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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 12b-25

Commission File Number

NOTIFICATION OF LATE FILING

(Check One): [X] Form 10-K [_] Form 11-K [_] Form 20-F [_] Form 10-Q
[_] Form N-SAR

For Period Ended: September 30, 1998

[_] Transition Report on Form 10-K

[_] Transition Report on Form 20-F

[_] Transition Report on Form 11-K

[_] Transition Report on Form 10-Q

[_] Transition Report on Form N-SAR

For the Transition Period Ended:

Read attached instruction sheet before preparing form. Please print or type.

Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the item(s) to which the notification relates:

PART I
REGISTRANT INFORMATION

Celsion Corporation
- --
Full Name of Registrant

Cheung Laboratories, Inc.
- --
Former Name if Applicable

10220-I Old Columbia Road
- --
Address of Principal Executive Office

Columbia, Maryland 21046-1705
- --
City, State and Zip Code

PART II
RULE 12b-25(b) AND (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate.)

| (a) The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;

[X] | (b) The subject annual report, semi-annual report, transition report on Form 10-K, Form 20-F, Form 11-K or Form N-SAR, or portion thereof will be filed on or before the 15th calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q, or portion thereof will be filed on or before the fifth calendar day following the prescribed due date; and

| (c) The accountant's statement or other exhibit required by Rule
| 12b-25(c) has been attached if applicable.

PART III
NARRATIVE

State below in reasonable detail why the Form 10-K, 11-K, 20-F 10-Q, N-SAR or the transition report portion thereof could not be filed within the prescribed time period. (Attach extra sheets if needed.)

Management's review of the draft Form 10-K immediately prior to its anticipated filing date prompted revisions to ensure accuracy of narrative and financial statement disclosure. In addition, the need to circulate revised drafts of the Form 10-K and to obtain comments thereto from numerous parties during the holiday season required additional time.

PART IV
OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this notification

John Mon, Secretary/Treasurer	410-290-5390
(Name)	(Area Code) (Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If the answer is no, identify report(s).

[X] Yes [_] No

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof?

[X] Yes [_] No

If so: attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

Celsion Corporation
- --
(Name of Registrant as Specified in Charter)

Has caused this notification to be signed on its behalf by the undersigned thereunto duly authorized.

Date December 29, 1998 By /s/ John Mon
--------------------- ------------------------------
John Mon, Secretary/Treasurer

INSTRUCTION: The form may be signed by an executive officer of the registrant or by any other duly authorized representative. The name and title of the person signing the form shall be typed or printed beneath the signature. If the statement is signed on behalf of the registrant by an authorized representative (other than an executive officer), evidence of the representative's authority to sign on behalf of the registrant shall be filed with the form.

ATTENTION

Intentional misstatements or omissions of fact constitute Federal Criminal Violations (see 18 U.S.C. 1001).

GENERAL INSTRUCTIONS

1. This form is required by Rule 12b-25 of the General Rules and Regulations under the Securities Exchange Act of 1934.

2. One signed original and four conformed copies of this form and amendments thereto must be completed and filed with the Securities and Exchange Commission, Washington, D.C. 20549, in accordance with Rule 0-3 of the General Rules and Regulations under the Act. The information contained in or filed with 3the form will be made a matter of public record in the Commission files.

3. A manually signed copy of the form and amendments thereto shall be filed with each national securities exchange on which any class of securities of the registrant is registered.

4. Amendments to the notifications must also be filed on Form 12b-25 but need not restate information that has been correctly furnished. The form shall be clearly identified as an amended notification.

5. ELECTRONIC FILERS. This form shall not be used by electronic filers unable to timely file a report solely due to electronic difficulties. Filers unable to submit a report within the time period prescribed due to difficulties in electronic filing should comply with either Rule 201 or Rule 202 of Regulation S-T or apply for an adjustment in filing date pursuant to Rule 13(b) of Regulation S-T.

CELSION CORPORATION

REPORT ON AUDITS OF
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 1998, 1997 AND 1996

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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, 1998 and 1997, and the related statements of operations, changes in stockholders' deficit, and cash flows for each of the three years in the period ended September 30, 1998. 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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1998 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 of the financial statements, the Company has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Stegman & Co.

Baltimore, Maryland
November 18, 1998

CELSION CORPORATION

BALANCE SHEETS
SEPTEMBER 30, 1998 AND 1997

ASSETS

	1998	1997
CURRENT ASSETS:		
Cash	$ 54,920	$267,353
Accounts receivable	1,812	5,891
Inventories	42,059	329,741
Prepaid expenses	76,944	8,207
Other current assets	--	26,755
Total current assets	175,735	637,947
PROPERTY AND EQUIPMENT - at cost:		
Furniture and office equipment	195,794	180,348
Laboratory and shop equipment	47,048	92,228
	242,842	272,576
Less accumulated depreciation	212,029	213,885
Net value of property and equipment	30,813	58,691
OTHER ASSETS:		
Patent licenses (net of accumulated amortization of $ 65,760 and $53,379 in 1998 and 1997, respectively)	124,190	126,571
TOTAL ASSETS	$330,738	$823,209

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' DEFICIT

	1998	1997
CURRENT LIABILITIES:		
Accounts payable - trade	$ 1,034,767	$ 614,173
Notes payable - other	132,778	1,481,831
Notes payable - related parties	146,041	221,943
Accrued interest payable - related parties	150,020	245,784
Accrued interest payable - other	127,538	116,604
Accrued compensation	470,220	331,715
Accrued professional fees	100,000	256,301
Other accrued liabilities	13,639	15,504
Capital lease - current	1,083	--
Total current liabilities	2,176,086	3,283,855
LONG-TERM LIABILITIES:		
Capital lease - long-term	5,719	--
Total liabilities	2,181,805	3,283,855
STOCKHOLDERS' DEFICIT:		
Capital stock - $.01 par value; 51,000,000 shares authorized, 39,945,826 and 29,095,333 issued and outstanding for 1998 and 1997, respectively	399,458	290,953
Additional paid-in capital	17,213,485	12,511,923
Accumulated deficit	(19,464,010)	(15,263,522)
Total stockholders' deficit	(1,851,067)	(2,460,646)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 330,738	$ 823,209

CELSION CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

	1998	1997	1996
REVENUES:			
Equipment sales and parts	$ 174,182	$ 121,257	$ 134,006
Returns and allowances	--	--	(60,000)
Total revenues	174,182	121,257	74,006
COST OF SALES	136,500	46,734	64,406
GROSS PROFIT	37,682	74,523	9,600
OPERATING EXPENSES:			
Selling, general and administrative	2,515,822	2,283,245	1,321,361
Research and development	1,534,872	185,974	94,012
Total operating expenses	4,050,694	2,469,219	1,415,373
LOSS FROM OPERATIONS	(4,013,012)	(2,394,696)	(1,405,773)
LOSS ON COSMETICS DIVISION	--	--	(471,000)
LOSS ON FUNDS HELD IN INVESTMENT CONTRACT	--	(40,000)	--
LOSS ON WRITE-OFF OF ARDEX EQUIPMENT, L.L.C. NOTES RECEIVABLE AND RELATED ACCRUED INTEREST RECEIVABLE	--	(438,803)	--
OTHER INCOME	11,870	7,172	28,808
INTEREST EXPENSE	(199,346)	(185,562)	(85,506)
LOSS BEFORE INCOME TAXES	(4,200,488)	(3,051,889)	(1,933,471)
INCOME TAXES	--	--	--
NET LOSS	$ (4,200,488)	$ (3,051,889)	$ (1,933,471)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (.12)	$ (.11)	$ (.05)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	34,867,001	28,386,145	39,499,650

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deficit	Total
Balances at October 1, 1995	39,207,664	$ 392,076	$ 18,014,854	$(10,278,162)	$ 8,128,768
Sale of common stock	1,299,711	12,997	406,513	--	419,510
Issuance of 698,985 shares of common stock as payment of indebtedness and expenses	698,985	6,990	134,077	--	141,067
Net loss	--	--	--	(1,933,471)	(1,933,471)
Balances at September 30, 1996	41,206,360	412,063	18,555,444	(12,211,633)	6,755,874
Sale of common stock	1,409,902	14,099	668,901	--	683,000
Issuance of 2,479,071 shares of common stock as payment of indebtedness and expenses	2,479,071	24,791	1,127,578	--	1,152,369
Retirement of shares	(16,000,000)	(160,000)	(7,840,000)	--	(8,000,000)
Net loss	--	--	--	(3,051,889)	(3,051,889)
Balances at September 30, 1997	29,095,333	290,953	12,511,923	(15,263,522)	(2,460,646)
Sale of common stock	4,315,000	43,150	1,981,850	--	2,025,000
Issurance of 6,535,493 shares of common stock as payment of indebtedness and expenses	6,535,493	65,355	2,719,712	--	2,785,067
Net loss	--	--	--	(4,200,488)	(4,200,488)
Balance at September 30, 1998	39,945,826	$ 399,458	$ 17,213,485	$(19,464,010)	$ (1,851,067)

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(4,200,488)	$(3,051,889)	$(1,933,471)
Noncash items included in net loss:			
Funds held under investment contract used for cosmetic division expenses	--	40,000	471,000
Depreciation and amortization	24,291	24,169	18,545
Bad debt expense	--	120,865	51,397
Loss on disposal of property and equipment	45,180	--	--
Gain on disposition of investment in Ardex Equipment, L.L.C	--	--	(17,009)
Write-off of obsolete inventory	287,682	--	--
Write-off of Ardex Equipment - note receivable and accrued interest	--	438,803	--
Common stock issued for operating expenses	796,745	297,542	9,000
Net changes in:			
Accounts receivable	4,079	(2,421)	(68,631)
Inventories	--	(58,789)	45,327
Accrued interest receivable - related parties	--	(33,470)	(5,333)
Prepaid expenses	5,430	(6,538)	6,000
Other current assets	10,085	--	(1,204)
Accounts payable and accrued interest payable	903,900	837,172	25,445
Accrued compensation	168,732	145,256	(166,039)
Accrued professional fees	(156,300)	179,950	74,852
Other accrued liabilities	(1,865)	(85,401)	27,533
Net cash used in operating activities	(2,112,529)	(1,154,751)	(1,462,588)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Rescission of investment in Ardex Equipment, L.L.C	--	--	100,000
Purchases of patent licenses	(10,000)	--	(100,000)
Purchase of property and equipment	(21,935)	(3,807)	(10,256)
Funds returned - investment contract	--	--	139,000
Net cash (used) provided by investing activities	(31,935)	(3,807)	128,744
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable	50,000	615,000	1,205,000
Payment on notes payable - related parties	(63,240)	(24,020)	(48,973)
Payment on notes payable - other	(79,254)	(95,000)	(2,000)
Payment on capital lease obligation	(475)	--	--
Proceeds of stock issuances	2,025,000	683,000	419,510
Net cash provided by financing activities	1,932,031	1,178,980	1,573,537
NET (DECREASE) INCREASE IN CASH	(212,433)	20,422	239,693
CASH AT BEGINNING OF YEAR	267,353	246,931	7,238
CASH AT END OF YEAR	$ 54,920	$ 267,353	$ 246,931

Celsion Corporation

Statements of Cash Flows (Continued)
For the Years Ended September 30, 1998, 1997 and 1996

	1998	1997	1996
Schedule of noncash investing and financing transactions:			
Acquisition and rescission of a 9.5% interest in the Aestar Fine Chemical Company in exchange for 16,000,000 shares of common stock	$ --	$ (8,000,000)	$ --
Conversion of accounts payable, debt and accrued interest payable through issuance of common stock	$ 1,988,322	$ 854,826	$ 132,067
Equipment repossessed for internal use	$ --	$ 30,000	$ --
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	$ --	$ 25,223
Offset of accounts receivable	(16,670)	--	(25,223)
Net cash paid	$ --	$ --	$ --
Rescission of investment in Ardex Equipment, L.L.C. in exchange for notes receivable	$ --	$ --	$ 400,000
Cash paid during the year for:			
Interest	$ 103,470	$ --	$ 45,000
Income taxes	$ --	$ --	$ --

See accompanying notes.

CELSION CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

1. DESCRIPTION OF BUSINESS

Celsion Corporation (the "Company") is in the business of developing thermotherapy products for medical applications.

2. GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. However, the Company has sustained substantial operating losses in recent years and has used substantial amounts of working capital in its operations. Further, at September 30, 1998, current liabilities exceed current assets by $2,000,351. The continued operation of the Company is dependent upon its ability to obtain funding necessary to complete clinical trials of its products. Management continues to attempt to obtain funding through both private and public offerings. The realization of the majority of the Company's assets is dependent upon the success of these offerings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 five years. Major renewals and betterments are capitalized at cost and ordinary repairs and maintenance are charged against operations as incurred.

Patent Licenses

The Company has purchased several licenses to use the rights to patented technologies. Patent licenses 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.

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 Institutions

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.

New Accounting Pronouncements

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123), which was effective for the Company's year ended September 30, 1997. SFAS No. 123 allows companies either to continue to account for stock-based employee compensation plans under existing accounting standards or to adopt a fair value based method of accounting as defined in the new standard. The Company will follow the existing accounting standards for these plans, and has provided pro forma disclosure of net income and earnings per share as if the expense provisions of SFAS No. 123 had been adopted. Implementation of SFAS No. 123 did not have a material impact on results of operations or financial condition.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS No. 128), which establishes new standards for computing and presenting earnings per share. SFAS No. 128 is effective for the Company's September 30, 1998 financial statements, including restatement of interim periods; earlier application was not permitted. The effect of the new standard did not have a material impact on previously reported earnings per share.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130), which establishes standards for reporting and displaying comprehensive income and its components. SFAS No. 130 requires comprehensive income and its components, as recognized under the accounting standards, to be displayed in a financial statement with the same prominence as other financial statements. The Company has adopted the standard, as required, in the fiscal year ended September 30, 1998. The Company had no items of comprehensive income for the three years ended September 30, 1998.

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131), also issued in June 1997, establishes new standards for reporting information about operating segments in annul and interim financial statements. The standard also requires descriptive information about the way the operating segments are determined, the products and services provided by the segments, and the nature of differences between reportable segment measurements and those used for the consolidated enterprise. This standard is effective for years beginning after December 15, 1997. Adoption in interim financial statements is not required until the year after initial adoption, however, comparative prior period information is required. The Company is evaluating the standard and plans adoption as required in 1999; adoption of this disclosure requirement will not have a material impact on the Company's results of operations or financial position.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	1998	1997
Trade receivables	$1,812	$4,431
Related party receivables:		
Microfocus	--	1,460
	$1,812	$5,891

5. INVENTORIES

Inventories are comprised of the following at September 30:

	1998	1997
Materials	$ 5,059	$235,748
Work-in-process	--	16,990
Finished products	37,000	77,003
	$ 42,059	$329,741

During the year ended September 30, 1998, management completed a thorough review of all its components inventory. Based on this review, management wrote off as obsolete a substantial portion of its inventory. This write off, totaling $287,682, is included in operating expenses for the year ended September 30, 1998.

6. RELATED PARTY TRANSACTIONS

Notes Payable - Related Parties

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

	1998	1997
Term note payable to an officer and stockholder of the Company, accruing interest at 10% per annum	$ --	$ 28,650
Term notes payable to an officer and stockholder of the Company, accruing interest at 12% per annum	--	68,750
Demand note payable to relative of an officer and stockholder of the Company, accruing interest at 12% per annum	36,041	36,041
Demand note payable to related party of remainder of funds borrowed for discontinued project, note bears interest at 12% per annum	--	28,502
Term notes payable to interested parties of the Company accruing interest at 12% per annum	10,000	10,000
Term note payable to an officer and stockholder of the Company accruing interest at 8% per annum	50,000	--
Term note payable to stockholder of the Company accruing interest at 10% per annum payable in monthly payments of $2,000 for 25 months The note is secured by all accounts receivable and general intangibles of the Company	50,000	50,000
	146,041	221,943
Less current portion	146,041	221,943
Long-term portion - due in 1998	$ --	$ --

Accrued interest payable on these notes amounted to $150,020 and $245,784 at September 30, 1998 and 1997, 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. Ultimately all shares become fully vested, provided that the CEO remains with the Company through the term of the contract. The total amount charged to compensation expense for 1998 and 1997 under this plan was $699,375 and $280,000, respectively.

7. NOTES PAYABLE - OTHER

Notes payable - other consist of the following as of September 30:

	1998	1997
Senior secured convertible notes, resulting from private placement offerings in July 1996 and June 1997, accruing interest at 8% per annum. The notes are secured by the Company's common stock held by an executive officer. The notes matured December 31, 1997.	$ -	$1,169,800
Term note with interest accruing at 24% per annum, compounded monthly. The note matured April 30, 1996.	114,778	112,031
Term note with accrued interest payable each month at 12% per annum. The note is secured by inventory and property. The note matured December 18, 1997.	18,000	200,000
	$132,778	$1,481,831

Accrued interest payable on these notes amounted to $127,538 and $116,604 at September 30, 1998 and 1997, respectively.

8. 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.

9. INVESTMENT IN AESTAR FINE CHEMICAL COMPANY - AT COST

During 1995, the Company acquired a 9.5% equity interest in Aestar Fine Chemical Company (Aestar) in exchange for 16,000,000 shares of its common stock. The investment was carried at cost, as measured by the $.50 per share fair market value of the 16,000,000 shares of the Company's common stock. The Company has subsequently rescinded this investment during the year ended September 30, 1997.

10. INVESTMENT IN ARDEX EQUIPMENT, L.L.C. - AT EQUITY

The Company purchased a 19.25% equity interest in Ardex Equipment, L.L.C. (Ardex) in 1995. The investment was carried at cost, adjusted for the Company's proportionate share of Ardex's loss from the purchase date through September 30, 1995. During 1996, the Company rescinded its investment in Ardex, the effects of which are reflected in these financial statements.

11. LOSS ON COSMETICS DIVISION

During 1995, the Company issued 20,000,000 shares of common stock to an investor which enabled the investor to obtain a majority interest in the Company by recapitalizing the Company through this investment of $2,000,000 in cash and an $8,000,000 interest in a foreign corporation. In connection with this recapitalization, the Company agreed to the initiation of the development of a cosmetics division and to the investment of excess funds in an investment contract. During the year ended September 30, 1996, this agreement was rescinded and the Company recognized a loss on the cosmetics division in the amount of $471,000. Additionally as a result of the recision agreement, the balance of the investment contract of $40,000 was written-off in the year ended September 30, 1997.

12. INCOME TAXES

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

	1998	1997	1996
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, 1998, the Company had net operating loss carryforwards of approximately $18,000,000 for federal income tax purposes that are available to offset future taxable income through the year 2018.

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

	1998	1997
Net operating loss carryforwards	$6,952,000	$5,330,000
Valuation allowance	(6,952,000)	(5,330,000)
	$ -	$ -

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.

13. COMMON STOCK

During the year ended September 30, 1998, the Company issued 4,315,000 shares of common stock for $2,025,000, 5,274,961 shares were issued to extinguish debt, and 1,260,532 shares were issued as payment for various operating expenses.

During the year ended September 30, 1997, the Company issued 1,409,902 shares of common stock for $683,000, 1,317,143 shares were issued to extinguish debt, and 1,161,828 shares were issued as payment for various operating expenses. Additionally, the Company retired 16,000,000 shares of common stock in connection with the rescission in its investment in Aestar.

During the year ended September 30, 1996, the Company issued 1,299,711 shares of common stock for $419,510, 689,985 shares were issued to extinguish debt, and 9,000 shares were issued as payments for various operating expenses.

14. 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 immediately exercisable.

A summary of the Company's stock option activity and related information for the years ended September 30, 1998 and 1997 is as follows:

	1998		1997	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	3,565,000	$.38	3,050,000	$.34
Granted	-	.00	515,000	.61
Exercised	(125,000)	.45	-	.00
Expired/canceled	(695,000)	.25	-	.00
Outstanding at end of year	2,745,000	$.41	3,565,000	$.38

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

	1998		1997	
	Common Stock Warrants	Weighted Average Exercise Price	Common Stock Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	3,276,818	$.35	2,218,035	$.29
Issued	4,582,165	.52	1,058,783	.48
Outstanding at end of year	7,858,983	$.45	3,276,818	$.35

The following summarizes information about options and warrants at September 30, 1998:

	Options/Warrants Outstanding			Options/Warrants Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$0.22 - $3.00	10,603,982	3.77 years	$.44	7,060,731	$.41

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, 1998. 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 1998 and 1997: risk-free interest rate of 5.75% and 6.5% for 1998 and 1997, 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 of prescribed by SFAS No. 123, net loss and loss per share would have been changed to the pro forma amounts as follows:

	1998	1997	1996
Net loss	$(5,272,699)	$(3,476,159)	$(2,708,362)
Net loss per common share - basic	(.12)	(.12)	(.07)

15. COMMITMENTS AND CONTINGENCIES

Potential Liability and Insurance

In the normal course of business, the Company may be subject to warranty and product liability claims on its hyperthermia equipment. Currently, the Company does not have a product liability insurance policy in effect although management does anticipate obtaining such coverage when adequate financial resources are available. The assertion of any product liability claim against the Company, therefore, may have an adverse effect on its financial condition. As of September 30, 1998, no product, warranty claims or other liabilities against the Company have been asserted.

Warranty Reserve

The Company warrants its hyperthermia units to be free from defects in material and workmanship under normal use and service for the period of one year from the date of shipment. Claims have been confined to basic repairs. Given the one year limitation of the warranty, management has elected to not set up a warranty reserve but, instead, to expense repairs as costs are incurred.

16. OTHER BUSINESS VENTURES - TERMINATION OF PURCHASE OPTION

On April 26, 1995, the Company entered into an agreement to purchase a 50% interest in the United Aerosol and Home Products Company, LTD ("Unisol"), located in Zhongshan, China. Unisol is a specialty chemical and fine chemical aerosol packaging and bottle/can filling business. The purchase price was to be 20% of the appraised value of Unisol equipment, payable in the Company's common stock at the close of business on April 26, 1996. This agreement was terminated during the year ended September 30, 1997.

17. LEASE OBLIGATIONS

During the year ended September 30, 1997, the Company has entered into a 3-year lease for their facilities in Columbia, Maryland. Future minimum lease obligations are as follows:

1999	$ 69,131
2000	55,877

	$125,008
	=========

Total amounts charged to rent expense for 1998, 1997 and 1996 were $75,018, $64,594 and $55,982, respectively.