate this Agreement pursuant to Section 13.4 below.

(b) LICENSEE shall be responsible for diligently and promptly taking all reasonable steps to secure all required and/or necessary governmental approvals to sell, exploit, or market any and all Licensed Products. LICENSEE shall advise SKI, through annual reports described in Section 4.2(a) above of its program of development for obtaining said approvals.

(c) LICENSEE's failure to perform in accordance with Sections 4.1 and 4.2 above shall be grounds for SKI to terminate this Agreement pursuant to Section 13.4 below.

## ARTICLE V - PAYMENTS

5.1. For the rights, privileges and licenses granted hereunder, LICENSEE shall pay to SKI, in the manner hereinafter provided, until termination of this Agreement:

(a) A license issue fee of fifty thousand dollars ($50,000), payable immediately upon signing this Agreement.

(b) A royalty in an amount equal to five percent (5%) of the Net Sales by LICENSEE or any sublicensee of the Licensed Products or Licensed Processes, provided that such Licensed Product or Licensed Process is covered by at least one valid claim of an issued patent. In all other cases, LICENSEE shall pay to SKI a royalty in the amount of three percent (3%) of the Net Sales by LICENSEE or any sublicensee of the Licensed Products or Licensed Processes. In addition, LICENSEE shall pay SKI fifty percent (50%) of income from sublicensees which is not based on Net Sales, e.g. up-front licensing fees, milestone payments.

(c) Milestone payments as follows: (i) $25,000 upon the filing of an Investigative New Drug (IND) with the United States Food and Drug Administration (FDA), or two years after the Effective Date, whichever is earlier. (ii) $ 75,000 upon commencement of Phase III clinical studies, or five years months after the Effective Date,, whichever is earlier. (iii) $100,000 upon filing of a New Drug Application (NDA) with the FDA for each Licensed Product or eight years after the Effective Date, whichever is earlier. (iv) $300,000 upon receipt of a New Drug Application (NDA) from the FDA for each Licensed Product for which LICENSEE receives a NDA.

(d) Annual minimum royalty payments, starting two years after the Execution Date, in the amount of ten thousand dollars ($10,000) per Royalty Year pending issuance of a U.S. Patent, and after issuance of one or more such patents, annual minimum royalty payments of twenty thousand dollars ($20,000) per Royalty Year, and after the issuance of an NDA, annual minimal royalty payments of fifty thousand dollars ($50,000). Such minimum royalty payments shall be prorated for the year of issuance. The minimum royalty payments shall be credited against the earned royalty payments required in Section 5.1 (b) above for the same Royalty Year.

(e) Patent expenses according to the terms of Article VII.

5.2. No multiple royalties shall be payable because any Licensed Product, its manufacture, use, lease or sale are or shall be covered by more than one of the Patent Rights patent applications or Patent Rights patents licensed under this Agreement.

5.3. Royalty payments shall be paid in United States dollars in New York, NY, or at such other place as SKI may reasonably designate consistent with the laws and regulations controlling in any foreign country, but not in any other currency. If any currency conversion shall be required in connection with the payment of royalties hereunder, such conversion shall be made by using the exchange rate prevailing at the Chase Manhattan Bank (N.A.) on the last business day of the calendar quarterly reporting period to which such royalty payments relate.

5.4. Interest

(a) LICENSEE shall pay to SKI interest on any amounts not paid when due. Such interest will accrue from the fifteenth (15th) day after the payment was due at a rate two percent (2%) above the daily prime interest rate, as determined by The Chase Manhattan Bank (N.A.) or its successor entity, on each day the payment is delinquent, and the interest payment will be due and payable on the first day of each month after interest begins to accrue, until full payment of all amounts due SKI is made.

(b) SKI's rights to receive such interest payments shall be in addition to any other rights and remedies available to SKI.

(c) If the interest rate required in this Subsection exceeds the legal rate in a jurisdiction where a claim for such interest is being asserted, the required interest rate shall be reduced, for such claim only, to the maximum interest rate allowable in the jurisdiction.

## ARTICLE VI - REPORTS AND RECORDS

6.1. LICENSEE shall keep full, true and accurate books of account containing all particulars that may be necessary for the purpose of showing the amounts payable to SKI hereunder. Said books and records shall be maintained for a period of no less than five (5) years following the period to which they pertain. For the term of this Agreement, upon reasonable written notice, LICENSEE shall allow SKI or its agents to inspect such books and records for the purpose of verifying LICENSEE's royalty statement or compliance in other respects with this Agreement. Such inspections shall be during normal working hours of LICENSEE. Should such inspection lead to the discovery of a greater than ten percent (10%) discrepancy in reporting to SKI's detriment, LICENSEE agrees to pay the full cost of such inspection.

6.2. LICENSEE, within thirty (30) days after March 31, June 30, September 30 and December 31 of each year, shall deliver to SKI true and accurate reports, giving such particulars of the business conducted by LICENSEE and its sublicensees during the preceding three-month period under this Agreement as shall be pertinent to a royalty accounting hereunder. These shall include at least the following, to be itemized per Licensed Product and Licensed Process:

(a) Number of Licensed Products and Licensed Processes commercially used, manufactured and sold, rented or leased.

(b) Total billings for Licensed Products and Licensed Processes commercially used, sold, rented or leased.

(c) Deductions applicable as provided in Paragraph 1.7.

(d) Total royalties due.

(e) Names and addresses of all sublicensees of LICENSEE.

(f)Total royalty income from all revenues subject to sublicensees' royalties.

(g) Total sublicensing fee income.

6.3. With each such report submitted, LICENSEE shall pay to SKI the royalties due and payable under this Agreement. If no royalties shall be due, LICENSEE shall so report.

6.4. Milestone payments shall be reported and paid when due.

## ARTICLE VII - PATENT PROSECUTION

7.1. LICENSEE shall be responsible for and pay all past and future costs and expenses incurred by SKI for the preparation, filing, prosecution, issuance, and maintenance of the Patent Rights. Such payments will be due within thirty (30) days of LICENSEE's receipt of invoice of patent expenses from SKI or SKI's patent counsel.

7.2. SKI shall diligently prosecute and maintain the Patent Rights in the United States and in such countries as are determined by SKI and agreed to by LICENSEE, using counsel of its choice. If LICENSEE does not agree to bear the expense of filing patent applications in any foreign countries in which SKI wishes to obtain patent protection, then SKI may file and prosecute such applications at its own expense and any license granted hereunder shall exclude such countries.

7.3. SKI shall provide LICENSEE with copies of all relevant documentation so that LICENSEE may be informed and to give LICENSEE reasonable opportunity to advise SKI of the continuing prosecution, and LICENSEE agrees to keep this documentation confidential.

## ARTICLE VIII - INFRINGEMENT

8.1. LICENSEE as the exclusive commercial user of the Patent Rights shall assume primary responsibility for enforcing the Patent Rights within relevant commercial markets in the Field of Use. In exercising these responsibilities, LICENSEE shall promptly contact alleged third party infringers and take all reasonable steps to persuade such third parties to desist from infringing the Patent Rights, including initiating and prosecuting an infringement action if necessary, or defending a challenge to the validity of the Patent Rights. LICENSEE also shall notify SKI of each instance of alleged infringement and shall keep SKI informed of all stages of Patent Rights enforcement. LICENSEE may use the name of SKI as party plaintiff. All costs of any action to enforce the Patent Rights taken by LICENSEE shall be borne by LICENSEE and LICENSEE shall keep any recovery of damages derived therefrom, the excess of such recovery over such costs shall be included in LICENSEE's Net Sales. No settlement, consent judgment or other voluntary final disposition of the suit may be entered into without the prior written consent of SKI, which consent shall not unreasonably be withheld.

8.2. In the event LICENSEE becomes aware of unlicensed infringement of the Patent Rights, either through notice from SKI or by other means, and does not, within three months (a) secure cessation of the infringement; or (b) enter suit against the infringer; or (c) provide SKI with evidence of pendency of a bona fide negotiation for sublicensing the infringer, then, thirty days after giving written notice to LICENSEE, SKI shall have the right to (a) sue for the infringement at SKI's own expense, and to collect for its own use any damages, profits and awards of whatever nature that it may recover for such infringement; and (b) terminate this Agreement according to terms of Article XII.

8.3. Each party shall promptly notify the other in writing in the event that a third party shall bring a claim of infringement against SKI or LICENSEE, either in the United States or in any foreign country in which there are Patent Rights.

8.4. In the event LICENSEE is sued for patent infringement, threatened with such suit, or enjoined from exercising its license rights granted hereunder, LICENSEE may terminate this Agreement according to Article XII or contest the action against it. In any such action, LICENSEE shall be fully responsible for all its costs, including expenses, judgements and settlements, and shall be entitled to proceeds that it may recover, including judgements, settlements and awards, the excess of such recovery over such costs shall be included in LICENSEE's Net Sales.

8.5. In any infringement suit as either party may institute to enforce the Patent Rights against third parties pursuant to this Agreement, or in any infringement action brought against either party by a third party, each party hereto shall, at the request and expense of the other party, cooperate in all respects and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples, specimens, and the like.

## ARTICLE IX - INDEMNIFICATION.

### PRODUCT LIABILITY

9.1. LICENSEE shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold SKI and its Affiliates, their Board of Managers, officers, employees and affiliates, harmless against all claims and expenses, including legal expenses and reasonable attorneys' fees, arising out of the death of or injury to any person or persons or out of any damage to property and against any other claim, proceeding, demand, expense and liability of any kind whatsoever resulting from the production, manufacture, sale, use, lease, consumption or advertisement of the Licensed Product(s) and/or Licensed Process(es) or arising from any obligation of LICENSEE hereunder.

9.2. For the term of this Agreement, upon the commencement of clinical use, production, sale, or transfer, whichever occurs first, of any Licensed Product or Licensed Process, LICENSEE shall obtain and carry in full force and effect general liability insurance which shall protect LICENSEE and SKI in regard to events covered by Section 9.1 above. Such insurance shall be written by a reputable insurance company, shall list SKI as an additional named insured thereunder, shall be endorsed to include liability coverage, and shall require thirty (30) days written notice to be given to SKI prior to any cancellation or material change thereof. The limits of such insurance shall not be less than one million dollars ($1,000,000) per occurrence with an annual aggregate of three million dollars ($3,000,000) for personal injury, death or property damage. LICENSEE shall provide SKI with Certificates of Insurance evidencing the same.

9.3. Except as otherwise expressly set forth in this Agreement, SKI MAKES NO REPRESENTATIONS AND EXTENDS NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND VALIDITY OF PATENT RIGHTS CLAIMS, ISSUED OR PENDING.

## ARTICLE X - EXPORT CONTROLS

It is understood that SKI is subject to United States Laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended and the Export Administration Act of 1979), and that its obligations hereunder are contingent on compliance with applicable United States export laws and regulations. The transfer of certain technical data and commodities may require a license from the cognizant agency of the United States Government and/or written assurances by LICENSEE that LICENSEE shall not export data or commodities to certain foreign countries without prior approval of such agency. SKI neither represents that a license shall not be required nor that, if required, it shall be issued.

## ARTICLE XI - NON-USE OF NAMES

LICENSEE shall not use the names of SKI or its Affiliates, nor any of their employees, nor any adaptation thereof, in any advertising, promotional or sales literature without prior written consent obtained from SKI in each case.

## ARTICLE XII - ASSIGNMENT

12.1. This Agreement may not be assigned by LICENSEE without prior written consent from SKI.

12.2. Notwithstanding the foregoing prohibition, LICENSEE may without SKI's consent assign this Agreement to any entity that it may merge into, consolidate with, or transfer substantially all of its assets ("substantially" being EIGHTY PERCENT (80%) or more thereof) as an entirety, so long as the successor surviving corporation in any such merger, consolidation, transfer or reorganization assumes in writing the obligations of this Agreement. Such merger, consolidation, transfer or reorganization shall not in itself be a breach of this Article XI, nor be any default under this Agreement.

## ARTICLE XIII - TERMINATION

13.1. Unless earlier terminated pursuant to this Article XII, this Agreement shall terminate upon the later to occur of (a) the last to expire of the Patent Rights or (b) twenty (20) years.

13.2. SKI may terminate this Agreement if LICENSEE becomes insolvent or, a petition in bankruptcy is filed against LICENSEE and is consented to, acquiesced in or remains undismissed for thirty (30) days; or makes a general assignment for the benefit of creditors, or a receiver is appointed for LICENSEE, and LICENSEE does not return to solvency before the expiration of a thirty (30) day period.

13.3. Should LICENSEE fail to pay SKI license fees, royalties and patent expenses due and payable hereunder for more than thirty (30) days, SKI shall have the right to terminate this Agreement on thirty (30) days written notice, unless LICENSEE shall pay SKI within the thirty (30) day period, all such license fees, royalties and patent expenses and interest due and payable. Upon the expiration of the thirty (30) day period, if LICENSEE shall not have paid all such royalties, patent expenses and interest due and payable, the rights, privileges and license granted hereunder shall terminate.

13.4. Upon failure of LICENSEE to perform in accordance with Article 4 or any other material breach of this Agreement by LICENSEE, other than those occurrences set out in Sections 13.2 and 13.3, hereinabove, which shall always take precedence in that order over any material breach or default referred to in this Section 13.4, SKI shall have the right to terminate this Agreement and the rights, privileges and license granted hereunder by sixty (60) days' notice to LICENSEE. Such termination shall become effective unless LICENSEE shall have cured any such breach prior to the expiration of the sixty (60) day period.

13.5. LICENSEE shall be entitled to terminate this Agreement upon sixty (60) days advance written notice to SKI, provided that LICENSEE and any of its Affiliates or sublicensees cease making, using or selling Licensed Products.

13.6. Upon termination of this Agreement for any reason, nothing herein shall be construed to release either party from any obligation that matured prior to the effective date of such termination. LICENSEE must return to SKI all materials [Know-How, biological, chemical, FDA files, etc] relating to Licensed Product, Licensed Process, and the Patent Rights; provided, however, that, unless terminated under Sections 13.3 or 13.4, LICENSEE shall have the right for one year thereafter to dispose of all Licensed Products then in its inventory, and shall pay royalties thereon, in accordance with the provisions of Article IV and shall submit the related reports as required by Article V, as though this Agreement had not terminated.

13.7. Other than any claim arising from LICENSEE's failure to pay license fees or patent expenses due under this contract, any controversy or bona fide disputed claim arising between the parties to this Agreement, which dispute cannot be resolved by mutual agreement shall, by the election of either party, be resolved by submitting to dispute resolution before a fact-finding mediation body composed of one or more experts in the field, selected by mutual agreement within thirty days of written request by either party. Said dispute resolution shall be held in New York at such place as shall be mutually agreed upon in writing by the parties. The fact-finding body shall determine who shall bear the cost of said resolution. In the event that the parties cannot mutually agree within said thirty (30) days on the dispute resolution body, the parties will go to arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

13.8. Upon termination of this Agreement for any reason all sublicenses shall terminate. Any sublicensees not then in default shall have the right to seek a license from SKI. SKI agrees to negotiate such licenses in good faith under reasonable terms and conditions substantially similar to the ones set forth in the License agreement between Celsion and such sublicensee or as set forth in this Agreement, at the discretion of SKI.

13.9. Article IX, Article XI, and Section 13.6 of this Agreement shall survive termination.

## ARTICLE XIV - PAYMENTS, NOTICES AND OTHER COMMUNICATIONS

14.1. Payments shall be made by remittance to "Sloan-Kettering Institute for Cancer Research". Payments shall be sufficiently made when delivered by courier of other means providing proof of delivery to SKI. Payment shall show "PAYMENT, CONTRACT SK# 4826" on the check stub or attached correspondence, and shall be sent to:

Office of Industrial Affairs
Memorial Sloan-Kettering Cancer Center
1275 York Avenue
New York, New York 10021

14.2. All notices or other communication pursuant to this Agreement shall be sufficiently made or given when delivered by courier or other means providing proof of delivery to such party at its address below or as it shall designate by written notice given to the other party:

In the case of SKI:

Sloan-Kettering Institute for Cancer Research
1275 York Avenue
New York, New York 10021
Attention: James S. Quirk
Senior Vice President
Research Resources Management

In the case of LICENSEE:

Celsion Corporation
10220-1 Old Columbia Road
Columbia, MD 21046-1705
Attention: Augustine Y. Cheung, Ph.D.
Chairman

ARTICLE XV - MISCELLANEOUS PROVISIONS

15.1. This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of New York, except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent was granted.

15.2. The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or unenforceable under any controlling body of the law, such invalidity or unenforceability shall not in any way affect the validity or enforceability of the remaining provisions hereof.

15.3. LICENSEE agrees to mark the Licensed Products sold in the United States with all applicable United States patent numbers. All Licensed Products shipped to or sold in other countries shall be marked in such a manner as to conform with the patent laws and practice of the country of manufacture or sale.

15.4. The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

15.5. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be an original and all such counterparts shall together constitute but one and the same agreement.

IN WITNESS WHEREOF, authorized representatives of the parties have signed and dated this Agreement below.

| Sloan-Kettering Institute for Cancer Research | Celsion Corporation |
|---|---|
| By: /s/ MR. GUSTAVE J. BERNHARDT | By: /s/ AUGUSTINE Y. CHEUNG, PH.D. |
| James S. Quirk | Augustine Y. Cheung, Ph.D. |
| Senior Vice President | Chairman |
| Research Resources Management | |
| Date: 5/19/00 | Date: 5/17/2000 |

EXHIBIT A

PCT International Application No. PCT/US99/14702 entitled "Uses of DNA-PK filed June 30, 1999, claiming the benefit of U.S. Provisional Application No. 60/091,181 filed June 30, 1998.

EXHIBIT B

Project Summary

DNA-PK and Heat-Shock Targeted (Adenoviral) Genetic Radiotherapy

Gloria C. Li, Ph.D.

Department of Medical Physics and Department of Radiation Oncology
Memorial Sloan-Kettering Cancer Center
1275 York Avenue,
New York, NY 10021

Ku is a complex of two proteins, Ku70 and Ku80, that functions as a heterodimer to bind DNA double-strand breaks and activate DNA-dependent protein kinase (DNA-PK). To determine the physiological roles of Ku70 and Ku80, we generated Ku70-/- and Ku80-/- knockout mice via targeted gene disruption (Nussenzweig, et al., 1996, Ouyang, et al., 1997). These mutant mice show profound deficiency in V(D)J recombination, impaired lymphocyte development, and inability to rejoin the radiation-induced DNA double strand breaks. To further characterize the Ku-deficieny associated phenoptype, mouse embryo fibroblast cell lines were established from these Ku70-/- and Ku80-/- mice, and were tested for their sensitivity to DNA-damaging agents. Ku70-/- and Ku80-/- cells were extremely sensitive to ionizing radiation, deficient in the recovery of sublethal and potentially lethal damage. Furthermore, these cells were also sensitive to other DNA-damaging agents such as adriamycin, bleomycin, and etoposide. We have performed complementation experiments and show that expression of human Ku70 in Ku70-/- cells (and human Ku80 in Ku80-/- cells) restored their Ku-DNA binding activity and x-ray resistance phenotype. These results confirm that Kudeficiency compromises the ability of cells to repair DNA strand breaks, presumably by inhibiting the function of DNA-PK.

Three specific aims are proposed in this grant application to test a working hypothesis, inferred from our pilot studies described above, that DNA-PK plays an important role in modulating the response of human cancer cells to ionizing radiation and to chemotherapeutic agents. Specifically, we plan to down-regulate the DNA-PK activity by either genetic approach (via expression of antisense RNA targeting DNA-PK subunits) or pharmacological means (with the use of DNA-PK inhibitors), and to determine whether the reduction of DNA-PK activity will enhance the cytotoxicity of various drugs and ionizing radiation. Knowledge gained in these investigations will lead to strategies for optimizing the efficacy of chemotherapy, radiation and hyperthermia therapy in the management of human cancer, which constitutes the goals of this proposal.

SPECIFIC AIM I:

Using established cell lines deficient in DNA-PKcs or Ku70 or Ku80, in comparison with their wild-type controls, we will determine:

(a) the cell's sensitivity to various chemotherapeutic drugs, e.g., cisplatin and doxorubicin.

(b) the cells' sensitivity to ionizing radiation.

(c) the cells' sensitivity to hyperthermia treatment.

SPECIFIC AIM II:

To modify the cellular level of individual DNA-PK subunits through the use of DNA-mediated gene transfer techniques, or through pharmacological means. Specifically, we plan:

(a) To generate and characterize cell lines stably and constitutively expressing antisense RNA targeting each of the DNA-PK subunits (e.g., DNA-PKcs, Ku70 or Ku80) in order to down-regulate the endogenous level of DNA-PKcs, Ku70 or Ku80. Expression of DNA-PK subunit will be determined by Northern and Western blot analysis, and further examined using DNA-PK kinase activity assay.

(b) To place the Ku70, Ku80 or DNA-PKcs gene fragment in the antisense orientation and under the control of a heat-shock responsive promoter (e.g., hsp70 promoter), to transfect these gene constructs into mammalian cells, and to determine the heat inducibility (the efficiency of the promoter), the residual level of DNA-PK subunit (in terms of expression, kinase activity, and DNA-binding activity).

(c) Using cell lines generated in II-(a) and II-(b), in which DNA-PK activity is modified, in comparison to control cells, we plan to determine the cells' sensitivity to ionizing radiation, to chemotherapeutic drugs and to heat shock exposure.

(d) An additional approach to modify the cellular level of DNA-PK is to use DNA-PK kinase inhibitor to reduce the endogenous level of DNA-PK activity in cells.

SPECIFIC AIM III:

To verify cell culture studies listed in Specific Aim II in animal tumor models. Specifically, we plan:

(a) To deplete the cellular level of individual DNA-PK subunits in animal tumors (e.g. MCF-7 tumors implanted in nude mice, or FSa-II fibrosarcomas implanted in C3H mice), by intratumoral injection of an adenoviral vector containing the heat-shock inducible hsp70 promoter (or a constitutive CMV promoter), ligated to the antisense Ku70 cDNA (asKu70), the antisense Ku80 cDNA (asKu80) or the antisense DNA-PKcs cDNA (asDNA-PKcs).

(b) To regionally heat shock the tumors (to activate the hsp70 promoter and antisense expression) and followed by radiation therapy. The radiation response of these animal tumors and human xenografts will be assessed in vitro (colony forming assay) and/or in vivo (tumor growth assay).

Budget & Payment Schedule

$111,645.00 per year for a period of two (2) years, payable semi-annually, in advance, in four equal payments of $55,822.50. The first such payment will be due upon execution of this Agreement. Subsequent payments will be made 6 months, 12 months and 18 months thereafter.

Detailed budget for Celsion Sponsored Research

DETAILED BUDGET FOR NEXT

PERIOD - DIRECT COSTS ONLY From 6/1/00 Through 5/31/00

PERSONNEL

| Name | Role on Project | Type Appt. (months) | % Effort on Project |
|---|---|---|---|
| Gloria C. Li | Principal Investigator | 12 | 5 |
| Ling Bo Shen | Technician | 12 | 30 |
| Rachel Shao | Post-Doc Fellow | 12 | 100 |
| | | | SUBTOTALS |

PERSONNEL

| Name | Salary Requested | Fringe Benefits | Totals |
|---|---|---|---|
| Gloria C. Li | $ 0 | $ 0 | $ 0 |
| Ling Bo Shen | $ 9,000 | $1,980 | $10,980 |
| Rachel Shao | $ 35,000 | $7,700 | $42,700 |
| | $ 44,000 | $9,680 | $53,680 |

LABORATORY SUPPLIES

| | | | | |
|---|---|---|---|---|
| tissue culture | $ 5,000 | chemicals | $ 2,000 | |
| serum | $ 5,000 | antibodies | $ 3,000 | |
| media | $ 5,000 | oligonucleotides | $ 1,000 | |
| antibotics | $ 500 | mice & housing | $ 10,000 | $ 31,500 |

SUBTOTAL DIRECT COSTS FOR

| | | |
|---|---|---|
| NEW BUDGET PERIOD | | $ 85,180 |
| OVERHEAD AT 62.3% | (excludes Post-Doc) | $ 26,465 |
| TOTAL COSTS FOR NEXT BUDGET PERIOD | | $ 111,645 |

[MEMORIAL SLOAN-KETTERING LETTERHEAD]

May 17, 2000

TO WHOM IT MAY CONCERN:

In my absence, Mr. Gustave J. Bernhardt, Director, Research Resources Management, will sign as an institutional official for the Sloan-Kettering Institute for Cancer Research.

/s/ JAMES S. QUIRK

James S. Quirk
Senior Vice President

# EXECUTIVE EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of the 8th day of June, 2000, by and between John Mon (the "Executive"), an individual residing at c/o Celsion Corporation, 10220-1 Old Columbia Road, Columbia, Maryland 21046-1705, and Celsion Corporation (the "Company"), a Maryland corporation with offices at 10220-1 Old Columbia Road, Columbia, Maryland 21046-1705.

WITNESSETH:

WHEREAS, the Executive is currently employed by the company as Treasurer, as Secretary, and as General Manager, and the Company desires that the Executive shall continue to be employed by it and render services to it, and the Executive is willing to continue to be so employed and to render services, all upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. EMPLOYMENT, DUTIES AND ACCEPTANCE.

1.1. The Company hereby employs Executive, and the Executive hereby accepts employment, for the term ("Term") set forth in Section 2 hereof, to render services to Company as one of its senior executive officers. The Executive represents and warrants to the Company that he has full power and authority to enter into this Agreement and that he is not under any obligation of a contractual or other nature to any person, firm or corporation which is inconsistent or in conflict with this agreement, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

1.2. The Executive will serve as Vice President, New Business Development of the Company and as a member of its Board of Directors when elected as such, will have general supervision over investigation into new business opportunities for the Company and its subsidiaries or affiliates (referred to collectively as "Affiliates") and will have such other duties and responsibilities, consistent with his position as Vice President, New Business Development, as may reasonably be assigned to him by the President. The Executive may be also be elected to another executive position such as Secretary of the Company. In addition, the Executive will serve as a senior officer and a director (when elected as such) of each of the Company's Affiliates. The Executive will report to the President of the Company.

1.3. The Executive shall devote all of his business time and effort to the business and affairs of the Company, and shall use his best efforts, skills, and abilities to promote the interests of the Company, except for reasonable vacations and during periods of illness or incapacity, but nothing contained in this Agreement shall prevent the Executive from engaging in charitable, community or other business activities provided they do not interfere with the regular performance of the Executive's duties and responsibilities under this Agreement.

1.4. Unless the Executive and the Company shall otherwise agree, the Executive's principal place of employment shall be in and around the Columbia, Maryland area, but the duties of the Executive shall include such visits to the Company's Affiliates, research and development partners, product and clinical trial test sites, customers, investment and other bankers, in each case at the expense of the Company, as the Executive determines is reasonably required in the performance of the Executive's responsibilities.

2. TERM.

2.1. The Term of this Agreement will commence as of June 8th, 200 and will terminate at the close of business on June 7, 2003, unless sooner terminated in accordance with the provisions of this Agreement ("Initial Term"). Thereafter, the employment of the Executive shall continue for successive one-year periods (each such one year period being hereinafter referred to as a "Renewal Term") unless the Corporation or Executive shall give notice to the other at least three months prior to the end of the Term or any Renewal Term of the election of the Corporation or the Executive to terminate the employment of the Executive at the end of the Term or the then current Renewal Term.



3. BASE SALARY.

3.1. For all services performed by the Executive under this Agreement, the Executive shall be paid a base salary ("Base Salary") for the first twelve months of the Initial Term at the annual rate of $100,000. The Base Salary for subsequent years shall be the greatest of (i) one hundred five percent (105%) of the Base Salary for the prior calendar year; (ii) the product of the multiplication of the Base Salary during the calendar year immediately preceding by the sum of (y) one hundred percent plus (z) the amount (expressed as a percent) by which the most recently reported Consumer Price Index ("CPI") applicable to the Washington-Baltimore Metropolitan region is greater than the CPI for that same region for the prior twelve months; or (iii) the sum offered by the Board of Directors after a review taking into account corporate and

individual performance, the Company's prospects and general business conditions.

3.2. Base Salary shall be paid in equal monthly or semi-monthly installments in keeping with the Company's standard payroll policies applicable to its senior executives.

4. OPTION TO ACQUIRE BONUS SHARES.

4.1. The Company hereby agrees to grant to Executive as a bonus an option to acquire fifty (50,000) thousand (the "Bonus Shares") fully paid and non-assessable shares of common stock, par value $0.01 per share (the "Common Stock") of the Company. The purchase price for each Bonus Share shall be $2.75 per share. The option granted hereby shall expire on June 7, 2005, but may be exercised only while the Executive is employed by the Company, and, in the event of the termination of his service for any reason other than as provided either in Section 10 or in Section 12 of this Agreement, then this option may be exercised for a period of not more than nine months following the date of terminations of service with the Company. The Company shall at all times reserve for issuance and/or delivery such number of shares of its Common Stock as shall be required for issuance or delivery as Bonus Shares. No fractional shares or scrip representing fractional shares shall be issued as Bonus Share. Bonus Shares will not be registered under federal or state securities laws, and will have the status of restricted securities. bonus Shares may not be sold or offered for sale in the absence of effective registration under such securities laws, or an opinion of counsel satisfactory to the Company that such registration is not required. The Company will not include any Bonus Shares in any registration statement. Bonus Shares may be sold by the Executive in transactions permitted by the provisions of Rule 144 of the Securities Act of 1933. In case the Company shall at any time subdivide or combine the outstanding shares of Common Stock, the number of Bonus Shares the Executive shall have the right to acquire shall be proportionately increased in the case of such subdivision or decreased in the case of such combination (on the date that such subdivision or combination shall become effective). Bonus Shares shall bear an appropriate restrictive legend, referring to the provisions hereof.

5.1 For purposes of this paragraph:

A. Corporate Milestones. The right to acquire Incentive Shares shall be available in tranches as indicated herein if, as and when the Company has achieved the first two of the following Class X Milestones

- Execution and delivery of an agreement with one or more strategic partners to the Company providing for the marketing and distribution of any one of the Company's products related to its breast cancer treatment system. (Tranche: 50,000 shares)

- Execution and delivery of an agreement with one or more strategic partners to the Company providing for the marketing and distribution of any one of the Company's products related to treating chronic prostate enlargement condition, common in older males, known as benign prostatic hyperplasia ("BPH") (Tranche: 50,000 shares).

- Execution and delivery of an agreement with one or more strategic partners to the Company providing for the marketing and distribution of any one of the Company's products related to liposome compounds that can carry chemotherapy drugs to a tumor site and release their payload quickly when triggered by targeted hear. (Tranche: 50,000 shares).

Only 150,000 shares may be issued with respect to Class X Milestones. The right to acquire Incentive Shares shall be available in tranches as indicated herein if, as and when the Company has achieved any of the following Class Y Milestones:

- Obtaining pre-marketing approval from the United States Food and Drug Administration for commercialization of the Company's BPH treatment system. (Tranche: 50,000 shares).

- Obtaining pre-marketing approval from the United States Food and Drug Administration for commercialization of the Company's breast cancer treatment system. (Tranche: 50,000 shares).

As a Class Z Milestone, the right to acquire Incentive Shares shall be available as to a tranche of 100,000 shares if, as and when the Company has achieved net income of $1,000,000 or more for any fiscal year prior to the Expiration Date.

Nothing in this paragraph shall be read to mean that the Executive shall have the right hereunder to acquire, in the aggregate, more than two hundred fifty (250,000) thousand Incentive Shares.

B. Purchase Price. The Purchase Price per Incentive Share shall be as follows:

On achieving the first Milestone, $2.75 per share;

On achieving the second Milestone, $2.95 per share;

On achieving the third Milestone, $3.15 per share;

On achieving the fourth Milestone, $3.35 per share, and

On achieving the fifth Milestone, $3.55 per share.

C. Acquisition of Incentive Shares. Executive may acquire Incentive Shares in tranches as set forth as each Milestone is achieved at any time or from time to time on or after the date hereof and so long as he is employed by the Company, but not later than 5:00 p.m. New York time, on the Expiration Date. If such date is a day on which banking institutions are authorized by law to close, then the Expiration Date shall be on the next succeeding day which shall not be such a day. Incentive Shares may be acquired without regard to the sequence in which the Milestones have been achieved. A Notice of Intention to acquire Incentive Shares shall be submitted by the Executive to the Company's Board of Directors, identifying the Milestone achieved and the number of shares covered by the relevant tranche. The Board of Directors shall be deemed to have approved the relevant acquisition of Incentives Shares unless, within seventy two (72) hours of the submission of the Notice of Intention , the Board adopts a resolution determining that Incentive Shares may not be issued as to the Milestone identified in the Notice of Intention. In the absence of such a disaffirming resolution, Executive may acquire Incentive Shares thereafter by presentation of the Notice of Intention either to the Company or at the office of its stock transfer agent, if any, and accompanied by payment in cash or cash equivalent of the Purchase Price for the number of Incentive Shares specified in such Notice of Intention, together with all federal and state taxes applicable upon such exercise.

D. Reservation of Shares. The Company hereby agrees that at all times there shall be reserved for issuance such number of shares of its Common Stock as shall be required for issuance or delivery as Incentive Shares upon achievement of the Milestones set forth herein.

E. Vesting. Incentive Shares shall vest in the Executive upon issuance.

F. Anti-Dilution Provisions.

(1) Adjustment of Number of Incentive Shares. Anything in this paragraph (F) to the contrary notwithstanding, in case the Company shall at any time issue Common Stock by way of dividend or other distribution on any stock of the Company or subdivide or combine the outstanding shares of Common Stock, the Purchase Price shall be proportionately decreased in the case of such issuance (on the day following the date fixed for determining shareholders entitled to receive such dividend or other distribution) or decreased in the case of such subdivision or increased in the case of such combination (on the date that such subdivision or combination shall become effective).

(2) No Adjustment for Small Amounts. Anything in this Paragraph (F) to the contrary notwithstanding, the Company shall not be required to give effect to any adjustment in the Purchase Price unless and until the net effect of one or more adjustments, determined as above provided, shall have required a change of the Exercise Price by at least one cent, but when the cumulative net effect of more than one adjustment so determined shall be to change the actual Purchase Price by at least one cent, such change in the Purchase Price shall thereupon be given effect.

(3) Number of Incentive Shares Adjusted. Upon any adjustment of the Purchase Price other than pursuant to Paragraph (F)(1) hereof, the Executive shall thereafter (until another such adjustment) be entitled to purchase, at the new Purchase Price, the number of shares, calculated to the nearest full share, obtained by multiplying the number of shares of Common Stock initially issuable upon achieving any Milestone by the Purchase in effect on the date hereof, and dividing the products so obtained by the new Purchase Price.

G. Reclassification, Reorganization or Merger. In case of any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the Company (other than a change in par value, or from par value to no par value or from no par value to par value, or as a result of an issuance of Common Stock by way of dividend or other distribution or of a subdivision or combination) or in case of any consolidation or merger of the Company with or into another corporation (other than a merger in which the Company is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock) or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the Company shall cause effective provision to be made so that the Executive shall have the right thereafter as he has hereunder to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization or other change, consolidation, merger, sale or conveyance. The foregoing provisions of this Paragraph (G) shall similarly apply to successive reclassifications, capital reorganizations and changes of shares of Common Stock and to successive consolidations, mergers, sale or conveyances. In the event that in any such capital reorganization or reclassification, consolidation, merger, sale or conveyance, additional shares of Common Stock shall be issued in exchange, conversion, substitution or payment, in whole or in part, for or of a security of the Company other than Common Stock, any such issue shall be treated as an issue of Common Stock covered by the provisions hereof with the amount of the consideration received upon the issue thereof being determined by the Board of Directors of the Company, such determination to be final and binding on the Executive.

6. REIMBURSEMENT FOR EXPENSES.

6.1 Company shall reimburse Executive for all reasonable out-of-pocket expenses paid or incurred by him in the course of his employment, upon presentation by Executive of valid receipts or invoices therefor, utilizing procedures and forms for that purpose as established by Company from time to time.

7. VACATIONS.

7.1. Executive shall be entitled to reasonable vacations (which shall aggregate no less than four (4) weeks vacation with pay) during each consecutive 12 month period commencing on the date hereof. Executive may not accumulate any vacation days which remain unused at the end of any year during the term hereof without the prior consent of Company.

8. EMPLOYEE BENEFIT PROGRAM, ETC.

8.1. The Company will either provide or pay or reimburse the Executive for the costs of wireless telephone service and related equipment.

8.2 The Company may provide the Executive at the Company's expense disability insurance providing for disability payments to the Executive, in a sum at least equal to 70% of his Base Salary then in effect, following a termination of Executive's employment hereunder as a result of Disability (as defined in Section 9.2 below). In the event such policy is not obtained, Executive shall be entitled to participate in such disability plan(s) as are available to Company executives generally.

8.3. Subject to the Executive meeting the eligibility requirements of each respective plan, Executive shall participate in and be covered by each pension, life insurance, accident insurance, health insurance, hospitalization and any other employee benefit plan of Company, as the case may be, made available generally from and after the date hereof to its respective senior executives, on the same basis as shall be available to such other executives without restriction or limitation by reason of this Agreement.

8.4. Nothing herein contained shall prevent the Company from at any time increasing the compensation herein provided to be paid to Executive, either permanently or for a limited period, or from paying bonuses and other additional compensation to Executive, whether or not based upon the earnings of the business of Company, or from increasing or expanding any employee benefit program applicable to the Executive, in the event the Company, in its sole discretion, shall deem it advisable so to do in order to recognize and compensate fairly Executive for the value of his services.

9. DEATH OR DISABILITY.

9.1 If Executive shall die during the term hereof, this Agreement shall immediately terminate, except that Executive's legal representatives or designated beneficiaries shall be entitled to receive (i) the Base Salary due to Executive hereunder to the last day of the month following the month in which his death occurs, payable in accordance with the Company's regular payroll practices, and (ii) all other benefits payable upon death under any employee benefit program or other insurance covering the Executive as of the date of death.

9.2. In the event of the Disability of the Executive, as hereinafter defined, the Executive shall be entitled to continue to receive payment of his Base Salary (prorated as may be necessary) in accordance with the terms of Section 3 hereof through the last day of the third month following the month in which Executive's employment hereunder is terminated as a result of such Disability. At any time after he date of the Notice (as hereinafter defined) and during the continuance of the Executive's Disability, the Company may at any time thereafter terminate Executive's employment hereunder by written notice to the Executive. The term "Disability" shall mean physical or mental illness or injury which prevents the Executive from performing his customary duties for the Company for a period of sixty (60) consecutive days or an aggregate period of one hundred twenty (120) days out of any consecutive twelve (12) months. The date of commencement of Disability shall be the date set forth in the notice (the "Notice") given by Company to the Executive at any time following a determination of Disability, which date shall not be earlier than the date the Notice is given by Company. A determination of Disability by Company shall be solely for the purposes of this Section 9.2 and shall in no way affect the Executive's status under any other benefit plan applicable to the Executive.

9.3 Upon the occurrence of a Disability, and unless the Executive's employment shall have been terminated as provided in Section 9.2, the Executive shall, during such time as he is continuing to receive Base Salary payments as set forth in Section 9.2, perform such services for Company, consistent with his duties under Section 1 hereof, as he is reasonably capable of performing in light of the condition giving rise to a Disability. All payments due under Section 9.2 shall be payable in accordance with Company's regular payroll practices. Any amount paid to Executive pursuant to this Agreement by reason of his Disability, shall be reduced by the aggregate amount of all monthly disability payments which the Executive is entitled to receive under all workers compensation plans, disability plans and accident, health or other insurance plans or programs maintained for the Executive by Company, by any company controlling, controlled by or under common control with, Company.

10. TERMINATION FOR CAUSE.

10.1 The employment of the Executive may be terminated by the Company for Cause. For this purpose, "Cause" shall mean:

(i) an act constituting a felony and resulting or intended to result, directly or indirectly in his gain or personal enrichment at the expense of the Company and its shareholders;

(ii)dishonest acts against the Company;

(iii)illegal drug use;

(iv) grossly or willfully neglecting to carry out his duties under this Agreement resulting in material harm to the Company.

The Executive's employment shall not be terminated for Cause under clauses (b) or (d) unless: (a) the Executive has received at least 5 days notice of a meeting of the Board of Directors at which meeting the Board shall consider the existence of Cause, shall provide the Executive with an opportunity to be heard before the Board, and, following such consideration and hearing, the Board has determined, based upon credible evidence, that grounds for Cause exist; and (b) the misconduct or breaches on which an assertion of Cause is based are not cured within 10 days thereafter if such misconduct or breaches are capable of being cured.

10.2 In the event of a termination for Cause, the Executive shall (a) be entitled to any unpaid Base Salary pro rated up to the date of termination, and (b) shall have no further rights under this Agreement. Furthermore, the Executive shall be and remain subject to all provisions of Section 13 below for the period indicated therein, but shall not receive any of the compensation set forth herein.

11. TERMINATION UPON CHANGE OF CONTROL OR BY COMPANY WITHOUT CAUSE.

11.1 A "Change in Control" shall occur: (A) if any Person, or combination of Persons (as hereinafter defined), or any affiliate of any of the above, is or becomes the "beneficial owner" (as defined in rule 13d-3 promulgated under the Securities Exchange Act of 1934) directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the total number of outstanding shares of common stock of the Company; or (B) if individuals who, at the date of this Agreement, constitute the board (the "Incumbent Directors" cease, for any reason, to constitute at least a majority thereof, provided that any new director whose election was approved by a vote of at least 75% of the Incumbent Directors shall be treated as an Incumbent Director. For purposes hereof, "person" shall mean any individual, partnership, joint venture, association, trust, or other entity, including a "group" as referred to in section 13(d)(3) of the Securities Exchange Act of 1934.

11.2 If there occurs a Change in Control, and if there subsequently occurs a material adverse change, without the Executive's written consent, in the Executive's working conditions or status, including but not limited to a significant change in the nature or scope of the Executive" authority, powers, duties or responsibilities, or a reduction in the level of support services or staff, then, whether or not such change would otherwise constitute a breach of this Agreement by the Company, this Agreement may be terminated by notice given by the Executive, specifying the Change of Control and significant adverse change of changes.

11.3 Upon the termination of this Agreement in accordance with Section 11.2 above, the Executive will be entitled, without any duty to mitigate damages, to:

(a) All unpaid Base Salary pro-rated up to the date of termination; and

(b) A severance payment equal to 2.99 times the Base Salary in effect for the prior fiscal year; and

(c) All benefits available under the Company's employee benefit programs, to the extent applicable to senior executives voluntarily and amicably retiring from employment with the Company.

11.4. In the event that the Company shall actually or constructively terminate this Agreement during the Initial Term or any Renewal Term without cause (and with or without a Change of Control), the Executive shall be entitled to the same payments, compensation and rights as provided in the case of a termination by the Executive under Section 11.3.

11.5. The payments and any other compensation and benefits to which the Executive is entitled under this Section 11 shall be made available to the Executive no later than thirty (30) days after the date of any termination referred to in Section 11.2, 11.3 or 11.4.

11.6. In the event that Executive receives the payments and any other compensation and benefits referred to in this Section 11, he will be bound by the restrictive provisions of Section 13 for the period therein provided, subject to the right to receive the compensation therein set forth.

12. TERMINATION BY EXECUTIVE.

12.1. If the Executive shall terminate his employment under this Agreement

during the Initial Term without either (i) a Change of Control or (ii) the express written consent of the Company, then, for purposes of establishing the rights of the Executive upon such termination, such termination shall be deemed the equivalent of a termination for Cause under Section 12.1, and the Executive shall have only those rights with regard to compensation as are set forth in Section 12.2, and the restrictive provisions of Section 13 below shall fully apply (but the Executive shall not have any right to the compensation set forth therein).

12.2. If the Executive shall terminate his employment under this Agreement during any Renewal term without either (i) a Change of Control or (ii) the express written consent of the Company, them, for purposes of establishing the rights of the Executive upon such termination, the Executive shall be entitled to receive all unpaid Base Salary pro-rated up to the date of termination.

12.3. In the case of a termination pursuant to Section 12.2, the restrictions set forth in Section 13 shall apply to Executive for the period therein stated, and the Executive shall receive the compensation set forth therein.

13. RESTRICTIVE COVENANTS: COMPENSATION.

13.1 During such time as this Agreement shall be in effect and, except as otherwise explicitly stated herein, for a period of three (3) years following the termination of Executive's employment, and without the Company's prior written consent (which may be withheld for any reason or for no reason in Company's sole discretion), Executive shall not do anything in any way inconsistent with his duties to, or adverse to the interests of, the Company, nor shall Executive, directly or indirectly, himself or by or through a family member or otherwise, alone or as a member of a partnership or joint venture, or as a principal, officer, director, consultant, employee or stockholder of any other entity, compete with company or be engaged in or connected with any other business competitive with that of Company or any of its affiliates, except that Executive may own as a passive investment not more than five percent (5%) of the securities of any publicly held corporation that may engage in such a business competitive with that of Company or any of its Affiliates.

13.2 In view of the fact that Executive will be brought into close contact with many confidential affairs of Company and its Affiliates not readily available to the public, Executive agrees during the Term of this Agreement and thereafter:

(a) to keep secret and retain in the strictest confidence all non-public information about (i) research and development, test results, suppliers, venture or strategic partners, licenses and patents or patent applications, planned or existing products, knowhow, financial condition and other financial affairs (such as costs, pricing, profits and plans for future development, methods of operation and marketing concepts) of Company and its Affiliates; (ii) the employment policies and plans of the Company and its Affiliates; and (iii) any other proprietary information relating to the Company and its Affiliates, their operations, businesses, financial condition and financial affairs (collectively, the "Confidential Information") and, for such time as company or any of its Affiliates is operating, Executive shall not disclose the Confidential Information to anyone not then an officer, director or authorized employee of Company or its Affiliates, either during or after the term of this Agreement, except in the course of performing his duties hereunder or with Company's express written consent or except to the extent that such confidential information can be shown to have been in the public domain through no fault of Executive; and

(b) to deliver to Company within ten days after termination of his services, or at any time Company may so request, all memoranda, notes, records, reports and other documents relating to Company or its Affiliates, businesses, financial affairs or operations and all property associated therewith, which he may then possess or have under his control.

13.3. Executive shall not at any time during the three-year period following the termination of his employment for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, (i) employ any individual who was employed by Company or any of its Affiliates at any time during such period or during the 12 calendar months immediately preceding such termination, or (ii) in any way cause, influence or participate in the employment of any such individual by anyone else in any business that is competitive with any of the business engaged in by Company or any of its Affiliates.

13.4 Executive shall not at any time during the three-year period following the termination of this employment, for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, directly or indirectly, either (i) persuade or attempt to persuade any customer or client of the Company or of any of its Affiliates to cease doing business with Company or with any Affiliate, or to reduce the amount of business it does with Company or with any of its Affiliates, or (ii) solicit for himself or any person other than Company or any of its Affiliates, the business of any individual or business which was a customer or client of Company or any of its Affiliates at any time during the eighteen month period immediately preceding such termination.

13.5 Executive acknowledges that the execution and delivery by him of the promises set forth in this Section 13 is an essential inducement to Company to enter into this Agreement, and that Company would not have entered into this Agreement but for such promises. Executive further acknowledges that his services are unique and that any breach or threatened breach by Executive of any of the foregoing provisions of this Section 13 cannot be remedied solely by damages. In the event of a breach or a threatened breach by Executive of any of the provisions of this Section 13, Company shall be entitled to injunctive relief restraining Executive and any business, firm, partnership, individual, corporation or other entity participating in such breach or attempted breach. Nothing herein, however, shall be construed as prohibiting Company from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages and the immediate termination of the employment of Executive hereunder.

13.6. If any of the provisions of, or promises contained in, this Section 13 are hereafter construed to be invalid or unenforceable in any jurisdiction, the same shall not affect the remainder of the provisions or the enforceability thereof in any other jurisdiction, which shall be given full effect, without regard to the invalid portions or the unenforceability in such other jurisdiction. If Any provisions contained in this Section 13 are held to be unenforceable in any jurisdiction because of the duration or scope thereof, the parties hereto agree that the court making such determination shall have the power to reduce the duration and/or scope (if such provision, in its reduced form, shall be enforceable); provided, however, that the determination of such court shall not affect the enforceability, duration or scope of this Section 13 in any other jurisdiction.

13.7. As separate and additional compensation to be paid to the Executive in consideration of the observance and performance of the promises contained in this Section 13, the Company agrees that, during the period of restrictions set forth in this Section 13, the Executive will be entitled to be paid an amount equal to 100% of the Base Salary computed at the annual rate prevailing immediately prior to the termination of his employment (such amount to be paid in the same manner as the Company's regular payroll practices), except that, (i) in the case of termination of the Executive's employment for Cause, or in case the Executive shall terminate this Agreement under Section 12.1 during the Initial Term, the Executive will receive no such compensation.

14. RELATIONSHIP OF PARTIES.

Nothing herein contained shall be deemed to constitute a partnership between or a joint venture by the parties, nor shall anything herein contained be deemed to constitute either the Executive, the Company or any Affiliates the agent of the other except as is expressly provided herein. Neither Executive nor Company shall be or become liable or bound by any representation, act or omission whatsoever of the other party made contrary to the provisions of this Agreement.

15. NOTICES.

All notices and communications hereunder shall be in writing and delivered by hand or sent by registered or certified mail, postage and registration or certification fees prepaid, return receipt requested, or by overnight delivery such as Federal Express, and shall be deemed given when hand delivered or upon three (3) business days after the date when mailed, or upon one (1) business day after delivery to an agent for overnight delivery, if sent in such manner, as follows:

| | |
|---|---|
| If to Company: | Celsion Corporation<br>10220-1 Old Columbia Road<br>Columbia, Maryland 21046-1705<br>Attention: Board of Directors |
| With a copy to: | Bresler Goodman & Unterman LLP<br>521 Fifth Avenue<br>New York, NY 10175<br>Attention: Andrew J. Goodman |
| If to Executive: | John Mon<br>c/o Celsion Corporation<br>10220-1 Old Columbia Road<br>Columbia, Maryland 21046-1705 |

The foregoing addresses may be changed by notice given in the manner set forth in this Section 15.

16. DISPUTES. Any dispute arising under this Agreement shall be settled in accordance with the following provisions. If the parties are deadlocked on any issue arising under the terms of this Agreement, a tiebreaker shall be chosen by the Dean of the School of Business Administration at the University of Maryland. Each party may present its proposal to the designated tiebreaker in written form and may, on a date established by the tiebreaker within fifteen calendar days of the day the tiebreaker is chosen, make an oral presentation not to exceed two hours in length, accompanied by exhibits and written arguments not to exceed 50 pages in length. The designated tiebreaker shall then select one of the submitted proposals, without any change or adjustment, and shall announce to the

parties his or her selection within five calendar days of the day of submission. The party offering the proposal that is not selected by the tiebreaker shall bear all costs and expenses (including legal, expert and other fees and expenses), and the expenses and fees charged by the tiebreaker. Any award by the tiebreaker may be enforced on application of either party by the order or judgment of any Federal or state court in the State of Maryland as the party making such application shall elect, having jurisdiction of any such court and agree that service of process on it in any action, suit or proceeding to enforce any such award may be effected by the means by which notices are to be given to it under this Agreement.

17. MISCELLANEOUS.

17.1 This Agreement contains the entire understanding of the parties hereto with respect to the employment of Executive by Company during the term hereof, and the provisions hereof may not be altered, amended, waived, terminated or discharged in any way whatsoever except by subsequent written agreement executed by the party charged therewith. This Agreement supersedes all prior employment agreements, understandings and arrangements between Executive and Company pertaining to the terms of the employment of Executive. A waiver by either of the parties of any of the terms or conditions of this Agreement, or of any breach hereof, shall not be deemed a waiver of such terms or conditions for the future or of any other term or condition hereof, or of any subsequent breach hereof.

17.2. The provisions of this Agreement are severable, and if any provision of this Agreement is invalid, void, inoperative or unenforceable, the balance of the Agreement shall remain in effect, and if any provision is inapplicable to any circumstance, it shall nevertheless remain applicable to all other circumstances.

17.3. Company shall have the right to deduct and withhold from Executive's compensation the amounts required to be deducted and withheld pursuant to any present or future law concerning the withholding of income taxes. In the event that Company makes any payments or incurs any charges for Executive's account or Executive incurs any personal charges with Company, Company shall have the right and Executive hereby authorizes Company to recoup such payments or charges by deducting and withholding the aggregate amount thereof from any compensation otherwise payable to Executive hereunder.

17.4. This Agreement shall be construed and interpreted under the laws of the State of Maryland applicable to contracts executed and to be performed entirely therein.

17.5. The captions and section headings in this Agreement are not part of the provisions hereof, are merely for the purpose of reference and shall have no force or effect for any purpose whatsoever, including the construction of the provisions of this Agreement.

17.6. To the extent any provision of this Agreement contemplates action after termination hereof or creates a cause of action or claim on which action may be brought by either party, such provisions, cause of action or claim shall survive termination of Executive's employment or termination of this Agreement.

17.7. Executive may not assign his rights nor delegate his duties under this Agreement; provided, however, that notwithstanding the foregoing this Agreement shall inure to the benefit of Executive's legal representative, executors, administrators or successors and to the successors or assigns of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CELSION CORPORATION

By:_____
Spencer J. Volk, President

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John Mon

# EXECUTIVE EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of the _____ day of May, 2000, by and between Dennis Smith (the "Executive"), an individual residing at 4818 Lancashire Lane, Tallahassee, Florida 32308, and Celsion Corporation (the "Company"), a Maryland corporation with offices at 10220-1 Old Columbia Road, Columbia, Maryland 21046-1705.

W I T N E S S E T H:

WHEREAS, the Executive desires to be employed by the Company, and the Company desires that the Executive shall be employed by it and render services to it, and the Executive is willing to be so employed and to render services, all upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

## 1. EMPLOYMENT, DUTIES AND ACCEPTANCE.

1.1. The Company hereby employs Executive, and the Executive hereby accepts employment, for the term ("Term") set forth in Section 2 hereof, to render services to Company as the Director of Engineering of its Medical Systems Division. The Executive represents and warrants to the Company that he has full power and authority to enter into this Agreement and that he is not under any obligation of a contractual or other nature to any person, film or corporation which is inconsistent or in conflict with this Agreement, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

1.2. The Executive will have general supervision over the research and development of the Medical Systems Division of the Company and its subsidiaries or affiliates (referred to collectively as "Affiliates") and will have such other duties and responsibilities, consistent with his position, as may reasonably be assigned to him by the Board of Directors. In addition, the Executive will serve as a senior officer of each of the Company's Affiliates. The Executive will report to the Chairman and Chief Science Officer of the Company.

1.3. The Executive shall devote all of his business time and effort to the business and affairs of the Company, and shall use his best efforts, skills, and abilities to promote the interests of the Company, except for reasonable vacations and during periods of illness or incapacity, but nothing contained in this Agreement shall prevent the Executive from engaging in charitable, community or other business activities provided they do not interfere with the regular performance of the Executive's duties and responsibilities under this Agreement.

1.4. Unless the Executive and the Company shall otherwise agree, the Executive's principal place of employment shall be in and around the Columbia, Maryland area, but the duties of the Executive shall include such visits to the Company's Affiliates, research and development partners, product and clinical trial test sites, customers, investment and other bankers, in each case at the expense of the Company, as the Executive determines is reasonably required in the performance of the Executive's responsibilities.

## 2. TERM.

2.1. The Term of this Agreement will commence as of June 6, 2000 and will terminate at the close of business on May 31, 2003, unless sooner terminated in accordance with the provisions of this Agreement ("Initial Term"). Thereafter, the employment of the Executive shall continue for successive one-year periods (each such one year period being hereinafter referred to as a "Renewal Term") unless the Corporation or Executive shall give notice to the other at least three months prior to the end of the Term or any Renewal Term of the election of the Corporation or the Executive to terminate the employment of the Executive at the end of the Term or the then current Renewal Term.



## 3. BASE SALARY.

3.1. For all services performed by the Executive under this Agreement, the Executive shall be paid a base salary ("Base Salary") for the first twelve months of the initial Term at the annual rate of $100,000. The Base Salary for subsequent years shall be the greatest of (i) one hundred five percent (105%) of the Base Salary for the prior calendar year; (ii) the product of the multiplication of the Base Salary during the calendar year immediately preceding by the sum of (y) one hundred percent plus (z) the amount (expressed as a percent) by which the most recently reported Consumer Price Index ("CPI") applicable to the Washington-Baltimore Metropolitan region is greater than the CPI for that same region for the prior twelve months; or (iii) the sum offered by the Board of Directors after a review taking into account corporate and individual performance, the Company's prospects and general business conditions.

## 4. OPTION TO ACQUIRE COMMON STOCK.

4.1. The Company hereby grants to Executive as a bonus an option to acquire one hundred (100,000) thousand (the "Bonus") fully paid and non-assessable shares of common stock, par value $0.01 per share (the "Common Stock") of the Company. The purchase price for each share of Common Stock acquired on exercise of the Bonus shall be $2.82. Executive may exercise his option to acquire thirty four (34,000) thousand shares on or after January 15, 2001, and thirty three (33,000) thousand shares on or after each of October 1, 2001, and October 1, 2002. If Executive is not employed by the Company at any of the three vesting dates, he shall not be entitled to exercise his option to acquire Common Stock attributable to that date. The Company shall at all times reserve for issuance and/or delivery such number of shares of its Common Stock as shall be required for issuance or delivery on exercise of the option granted as a Bonus. No fractional shares or scrip representing fractional shares shall be issued when the option is exercised. Common Stock issued on exercise of the Bonus option will not be registered under federal or state securities laws, and will have the status of restricted securities. Common Stock issued on exercise of the Bonus may not be sold or offered for sale in the absence of effective registration under such securities laws, or an opinion of counsel satisfactory to the Company that such registration under such securities laws, or an opinion of counsel satisfactory to the Company that such registration is not required. The Company will not include any Common Stock issued or issuable on exercise of the Bonus in any registration statement. Common Stock issued on exercise of the Bonus may be sold by the Executive in transactions permitted by the provisions of Rule 144 of the Securities Act of 1933, but notwithstanding the provisions of Rule 144, Executive agrees that he will not undertake any disposition of such Common Stock in the twelve month period beginning when sales under Rule 144 are permissible without the approval of a majority of the disinterested members of the Board of Directors of the Company. In case the Company shall at any time subdivide or combine the outstanding shares of Common Stock, the number of shares the Executive shall have the right to acquire on exercise of his Bonus shall be proportionately increased in the case of such subdivision or decreased in the case of such combination (on the date that such subdivision or combination shall become effective). Common Stock issued on exercise of the Bonus shall bear an appropriate restrictive legend, referring to the provisions hereof.

5. INCENTIVE OPTION COMPENSATION. As a form of incentive compensation to Executive, the Company hereby grants to Executive an option to acquire from the Company, on an original issue basis, an aggregate of one hundred fifty (150,000) thousand fully paid and nonassessable shares of Common Stock at the several purchase prices designated below upon the achievement by the Company of the several corporate accomplishments (the "Milestones") listed below. Executive's right as set forth herein shall be available at any time on and after the date on which the first Milestone is achieved and so long as he is employed by the Company, but not later than 5:00 P.M. (New York time) May 31, 2005 (the "Expiration Date"), upon notice to the Company at its principal office at 10220-I Old Columbia Road, Columbia, MD 21046-1705, Attention: Spencer J. Volk, President and Chief Executive Officer (or at such other location as the Company may advise the Executive in writing). The notice shall be executed and delivered with the Purchase Form attached hereto duly filled in and signed and upon payment in cash or cashier's check of the aggregate Purchase price for the number of shares which Executive is acquiring determined in accordance with the provisions hereof.

5.1. For purposes of this paragraph:

A. Corporate Milestones. The Incentive option to acquire Common Stock shall be available in tranches as indicated herein if, as and when the Company has achieved the following Milestones:

> Completion of engineering to permit the commercialization of the equipment for Company's BPH treatment system. (Tranche: 50,000 shares)

> Completion of engineering to permit the commercialization of the equipment for Company's breast cancer treatment system. (Tranche: 50,000 shares).

> Completion of development of prototype medical device for treating deep seated cancer.

B. Purchase Price. The Purchase Price per share shall be as follows: On achieving the first Milestone, $2.80 per share;

On achieving the second Milestone: $3.00 per share;

On achieving the third Milestone: $3.20 per share.

C. Acquisition of Common Stock on Exercise of Incentive Option. Executive may acquire Common Stock in tranches as set forth as each Milestone is achieved at any time or from time to time on or after the date hereof and so long as he is employed by the Company, but not later than 5:00 p.m. New York time, on the Expiration Date. If such date is a day on which banking institutions are authorized by law to close, then the Expiration Date shall be on the next succeeding day which shall not be such a day. The Incentive Option may be exercised without regard to the sequence in which the Milestones have been achieved. A Notice of Exercise of the Incentive Option shall be submitted by the Executive to the Company's Board of Directors, identifying the Milestone achieved and the number of shares covered by the relevant tranche. The Board of Directors shall be deemed to have approved the exercise of the Incentive Option unless, within seventy two (72) hours of the submission of the Notice of Exercise, the Board adopts a resolution determining that exercise of the Incentive Option is not agreed as to the Milestone identified in the Notice of Exercise. In the absence of such a disaffirming resolution, Executive may acquire Common Stock thereafter by presentation of the Notice of Exercise either to the Company or at the office of its stock transfer agent, if any, and accompanied by payment in cash or cash equivalent of the Purchase Price for the number of shares of Common Stock specified in such Notice of Exercise, together with all federal and state taxes applicable upon such exercise.

D. Reservation of Shares. The Company hereby agrees that at all times there shall be reserved for issuance such number of shares of its Common Stock as shall be required for issuance or delivery upon achievement of the Milestones set forth herein.

E. Vesting. Common Stock issued on exercise of an Incentive Option shall vest in the Executive upon issuance.

F. Anti-Dilution Provisions.

(1) Adjustment of Number of Shares of Common Stock. Anything in this Paragraph (F) to the contrary notwithstanding, in case the Company shall at any time issue Common Stock by way of dividend or other distribution on any stock of the Company or subdivide or combine the outstanding shares of Common Stock, the Purchase Price shall be proportionately decreased in the case of such issuance (on the day following the date fixed for determining shareholders entitled to receive such dividend or other distribution) or either decreased in the case of such subdivision or increased in the case of such combination (on the date that such subdivision or combination shall become effective).

(2) No Adjustment for Small Amounts. Anything in this Paragraph (F) to the contrary notwithstanding, the Company shall not be required to give effect to any adjustment in the Purchase Price unless and until the net effect of one or more adjustments, determined as above provided, shall have required a change of the Exercise Price by at least one cent, but when the cumulative net effect of more than one adjustment so determined shall be to change the actual Purchase Price by at least one cent, such change in the Purchase Price shall thereupon be given effect.

(3) Number of Shares of Common Stock Adjusted. Upon any adjustment of the Purchase Price other than pursuant to Paragraph (F)(1) hereof, the Executive shall thereafter (until another such adjustment) be entitled to purchase, at the new Purchase Price, the number of shares, calculated to the nearest full share, obtained by multiplying the number of shares of Common Stock initially issuable upon achieving any Milestone by the Purchase Price in effect on the date hereof and dividing the product so obtained by the new Purchase Price.

G. Reclassification, Reorganization or Merger. In case of any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the Company (other than a change in par value, or from par value to no par value or from no par value to par value, or as a result of an issuance of Common Stock by way of dividend or other distribution or of a subdivision or combination), or in case of any consolidation or merger of the Company with or into another corporation (other than a merger in which the Company is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock) or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the Company shall cause effective provision to be made so that the Executive shall

have the right thereafter as he has hereunder to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization or other change, consolidation, merger, sale or conveyance. The foregoing provisions of this Paragraph (G) shall similarly apply to successive consolidations, mergers, sale or conveyances. In the event that in any such capital reorganization or reclassification, consolidation, merger, sale or conveyance, additional shares of Common Stock shall be issued in exchange, conversion, substitution or payment, in whole or in part, for or of a security of the Company other than Common Stock, any such issue shall be treated a s an issue of Common Stock covered by the provisions hereof with the amount of the consideration received upon the issue thereof being determined by the Board of Directors of the Company, such determination to be final and binding on the Executive.

6. REIMBURSEMENT FOR EXPENSES.

6.1. Company shall reimburse Executive for all reasonable out-of-pocket expenses paid or incurred by him in the course of his employment, upon presentation by Executive of valid receipts or invoices therefor, utilizing procedures and forms for that purpose as established by Company from time to time. In addition, the Company shall reimburse the Executive for up to twenty five thousand ($25,000) dollars in expenses (including relocation living expenses) incurred before the commencement of his employment to the extent that such expenses are involved in moving from his present residence to the area in or around the headquarters of the Company.

7. VACATIONS.

7.1. Executive shall be entitled to reasonable vacations (which shall aggregate no less than three (3) weeks vacation with pay) during each consecutive 12 month period commencing on the date hereof. Executive may not accumulate any vacation days which remain unused at the end of any year during the term hereof without the prior consent of Company.

8. EMPLOYEE BENEFIT PROGRAMS, ETC.

8.1. Subject to the Executive's meeting the eligibility requirements of each respective plan, Executive shall participate in and be covered by each pension, life insurance, accident insurance, health insurance, hospitalization, disability insurance and any other employee benefit plan of Company, as the case may be, made available generally from and after the date hereof to its respective senior executives, on the same basis as shall be available to such other executives without restriction or limitation by reason of this Agreement.

8.2. Nothing herein contained shall prevent the Company from at any time increasing the compensation herein provided to be paid to Executive, either permanently or for a limited period, or from paying bonuses and other additional compensation to Executive, whether or not based upon the earnings of the business of Company, or from increasing or expanding any employee benefit program applicable to the Executive, in the event the Company, in its sole discretion, shall deem it advisable so to do in order to recognize and compensate fairly Executive for the value of his services.

9. DEATH OR DISABILITY.

9.1. If Executive shall die during the term hereof, this Agreement shall immediately terminate, except that Executive's legal representatives or designated beneficiaries shall be entitled to receive (i) the Base Salary due to Executive hereunder to the last day of the month following the month in which his death occurs, payable in accordance with the Company's regular payroll practices, (ii) all other benefits payable upon death under any employee benefit program or other insurance covering the Executive as of the date of death; and (iii) the right to exercise immediately the option granted under Section 4.

9.2. In the event of the Disability of the Executive, as hereinafter defined, the Executive shall be entitled to continue to receive payment of his Base Salary (prorated as may be necessary) in accordance with the terms of Section 3 hereof through the last day of the sixth month following the month in which Executive's employment hereunder is terminated as a result of such Disability. t any time after the date of the Notice (as hereinafter defined) and during the continuance of the Executive's Disability, the Company may at any time thereafter terminate Executive's employment hereunder by written notice to the Executive. The term "Disability" shall mean physical or mental illness or injury which prevents the Executive from performing his customary duties for the Company for a period of thirty (30) consecutive days or an aggregate period of ninety (90) days out of any consecutive twelve (12) months. The date of commencement of Disability shall be the date set forth in the notice (the "Notice") given by Company to the Executive at any time following a determination of Disability, which date shall not be earlier than the date the Notice is given by Company. A determination of Disability by Company shall be solely for the purposes of this Section 9.2 and shall in no way affect the Executive's status under any other benefit plan applicable to the Executive.

9.3. Upon the occurrence of a Disability, and unless the Executive's employment shall have been terminated as provided in Section 9.2, the Executive shall, during such time as he is continuing to receive Base Salary payments as set forth in Section 9.2, perform such services for Company, consistent with this duties under Section 1 hereof, as he is reasonably capable of performing in light of the condition giving rise to a Disability. All payments due under Section 9.2 shall be payable in accordance with Company's regular payroll practices. Any amount paid to Executive pursuant to this Agreement by reason of his Disability, shall be reduced by the aggregate amount of all monthly disability payments which the Executive is entitled to receive under all workers compensation plans, disability plans and accident, health or other insurance plans or programs maintained for the Executive by Company, by any company controlling, controlled by or under common control with, Company.

9.4. In the event the Executive's employment is terminated due to Disability, the Executive shall be entitled, in addition to the Base Salary payments described in Section 9.2, to exercise his option to acquire shares in accordance with Section 4 for the fiscal year in which such Disability occurs.

10. TERMINATION FOR CAUSE.

10.1. The employment of the Executive may be terminated by the Company for Cause. For this purpose, "Cause" shall mean:

(i) insubordination or the deliberate failure or refusal to comply with the terms of this Agreement or to follow the directions or policies of the Company, its executive officers or Board of Directors, which directions or policies are consistent with normal business practices and relate to the performance by Executive of his duties as an executive of Company in accordance with the provisions of this Agreement, and which failure or refusal shall remain uncured for fifteen (15) days after written notice thereof shall have been paid given to Executive; provided, however, that the foregoing right to cure shall not apply to any failure or refusal of a type substantially similar to a failure or refusal which was the subject of a previous notice under this clause (i);

(ii) the commission by Executive of an act of theft, dishonesty, embezzlement, vandalism, fraud or misappropriation against Company any subsidiary or affiliate of Company;

(iii) the conviction of Executive in any jurisdiction of a criminal act or acts committed by the Executive which constitute theft, embezzlement, vandalism, fraud, misappropriation, or dishonest acts against the Company;

(iv) any deliberate or intentional act or omission, the purpose of which is to materially damage the business or reputation of Company;

(v) incompetence, negligence or any misconduct by Executive in performing his duties or willfully neglecting to carry out his duties under this Agreement resulting in harm to the Company.

10.2. In the event of a termination for Cause, the Executive shall (a) be entitled to any unpaid Base Salary pro rated up to the date of termination, and (b) shall have no further rights under this Agreement. Furthermore, the Executive shall be and remain subject to all provisions of Section 13 below for the period indicated therein, but shall not receive any of the compensation set forth therein.

11. TERMINATION BY COMPANY WITHOUT CAUSE.

11.1. In the event that the Company shall actually or constructively terminate this Agreement during the Initial Term or any Renewal Term without cause, the Executive shall be entitled, without any duty to mitigate damages, to:

(a) All unpaid Base Salary pro-rated up to the date of termination; and

(b) The immediate opportunity to exercise the option granted pursuant to Section 4;

(c) A severance payment equal one hundred (100%) percent of the Base Salary in effect for the prior fiscal year; and

(d) All benefits available under the Company's employee benefit programs, to the extent applicable to senior executives voluntarily and amicably retiring from employment with the Company.

11.2. The payments and any other compensation and benefits to which the Executive is entitled under this Section 11 shall be made available to the Executive no later than thirty (30) days after the date of any termination referred to herein.

11.3. In the event that Executive receives the payments and any other compensation and benefits referred to in this Section 11, he will be bound by the restrictive provisions of Section 13 for the period therein provided, subject to the right to receive the compensation therein set forth.

12. TERMINATION BY EXECUTIVE.

12.1. If the Executive shall terminate his employment under this Agreement during the Initial Term without the express written consent of the Company, then, for purposes of establishing the rights of the Executive upon such termination shall be deemed the equivalent of a termination for Cause under Section 10.1, and the Executive shall have only those rights with regard to compensation as are set forth in Section 12.2, and the restrictive provisions of Section 13 below shall fully apply (but the Executive shall not have any right to the compensation set forth therein).

12.2. If the Executive shall terminate his employment under this Agreement during any Renewal Term without the express written consent of the Company, then, for purposes of establishing the rights of the Executive upon such termination, the Executive shall be entitled (i) to receive all unpaid Base Salary pro-rated up to the date of termination, and (ii) for a period of ten (10) days following the date of termination, to exercise any unexercised option to acquire Common Stock under either Section 4 or Section 5 hereof that Executive could have exercised on the day preceding the date of termination.

12.3. In the case of a termination pursuant to Section 12.2, the restrictions set forth in Section 13 shall apply to Executive for the period therein stated, and the Executive shall receive the compensation set forth therein.

13. RESTRICTIVE COVENANTS; COMPENSATION.

13.1. During such time as this Agreement shall be in effect and, except as otherwise explicitly stated herein, for a period of three (3) years following the termination of Executive's employment, and without the Company's prior written consent (which may be withheld for any reason or for no reason in Company's sole discretion), Executive shall not do anything in any way inconsistent with his duties to, or adverse to the interests of, the Company, nor shall Executive, directly or indirectly, himself or by or through a family member or otherwise, alone or as a member of a partnership or joint venture, or as a principal, officer, director, consultant, employee or stockholder of any other entity, compete with Company or be engaged in or connected with any other business competitive with that of Company or any of its affiliates, except that Executive may own as a passive investment not more than five percent (5%) of the securities of any publicly held corporation that may engage in such a business competitive with that of Company or any of its Affiliates.

13.2. In view of the fact that Executive will be brought into close contact with many confidential affairs of Company and its Affiliates not readily available to the public, Executive agrees during the Term of this Agreement and thereafter:

(a) to keep secret and retain in the strictest confidence all non-public information about (i) research and development, test results, suppliers, venture or strategic partners, licenses and patents or patent applications, planned or existing products, knowhow, financial condition and other financial affairs (such as costs, pricing, profits and plans for future development, methods of operation and marketing concepts) of Company and its Affiliates; (ii) the employment policies and plans of the Company and its Affiliates; and (iii) any other proprietary information relating to the Company and its Affiliates, their operations, businesses, financial condition and financial affairs (collectively, the "Confidential

Information") and, for such time as Company or any of its Affiliates is operating, Executive shall not disclose the Confidential Information to anyone not then an officer, director or authorized employee of Company or its Affiliates, either during or after the term of this Agreement, except in the course of performing his duties hereunder or with Company's express written consent or except to the extent that such confidential information can be shown to have been in the public domain through no fault of Executive; and

(b) to deliver to Company within ten days after termination of his services, or at any time Company may so request, all memoranda, notes, records, reports and other documents relating to Company or its Affiliates, businesses, financial affairs or operations and all property associated therewith, which he may then possess or have under his control.

13.3. Executive shall not at any time during the three-year period following the termination of his employment for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, (i) employ any individual who was employed by Company or any of its Affiliates at any time during the such period or during the 12 calendar months immediately preceding such termination, or (ii) in any way cause, influence or participate in the employment of any such individual by anyone else in any business that is competitive with any of the businesses engaged in by Company or any of its Affiliates.

13.4. Executive shall not at any time during the three-year period following the termination of his employment, for any reason whatsoever, including termination resulting from the natural expiration of the term of this Agreement, directly or indirectly, either (i) persuade or attempt to persuade any customer or client of the Company or of any of its Affiliates to cease doing business with Company or with any Affiliate, or to reduce the amount of business it does with Company or with any of its Affiliates, or (ii) solicit for himself or any person other than Company or any of its Affiliates, the business of any individual or business which was a customer or client of Company or any of its Affiliates at any time during the eighteen month period immediately preceding such termination.

13.5. Executive acknowledges that the execution and delivery by him of the promises set forth in this Section 13 is an essential inducement to Company to enter into this Agreement, and that Company would not have entered into this Agreement but for such promises. Executive further acknowledges that his services are unique and that any breach or threatened breach by Executive of any of the foregoing provisions of this Section 13 cannot be remedied solely by damages. In the event of a breach or a threatened breach by Executive of any of the provisions of this Section 13, Company shall be entitled to injunctive relief restraining Executive and any business, firm, partnership, individual, corporation or other entity participating in such breach or attempted breach. Nothing herein, however, shall be construed as prohibiting Company from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages and the immediate termination of the employment of Executive hereunder.

13.6. If any of the provisions of, or promises contained in, this Section 13 are hereafter construed to be invalid or unenforceable in any jurisdiction, the same shall not affect the remainder of the provisions or the enforceability thereof in any other jurisdiction, which shall be given full effect, without regard to the invalid portions or the unenforceability in such other jurisdiction. If any provisions contained in this Section 13 are held to be unenforceable in any jurisdiction because of the duration or scope thereof, the parties hereto agree that the court making such determination shall have the power to reduce the duration and/or scope (if such provision, in its reduced form, shall be enforceable); provided, however, that the determination of such court shall not affect the enforceability, duration or scope of this Section 13 in any other jurisdiction.

13.7. As separate and additional compensation to be paid to the Executive in consideration of the observance and performance of the promises contained in this Section 13, the Company agrees that, during the period of restrictions set forth in this Section 13, the Executive will be entitled to be paid an amount equal to 125% of the Base Salary computed at the annual rate prevailing immediately prior to the termination of his employment (such amount to be paid in the same manner as the Company's regular payroll practices), except that, (i) in the case of termination of the Executive's employment for Cause, or (ii) in case the Executive shall terminate this Agreement under Section 12.1, the Executive will receive no such compensation.

## 14. RELATIONSHIP OF PARTIES.

Nothing herein contained shall be deemed to constitute a partnership between or a joint venture by the parties, nor shall anything herein contained be deemed to constitute either the Executive, the Company or any Affiliates the agent of the other except as is expressly provided herein. Neither Executive nor Company shall be or become liable or bound by any representation, act or omission whatsoever of the other party made contrary to the provisions of this Agreement.

15. NOTICES.

All notices and communications hereunder shall be in writing and delivered by hand or sent by registered or certified mail, postage and registration or certification fees prepaid, return receipt requested, or by overnight delivery such as Federal Express, and shall be deemed given when hand delivered or upon three (3) business days after the date when mailed, or upon one (1) business day after deliver to an agent for overnight delivery, if sent in such manner, as follows:

| | |
|---|---|
| If to Company: | Celsion Corporation<br>10220-1 Old Columbia Road,<br>Columbia, Maryland 21046-1705<br>Attention: Board of Directors |
| With a copy to: | Bresler Goodman & Unterman LLP<br>521 Fifth Avenue<br>New York, NY 10175<br>Attention: Seymour H. Bucholz |
| If to Executive: | Dennis Smith<br>4818 Lancashire Lane<br>Tallahassee, Florida 32308 |

The foregoing addresses may be changed by notice given in the manner set forth in this Section 15.

16. DISPUTES. Any dispute arising under this Agreement shall be settled in accordance with the following provisions. If the parties are deadlocked on any issue arising under the terms of this Agreement, a tiebreaker shall be chosen by the Dean of the School of Business Administration at the University of Maryland. Each party may present its proposal to the designated tiebreaker in written form and may, on a date established by the tiebreaker within fifteen calendar days of the day the tiebreaker is shown, make an oral presentation not to exceed two hours in length, accompanied by exhibits and written arguments not to exceed 50 pages in length. The designated tiebreaker shall then select one of the submitted proposals, without any change or adjustment, and shall announce to the parties his or her selection within five calendar days of the day of submission. The party offering the proposal that is not selected by the tiebreaker shall bear all costs and expenses (including legal, expert and other fees and expenses), and the expenses and fees charged by the tiebreaker. Any award by the tiebreaker may be enforced on application of either party by the order or judgment of any Federal or state court in the State of Maryland as the party making such application shall elect, having jurisdiction over the subject matter thereof. Each of the parties hereto hereby submits itself to the jurisdiction of any such court and agree that service of process on it in any action, suit or proceeding to enforce any such award may be effected by the means by which notices are to be given to it under this Agreement.

17. MISCELLANEOUS.

17.1. This Agreement contains the entire understanding of the parties hereto with respect to the employment of Executive by Company during the term hereof, and the provisions hereof may not be altered, amended, waived, terminated or discharged in any way whatsoever except by subsequent written agreement executed by the party charged therewith. This Agreement supersedes all prior employment agreements, understandings and arrangements between Executive and Company pertaining to the terms of the employment of Executive. A waiver by either of the parties of any of the terms or conditions of this Agreement, or of any breach hereof, shall not be deemed a waiver of such terms or conditions for the future or of any other term or condition hereof, or of any subsequent breach hereof.

17.2. The provisions of this Agreement are severable, and if any provision of this Agreement is invalid, void inoperative or unenforceable, the balance of the Agreement shall remain in effect, and if any provision is inapplicable to any circumstance, it shall nevertheless remain applicable to all other circumstances.

17.3. Company shall have the right to deduct and withhold from Executive's compensation the amounts required to be deducted and withheld pursuant to any present or future law concerning the withholding of income taxes. In the event that Company makes any payments or incurs any charges for Executive's account or Executive incurs any personal charges with Company, Company shall have the right and Executive hereby authorizes Company to recoup such payments or charges by deducting and withholding the aggregate amount thereof from any Compensation otherwise payable to Executive hereunder.

17.4. This Agreement shall be construed and interpreted under the laws of the State of Maryland applicable to contracts executed and to be performed entirely therein.

17.5. The captions and section headings in this Agreement are not part of the provisions hereof, are merely for the purpose of reference and shall have no force or effect for any purpose whatsoever, including the construction of the provisions of this Agreement.

17.6. To the extent any provision of this Agreement contemplates action after termination hereof or creates a cause of action or claim on which action may be brought by either party, such provision, cause of action or claim shall survive termination of Executive's employment or termination of this Agreement.

17.7. Executive may not assign his rights nor delegate his duties under this Agreement; provided, however, that notwithstanding the foregoing this Agreement shall inure to the benefit of Executive's legal representatives, executors, administrators or successors and to the successors or assigns of Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CELSION CORPORATION

By:_____
Spencer J. Volk, President

---
Dennis Smith

Celsion Corporation (the "Company")

10220-1 Old Columbia Road,

Columbia, Maryland 21046-1705

May __, 2000

Dennis Smith
4818 Lancashire Lane

Tallahassee, Florida 32308

Dear Dennis:

In connection with your proposed Executive Employment Agreement with the Company, we agree that, if, during the course of your employment and at any time after you are entitled to exercise options granted under either Paragraph 4 or Paragraph 5 of your Agreement, you ask the Company for assistance in assembling resources to fund the exercise of those options, the Company will seek to assist you in negotiating a loan from one or more of the principal financial institutions with which the Company is then doing business (or from another source reasonably acceptable to you) to permit you to exercise your options to acquire either Bonus Shares or Incentive Shares. If, in connection with such borrowing, you are requested by the lending institution to pledge the Bonus Shares or the Incentive Shares that you will be acquiring on exercise of the option as collateral security for the benefit of the lender, your signature below confirms that you will pledge such shares to support your borrowing.

Very truly yours,
Celsion Corporation

By:_____
Spencer J. Volk
Chairman

Agreed:

- ------------------------
Dennis Smith

EXHIBIT 10.23

OPTION AGREEMENT

This AGREEMENT is made this 8th day of August, 2000, between Duke University (hereinafter referred to as "University"), a university having an office at Durham, North Carolina, and Celsion Corporation (hereinafter referred to as "Celsion"), a company having an office at Columbia, MD.

WITNESSETH:

WHEREAS, University is the owner of certain Patent Rights and Technical Data hereinafter defined, relating to compounds, assays, cell lines, and methods useful in development of agents useful in gene therapy of cancer and other diseases referred to collectively as ("Invention") and defined in detail hereinafter; and

WHEREAS, Celsion wishes to obtain an option for a license under the Patent Rights and Technical Data, and University is willing to make such disclosure and to grant such option and license upon the terms and conditions hereinafter set forth:

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, the parties hereto do hereby mutually agree as follows:

1. Definitions: As used in this Agreement, the following terms shall have the following meanings:

(a) "Patent Rights" shall mean any and all patents and any and all rights, title and interest in applications for patents relating to Invention owned, licensed or otherwise acquired by University during the term of this Agreement throughout the world, including all patents and reissue patents issuing on said patent applications and any extensions, divisions, continuations or continuations-in-part thereof.

(b) "Technical Data" shall mean all information, know-how and inventions (including, but not limited to, patent applications) disclosed by University to Celsion pursuant to this Agreement and relating to the Invention.

(c) "Invention" shall include all Patent Rights and Technical Data disclosed to University in connection with the Office of Science & Technology Invention Disclosures File [OST File] 1519, "Selective express of genes in cancer cells". Invention shall include additional Patent Rights and Technical Data related to these OST Files that are developed by University during the term of this Agreement.

(d) "Effective Date" shall mean 8 August, 2000.



(e) "Option Period" shall mean a six (6) month period beginning on the Effective Date.

2. Disclosure and Evaluation:

(a) During the Option Period, University shall provide Celsion with a copy of each U.S. or foreign Patent and each U.S. or foreign Patent Application filed on the Invention and a written disclosure of such Technical Data then possessed by University relating to or relevant to the Invention. University shall also disclose all relevant experimental data to Celsion and disclose any relationships it, or to the best of its knowledge, the researchers involved in the Invention have with any other persons relating to the Invention or any related technologies. Celsion shall, based upon such disclosure, evaluate the technical, economic and commercial advantages, in Celsion's option, of said Technical Data during the Option Period.

(b) University shall also furnish to Celsion reasonable opportunity to confer with University's research personnel on the Invention and Technical Data. Celsion will pay consultation fees and expenses to the inventors in the event that travel to Celsion facilities is required.

(c) From time to time during the Option Period, University shall augment its written disclosure with any additional Technical Data to assure that Celsion has the most current information.

3. Option: University hereby grants to Celsion, and Celsion hereby accepts, a non-assignable Option to negotiate with University to obtain a worldwide, exclusive license under the Patent Rights and Technical Data, said Option to be exercisable by Celsion at any time during the Option Period upon written notice to University. In the event that Celsion

shall exercise said Option, the parties agree to negotiate in good faith towards license terms.

4. Consideration:

(a) As consideration for the Option granted Celsion in Article 2 hereof, Celsion hereby agrees to reimburse all expenses incurred by University during the Option Period in the pursuit of a legal opinion regarding patent protection available for the Invention. Celsion shall not be obligated to reimburse University for such expenses in excess of two thousand five hundred dollars [$2,500] during the Option Period. University shall provide Celsion with a copy of said legal opinion.

(b) Celsion shall reimburse University for said patent expenses relating to a legal opinion concerning patentability of the invention within thirty (30) days of being invoiced by University for such expenses.

(c) Any amount paid under this Article 3 shall not be refundable under any circumstances.

5. Termination:
---

(a) If the Option granted by University pursuant to Article 4 hereof is not exercised by Celsion, this Agreement shall terminate upon the expiration of the Option Period.

(b) Celsion may terminate the Option Period at any time by notifying University of its decision not to exercise said Option.

(c) In the event this Agreement is terminated in accordance with the immediately preceding paragraphs, Celsion shall promptly return to University any and all Technical Data.

6. Default:
---

(a) If the Option granted by University pursuant to Article 4 hereof is not exercised by Celsion, this Agreement shall terminate upon the expiration of the Option Period.

(b) Celsion may terminate the Option Period at any time by notifying University of its decision not to exercise said Option.

(c) In the event this Agreement is terminated in accordance with the immediately preceding paragraphs, Celsion shall promptly return to University any and all Technical Data.

7. Default: If Celsion shall fail to perform or fulfill at the time and in the manner herein provided any obligation or condition required to be performed or fulfilled by Celsion hereunder, and if Celsion shall fail to remedy such default within thirty (30) days after written notice thereof from University, University shall have the right to terminate this Agreement by written notice of termination to Celsion given at any time within thirty (30) days thereafter. Any termination of this Agreement pursuant to this Article shall be in addition to, and shall not be exclusive of or prejudicial to, any other rights or remedies at law or in equity that University may have on account of the default of Celsion.

8. Governing Law: This Agreement shall be construed as having been entered into in the State of North Carolina.

9. Non-Assignability: Any assignment by Celsion of this Agreement or of any of the rights or licenses granted to it hereunder, without the written consent of University, shall be void; provided, however, that nothing contained herein shall restrict the transfer of this Agreement as a part of a merger or corporate acquisition to which Celsion may be a party.

10. Notices: It shall be a sufficient giving of any notice, request, report, statement, disclosure or other communication hereunder, if the party giving the same shall deposit a copy thereof in the Post Office in certified mail, postage prepaid, addressed to the other part at its address hereinafter set forth or at such other address as the other party shall have theretofore in writing designated:

| Duke University | Celsion |
|---|---|
| University Administrator | Dr. Augustine Cheung, Chairman |
| Duke University | Celsion Corporation |
| Office of Science and Technology | 10220-1 Old Columbia Road |
| Box 90083/Room 234 North Building | Columbia, MD 21046-1705 |
| Durham, NC 27708 | |

The date of giving any such notice, request, report, statement, disclosure or other communication, and the date of making any payment hereunder required (provided such payment is received), shall be the U.S. postmark of such envelope if marked or actual date of receipt if delivered otherwise.

11. Indemnification: Celsion agrees to indemnify University, its employees and officers and to hold such parties harmless from any action, claim, or liability, including without limitation liability for death, personal injury, or property damage, arising directly or indirectly from Celsion's possession, testing, screening, distribution or other use of Patent Rights and/or Technical Data or distribution of test reports, data, and other information relating to said items; provided, however, this indemnification shall not apply if such action, claim or liability is directly and principally caused by or the result of negligence or the intentional acts of University. It is understood that indemnification of University by licensee will be included in any subsequent license agreements.

12. Non-Commercial Use: Celsion promises to allow use of Invention and Technical Data only by its authorized personnel (including, consultants, advisors, experts, attorneys and accountants) and only for the purpose of ascertaining its interest in pursuing licensing negotiations with University, and will not employ the Invention for any gain prior to exercising its Option hereunder. Should Celsion market or in any way make or use Invention in a way other than to ascertain its interest in pursuing licensing negotiations, Celsion shall be liable to University in damages.

13. Confidentiality: Celsion agrees to accept samples of the Invention and Technical Data and/or information concerning the Invention and Technical Data on a confidentiality of the Invention and any data that is generated concerning it as it uses to protect its own confidential information, and shall limit exposure of Invention and Technical Data to those of its personnel, consultants, experts, attorneys, accountants, potential investors and personnel of its affiliated companies who have an actual need to know and who have an obligation to protect the confidentiality of such information, Celsion agrees that

Invention and all confidential information about Invention received and generated under this Agreement shall be maintained in confidence for the duration of this Agreement and for three (3) years thereafter regardless of the manner of termination, and further agrees not to use such confidential information for any purpose other than to assess its interest in obtaining a license hereunder. The disclosure of confidential information hereunder shall not result in any right or license under any patent or know-how being granted to Celsion. All written documents containing confidential information, together with copies of excerpts thereof, shall promptly be returned to University by Celsion upon request. Notwithstanding anything to the contrary herein, any information, including information that may be considered to be Technical Data or part of the Invention, that is or becomes generally known to the public through no wrongful acts of Celsion shall not be deemed to be confidential or proprietary and shall not be subject to the confidentiality, use or other restrictions or obligations imposed under this Agreement, including, but not limited to those obligations set forth in this paragraph "Confidentiality" and the proceeding paragraph "Non-Commercial Use".

14. Transfer: It is expressly agreed that neither Celsion nor University transfers by operation of this Agreement any rights either party now has or hereafter acquires in the Invention.

15. Use of University Name: It is agreed that in no circumstances shall Celsion use the name of University or its employees in any advertisement, press release, or publicity with reference to this Agreement, without prior written approval of University. It is anticipated and agreed to that Celsion may use the name of the University in discussions with potential investors and partners interested in the Invention.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year firs written above.

DUKE UNIVERSITY: By:
Robert Taber, Director, Office of Science & Technology

CELSION: By:
Augustine Cheung, Chairman

# SERVICE AGREEMENT

This Agreement, made and entered into this 20th day of September 2000, between the British Columbia Cancer Agency, Division of Medical Oncology, Investigational Drug Section's ProPharma Pharmaceutical Clean Room (hereafter ProPharma), and Celsion Corp., having its principal place of business at 10220-Suite 1, Old Columbus Road, Columbia, MD (hereafter Celsion) witnessed that:

WHEREAS, each party desires to enter into this Agreement for the benefits reasonably expected to be gained therefrom;

1. ProPharma will provide the service as described in the statement of work budget which is attached to this agreement as APPENDIX A, under the direction of the Division of Medical Oncology BCCA.

2. CELSION agrees to pay ProPharma for the performance of the work set forth in APPENDIX A provided that such costs will be in accord with the budget attached in APPENDIX A and provided that CELSION will not be obligated to pay ProPharma any sums in excess of $ # (US$), not including specified raw material costs and stability monitoring costs nor will ProPharma be obligated to incur costs in excess of the said sum without the written consent of both parties. It is agreed that the amount shown in the respective budget categories are estimates and that changes from item to item will be acceptable. CELSION will make an initial payment of $ # ($ # for GMP implementation, $ # for1/2of batch production costs and $ # for assay qualification) upon receipt of a fully executed copy of the agreement and CELSION will make a final payment of $ # plus additional raw material and other incidental direct costs for items such as shipping, requested testing, etc. (e.g. lipids) upon ProPharma competing the manufacturing production. CELSION agrees to make the final payment within thirty days of receipt of the final invoice providing that ProPharma has delivered the product manufactured according to GMP and all test records including, but not limited to, the following:

2.1. Batch Production Records (BPR) with all the data, printouts, etc. specified by the BPR.
2.2. All test data.
2.3. Raw material receiving and disposition records.
2.4. Sterilization records for equipment and supplies, stoppers, seals, vials.
2.5. Cleaning records for equipment, materials, supplies, stoppers, vials, seals and clean rooms.
2.6. Label manufacturing, testing, and release records.

ProPharma reserves the right to discontinue the work if CELSION fails to make payments tendered within the time herein specified.



3. If the number of final product vials delivered to CELSION by ProPharma falls below # % of theoretical batch yield (taking into account processing and dead volume losses) and the low yield is determined to be due to the performance of ProPharma personnel, the final payment will be adjusted by dividing the number of vials delivered by the number of vials representing # % theoretical yield and multiplying this factor times $ # or $ # for liposomes and alkalinizer, respectively.

4. CELSION will provide materials as described in Appendix B. ProPharma agrees not to use nor permit the use of these materials for its own purposes or for any other party through ProPharma. ProPharma will take all reasonable steps to ensure reasonable confidentiality of the documentation produced and proper handling and containment of the materials supplied in accordance with good manufacturing practice (GMP). Any materials or equipment purchased by CELSION that is in the possession of ProPharma will be returned to CELSION upon termination of the agreement.

5. Potential CELSION participation in Batch Production Services. Representatives of CELSION may attend at the ProPharam clean room facility under the supervision of a qualified clean room technician, GMP facility manager or clean room director to observe or perform processes involved in batch production activities. any such individuals will only be admitted to the clean room facility after having completed such training and having performed such other formalities as may be required by ProPharma pursuant to their Standard Operating Procedures. any such individuals shall at all times be subject to the direction and control of ProPharma regarding clean room occupation operations while in attendance at the clean room facility. Any CELSION equipment brought into the clean room facility must be pre-approved by ProPharma and shall at all times remain the property and responsibility of CELSION.

6. Indemnity by CELSION. CELSION shall indemnify and save harmless

ProPharma and the BC Cancer Agency and its directors, officers, employees, agents and invitees (collectively the "Indemnities") from and against any and all losses, costs, liabilities, expenses, claims, damages, actions, causes of action and obligations that the Indemnities or any of them may sustain, suffer, incur or be put to at any time either before or after the expiration or termination of this agreement, which arise out of, relate to or are caused directly or indirectly by:

a. the very presence of CELSION raw materials or final batched product at the clean room facility and related laboratories (aside from the services performed hereunder on such product);
b. the presence and activity of any CELSION representatives at the clean room facility;
c. the presence or operation of any CELSION equipment at the clean room facility; and
d. the transportation, distribution or use of any final batched product after it has been accepted by and becomes under the control of CELSION.

except that CELSION shall not have any obligations hereunder arising out of the negligence, misconduct or reckless acts or omissions of ProPharma or its agents, employees or contractors.

7. Limited Warranties. CELSION raw materials and final batch product remain at all time the property of CELSION and ProPharma makes no representations or warranties whatsoever either expressed or implied, oral or written, in fact or by operation of law, concerning the CELSION raw materials, the final batched product or its fitness for use (either before or after the performance of the services). ProPharma convenants to perform the services specified in Schedule A and to report on the results of those services (together with such quality testing results specified in Schedule B). ProPharma shall have no responsibility for determining whether the services contracted for will or will not achieve any intended compliance, result or purpose on the part of CELSION except for those responsibilities specified in Appendix A. Under no circumstances will ProPharma be responsible to CELSION with respect to any indirect, economic or consequential loss or damage. The performance of the services hereunder shall not be interpreted in any manner as any approval of any product or protocal design.

8. Batching and test results from work performed under this Agreement shall be delivered by ProPharma to CELSION upon completion of the batch production. The documentation will become the property of CELSION: however, ProPharma shall have the right to retain and use copies of said documentation as required for GMP compliance.

9. This agreement constitutes the entire understanding between the parties. No other terms and conditions, be they consistent, inconsistent, or additional to those contained herein, shall be binding upon ProPharma, unless and until such terms and conditions have been specifically accepted in writing by ProPharma.

10. Arbitration. IN the event of any controversy or claim arising out of or relating to any provision of this Agreement, or the breach thereof, CELSION and ProPharma shall attempt to settle such conflicts amicably between themselves. Any conflict that the parties are unable to resolve shall be submitted to arbitration pursuant to the Commercial Arbitration Act (British Columbia). Submission to arbitration shall be to a single independent arbitrator appointed by agreement of CELSION and ProPharma within ten days after written notice by either one of them to the other requesting the appointment of an arbitrator, failing which, the arbitrator may be appointed in the manner provided under section 17 of the Commercial Arbitration Act (British Columbia). The arbitrator agreed to or appointed shall have the appropriate technical expertise to consider and make a determination in respect of the issues submitted to arbitration. the arbitration shall take place in the city of Vancouver, British Columbia. Each party will bear its own costs of the arbitration. The costs of the arbitrator and related costs of the arbitration shall be apportioned equally between CELSION and ProPharma and determined by the arbitrator. The decisions of the arbitrator shall be final and binding upon the parties.

11. Notice is sufficiently given if it is mailed, postage paid and registered, addressed:

a. in the case of ProPharma, to
Dr. Lawrence D. Mayer
Director, ProPharma Pharmaceutical Clean Room
British Columbia Cancer Agency
600 West 10th Avenue

Vancouver, BC V5Z 4E6 Tel (604) 877-6000 local 3153 FAX (604) 877-6011

b. and, in the case of CELSION, to
Dr. Augustine Cheung
Celsion Corp.
10220-Suite 1
Old Columbia Road
Columbia, MD 21046-1705
Tel: 410-290-5390
Fax: 410-290-5394

12. This Agreement shall be governed and construed in accordance with the laws of British Columbia.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by those duly authorized officers this day and year first above written.

Dr. Lawrence Mayer
BCCA-ProPharma Pharmaceutical
Clean Room

Dr. Augustine Cheung
Chairman, Celsion Corp.

APPENDIX A

ProPharma Pharmaceutical Clean Room Batch Production Activities/Cost Analysis

Production of Lyso-Thermosensitive Liposomes and Alkalinizer

1. Assist with preparation of Master Production and Control Records: ProPharma personnel will assist PhotoVision in the preparation of master production records required for GMP compliance. These documents may include (but not be limited to) Quantitative Formula, Raw Materials, Supplies and Final Product Specifications and Master Batch Records.

2. Preparation of batch records: Batch production records will be drafted according to standard format utilized by ProPharma. the batch records will contain information on the quantitative formula; raw materials, supplies and equipment used for production; batching process and in process tests; batch reconciliation. Batch records will be reviewed by the Quality Assurance Officer of the BC Cancer Agency Investigational Drug Program.

3. Qualify vial, stopper and crimp supplies: Non-destructive measurements of vials, stoppers and crimp seals to be used for batch production will be made on 10% of all supply lots delivered to ProPharma and checked for compliance with supplier specifications.

4. Maintain materials and supply inventory: All materials and supplies used for the batch production will be handled through the Inventory Control system of the Investigational Drug Program at the BC Cancer Agency in compliance with GMP regulations regarding quarantine, release, use, storage conditions and associated documentation.

5. Maintenance of clean room: ProPharma personnel will ensure that all cleaning, preparation and monitoring of the pharmaceutical clean room is performed in accordance with GMP guidelines and that the clean room facility is operating within design specifications.

6. Preparation for batch production: ProPharma personnel will perform cleaning, sterilization and depyrogenation for all equipment and supplies used in the batch production. These activities will be documented and the documents will be attached to the batch records.

7. Batch production: For GMP batches of Lyso-thermosensitive liposomes and Sodium Carbonate alkalinizer, ProPharma will provide all conventional batching equipment and will ensure that the batch is produced under conditions complaint with GMP regulations for the preparation of sterile parenteral products. All necessary documents will also be maintained for GMP compliance.

8. Visual inspection and vial pulls: Vials will be 100% visually inspected by ProPharma personnel in compliance with GMP regulations and will be verified by the QA officer of the BC Cancer Agency Investigational Drug Program. The vials required for specification testing stability testing and QA retain will be taken at this time.

9. Labeling of vials: Labels for the vials will be provided by PhotoVision. Labels will be 100% inspected and placed onto vials.

10. Qualification of specification assays: Assays to be utilized to test the final products for compliance with specifications will be adapted and qualified for suitability with the products to be manufactured. Basic validation of specific assays such as lipid concentration and percent doxorubicin entrapment will be performed as necessary. Bacteriostasis and fungistasis validation of USP sterility tests will be performed at an external contract microbiology lab.

11. QC testing for release specifications: Liposome and alkalinizer batches will be tested for compliance with specifications such as lipid content, pH, liposome size, osmolality, and appearance. In addition, percent entrapment will be evaluated for the individual components constituted with doxorubicin according to standard procedures. Analysis report summaries will be provided to Celsion with notation of results in relationship to specifications.

12. Stability monitoring of GMP batches: Liposome and alkalinizer batches will be tested for compliance with specifications during extended storage at 4(degree)C. Timepoints will be according to GMP recommendations for establishing shelf life, namely 3, 6, 9, 12, 18 and 24 months. Analysis report summaries will be provided to Celsion with notation of results in relationship to specifications.

ACTIVITY/COST ANALYSIS FOR GMP FINAL DRUG PRODUCT PRODUCTION OF THERMOSENSITIVE LIPOSOMES AND ALKALINZATION AGENT

| ACTIVITY | COST (US$) |
|---|---|
| **GMP IMPLEMENTATION PHASE** | |
| 1. Master Production and Control Records (Incl. QC specs.) | $ # |
| 2. Batch Record preparation (Master and Production) | $ # |
| 3. Raw Material and Packaging Sourcing and spec. development | $ # |
| 4. Raw Material Qualification | $ # |
| 5. Packaging Qualification | $ # |
| Sub-Total for GMP Implementation | $ # |
| **GMP LIPOSOME BATCH PRODUCTION PHASE** | |
| 1. Materials and supplies (not incl. lipids): | $ # |
| 2. Preparation for and production of batch (Inc. QA): | $ # |
| 3. Vial inspection and pulls (incl. QA): | $ # |
| 4. Vial labeling (inc. QA) | $ # |
| Sub-Total for GMP Production Phase | $ # |
| **GMP ALKANIZER BATCH PRODUCTION PHASE** | |
| 5. Materials and supplies: | $ # |
| 6. Preparation for and production of batch (Inc. QA): | $ # |
| 7. Vial inspection and pulls (inc. QA): | $ # |
| 8. Vial labeling (incl. QA) | $ # |
| Sub-Total for GMP Production Phase | $ # |
| **QC ANALYTICAL ACTIVITIES** | |
| 1. Qualification of all QC spec. assays (incl. trapping efficiency): | $ # * |
| 2. QC testing for release of GMP batches (incl. USP sterility + pyro) | $ # |
| 3. Stability monitoring of GMP batches (3,6,9,12,18,24 months) timepoint | $ # |

*Does not include direct costs for sterility and pyrogenicity validation (cost approx. $ * )

# Confidential portions have been omitted and filed separately with the Commission.

APPENDIX B

ADDITIONAL RESPONSIBILITIES

1. Addition activities such as outside identity testing of raw materials, contracted microbiological monitoring and shipping costs will be billed at a rate of direct costs +25% processing and handling fee. Lipids purchased for the liposome batch will be billed at direct cost plus 15% processing and handling fee.

2. Results from QC analyses either for release or stability monitoring purposes will be reviewed by the IDP QA unit. The results will be summarized and presented in comparison to the product specifications. The IDP QC Officer will indicate whether to the best of our understanding whether the results are within acceptance criteria of the specifications. However, Celsion will be responsible for establishing whether the batches should be rejected or released for their intended use.

3. The IDP focuses on production and testing of GMP supplies intended for early stage Phase I and II) clinical trials, as well as preclinical and stability evaluation. The IDP will not be responsible for aspects of product, process or equipment validation that may be required for the use of batches in late stage clinical trials (pivotal Phase II and beyond). The site reference file for the IDP manufacturing and QC facility and procedures will be forwarded upon approval of this agreement to provide details on the procedures in place for GMP compliance at the IDP.

EXHIBIT 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

The Board of Directors
Celsion Corporation
Columbia, Maryland

We hereby consent to the inclusion of our report dated October 20, 2000 relating to the statements of financial condition of Celsion Corporation (the "Corporation") as of September 30, 2000 and 1999 and the related statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2000 in the Corporation's Form 10-K for the year ending September 30, 2000 to be filed with the Securities and Exchange Commission.

/s/ Stegman & Company

Stegman & Company

Baltimore, Maryland
December 20, 2000

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