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, 2001

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 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 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 December 20, 2001, 85,292,249 shares of the Registrant's Common Stock were issued and outstanding. As of December 20, 2001, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $45,901,693, 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 Registrant's Definitive Proxy Statement to be filed in connection with the Annual Meeting of Stockholders to be held on February 15, 2002, are incorporated by this reference into Part III hereof, as indicated herein.

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.

BPH TREATMENT SYSTEM

Benign Prostatic Hyperplasia

Millions of aging men experience symptoms resulting from benign prostatic hyperplasia, or BPH, a non-cancerous urological disease in which the prostate enlarges and constricts the urethra. 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

As BPH is an age-related disorder, its incidence increases with maturation of the population. Industry estimates suggest that more than 9 million men in the United States experience BPH symptoms and that more than 26 million men are affected by BPH worldwide. As the United States population continues to age the prevalence of BPH can be expected to 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 with a telescopic knife, 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. In the first instance, TURP generally requires from one to three days of post-operative hospitalization. In addition, a significant percentage of patients who undergo TURP encounter significant complications, which can include painful urination, infection, retrograde ejaculation, 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, or the costs related to adverse effects on patients' quality of life.

Other, less radical, surgical procedures, generally categorized as "minimally invasive" ("MI") therapies, are available as alternatives to the TURP procedure. The primary MI treatments use

microwave heating ("TUMT") to treat BPH by incinerating the obstructing portion of the prostate. TUMT involves sedation, catheterization and high levels of heat to incinerate a portion of the prostate. Two other MI therapies--interstitial RF therapy and laser therapy--employ, respectively, concentrated radio frequency (RF) waves or laser radiation to reduce prostate swelling by cauterizing tissue instead of removing it 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 than 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. In fact, studies have shown that 45% of patients who begin drug therapy for BPH drop out within the first year, primarily due to the ineffectiveness of currently available drug therapies. 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 -- "Microwave Uretheroplasty" - -- that combines our microwave thermotherapy capability with a proprietary balloon compression technology licensed from MMTC, Inc. The system consists of a microwave generator and conductors and a computer and computer software programs that control the focusing and application of heat, plus a specially designed balloon catheter and consists of two fundamental elements:

- Celsion's proprietary catheter, incorporating a balloon enlargement device, delivers computer-controlled transurethral microwave heating directly to the prostate at temperatures greater than 44(degrees) C (111(degrees) F).

- Simultaneously, the balloon inflates the device and expands to press the walls of the urethra from the inside outward as the surrounding prostate tissue is heated.

The combined effect of this "heat plus compression" therapy is twofold: first, the heat denatures the proteins in the wall of the urethra, causing a stiffening of the opening created by the inflated balloon. Second, the heat serves effectively to kill off prostate cells outside the wall of the urethra, thereby creating sufficient space for the enlarged natural opening.

The following schematic illustrates the Celsion technology:

[GRAPHIC]

| 1 - PROSTATE WITH BLOCKAGE | 2 - CELSION CATHETER | 3 - BALLOON EXPANDED | 4 - URETHRA RE-OPENED |
|---|---|---|---|

Pre-clinical 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(degrees) C to 45(degrees) 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.

Celsion's investigational minimally invasive Microwave Uretheroplasty treatment system is designed to overcome the limitations of all three of the current treatment systems. It is designed to be a relatively painless, rapid procedure that delivers the efficacy of surgical treatments without significant risks and the potential for life-altering side effects. The potential benefits of the Microwave Uretheroplasty system include walk-in, outpatient treatment that can be completed in less than an hour; no required sedation; generally no post-operative catheterization; and rapid symptomatic relief from BPH.

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. The FDA approved an Investigational Device Exemption, or 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 premarketing approval (PMA) for commercialization. All 160 patients required to be treated under the Phase II trial were treated as of November 29, 2001 and, as of that date, we submitted the first two of three required modules to the FDA in support of the PMA. We expect to submit the last module, consisting of clinical data, during the second quarter of 2002. 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 during the summer of 2002.

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 that would deliver symptomatic relief and an increase in urinary flow rates promptly after the procedure is completed.

BREAST CANCER TREATMENT SYSTEM

Prevalence of Breast Cancer

Breast cancer is one of the leading causes of death among women in the United States. 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 the United States in each of the years from 1995 through 1999.

Current Treatment for Breast Cancer

Breast 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.

In addition, 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.

Heat Therapy in Conjunction with Radiation; First Generation Celsion Equipment

In 1989, we obtained FDA premarketing approval for our microwave-based Microfocus 1000 heat therapy equipment 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 the Massachusetts Institute of Technology, or 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 thereafter we have concentrated 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.

Second Generation 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 pre-clinical 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(degrees) C (115(degrees) F) 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 pre-clinical data from Massachusetts General, the FDA granted Celsion a supplemental premarketing 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.

In January 1999, we received an 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 using our breast cancer equipment at Columbia Hospital in West Palm Beach, Florida, and at Harbor UCLA Medical Center in Torrance, California. 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.

The Phase II trials consist of two protocols--the first is designed to ablate (kill) small breast tumors using heat alone and the second is designed to downsize large breast cancer tumors using a combination of heat and chemotherapy, thus allowing a surgeon to perform a lumpectomy rather than a mastectomy, thereby preserving the affected breast. These trials are currently under way at Columbia Hospital, in Florida, Harbor UCLA in California and Halle Martin Luther Breast Center in Halle, Germany. We expect to add additional sites, both within the United States and in Europe, during the first quarter of 2002 and currently anticipate that we will complete the Phase II trials by the end of calendar year 2002. If the Phase II trials are successful, we expect to apply for the addition of a new indication of use to the existing FDA premarketing 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 anticipated, we expect to begin marketing this breast cancer system before the end of 2003.

THERMO-LIPOSOMES; DUKE UNIVERSITY TECHNOLOGY

Background

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.

Development of Thermo-Sensitive Liposomes

A team of Duke University scientists has developed heat-sensitive liposomes comprised of materials that rapidly change porosity when heated to a specific point. 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 was 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, and we are the exclusive licensee of Duke University's heat-activated liposome technology.

Celsion's focused microwave equipment is used to provide minimally invasive heating of cancerous tumors to trigger heat-activated liposomes within the tumors. The heat-activated liposomes, which encapsulate chemotherapeutic agents, are injected into the bloodstream where they remain encapsulated until they release their drug payload inside the heated tumor. In preliminary tumor growth delay studies conducted at Duke University, tumor-bearing mice received a single intravenous injection of the liposome with a 5mg per kilogram Doxorubicin concentration. This was immediately followed by heating of the tumor to 42(degrees) C (108(degrees) F) for one hour. The result of the study was a complete disappearance of the tumors in 11 out of 11 mice. These animals remained disease free through 60 days of the study.

In November 2001, we completed large animal toxicity studies involving our Doxorubicin-laden thermo-liposome at the Roswell Park Cancer Institute, a cancer research organization in Buffalo, New York. We expect to apply to the Food and Drug Administration for an IND for the use of this liposome in the treatment of prostate cancer using our Microfocus equipment as the means of heat activation during the first quarter of calendar year 2002, and to move forward with Phase I clinical trials thereafter.

In addition, in January 2001, we entered into a Material Transfer Agreement, or MTA, with the National Cancer Institute, or NCI, under which we will supply heat-activated liposomes to enable the NCI to conduct clinical trials on liver cancer. NCI will use an RF heating device to isolate the tumors and to heat the liver, activating Celsion's heat-activated liposomes to kill peripheral cancer cells. Liver cancer has yet to be successfully treated with existing treatment modalities.

Celsion and Duke University are pursuing further development work and pre-clinical 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.

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, subsequently renewed for six-month periods, under which Celsion has the right, for a period of six months thereafter,

to negotiate an exclusive license for this technology.

Production of Heat-Sensitive Liposomes

We have established a relationship with Celator Corporation of Vancouver, Canada to provide Quality System Regulation, or QSR (formerly Good Manufacturing Practices, or GMP), production of our heat-activated liposome for our recently-completed large animal toxicity studies and our planned Phase I clinical study in humans. Celator is a leading drug formulation and discovery company that specializes in liposome drug development. Celsion will require a large-scale liposome manufacturer at such time as it reaches Phase II clinical trials and beyond. Toward that end, it has initiated discussions with a major Japanese liposome manufacturer for large-scale production of the Doxorubicin-based heat-activated liposome.

SLOAN-KETTERING / CELSION HEAT-ACTIVATED GENE THERAPY COMPOUNDS

Background

Cancer cells have the ability to repair themselves after radiation or chemotherapy. Thus, patients require repeated treatments to destroy substantially all of the cancer cells. Celsion has licensed from Sloan-Kettering Cancer Center, a biomedical innovation that promises significant improvements in cancer therapy. Sloan-Kettering has developed biological modifiers that inhibit cancer cells' ability to repair themselves. Activated by focused heat, this Cancer Repair Inhibitor, or CRI, temporarily disables the repair mechanism of cancer cells, making it possible to significantly reduce the number of radiation/chemotherapy treatments and/or lower the treatment dosage.

A standard approach to treating cancer is radiation therapy combined with chemotherapy. High doses of radiation kill cancer cells or keep them from dividing, but produce chronic or acute side effects, including fatigue, neutropenia, anemia and leukopenia. Also, depending on the location of the tumor, other acute side effects may occur, including diarrhea, allopecia and various foreign ulcers. Chemotherapy presents comparable or more serious side effects.

Oncologists are seeking ways to mitigate these side effects. In radiation therapy, these include hyperfractionated radiation, intra-operative radiation, three-dimensional radiation, stereotactic radiosurgery and the use of radio-labeled monoclonal antibodies and radio sensitizers. CRI falls into this latter category because it "sensitizes" a cancer cell for treatment by making it more susceptible to DNA damaging agents such as heat, chemicals or radiation. A product of advances in our understanding of the biology of cancer, CRI is one of a new class of "biologics" that are expected to become part of the cancer treatment protocol.

The Celsion Technology--CRI Plus Focused Heat

CRI can be activated in tumors by minimally invasive focused heat in the range of 41(degrees) C (106(degrees) F). This focused heat may be generated by Celsion's Adaptive Phased Array microwave technology, which provides deep heating without damage to surrounding healthy tissue. Having increased the susceptibility of cancer cells to DNA-damaging agents, radiation and chemotherapy treatment may then be administered with less frequency and/or at lower doses than currently is possible. CRI would then deactivate and the patient would resume normal post-treatment care.

In September 2001, scientists at Sloan-Kettering successfully completed pre-clinical laboratory feasibility demonstrations to assess safety and biological activity of CRI. A small animal feasibility

study, at Sloan-Kettering's Good Laboratory Practice (GLP) facility is expected to yield additional data during December 2001 to assist in drug formulation. Further studies with large animals to assess toxicity effects are expected to be conducted during 2002 and 2003. Based on the current development timeline, we expect to file an IND application with the Food and Drug Administration by the end of calendar year 2003 and anticipate that we will be in a position to commence Phase I clinical (human) trials before the end of calendar year 2004. At such time as we determine safety and dosage in our preliminary studies, we expect to form partnership(s) with one or more drug companies to scale-up manufacturing and marketing for larger pivotal studies

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

### OVERVIEW AND GOALS

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
  - complete the clinical testing and commercialization of our BPH treatment system;
  - complete the development, testing, and commercialization of our second generation technology for the eradication of cancerous breast tumors; 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
  - 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.

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.

BPH TREATMENT SYSTEM

We intend to market our BPH treatment system by marketing to the constituencies critical to its success. In particular, we intend to target the approximately 2 million readily identified BPH sufferers currently employing drug therapies, as well as the estimated 7 million United States men afflicted with BPH who have not, as yet, sought treatment--the "watchful waiters"--with a focused message designed to encourage these anxious BPH sufferers to take advantage of a solution that will relieve their symptoms and help to restore the quality of their lives. We expect that this marketing effort will include the following elements:

- Reimbursement: We have established reimbursement under the TUMT reimbursement code for Medicare patients participating in our Phase II clinical trials. Based on this precedent, we expect that our BPH treatment will be covered in a like manner by private insurers.

- Key Constituencies:

    - Urology Practices. We expect first to target large urology practices, starting with the large practices participating in our Phase II trial. We intend to place our Microwave Uretheroplasty equipment in urologists' offices with no up-front capital cost to the physicians. The urologists will pay Celsion for each procedure performed using the equipment and, additionally, will purchase a unique disposable catheter from Celsion for each treatment. We believe that urology practices have experienced a loss of revenue to primary care physicians as a result of new drug therapies introduced to treat BPH and other urological disorders and that urologists will be favorably disposed toward its Microwave Uretheroplasty system, which could offer them a significant new revenue source.

    - Consumers. We also expect to target BPH sufferers through aggressive use of promotional and advertising media. Due to the specificity of our target patient audience (males 50 years and older) and the geographic concentration of retirees, we expect to employ specific media in well defined and discrete markets to generate a high level of awareness of the availability of, and interest in, our treatment system. We also expect to utilize the Internet and other electronic methods to direct prospective patients to urology offices equipped to perform our Microwave Uretheroplasty procedure.

- Primary Care Physicians. We have designed our marketing approach to enable us to bypass primary care physicians, whom we believe to be the most significant barrier to the success of our BPH treatment system. Generally, under current managed care protocols, a patient must first visit his primary care physician who, after reviewing the patient's symptoms, may either treat him or refer him to a specialist. With increasing availability of drug therapies to treat urological disorders, the number of referrals to urologists has been declining. We intend to ensure that BPH sufferers are aware of our Microwave Uretheroplasty treatment system so that they are in a position to insist that they be referred to a urologist to obtain treatment.

We expect to establish a direct sales force to market our Microwave Uretheroplasty treatment system in the United States. Consistent with our marketing plan, this sales force will target leading urologists, hospitals and HMOs on a nationwide basis. We are in discussions with medical device organizations for distribution of our treatment system in Asian markets and expect to enter into definitive Asian distribution arrangements during calendar year 2002.

## LICENSE AGREEMENTS AND PROPRIETARY RIGHTS

We do not own any patents, although we do have three United States patents pending, two of which have been filed internationally. Two of our pending United States patent applications are directed to our BPH treatment system, with the third directed to our breast cancer treatment. Through our license agreements with MIT, MMTC, Duke and Sloan-Kettering, we have exclusive rights, within defined fields of use of nine United States patents. Three of these patents relate to the treatment of BPH, four relate to thermotherapy for cancer, including the APA technology, one relates to heat-sensitive liposomes and one relates to gene therapy.

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 United States patents.

In 1996, we entered into a patent license agreement with MIT, pursuant to which we obtained exclusive rights to use of MIT's patented APA 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. MIT's technology has been patented in the United States and MIT has patents pending for its technology in China, Europe, Canada and Japan. 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.

We entered into a license agreement with MMTC in 1996, by which we currently have exclusive worldwide rights to MMTC's patents related to its balloon compression technology for the treatment of prostatic disease in humans. Our exclusive rights under the MMTC license agreements extend for the life of MMTC's patents. MMTC currently has patents in the United States and Canada. The terms of these patents expire at various times from April 2008 to November 2014. In addition, MMTC also has patent applications pending in Japan and Europe.

On November 10, 1999, we entered into a license agreement with Duke University under which we received exclusive rights (subject to certain exceptions) to commercialize and use Duke's thermo-liposome technology. 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. We are currently renegotiating certain terms of our contractual arrangements with Duke.

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 United States Patent and Trademark Office. Currently, we have rights to Duke's patent for its thermo-liposome technology in the United States, which expires in 2018, and to future patents received by Duke in Canada, Europe, Japan and Australia, where it has patent applications pending. The European application can result in coverage in the United Kingdom, France and Germany. For this technology, our license rights are worldwide, with various patent rights covering the United States, Canada, the United Kingdom, France, Germany and Japan.

We entered into a license agreement with Sloan-Kettering in November 2000 by which we obtained exclusive rights to Sloan-Kettering's United States patent and to patents that Sloan-Kettering may receive in the future for its heat-sensitive gene therapy in Japan, Canada and Europe, where it has patent applications pending. Our rights under the agreement with Sloan-Kettering will terminate at the later of 20 years after the date of the agreement or the last expiration date of any patent rights covered by the agreement.

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 published patent applications filed after November 29, 2001 and issued patents belonging to other companies, and it is uncertain whether any of those patent documents found, or patent applications filed before November 29, 2001 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

Celsion presently manufactures its BPH equipment in-house and anticipates that it will continue to do so for the immediate future. However, as the market develops, we expect that we will outsource some or all of our BPH equipment manufacturing.

We believe we are best suited to conduct basic research and development activities, to pursue a prototype product through clinical testing and regulatory approval, to engage in initial manufacturing activities during product launch and to market the final product. Accordingly, we do not intend to engage in large-scale manufacturing with respect to our breast cancer treatment system or any other possible future products, but instead intend generally 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 than continuous drug therapy. Consequently, we believe that third-party payors seeking procedures that provide quality clinical outcomes at relatively lower cost will help drive acceptance of our products.

For BPH, our strategy is to use reimbursement codes currently approved for TUMT in the United States and which have been approved for Medicare patients in connection with BPH treatment in our Phase II clinical trials. For breast cancer, we expect that our strategy for obtaining new reimbursement authorizations in the United States will be 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 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 BPH and breast cancer, 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 Centers for Medicare and Medicaid Service, or CMS (formerly known as 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.

## REGULATION OF SALES IN THE UNITED STATES

### FDA REGULATION--RESEARCH AND APPROVAL

Our research and development activities, pre-clinical tests and clinical trials and, ultimately, the manufacturing, marketing and labeling of our products, are subject to extensive regulation by the FDA. The Federal Food, Drug, and Cosmetic Act, or FDCA, the Public Health Service Act, or PHSA, and the regulations promulgated by FDA govern, among other things, the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising, promotion, import and export of our products.

Under these statutes, our Microwave Uretheroplasty treatment system is regulated as a class III medical device, our heat-activated liposomes may be regulated as a new drug and our Cancer Repair Inhibitor may be regulated as a biological product. The steps ordinarily required before such products can be marketed in the United States include (a) pre-clinical and clinical studies; (b) the submission to the FDA of an Investigational Device Exemption, or IDE, or an Investigational New Drug application, or IND, which must become effective before human clinical trials may commence; (c) adequate and well-controlled human clinical trials to establish the safety and efficacy of the product; (d) the submission to the FDA of a Pre-Market Approval application, or PMA, a New Drug Application, or NDA, or a Biological License Application, or BLA; and (e) FDA approval of the application, including approval of all product labeling.

Pre-clinical tests include laboratory evaluation of product chemistry, formulation and stability, as well as animal studies to assess the potential safety and efficacy of the product. Pre-clinical safety tests must be conducted by laboratories that comply with FDA regulations regarding Good Laboratory Practice. The results of pre-clinical tests are submitted to the FDA as part of an IDE or IND and are reviewed by the FDA before the commencement of human clinical trials. Submission of an IDE or IND will not necessarily result in FDA authorization to commence clinical trials and the absence of FDA objection to an IDE or IND does not necessarily mean that the FDA will ultimately approve a PMA or that a product candidate otherwise will come to market.

Clinical trials involve the administration of therapy to humans under the supervision of a qualified principal investigator. Clinical trials must be conducted in accordance with Good Clinical Practices, or GCP, under protocols submitted to the FDA as part of the IDE or IND. Also, each clinical trial must be approved and conducted under the auspices of an Institutional Review Board, or IRB, and with patient informed consent. The IRB will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the institution conducting the clinical trials.

Clinical trials are typically conducted in two or three sequential phases, but the phases may overlap. Phase I clinical trials involve the initial introduction of the therapy to a small number of subjects. Phase II trials are generally larger trials conducted in the target population. For devices such as our Microwave Uretheroplasty treatment system, Phase II studies may serve as the pivotal trials (demonstrating safety and effectiveness required for approval). In the case of drugs and biological products, Phase II clinical trials generally are conducted in a target patient population to gather evidence about the pharmacokinetics, safety and biological or clinical efficacy of the drug for specific indications, to determine dosage tolerance and optimal dosage and to identify possible adverse effects and safety risks. When a drug or biological compound has shown evidence of efficacy and an acceptable safety profile in Phase II evaluations, Phase III clinical trials are undertaken to serve as the pivotal trials to demonstrate clinical efficacy and safety in an expanded patient population.

There can be no assurance that any of our clinical trials will be completed successfully, within any specified time period or at all. Either the FDA or we may suspend clinical trials at any time, if either the FDA or we conclude that clinical subjects are being exposed to an unacceptable health risk or for other reasons. The FDA inspects and reviews clinical trial sites, informed consent forms, data from the clinical trial sites, including case report forms and record keeping procedures, and the performance of the protocols by clinical trial personnel to determine compliance with Good Clinical Practices. The FDA also examines whether there was bias in the conduct of clinical trials. The conduct of clinical trials is complex and difficult, especially in pivotal Phase II or Phase III trials. There can be no assurance that the design or the performance of the pivotal clinical trial protocols or any of our current or future product candidates will be successful.

The results of pre-clinical studies and clinical trials, if successful, are submitted in an application for FDA approval to market the device, drug or biological product for a specified use. The testing and approval process requires substantial time and effort, and there can be no assurance that any approval will be granted for any product at any time, according to any schedule, or at all. The FDA may refuse to approve an application if it believes that applicable regulatory criteria are not satisfied. The FDA may also require additional testing for safety and efficacy. Moreover, if regulatory approval is granted, the approval will be limited to specific indications. There can be no assurance that any of our product candidates will receive regulatory approvals for marketing or, if approved, that approval will be for any or all of the indications that we request.

The FDA is authorized to require user fees for submission of NDAs and BLAs. The current user fee for such applications is $267,606 and may increase from year to year. The FDA is also authorized to require annual user fees for approved products and for companies with establishments at which finished products are manufactured, which fees may increase from year to year. The FDA may waive or reduce such user fees under special circumstances. We intend to seek waivers or reductions of user fees where possible, but we cannot be assured that we will be eligible for any such waiver or reduction.

FDA REGULATION--POST-APPROVAL REQUIREMENTS

Even if we receive necessary regulatory approvals for one or more of our product candidates, our manufacturing facilities and products are subject to ongoing review and periodic inspection. Each U.S. device, drug and biologic manufacturing establishment must be registered with the FDA. Manufacturing establishments in the U.S. and abroad are subject to inspections by the FDA and must comply with the FDA's Good Manufacturing Practice, or GMP, regulations. Medical devices must comply with the FDA's Quality System, or QSR, regulations. In order to ensure full technical compliance with such regulations, manufacturers must expend funds, time and effort in the areas of production and quality control. The FDA stringently applies regulatory standards for manufacturing.

We are also subject to recordkeeping and reporting regulations, including the FDA's mandatory Medical Device Reporting, or MDR, regulations. These regulations require, among other things, the reporting to FDA of adverse events alleged to have been associated with the use of a product or in connection with certain product failures.

Labeling and promotional activities also are regulated by the FDA and, in certain instances, by the Federal Trade Commission, or FTC. We must also comply with recordkeeping requirements as well as requirements to report certain adverse events involving our products. The FDA can impose other post-marketing controls on us as well as our products including, but not limited to, restrictions on sale and use, through the approval process regulations and otherwise.

Failure to comply with applicable regulatory requirements can result in, among other things, warning letters, fines, injunctions and other equity remedies, civil penalties, recall or seizure of products,

total or partial suspension of production, refusal of the government to grant approvals, pre-market clearance or pre-market approval, withdrawal of approvals and criminal prosecution.

OUR COMPLIANCE WITH FDA REGULATION

We believe that we are substantially in compliance with FDA regulations governing the manufacturing and marketing of medical devices. We previously 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 our Microfocus 1000 equipment. We are seeking a new indication of use to permit the use of our improved Microfocus equipment with APA 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. All 160 patients required to be treated under the Phase II trial were treated as of November 29, 2001 and, as of that date, Celsion submitted the first two of three required modules to the FDA in support of the PMA. We expect to submit the last module, consisting of clinical data, during the second quarter of 2002.

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. The Phase II trials consist of two protocols--the first is designed to ablate (kill) small breast tumors using heat alone and the second is designed to downsize large breast cancer tumors using a combination of heat and chemotherapy, thus allowing a surgeon to perform a lumpectomy rather than a mastectomy, thereby preserving the affected breast. If the Phase II trials are successful, we expect to apply for the addition of a new indication of use to the existing FDA pre-market approval for its 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 anticipated, we expect to begin marketing this breast cancer system before the end of 2003.

OTHER FEDERAL REGULATION

The Federal Communications Commission 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 (now known as the Centers for Medicare and Medicaid Service, or CMS) 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.

## REGULATION OF FOREIGN SALES

Sales of domestically produced drugs, biologics and medical devices outside of the United States are subject to United States export requirements and foreign regulatory controls. Drugs, biologics, and devices that are subject to pre-marketing approval requirements and have not received FDA marketing approval cannot be exported unless they are approved in the European Union, or EU, in a country in the EU or the European Free Trade Association, or in certain other countries specified in the FDCA.

Products approved in these countries may be exported to other countries in which they are legal for marketing. Such products must bear labeling that complies with both the country of approval and the country to which the product is exported. In the case of drugs and biologics, there must also be a valid marketing authorization by a responsible authority and FDA must make detailed determinations regarding the adequacy of the statutory or regulatory requirements of the importing country.

Exported products that are not approved in the United States are subject to other FDA regulatory requirements as well, including substantial compliance with good manufacturing practice requirements. FDA may prohibit export if there is a determination that the exportation of the product presents an imminent hazard to the public health of the importing country or to the United States if reimported.

Upon exportation, our products would be subject to regulation by national governments and supranational agencies as well as by local agencies affecting, among other things, product standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements. There can be no assurance that one or more countries or agencies will not impose regulations or requirements that could have a material adverse effect on our ability to sell our products.

In the EU, the harmonization of standards has caused a shift from a country-by-country regulatory system towards an EU-wide single regulatory system. However, many members of the EU have imposed additional country specific regulations/requirements. The approval procedure varies from member state to member state, and the time required may be longer or shorter than that required for FDA approval. There can be no assurance that the changes in the regulatory schemes imposed either by the EU, supranational agencies or individual countries affecting our products will not have a material adverse effect on our ability to sell our products in countries other than the United States.

The rigorous and lengthy steps currently required before a medicinal product may be marketed in the EU include: (a) adequate non-clinical tests and clinical trials, (b) the submission to the EMEA or to the respective Member States' Medicines Agencies of an application for a marketing authorization, supported by all necessary documents and test results, and (c) approval of the application, including approval of all product labeling and packaging. In all cases, the safety, efficacy and quality of candidate products must be demonstrated according to demanding criteria under EU and national rules. There can be no assurance that our non-clinical tests and clinical trials performed in the United States will be recognized and accepted by the various regulatory authorities in the EU. Such authorities may require additional non-clinical tests and clinical trials and other studies. Non-clinical tests on chemical products in the EU must be conducted by laboratories that comply with harmonized principles of Good Laboratory Practice, or GLP. Member States generally require that clinical trials be conducted in accordance with specific national Good Clinical Practices, or GCP. Moreover, many Member States require compliance with principles of GMP in the manufacture of medicinal products intended for use in clinical trials. The complex array of national requirements for clinical trials conducted in the EU may delay the regulatory approvals necessary to commence "multi-center" clinical trials.

Failure to comply with foreign regulatory requirements can result in, among other things, warning letters, fines, injunctions and other equitable remedies, civil penalties, recall orders or seizure of products, total or partial suspension of production, refusal of the health authorities to grant desired approvals, the withdrawal of approvals and criminal prosecution.

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 pre-clinical 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 companies in the United States and overseas, including BSD Medical Corporation and Labthermics Technology, Inc., have marketed equipment that uses 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 United States 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 employ 17 full-time employees and also utilize the services of some part-time consultants from time to time. In addition, our Scientific Advisory Board 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

We lease premises consisting of approximately 22,300 square feet of administrative office, laboratory and workshop space at 10220-I Old Columbia Road, Columbia, Maryland 21046-1705 from an unaffiliated party under a five-year lease that expires on June 30, 2005. Rent expense for the year ended September 30, 2001 was $227,961. Future minimum lease obligations are as follows:

| | |
|---|---|
| 2002 | $294,071 |
| 2003 | 302,779 |
| 2004 | 311,789 |
| 2005 | 239,018 |

In the year ended September 30, 2001 we began subleasing 13,385 square feet of its office/warehouse space to an unrelated party, generating rental income of $45,609. The sublease yields rent of $15,203 per month and ends January 1, 2001. The tenant has indicated that it does not intend to renew the lease and we currently are seeking a substitute tenant.

## ITEM 3. LEGAL PROCEEDINGS

On April 27, 2000, we initiated an action in the United States District Court for the District of Maryland against Warren C. Stearns, a former director of Celsion, Mr. Stearn's management company, SMC, and a number of affiliates, family members and colleagues of Mr. Stearns, who held warrants for the purchase of approximately 4.1 million shares of our common stock. With the advice of counsel, we concluded that the warrants should be rescinded because they violated Section 15 of the Securities and Exchange Act of 1934. Our claims in this action as originally filed are referred to as "Count I".

On January 18, 2001, the Maryland District Court transferred the case to the United States District Court for the Northern District of Illinois, in Chicago, and on July 17, 2001, we filed a motion to amend our complaint to add a second count, Count II, alleging that Mr. Stearns, on behalf of himself and

the other original defendants, had executed a Mutual Release which released any right the original defendants had to exercise the warrants. This motion was granted on July 19, 2001.

On August 9, 2001, the original defendants filed a counterclaim against Celsion, certain of its officers and directors and an attorney and law firm that had represented Celsion. The counterclaim alleges (i) that Celsion's failure to register the common stock was a breach of the warrants; (ii) that the filing of the complaint by Celsion was a breach of the Mutual Release; (iii) that the parties named in the counterclaim intentionally interfered with Celsion's contractual relations pursuant to the warrants; (iv) conversion of the common stock; (v) civil conspiracy among the parties named in the counterclaim in failing to register the common stock; and (vi) fraudulent misrepresentation against the parties named in the counterclaim stemming from alleged representations that the common stock would be registered. The counterclaim does not request a specific amount of damages.

On September 10, 2001, the Illinois District Court dismissed, with prejudice, Count I of the complaint, finding that it was barred by a three-year statute of repose. Count II was not, however, dismissed. On November 23, 2001, Celsion and certain of its officers and directors filed a motion to dismiss the counterclaim for failure to state a claim upon which relief can be granted and that motion remains pending. It is impossible to determine at this point in the litigation the amount of damages, if any, that may be awarded against Celsion if it is liable for the claims alleged in the counterclaim. In addition, our insurance carrier has denied liability as to the claims asserted in the counterclaim. However, we intend to prosecute this 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, 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 |
| FISCAL YEAR ENDED SEPTEMBER 30, 2001 | | |
| First Quarter (October 1 - December 31, 2000) | $2.19 | $0.75 |
| Second Quarter (January 1 - March 31, 2001) | $3.75 | $0.94 |
| Third Quarter (April 1 - June 30, 2001) | $1.25 | $0.60 |
| Fourth Quarter (July 1 - September 30, 2001) | $0.85 | $0.40 |

On December 20, 2001, the last reported sale price for our common stock on The American Stock Exchange was $0.57. As of December 20, 2001, there were approximately 1,300 holders of record of our common stock.

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, 2001, we issued the following securities without registration under the Securities Act of 1933, as amended (the "Securities Act"):

- On September 5, 2001, we issued 1,545 shares of our common stock to the holder of a warrant to purchase our Series A 10% Convertible Preferred in a cashless exercise transaction.

- On September 30, 2001, we issued a total of 128,608 shares of our common stock, valued at $65,589, to four non-employee directors in lieu of cash fees for their services as directors during the fiscal year ended September 30, 2001.

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 our transfer agent. Accordingly, we view 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 Celsion for the five fiscal years ended September 30, 2001 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, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues: | | | | | |
| Product Sales (Net) | $121,257 | $174,182 | $ - | $3,420 | $ - |
| Research and development contracts | - | - | | - | |
| Total revenues | 121,257 | 174,182 | | 3,420 | |
| Cost of sales | 46,734 | 136,500 | | 246 | |
| Gross profit on product sales | 74,523 | 37,682 | | 3,174 | |
| Other costs and expenses: | | | | | |
| Selling, general and administrative | 2,283,245 | 2,515,822 | 1,371,161 | 2,661,333 | 3,211,625 |
| Research and development | 185,974 | 1,534,872 | 1,019,941 | 2,238,292 | 4,075,249 |
| Total operating expenses | 2,469,219 | 4,050,694 | 2,391,102 | 4,899,625 | 7,286,874 |
| (Loss) from operations | (2,394,696) | (4,013,012) | (2,391,102) | (4,896,451) | |
| Other income (expense) | (471,631) | 11,870 | 15,744 | - | 45,609 |
| Interest income (expense) | (185,562) | (199,346) | (60,834) | 349,236 | 318,038 |
| Net (loss) | $(3,051,889) | $(4,200,488) | $(2,436,192) | $(4,547,215) | $(6,923,227) |
| Net loss per share | $(0.11) | $(0.12) | $(0.05) | $(0.08) | $(0.10) |
| Weighted average shares outstanding | 28,386,145 | 34,867,001 | 45,900,424 | 59,406,921 | 72,249,920 |

| | AS OF SEPTEMBER 30, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| BALANCE SHEET DATA: | | | | | |
| Cash and cash equivalents | $267,353 | $54,920 | $1,357,464 | $8,820,196 | $2,510,136 |
| Working Capital | (2,645,908) | (2,000,351) | 906,926 | 8,509,173 | 2,388,900 |
| Total Assets | 823,209 | 330,738 | 1,558,684 | 9,117,821 | 2,956,861 |
| Long-term debt, less current maturities | - | - | - | - | 15,203 |
| Accumulated deficit | (15,263,522) | (19,464,010) | (21,900,202) | (26,447,417) | (33,605,157) |
| Total stockholders' equity (deficit) | 2,460,646 | (1,851,067) | 1,037,125 | 8,726,429 | 2,956,861 |

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.

RESULTS OF OPERATIONS

Comparison of Fiscal Year Ended September 30, 2001 and Fiscal Year Ended September 30, 2000

We generated no revenues during the fiscal year ended September 30, 2001, compared to revenues on the sale of parts and equipment in the amount of $3.240 during the fiscal year ended September 30, 2000.

Research and development expenditures in the year ended September 30, 2001 were $4,075,249, an increase of $1,836,957, or 82% compared to the fiscal year ended September 30, 2000. The increase was attributable to costs incurred in undertaking pivotal Phase II clinical trials for both our BPH and breast cancer treatment systems. These costs included increased personnel costs as well as costs related to the acquisition of equipment and materials necessary to complete the trials. Additionally, during the year we also initiated development of our heat-activated liposomes by formulating the drug and undertaking large animal toxicity studies.

Selling, general and administrative expense increased by 21%, to $3,211,625 for the fiscal year ended September 30, 2001 compared to $2,661,333 for the fiscal year ended September 30, 2000. The increase was due primarily to increased staffing, principally our newly retained Chief Financial Officer, and legal costs associated with the conversion of the Series A 10% Convertible Preferred Stock, various SEC filings and settlement of a long-standing trade dispute with a former distributor in Hong Kong.

The increase in research and development, selling, general and administrative expenses described above resulted in a loss from operations of $(7,286,874) for the year ending September 30, 2001 compared to a loss $(4,896,451) for the year ended September 30, 2000, representing an increase of $2,387,249.

Interest income net of interest expense decreased by $31,198, to $318,038 for the fiscal year ended September 30, 2001 compared to $349,236 for the fiscal year ended September 30, 2000. This decrease reflects the fact that, as Celsion has no revenues, all expenditures are met from cash reserves. As cash reserves declined, interest income is likewise reduced.

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 $3,420, as compared to none for the prior fiscal year. The limited revenue in the more recent 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 fiscal 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 fiscal year ended September 30, 2000 was attributable to payments, through the issuance of shares of common stock, to Duke University under a license agreement for thermo-liposome technology, research on thermo-liposome technology, expenditures in connection with our Phase I breast cancer treatment system trials, expenditures for our Phase II BPH and breast cancer treatment trials and payments made to Sloan-Kettering for licensing of its gene therapy technology during the fiscal year ended September 30, 2000.

Selling, general and administrative expense increased by 94%, to $2,661,333 for the fiscal year ended September 30, 2000 from $1,371,161 for the fiscal year ended September 30, 1999. The increase of $1,290,172 was due primarily to expenses associated with increased legal and financial services in connection with our various 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 fiscal year ending September 30, 2000, the loss from operations rose by $2,505,349 to $(4,896,451) from $(2,391,102) in the prior fiscal year.

Interest income net of interest expense increased to $349,236 for the fiscal year ended September 30, 2000 from $(60,834) for the fiscal year ended September 30, 1999. The $410,070 increase was due to increased cash balances representing the proceeds from our private placement in January 2000 which were invested in money market instruments and time deposits.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, our expenses have significantly exceeded our revenues, resulting in an accumulated deficit of $33,605,157 at September 30, 2001. 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, 2001, we had cash and cash equivalents of $2,510,136 and total current assets of $2,661,341, compared with current liabilities of $272,441, resulting in a working capital surplus of $2,388,900. As of September 30, 2000, we had $8,820,196 in cash and cash equivalents and total current assets of $8,900,565, compared with current liabilities of $391,392, which resulted in a working capital surplus of $8,509,173 at fiscal year end. The decrease in working capital at September 30, 2001 as compared to September 30, 2000 was due to the fact that, during the past fiscal year, we drew on our cash reserves to pay for our ongoing operations. In addition, we applied approximately $500,000, in settlement costs and legal expenses, in settling a long-standing trade dispute with a former distributor in Hong Kong.

We do not have any bank financing arrangements and have funded our operations in recent years primarily through private placement offerings of equity securities. On December 13, 2001, we conducted a first closing on a private placement of equity securities consisting of units, each comprised of one share of our common stock and one common stock purchase warrant exercisable for a period of five years at $0.60 per share. The offering is being conducted on a "best efforts, minimum/maximum basis" with a minimum of $3,000,000 and a maximum of $5,000,000 (subject to a $1,250,000 oversubscription allowance). At the first closing, we realized gross proceeds of $3,360,000 from the sale of 6,720,000 units, representing net proceeds to Celsion of $3,004,986 after deduction of commissions and offering expenses. As of December 20, 2001, we had realized gross proceeds of $4,135,826 from the sale of 8,271,652 units, representing net proceeds to Celsion of $3,707,110. By its terms, the private placement will terminate on January 31, 2002, unless earlier terminated at the election of Celsion.

For all of fiscal year 2002, we expect to expend a total of approximately $7,000,000 for clinical testing of our breast cancer and BPH treatment systems, as well as corporate overhead, which we expect to fund 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. We expect that the proceeds from the first closing of our private placement, together with any additional proceeds from subsequent closings and our current cash resources, will be sufficient to fund our operations through the 2002 fiscal year.

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 Microwave Urethroplasty and breast cancer treatment systems, progress in product development efforts, progress with pre-clinical 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 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 that may affect our future performance and our ability to achieve profitable operations are the following:

WE HAVE A HISTORY OF SIGNIFICANT LOSSES AND EXPECT TO CONTINUE SUCH LOSSES FOR THE FORESEEABLE FUTURE.

Since Celsion's inception in 1982, its expenses have substantially exceeded its revenues, resulting in continuing losses and an accumulated deficit of $(33,605,157) at September 30, 2001, including losses of $(4,547,215) for the year ended September 30, 2000 and $(6,923,227) for the year ended September 30, 2001. Because we presently have no revenues and are committed to continuing our product research, development and commercialization programs, we will continue to experience significant operating losses unless and until we completes 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 the Company's securities and have limited working capital for our product research, development, commercialization and other activities.

WE DO NOT EXPECT TO GENERATE SIGNIFICANT REVENUE FOR 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 ensuing years to developing a new generation of thermotherapy and other products, but cannot market these products unless and until we have completed clinical testing and obtained 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 unless and until 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 UNDERGOING HUMAN TESTING AND MAY NOT ACHIEVE SUFFICIENT ACCEPTANCE 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 treatment for BPH or for cancer treatment, with or without the concurrent use of radiation. We believe that this is primarily due 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 HCFA (now known as the CMS) established a low medical reimbursement rate for all thermotherapy equipment designed to be used in conjunction with radiation. While management believes that our new technology is capable of overcoming the limitations of the earlier technology, the medical community may not embrace the perceived advantages of our "adaptive phased array," or APA, focused heat therapy without more extensive testing and clinical experience than we will be able to provide. To date, we have completed and submitted to the FDA only Phase I clinical trials of our Microwave Uretheroplasty treatment system, although we have completed patient treatments in our Phase II trials. Similarly, our new cancer treatment technology is currently in Phase II trials. Accordingly, our technology may not prove as effective in practice as we anticipate based on testing to date. If further testing and clinical practice do not confirm the safety and efficacy of our technology or, even if further testing and practice produce 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 CMS to include our Microwave Uretheroplasty treatment system under the existing reimbursement code for TUMT, the present minimally invasive BPH treatment that employs microwave heating, and for a new reimbursement code for our breast cancer treatment. The success of our business model depends significantly upon our ability to petition successfully for these reimbursement codes. However, we cannot offer any assurances as to when, if ever, CMS may act on our request to include its Microwave Uretheroplasty treatment within the TUMT reimbursement code or establish a reimbursement code for our breast cancer treatment system. In addition, there can be no assurance that the reimbursement level established for our breast cancer treatment system (and for our Microwave Uretheroplasty treatment system, if not included in the TUMT code), if established, will be at a level sufficient for us to carry out our business plan effectively.

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 breast cancer treatment system and heat-activated liposome and cancer repair inhibitor products, as well as other potential new products. We expended approximately $6.8 million in the fiscal year ending September 30, 2001. As of that date, we had available a total of approximately $2.5 million to fund additional expenditures. In addition, as of December 13, 2001, we had received approximately $3,100,000 in net proceeds from a private placement of our equity securities. As of December 20, 2001, we had realized gross proceeds of $4,135,826 from the sale of 8,271,652 units, representing net proceeds to Celsion of $3,707,110. It is our current intention both to increase the pace of development work on our present products and to make a significant commitment to our heat-activated liposome and cancer repair inhibitor 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 and to generate sufficient cash flow from sale of those products to support our continued operations. We do not have any committed sources of financing and cannot offer any assurances that additional funding will be available in a timely manner, on acceptable terms or at all.

If adequate funding is 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 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 obligations to

conduct clinical trials under our licensing agreements, we will be in breach of these licensing agreements and could therefore lose our license rights, which could have material adverse effects on our business.

OUR BUSINESS IS SUBJECT TO NUMEROUS AND EVOLVING STATE, FEDERAL AND FOREIGN REGULATIONS AND WE MAY NOT BE ABLE TO SECURE THE GOVERNMENT APPROVALS NEEDED TO DEVELOP AND MARKET OUR PRODUCTS.

Our research and development activities, pre-clinical tests and clinical trials, and ultimately the manufacturing, marketing and labeling of our products, all are subject to extensive regulation by the FDA and foreign regulatory agencies. Pre-clinical testing and clinical trial requirements and the regulatory approval process typically take years and require the expenditure of substantial resources. Additional government regulation may be established that could prevent or delay regulatory approval of our product candidates. Delays or rejections in obtaining regulatory approvals would adversely affect our ability to commercialize any product candidates and our ability to generate product revenues or royalties.

The FDA and foreign regulatory agencies require that the safety and efficacy of product candidates be supported through adequate and well-controlled clinical trials. If the results of pivotal clinical trials do not establish the safety and efficacy of our product candidates to the satisfaction of the FDA and other foreign regulatory agencies, we will not receive the approvals necessary to market such product candidates.

Even if regulatory approval of a product candidate is granted, the approval may include significant limitations on the indicated uses for which the product may be marketed. Also, manufacturing establishments in the United States and abroad are subject to inspections and regulations by the FDA. Medical devices must also continue to comply with the FDA's Quality System Regulation, or QSR. Compliance with such regulations requires significant expenditures of time and effort to ensure full technical compliance. The FDA stringently applies regulatory standards for manufacturing.

We are also subject to recordkeeping and reporting regulations, including FDA's mandatory Medical Device Reporting, or MDR regulation. Labeling and promotional activities are regulated by the FDA and, in certain instances, by the Federal Trade Commission.

Many states in which we do or in the future may do business or in which our products may be sold impose licensing, labeling or certification requirements that are in addition to those imposed by the FDA. There can be no assurance that one or more states will not impose regulations or requirements that have a material adverse effect on our ability to sell our products.

In many of the foreign countries in which we may do business or in which our products may be sold, we will be subject to regulation by national governments and supranational agencies as well as by local agencies affecting, among other things, product standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements. There can be no assurance that one or more countries or agencies will not impose regulations or requirements that could have a material adverse effect on our ability to sell our products.

The EU has a registration process that includes registration of manufacturing facilities (known as "ISO certification") and product certification (known as a "CE Mark"). We have obtained ISO certification for our existing facilities. However, there is no guarantee that we will be successful in obtaining European certifications for new facilities or for our products, or that we will be able to maintain its existing certifications in the future.

Foreign government regulation may delay marketing of our new products for a considerable period of time, impose costly procedures upon its activities and provide an advantage to larger companies that compete with it. There can be no assurance that we will be able to obtain necessary regulatory approvals, on a timely basis or at

all, for any products that it develops. Any delay in obtaining, or failure to obtain, necessary approvals would materially and adversely affect the marketing of our contemplated products subject to such approvals and, therefore, our ability to generate revenue from such products.

Even if regulatory authorities approve our product candidates, such products and our facilities, including facilities located outside the EU, may be subject to ongoing testing, review and inspections by the European health regulatory authorities. After receiving pre-marketing approval, in order to manufacture and market any of its products, we will have to comply with regulations and requirements governing manufacture, labeling and advertising on an ongoing basis.

Failure to comply with applicable domestic and foreign regulatory requirements, can result in, among other things, warning letters, fines, injunctions and other equitable remedies, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant approvals, pre-market clearance or pre-market approval, withdrawal of approvals and criminal prosecution of the Company and its employees, all of which would have a material adverse effect on our business.

OUR BUSINESS DEPENDS ON LICENSE AGREEMENTS WITH THIRD PARTIES TO PERMIT US TO USE PATENTED TECHNOLOGIES. THE LOSS OF ANY OF OUR RIGHTS UNDER THESE AGREEMENTS COULD IMPAIR OUR ABILITY TO DEVELOP AND MARKET OUR PRODUCTS.

Currently, we have three utility patents pending in the United States Patent & Trademark Office. Two are directed to our Microwave Uretheroplasty treatment for BPH and the other is directed to our breast cancer treatment system. However, even when our pending applications mature into United States patents, our business will still depend on license agreements that it has entered into with third parties until the third parties' patents expire.

Our success will depend, in substantial part, on our ability to maintain our rights under license agreements granting us rights to use patented technologies. We have entered into exclusive license agreements with MIT, for APA technology and with 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 Memorial Sloan-Kettering Cancer Center under which we have rights to commercialize certain cancer repair inhibitor products. The MIT, MMTC, Duke University and Sloan-Kettering agreements each contain 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 the license and research agreements, we could lose our ability to use the subject 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 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 adverse effect on 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 it. We are aware of published patent applications and issued patents belonging to others, and it is not clear whether any of these patents or applications, or other patent applications of which it may not have any knowledge, will require us to alter any of our potential products or processes, pay licensing fees to others 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 to 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, even if not breached, that they are adequate to protect our trade secrets, that we will have adequate remedies for any breach or that our trade secrets will not otherwise become known to, 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 currently are, and in the future may be expected to be, 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 (RF), laser and ultrasound energy sources. The successful development and acceptance of any one or more of these alternative forms of treatment could render our technology obsolete as a cancer treatment method.

WE MAY NOT BE ABLE TO HIRE OR RETAIN KEY OFFICERS OR EMPLOYEES THAT WE NEED TO IMPLEMENT ITS BUSINESS STRATEGY AND DEVELOP ITS PRODUCTS AND BUSINESSES.

Our success depends significantly on the continued contributions of its executive officers, scientific and technical personnel and consultants, and on our ability to attract additional personnel as we seek to implement our business strategy and develop our products and businesses. During our operating history, we have assigned many essential responsibilities to a relatively small number of individuals. However, as our business and the demand on our key employees expand, we have been, and will continue to be, required to recruit additional qualified employees. The competition for such qualified personnel is intense, and the loss of services of certain key personnel or our inability to attract additional personnel to fill critical positions as we implement our business strategy could adversely affect our business.

Effective October 4, 2001, Spencer J. Volk, formerly the President, Chief Executive Officer and a director of Celsion, resigned from all of these positions. Our Board has appointed Dr. Augustine Y. Cheung, the Chairman and Chief Scientific Officer, to serve as Celsion's President and Chief Executive Officer and Dr. Max Link, a director since 1997, has assumed the position of Chairman of the Board.

OUR SUCCESS WILL DEPEND IN PART ON OUR ABILITY TO GROW AND DIVERSIFY, WHICH IN TURN WILL REQUIRE THAT WE MANAGE AND CONTROL OUR GROWTH EFFECTIVELY.

Our business strategy contemplates growth and diversification. As manufacturing, marketing, sales, and other personnel are added, and manufacturing and research and development capabilities are expanded, our operating expenses and capital requirements will increase. Our ability to manage growth effectively will require that we continue to expend funds to improve our operational, financial and management controls, reporting systems and procedures. In addition, we must effectively expand, train and manage our employees. We will be unable to effectively manage our businesses if we are unable to alleviate the strain on resources caused by growth in a timely and successful manner. There can be no assurance that we will be able to manage our growth and a failure to do so could have a material adverse effect on 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.

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 for marketing by the FDA. Accordingly, even if coverage and reimbursement are provided by government, private health insurers and third-party payors for uses of our products, market acceptance of these products would be adversely affected if the reimbursement available 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 other institutions engaged in research and development of thermotherapy technologies, both for prostate disease and cancer treatment products, that seek treatment outcomes similar to those that we are pursuing. In addition, a number of companies and other institutions are pursuing alternative treatment strategies through the use of microwave, infrared, 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 prostate and cancer treatment research in the United States and other countries include, among others, major pharmaceutical and chemical companies, specialized technology companies, and 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 do we, both in pre-clinical 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 that 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 any of our 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 that 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 our business. In addition, liability or alleged liability could harm the business by diverting the attention and resources of our management and by damaging our reputation.

WE PRESENTLY HAVE LIMITED MARKETING AND SALES CAPABILITY AND WILL BE REQUIRED TO DEVELOP SUCH CAPABILITIES AND TO ENTER INTO ALLIANCES WITH OTHERS POSSESSING SUCH CAPABILITIES IN ORDER TO COMMERCIALIZE OUR PRODUCTS SUCCESSFULLY.

We intend to market our Microwave Uretheroplasty treatment system directly, at such time, if any, as it is approved for commercialization by the FDA, and to market our breast cancer treatment system, if and when so approved, through strategic alliances and distribution arrangements with third parties. There can be no assurance that we will be able to establish such sales and marketing capability successfully or successfully enter into third-party marketing or distribution arrangements. We have limited experience and capabilities in marketing, distribution and direct sales, although we expect to attempt to recruit experienced marketing and sales personnel as we pursue commercialization. In attracting, establishing and maintaining a marketing and sales force or entering into third-party marketing or distribution arrangements with other companies, we expect to incur significant additional expense. There can be no assurance that, to the extent we enter into any commercialization arrangements with third parties, such third parties will establish adequate sales and distribution capabilities or be successful in gaining market acceptance for our products and services. There also can be no assurance that our direct sales, marketing, licensing and distribution efforts would be successful or that revenue from such efforts would exceed expenses.

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 not currently manufacturing any products, but are using our facilities to assemble prototypes of the 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 Microwave Uretheroplasty 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 that we 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. In addition, inasmuch as we expect to manufacture our Microwave Uretheroscopy equipment at least for some period subsequent to FDA approval and the commencement of commercialization, such manufacturing and commercialization also could be delayed. In addition, in the event that we succeed in marketing our products, we intend to use outside contractors to supply components and the Microwave Uretheroplasty catheter, and may use such contractors to assemble finished equipment in the future, which could cause us to become increasingly dependent on key vendors.

WE HAVE NOT PAID DIVIDENDS IN THE PAST AND DO NOT INTEND TO DO SO FOR THE FORESEEABLE FUTURE.

We have never paid cash dividends and do not anticipate paying cash dividends on our common stock or Preferred Stock in the foreseeable future. Therefore, our stockholders cannot achieve any degree

of liquidity with respect to their shares of common stock except by selling such shares.

THE EXERCISE OR CONVERSION OF OUR OUTSTANDING OPTIONS, WARRANTS AND CONVERTIBLE PREFERRED STOCK COULD RESULT IN SIGNIFICANT DILUTION OF OWNERSHIP INTERESTS IN OUR COMMON STOCK OR OTHER CONVERTIBLE SECURITIES.

Options and Warrants. As of September 30, 2001, we had outstanding and exercisable warrants and options to purchase a total of 9,767,884 shares of our common stock at exercise prices ranging from $0.13 to $5.00 per share (and a weighted average exercise price of approximately $0.67 per share). In addition, we had outstanding but unexercisable and unvested warrants and options to purchase a total of 5,337,333 shares of our common stock at exercise prices ranging from $0.70 to $5.00 per share. Some of the prices are below the current market price of our common stock, which has ranged from a low of $0.45 to a high of $0.60 over the 20 trading days ending December 20, 2001. If holders choose to exercise such warrants and options at prices below the prevailing market price for the common stock, the resulting purchase of a substantial number of shares of our Common would have a dilutive effect on our stockholders and could adversely affect the market price of our issued and outstanding common stock and convertible securities. In addition, holders of these options and warrants who have the right to require registration of the common stock under certain circumstances and who elect to require such registration, or who exercise their options or warrants and then satisfy the one-year holding period and other requirements of Rule 144 of the Securities Act of 1933, will be able to sell in the public market shares of common stock purchased upon such exercise.

Preferred Stock. As of September 30, 2001, we had outstanding a total of 942.5 shares of Series A 10% Convertible Preferred Stock (plus 157 shares representing accrued dividends). 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 our merger with a public company. In addition, the holders of the Series A Preferred Stock are 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. The conversion of the Series A Preferred Stock could have a dilutive effect on our stockholders and could adversely affect the market price of our issued and outstanding common stock and convertible securities. The holders of the Series A Preferred Stock also have registration rights at such time, if any, as we undertake a registered public offering of securities. Even without such registration, holders of the Series A Preferred Stock who satisfy the requirements of Rule 144 of the Securities Act of 1933 will be able to sell in the public market shares of common stock acquired upon the conversion of Series A Preferred Stock. There also were outstanding warrants to purchase 36 shares of Series A Preferred Stock (convertible into an additional 87,805 shares of common stock) as of September 30, 2001.

IF THE PRICE OF OUR SHARES REMAINS LOW, WE MAY BE DELISTED BY THE AMERICAN STOCK EXCHANGE AND BECOME SUBJECT TO SPECIAL RULES APPLICABLE TO LOW PRICED STOCKS.

Our common stock currently trades on The American Stock Exchange (the "Amex"). 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 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 the 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 the stock 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. We have sustained net losses for our last five fiscal years (and beyond) and our common stock has been trading at relatively low prices. Therefore, our common stock may be at risk for delisting by the Amex.

Upon any such delisting, the common stock would become subject to the penny stock rules of the SEC, which generally are applicable to equity securities with a price of less than $5.00 per share (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 SEC 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 ask 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 that is 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 are likely to have a material and adverse effect on price and the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. If our common stock were to become subject to the penny stock rules it is likely that the price of the common stock would decline and that our stockholders would be likely to 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 by 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. In addition, our classified Board of Directors may discourage such transactions by increasing the amount of time necessary to obtain majority representation on the Board. Certain other provisions of our Bylaws and of Delaware law may also discourage, delay or prevent a third party from acquiring or merging with us, even if such action were beneficial to some, or even a majority, of our stockholders.

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-14.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information required by this item is incorporated herein by reference to the information set forth under the captions "Directors and Executive Officers" and "Compliance with Section 16(a) of the Securities Exchange At of 1934, as Amended" in Celsion's Definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held on February 15, 2002, which has been, or will be, filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in Celsion's Definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held on February 15, 2002, which has been, or will be,

filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The information required by this item is incorporated herein by reference to the information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in Celsion's Definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held on February 15, 2002, which has been, or will be, filed with the Securities and Exchange Commission within 120 days after the end of the our fiscal year ended September 30, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the information set forth under the caption "Certain Transactions" in Celsion's Definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held on February 15, 2002, which has been, or will be, filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended September 30, 2001.

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 (the "Company"), as amended, incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of the Company for the Quarter Ended June 30, 2001. |
| 3.1.2 | Certificate of Designations regarding the Series A 10% Preferred Stock of the Company, incorporated herein by reference to Exhibit 3.1.2 to the Annual Report on Form 10-K of the Company for the Year Ended September 30, 2001. |
| 3.1.3 | Certificate of Ownership and Merger of Celsion Corporation (a Maryland Corporation) into Celsion (Delaware) Corporation (inter alia, changing the Company's name to "Celsion Corporation" from "Celsion (Delaware) Corporation), incorporated herein by reference to Exhibit 3.1.3 to the Annual Report on Form 10-K of the Company for the Year Ended September 30, 2000. |
| 3.2 | By-laws of the Company, as amended, incorporated herein by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q of the Company for the Quarter Ended June 30, 2001. |
| 4.1 | Form of Common Stock Certificate, par value $0.01 per share, incorporated herein by reference to Exhibit 4.1 to the Annual Report on Form 10-K of the Company for the Year Ended September 30, 2001. |
| 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 | 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). |
| 10.4 | 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). |
| 10.5 | 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). |

| | |
|---|---|
| 10.6 | 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). |
| 10.7+ | Celsion Corporation 2001 Stock Option Plan. |
| 10.8 | 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. |
| 10.9 | 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 |
| 10.10 | 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. |
| 10.11 | 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. |
| 10.12 | 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. |
| 10.13 | Intentionally omitted. |
| 10.14 | 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. |
| 10.15 | License Agreement between the Company and Sloan-Kettering Institute for Cancer Research dated May 19, 2000, incorporated herein by reference to Exhibit 10.18 to the Annual Report on Form 10-K of the Company for the year ended September 30, 2000-. |
| 10.16 | Employment Agreement between the Company and Anthony P. Deasey dated November 27, 2000, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-K of the Company for the quarter ended June 30, 2001. |
| 10.17 | 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. |

| | |
|---|---|
| 10.18 | Employment Agreement between the Company and John Mon dated June 8, 2000, incorporated herein by reference to Exhibit 10.21 to the Annual Report on Form 10-K of the Company for the year ended September 30, 2000. |
| 10.19 | Employment Agreement between the Company and Dennis Smith dated May 19, 2000, incorporated herein by reference to Exhibit 10.22 to the Annual Report on Form 10-K of the Company for the year ended September 30, 2000. |
| 10.20 | Option Agreement between the Company and Duke University dated August 8, 2000, incorporated herein by reference to Exhibit 10.23 to the Annual Report on Form 10-K of the Company for the year ended September 30, 2000. |
| 10.21+ | Employment Agreement between the Company and Daniel S. Reale dated April 9, 2001. |
| 10.22 | 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, incorporated herein by reference to Exhibit 10.24 to the Annual Report on Form 10-K of the Company for the year ended September 30, 2000 (Confidential Treatment Requested). |
| 10.23+ | Form of Warrant to Purchase Common Stock of the Company pursuant to the Private Placement Memorandum of the Company dated October 11, 2001. |
| 10.24+ | Advisory Agreement between the Company and Dr. Kris Venkat dated August 1, 2001. |
| 23.1+ | Consent of Stegman & Company, independent public accountants of the Company. |

+ Filed herewith.

(b) REPORTS ON FORM 8-K.

The Company filed a report on Form 8-K on August 9, 2001 and a report on Form 8-K on August 20, 2001.

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.

CELSION CORPORATION

December 20, 2001

By: /s/ Augustine Y. Cheung
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Augustine Y. Cheung
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Anthony P. Deasey
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Anthony P. Deasey
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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/ Augustine Y. Cheung<br>Augustine Y. Cheung | Director, President and Chief Executive Officer<br>(Principal Executive Officer) | December 20, 2001 |
| /s/ Anthony P. Deasey<br>Anthony P. Deasey | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | December 20, 2001 |
| /s/ John Mon<br>John Mon | Vice President, Secretary, Treasurer and Director | December 20, 2001 |
| /s/ Max E. Link<br>Max E. Link | Chairman of the Board | December 20, 2001 |
| /s/ LaSalle D. Leffall, Jr.<br>LaSalle D. Leffall, Jr. | Director | December 20, 2001 |
| /s/ Claude Tihon<br>Claude Tihon | Director | December 20, 2001 |

CELSION CORPORATION

REPORT ON AUDITS OF
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2001, 2000 AND 1999

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, 2001 and 2000, 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, 2001. 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 auditing standards generally accepted in the United States. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

/s/Stegman & Company

Baltimore, Maryland
November 6, 2001

CELSION CORPORATION

BALANCE SHEETS
SEPTEMBER 30, 2001 AND 2000

ASSETS

| | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $2,510,136 | $8,820,196 |
| Accounts receivable - trade | 1,205 | 2,307 |
| Accrued interest receivable | - | 7,751 |
| Inventories | - | 13,538 |
| Prepaid expenses | - | 22,417 |
| Other current assets | 150,000 | 34,356 |
| Total current assets | 2,661,341 | 8,900,565 |
| PROPERTY AND EQUIPMENT - at cost: | | |
| Furniture and office equipment | 229,643 | 146,287 |
| Laboratory and shop equipment | 87,193 | 52,978 |
| | 316,836 | 199,265 |
| Less accumulated depreciation | 127,556 | 74,540 |
| Net value of property and equipment | 189,280 | 124,725 |
| OTHER ASSETS: | | |
| Deposits | 29,537 | - |
| Patent licenses (net of accumulated amortization of $113,247 and $97,419 in 2001 and 2000, respectively) | 76,703 | 92,531 |
| Total other assets | 106,240 | 92,531 |
| TOTAL ASSETS | $2,956,861 | $9,117,821 |

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2001 | 2000 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable - trade | $ 145,520 | $ 60,472 |
| Notes payable - other | - | 114,778 |
| Accrued interest payable - other | - | 155,373 |
| Other accrued liabilities | 126,921 | 60,769 |
| Total current liabilities | 272,441 | 391,392 |
| LONG-TERM LIABILITIES: | | |
| Security deposit | 15,203 | - |
| Total liabilities | 287,644 | 391,392 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock - $.01 par value; 150,000,000 shares authorized, 76,876,761 and 64,372,067 issued and outstanding for 2001 and 2000, respectively | 768,768 | 643,721 |
| Series A 10% Convertible Preferred Stock, $1,000 par value, 7,000 shares authorized, 1,099 and 5,176 shares issued and outstanding | 1,099,584 | 5,176,000 |
| Additional paid-in capital | 34,406,022 | 29,354,125 |
| Accumulated deficit | (33,605,157) | (26,447,417) |
| Total stockholders' equity | 2,669,217 | 8,726,429 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 2,956,861 | $ 9,117,821 |

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| REVENUES: | | | |
| Equipment sales and parts | $ - | $ 3,420 | $ - |
| Returns and allowances | - | - | - |
| Total revenues | - | 3,420 | - |
| COST OF SALES | - | 246 | - |
| GROSS PROFIT | - | 3,174 | - |
| OPERATING EXPENSES: | | | |
| Selling, general and administrative | 3,211,625 | 2,661,333 | 1,371,161 |
| Research and development | 4,075,249 | 2,238,292 | 1,019,941 |
| Total operating expenses | 7,286,874 | 4,899,625 | 2,391,102 |
| LOSS FROM OPERATIONS | (7,286,874) | (4,896,451) | (2,391,102) |
| INTEREST INCOME | 318,038 | 350,526 | 15,744 |
| RENTAL INCOME | 45,609 | - | - |
| INTEREST EXPENSE | - | (1,290) | (60,834) |
| LOSS BEFORE INCOME TAXES | (6,923,227) | (4,547,215) | (2,436,192 |
| INCOME TAXES | - | - | - |
| NET LOSS | $ (6,923,227) | $ (4,547,215) | $ (2,436,192) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | $ (0.10) | $ (.08) | $ (.05) |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 72,249,920 | 59,406,921 | 45,900,424 |

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

| | Common Stock | | Series A 10% Convertible Preferred Stock | | Additional Paid-in | Accumulated | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | Total |
| Balances at October 1, 1998 | 39,945,826 | $399,458 | - | $ - | $ 17,213,485 | $(19,464,010) | $(1,851,067) |
| Sale of common stock | 9,545,500 | 95,455 | - | - | 3,517,420 | - | 3,612,875 |
| Issuance of shares of common stock as payment of indebtedness and expenses | 3,879,172 | 38,792 | - | - | 1,672,717 | - | 1,711,509 |
| Net loss | - | - | - | - | - | (2,436,192) | (2,436,192) |
| Balances at September 30, 1999 | 53,370,498 | 533,705 | - | - | 22,403,622 | (21,900,202) | 1,037,125 |
| Sale of common stock | 10,248,544 | 102,485 | - | - | 7,122,893 | - | 7,225,378 |
| Issuance of shares of common stock as payment of indebtedness and expenses | 753,025 | 7,531 | - | - | 771,965 | - | 779,496 |
| Issuance of shares of Series A 10% convertible preferred stock (net of issuance costs) | - | - | 4,853 | 4,852,500 | (620,855) | - | 4,231,645 |
| Preferred stock dividend | - | - | 323 | 323,500 | (323,500) | - | - |
| Net loss | - | - | - | - | - | (4,547,215) | (4,547,215) |
| Balances at September 30, 2000 | 64,372,067 | 643,721 | 5,176 | 5,176,000 | 29,354,125 | (26,447,417) | 8,726,429 |
| Sale of common stock | 510,000 | 5,100 | - | - | 147,400 | - | 152,500 |
| Issuance of shares of common stock as payment for operating expenses | 319,174 | 3,192 | - | - | 337,566 | - | 340,758 |
| Conversion of shares of Series A 10% convertible, preferred stock plus accrued dividend | 10,514,763 | 105,148 | (4,311) | (4,311,053) | 4,205,905 | - | - |
| Exercise of preferred stock warrants | 1,160,757 | 11,607 | - | - | (11,607) | - | - |
| Preferred stock dividend | - | - | 234 | 234,637 | - | (234,513) | 124 |
| Stock option compensation | - | - | - | - | 372,633 | - | 372,633 |
| Net loss | - | - | - | - | - | (6,923,227) | (6,923,277) |
| Balances at September 30, 2001 | 76,876,761 | $768,768 | 1,099 | $ 1,099,584 | $ 34,406,022 | $(33,605,157) | $ 2,669,217 |

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $(6,923,227) | $ (4,547,215) | $(2,436,192) |
| Noncash items included in net loss: | | | |
| Depreciation and amortization | 68,845 | 39,478 | 28,674 |
| Inventory valuation | 13,538 | 17,000 | 20,000 |
| Stock option compensation | 372,633 | - | - |
| Common stock issued for operating expenses | 340,758 | 542,745 | 200,304 |
| Net changes in: | | | |
| Accounts receivable | 1,102 | (495) | - |
| Inventories | - | (8,479) | - |
| Accrued interest receivable - related parties | 7,751 | (7,751) | - |
| Prepaid expenses | 14,832 | 197,103 | 73,424 |
| Other current assets | (115,644) | 4,847 | (21,594) |
| Accounts payable and accrued interest payable | (70,324) | (73,370) | (223,255) |
| Accrued compensation | - | (91,009) | 189,239 |
| Accrued professional fees | - | - | (100,000) |
| Other accrued liabilities | 66,275 | 60,681 | (13,551) |
| Net cash used in operating activities | (6,223,461) | (3,866,465) | (2,282,951) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Increase in deposits | (6,749) | - | - |
| Purchase of property and equipment | (117,572) | (122,108) | (8,297) |
| Net cash used in investing activities | (124,321) | (122,108) | (8,297) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Payment on notes payable - other | (114,778) | - | (18,000) |
| Payment on capital lease obligation | - | (5,719) | (1,083) |
| Proceeds of stock issuances | 152,500 | 11,457,024 | 3,612,875 |
| Net cash provided by financing activities | 37,722 | 11,451,305 | 3,593,792 |
| NET (DECREASE) INCREASE IN CASH | (6,310,060) | 7,462,732 | 1,302,544 |
| CASH AT BEGINNING OF YEAR | 8,820,196 | 1,357,464 | 54,920 |
| CASH AT END OF YEAR | $ 2,510,136 | $ 8,820,196 | $ 1,357,464 |
| Conversion of accounts payable, debt and accrued interest payable through issuance of common stock | $ - | $ 20,750 | $ 1,511,205 |
| Prepaid expenses funded through issuance of common stock | $ - | $ 216,000 | $ - |
| Cash paid during the year for interest | $ - | $ 1,290 | $ 21,356 |

See accompanying notes

## 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of Business

Celsion Corporation ("Celsion" or the "Company"), a Delaware corporation, is a research and development company dedicated to developing and commercializing medical devices and biotechnologies for the treatment of Benign Prostatic Hyperplasia ("BPH"), cancer and other diseases using focused heat technology delivered by patented microwave technology. The Company is in pivotal Phase II clinical trials of its treatment systems that use focused heat for the treatment of both BPH and breast cancer. The Company is also in the pre-clinical stages of development of a system that would use its focused heat technology in combination with heat-activated liposomes for the thermodynamic treatment of cancer. In addition, the Company has licensed a Cancer Repair Inhibitor ("CRI") from Memorial Sloan-Kettering Cancer Center, which is in pre-clinical development.

### 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 $53,016, $23,648 and $12,845 for the years ended September 30, 2001, 2000 and 1999, 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 accounting principles generally accepted in the United States 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. As a result of these expenditures, as well as related general and administrative expenses the Company had an accumulated deficit of $34 million as of September 30, 2001. The Company expects such operating losses to continue 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. There can be no assurance that the Company will be able to commercialize its technology successfully 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. Subsequent to September 30, 2001 and through December 20, 2001, the Company had realized net proceeds of 3,707,110 in a private placement of units consisting of its common stock and common stock warrants. The Company believes that these additional funds will be sufficient to fund operations through September 30, 2002.

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 markets. 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:

| | 2001 | 2000 |
|---|---|---|
| Materials | $ - | $13,538 |
| Finished products | - | - |
| | $ - | $13,538 |

4. NOTES PAYABLE - OTHER

Notes payable - other consists of a term note without interest and payable on demand that was paid off during the year ended September 30, 2001.

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:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| 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, 2001, the Company had net operating loss carryforwards of approximately $29 million for federal income tax purposes that are available to offset future taxable income through the year 2021.

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

| | 2001 | 2000 |
|---|---|---|
| Net operating loss carryforwards | $ 11,400,000 | $ 9,215,000 |
| Valuation allowance | (11,400,000) | (9,215,000) |
| | $ - | $ - |

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 Series A preferred stock are subject to exchange and conversion privileges upon the occurrence of major events, including a public offering of the Company's securities or the Company's merger into another public company. In addition, the holders of the Series A preferred stock are 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.

As of September 30, 2001, 4,283.55 (including accrued dividends) shares of the Series A preferred stock had been converted into 10,447,690 shares of the Company's common stock and 1,099 shares (including accrued dividends) of the Series A preferred stock remained outstanding.

There are outstanding warrants to purchase 36 shares of Series A preferred stock (convertible into an additional 87,805 shares of common stock) as of September 30, 2001.

8. STOCK OPTIONS AND WARRANTS

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

A summary of the Company's stock option and warrant activity and related information for the years ended September 30, 2001, 2000 and 1999 is as follows:

| | Options/ Warrants Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at October 1, 1998 | 10,603,983 | $.39 |
| Granted | 6,749,627 | .81 |
| Exercised | (587,500) | .25 |
| Expired/cancelled | (112,340) | .52 |
| Outstanding at September 30, 1999 | 16,653,770 | .59 |
| Granted | 1,125,214 | .94 |
| Exercised | (10,247,074) | .70 |
| Expired/cancelled | - | - |
| Outstanding at September 30, 2000 | 7,531,910 | .44 |
| Granted | 8,158,308 | 1.36 |
| Exercised | (585,000) | .35 |
| Expired/cancelled | - | - |
| Outstanding at September 30, 2001 | 15,105,218 | .94 |

Following is additional information with respect to options and warrants outstanding at September 30, 2001:

| | Exercise Price from $.13 to $.51 | Exercise Price from $.60 to $.85 | Exercise Price from $.92 to $1.03 | Exercise Price from $1.19 to $1.60 | Exercise Price from $1.73 to $5.00 |
|---|---|---|---|---|---|
| Outstanding at September 30, 2001: | | | | | |
| Number of options/warrants | 5,948,148 | 1,992,000 | 2,330,470 | 2,923,600 | 1,911,000 |
| Weighted average exercise price | $.18 | $.73 | $.98 | $1.34 | $3.01 |
| Weighted average remaining contractual life in years | 4.41 | 5.63 | 5.12 | 6.10 | 4.55 |
| Exercisable at September 30, 2001: | | | | | |
| Number of options/warrants | 5,948,148 | 952,000 | 1,282,137 | 630,600 | 955,000 |
| Weighted average exercise price | $.18 | $.72 | $.98 | $1.30 | $2.81 |

Subsequent to September 30, 2001, the Company's Chief Executive Officer retired from employment with the Company. In connection with his retirement, unvested stock options to purchase 900,000 shares of the Company's stock with a weighted average exercise price of $1.18 became immediately exercisable.

During the year ended September 30, 2001, the Company entered into agreements with

consultants in which the consultants received stock options in exchange for services. The fair value of these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 5.41%, expected volatility of 50%; expected option life 5 years from vesting and an expected dividend yield of 0%. As a result of these agreements, additional expense of $372,633 was recognized in the year ended September 30, 2001.

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 to employees or directors was recorded during the three years ended September 30, 2001. 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 2001, 2000 and 1999: risk-free interest rate of 4.77%, 6.54% and 5.16% for 2001, 2000 and 1999, 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, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Net loss | $(7,599,676) | $(5,032,715) | $(2,448,402) |
| Net loss per common share - basic | (.11) | (.08) | (.05) |

9. LICENSE AGREEMENTS AND PROPRIETARY RISKS

Through the Company's license agreements with Massachusetts Institute of Technology ("MIT") MMTC, Inc., Duke University ("Duke") and Sloan-Kettering, the Company has exclusive rights, within defined fields of use , of nine United States patents. Three of these patents relate to the treatment of BPH, four relate to thermotherapy for cancer, one relates to heat-sensitive liposomes and one relates to gene therapy.

The MIT, MMTC, Duke and Sloan-Kettering license agreements each contains license fee, royalty and/or research support provisions, testing and regulatory milestones, and other performance requirements that 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 United States patents.

In 1996, the Company entered into a patent license agreement with MIT, pursuant to which the Company obtained exclusive rights to use of MIT's patented APA 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. MIT's technology has been patented in the United States and MIT has patents pending for its technology in China, Europe, Japan and Canada. The term of the Company's 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 the rights continue on a non-exclusive basis for the life of the MIT patents.

The Company entered into a license agreement with MMTC in 1996, for exclusive worldwide rights to MMTC's patents related to its balloon compression technology for the treatment of prostatic disease in humans. The exclusive rights under the MMTC license agreements extend for the life of MMTC's patents. MMTC currently has patents in the United States and Canada. The terms of these patents expire at various times from April 2008 to November 2014. In addition, MMTC also has patent applications pending in Japan and Europe.

On November 10, 1999, the Company entered into a license agreement with Duke under which the Company received exclusive rights (subject to certain exceptions) to commercialize and use Duke's thermo-liposome technology. The license agreement contains annual royalty and minimum payment provisions and also requires 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 the Company 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. The Company is currently renegotiating certain terms of our contractual arrangements with Duke.

The rights under the license agreement with Duke extend for the longer of 20 years or the end of any term for which any relevant patents are issued by the United States Patent and Trademark Office. Currently, the Company has rights to Duke's patent for its thermo-liposome technology in the United States, which expires in 2018, and to future patents received by Duke in Canada, Europe, Japan and Australia, where it has patent applications pending.

The Company entered into a license agreement with Sloan-Kettering in 2000 under which it obtained exclusive rights to Sloan-Kettering's United States patent and to patents that Sloan-Kettering may receive in the future for its heat-sensitive gene therapy in Japan, Canada and Europe, where it has patent applications pending. Rights under the agreement with Sloan-Kettering will terminate at the later of 20 years after the date of the agreement or the last expiration date of any patent rights covered by the agreement.

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

| | |
|---|---|
| 2002 | $294,071 |
| 2003 | 302,779 |
| 2004 | 311,789 |
| 2005 | 239,018 |
| Thereafter | - |

Rent expense for the years ended September 30, 2001, 2000 and 1999 was $227,961, $70,848 and $67,796, respectively.

Rental Income

In the year ended September 30, 2001 the Company began subleasing some of its office/warehouse space to an unrelated party, generating rental income of $45,609. The sublease yields rent of $15,203 per month and ends January 1, 2001. At the end of the lease term, the tenant has the option to renewing its sublease for an additional three months.

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.

Litigation

The Company has initiated legal action against a former director of the Company and the director's related entities who held warrants for the purchase of 4.1 million shares of common stock. The Company has concluded that the warrants should be rescinded because they violated Section 15 of the Securities and Exchange Act of 1934. The original defendants have filed a counterclaim against the Company, certain of its officers and directors and an attorney and law firm that represented the Company alleging certain acts in connection with the warrants. The counterclaim does not request a specific amount of damages.

It is impossible to determine at this point in the litigation the amount of damages, if any that may be awarded against Celsion if it is liable for the claims alleged in the counterclaim. In addition, the Company's insurance carrier has denied liability as to the claims asserted in the counterclaim. However, the Company intends to prosecute this litigation vigorously.

11. CONCENTRATIONS OF CREDIT RISK

As of September 30, 2001, the Company has a concentration of credit represented by cash balances in one large commercial bank in amounts that exceed current federal deposit insurance limits. The financial stability of this institution is continually reviewed by senior management.

12. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Gross profit on sales | $ - | $ 1,858 | $ 1,462 | $ (3,320) |
| General and administrative expenses | (930,600) | (982,792) | (1,127,585) | (170,648) |
| Research and development expenses | (556,375) | (669,820) | (552,934) | (2,296,120) |
| Other income/expense | 112,523 | 94,883 | 62,438 | 93,803 |
| Net loss | $(1,374,452) | $(1,555,871) | $(1,616,619) | $(2,376,285) |
| Net loss per share - basic and diluted | $ (.02) | $ (.02) | $ (.02) | $ (.03) |

13. SUBSEQUENT EVENT

On December 13, 2001, the Company conducted a first closing on a private placement of equity securities consisting of units, each comprised of one share of its common stock and one common stock purchase warrant exercisable for a period of five years at $0.60 per share. The offering is being conducted on a "best efforts, minimum/maximum basis" with a minimum of $3,000,000 and a maximum of $5,000,000 (subject to a $1,250,000 oversubscription allowance). At the first closing, the Company realized gross proceeds of $3,360,000 from the sale of 6,720,000 units, representing net proceeds to the Company of $3,004,986 after deduction of commissions and offering expenses. As of December 20, 2001, the Company had realized gross proceeds of $4,135,826 from the sale of 8,271,652 units, representing net proceeds to the Company of $3,707,110. By its terms, the private placement will terminate on January 31, 2002, unless earlier terminated at the election of the Company.

EXHIBIT 10.7

# CELSION CORPORATION

# 2001 STOCK OPTION PLAN

EFFECTIVE , 2001

CELSION CORPORATION

2001 STOCK OPTION PLAN

1. ESTABLISHMENT, PURPOSE AND TYPES OF AWARDS

Celsion Corporation hereby establishes the CELSION CORPORATION 2001 STOCK OPTION PLAN (the "Plan"). The purpose of the Plan is to promote the long-term growth and profitability of Celsion Corporation (the "Corporation") by (i) providing key people with incentives to improve stockholder value and to contribute to the growth and financial success of the Corporation, and (ii) enabling the Corporation to attract, retain and reward the best available persons for positions of substantial responsibility.

The Plan permits the granting of stock options (including nonqualified stock options and incentive stock options qualifying under Section 422 of the Code) and stock appreciation rights (including free-standing, tandem and limited stock appreciation rights) or any combination of the foregoing (collectively, "Awards").

2. DEFINITIONS

Under this Plan, except where the context otherwise indicates, the following definitions apply:

(a) "Board" shall mean the Board of Directors of the Corporation.

(b) "Change in Control" shall mean: (i) any sale, exchange or other disposition of substantially all of the Corporation's assets or over 50% of its Common Stock; or (ii) any merger, share exchange, consolidation or other reorganization or business combination in which the Corporation is not the surviving or continuing corporation, or in which the Corporation's stockholders become entitled to receive cash, securities of the Corporation other than voting common stock, or securities of another issuer.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

(d) "Committee" shall mean the Board or committee of Board members appointed pursuant to Section 3 of the Plan to administer the Plan.

(e) "Common Stock" shall mean shares of the Corporation's common stock.

(f) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(g) "Fair Market Value" of a share of the Corporation's Common Stock for any purpose on a particular date shall be determined in a manner such as the Committee shall in good faith determine to be appropriate.

(h) "Grant Agreement" shall mean a written agreement between the Corporation and a grantee memorializing the terms and conditions of an Award granted pursuant to the Plan.

(i) "Grant Date" shall mean the date on which the Committee formally acts to grant an Award to a grantee or such other date as the Committee shall so designate at the time of taking such formal action.

(j) "Parent" shall mean a corporation, whether now or hereafter existing, within the meaning of the definition of "parent corporation" provided in Section 424(e) of the Code, or any successor thereto of similar import.

(k) "Rule 16b-3" shall mean Rule 16b-3 as in effect under the Exchange Act on the effective date of the Plan, or any successor provision prescribing conditions necessary to exempt the issuance of securities under the Plan (and further transactions in such securities) from Section 16(b) of the Exchange Act.

(l) "Subsidiary" and "subsidiaries" shall mean only a corporation or corporations, whether now or hereafter existing, within the meaning of the definition of "subsidiary corporation" provided in Section 424(f) of the Code, or any successor thereto of similar import.

3. ADMINISTRATION

(a) Procedure. The Plan shall be administered by the Board. In the alternative, the Board may appoint a Committee consisting of not less than two (2) members of the Board to administer the Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and, thereafter, directly administer the Plan. In the event that the Board is the administrator of the Plan in lieu of a Committee, the term "Committee" as used herein shall be deemed to mean the Board.

Members of the Board or Committee who are either eligible for Awards or have been granted Awards may vote on any matters affecting the administration of the Plan or the grant of Awards pursuant to the Plan, except that no such member shall act upon the granting of an Award to himself or herself, but any such member may be counted in determining the existence of a quorum at any meeting of the Board or the Committee during which action is taken with respect to the granting of an Award to him or her.

The Committee shall meet at such times and places and upon such notice as it may determine. A majority of the Committee shall constitute a quorum. Any acts by the Committee may be taken at any meeting at which a quorum is present and shall be by majority vote of those members entitled to vote. Additionally, any acts reduced to writing or approved in writing by all of the members of the Committee shall be valid acts of the Committee.

(b) Procedure After Registration of Common Stock. Upon and after the point in time that the Common Stock or any other capital stock of the Corporation becomes registered under Section 12 of the Exchange Act, the Board shall take all action necessary to cause the Plan to be administered in accordance with the then effective provisions of Rule 16b-3, provided that any amendment to the Plan required for compliance with such provisions shall be made in accordance with Section 11 of the Plan.

(c) Powers of the Committee. The Committee shall have all the powers vested in it by the terms of the Plan, such powers to include authority, in its sole and absolute discretion, to grant Awards under the Plan, prescribe Grant Agreements evidencing such Awards and establish programs for granting Awards. The Committee shall have full power and authority to take all other actions necessary to carry out the purpose and intent of the Plan, including, but not limited to, the authority to:

(i) determine the eligible persons to whom, and the time or times at which Awards shall be granted,

(ii) determine the types of Awards to be granted,

(iii) determine the number of shares to be covered by or used for reference purposes for each Award,

(iv) impose such terms, limitations, restrictions and conditions upon any such Award as the Committee shall deem appropriate,

(v) modify, extend or renew outstanding Awards, accept the surrender of outstanding Awards and substitute new Awards, provided that no such action shall be taken with respect to any outstanding Award which would adversely affect the grantee without the grantee's consent, and

(vi) accelerate or otherwise change the time in which an Award may be exercised or becomes payable and to waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to such Award, including, but not limited to, any restriction or condition with respect to the vesting or exercisability of an Award following termination of any grantee's employment.

The Committee shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable and to interpret same, all within the Committee's sole and absolute discretion.

(d) Limited Liability. To the maximum extent permitted by law, no member of the Board or Committee shall be liable for any action taken or decision made in good faith relating to the Plan or any Award thereunder.

(e) Indemnification. To the maximum extent permitted by law, the members of the Board and Committee shall be indemnified by the Corporation in respect of all their activities under the Plan.

(f) Effect of Committee's Decision. All actions taken and decisions and determinations made by the Committee on all matters relating to the Plan pursuant to the powers vested in it hereunder shall be in the Committee's sole and absolute discretion and shall be conclusive and binding on all parties concerned, including the Corporation, its stockholders, any participants in the Plan and any other employee of the Corporation, and their respective successors in interest.

4. SHARES AVAILABLE FOR THE PLAN; MAXIMUM AWARDS

Subject to adjustments as provided in Section 10 of the Plan, the shares of stock that may be delivered or purchased or used for reference purposes (with respect to stock appreciation rights) under the Plan, including with respect to incentive stock options intended to qualify under Section 422 of the Code, shall not exceed an aggregate of Ten Million (10,000,000) shares of Common Stock of the Corporation and the Corporation shall reserve said number of shares of Common Stock for issuance pursuant to the Plan. If any Award, or portion of an Award, under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares, the shares subject to such Award shall thereafter be available for further Awards under the Plan.

5. PARTICIPATION

Participation in the Plan shall be open to all employees, officers, directors and consultants of the Corporation, or of any Parent or Subsidiary of the Corporation, as may be selected by the Committee from time to time. Notwithstanding the foregoing, participation in the Plan with respect to Awards of incentive stock options shall be limited to employees of the Corporation, or of any Parent or Subsidiary of the Corporation.

Awards may be granted to such eligible persons and for or with respect to such number of shares of Common Stock as the Committee shall determine, subject to the limitations in Section 4 of the Plan. A grant of any type of Award made in any one year to an eligible person shall neither guarantee nor preclude a further grant of that or any other type of Award to such person in that year or subsequent years.

6. STOCK OPTIONS

Subject to the other applicable provisions of the Plan, the Committee may from time to time grant to eligible participants nonqualified stock options or incentive stock options as that term is defined in Section 422 of the Code. The stock options granted shall be subject to the following terms and conditions.

(a) Grant of Option. The grant of a stock option shall be evidenced by a Grant Agreement, executed by the Corporation and the grantee, stating the number of shares of Common Stock subject to the stock option evidenced thereby and the terms and conditions of such stock option, in such form as the Committee may from time to time determine.

(b) Price. The price per share payable upon the exercise of each stock option ("exercise price") shall be determined by the Committee.

(c) Payment. Stock options may be exercised in whole or in part by payment of the exercise price of the shares to be acquired in accordance with the provisions of the Grant Agreement, and/or such rules and

regulations as the Committee may have prescribed, and/or such determinations, orders, or decisions as the Committee may have made. Payment may be made in cash (or cash equivalents acceptable to the Committee) or, if approved by the Committee, in shares of Common Stock or a combination of cash and shares of Common Stock, or by such other means as the Committee may prescribe. The Fair Market Value of shares of Common Stock delivered on exercise of stock options shall be determined as of the date of exercise. Shares of Common Stock delivered in payment of the exercise price may be previously owned shares or, if approved by the Committee, shares acquired upon exercise of the stock option. Any fractional share will be paid in cash. If approved by the Board of Directors, the Corporation may make or guarantee loans to grantees to assist grantees in exercising stock options and satisfying any related withholding tax obligations.

If the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, the Committee, subject to such limitations as it may determine, may authorize payment of the exercise price, in whole or in part, by delivery of a properly executed exercise notice, together with irrevocable instructions, to: (i) a brokerage firm designated by the Corporation to deliver promptly to the Corporation the aggregate amount of sale or loan proceeds to pay the exercise price and any withholding tax obligations that may arise in connection with the exercise, and (ii) the Corporation to deliver the certificates for such purchased shares directly to such brokerage firm.

(d) Terms of Options. The term during which each stock option may be exercised shall be determined by the Committee; provided, however, that in no event shall a stock option be exercisable more than ten years from the date it is granted. Prior to the exercise of the stock option and delivery of the shares certificates represented thereby, the grantee shall have none of the rights of a stockholder with respect to any shares represented by an outstanding stock option.

(e) Restrictions on Incentive Stock Options. Incentive Stock Options granted under the Plan shall comply in all respects with Code Section 422 and, as such, shall meet the following additional requirements.

(i) Grant Date. An incentive stock option must be granted within 10 years of the earlier of the Plan's adoption by the Board of Directors or approval by the Corporation's shareholders.

(ii) Exercise Price and Term. The exercise price of an incentive stock option shall not be less than 100% of the Fair Market Value of the shares on the date the stock option is granted and the term of the stock option shall not exceed ten years. Also, the exercise price of any incentive stock option granted to a grantee who owns (within the meaning of Section 422(b)(6) of the Code, after the application of the attribution rules in Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of shares of the Corporation or its Parent or Subsidiary corporations (within the meaning of Sections 422 and 424 of the Code) shall be not less than 110% of the Fair Market Value of the Common Stock on the grant date and the term of such stock option shall not exceed five years.

(iii) Maximum Grant. The aggregate Fair Market Value (determined as of the Grant Date) of shares of Common Stock with respect to which all incentive stock options first become exercisable by any grantee in any calendar year under this or any other plan of the Corporation and its Parent and Subsidiary corporations may not exceed $100,000 or such other amount as may be permitted from time to time under Section 422 of the Code. To the extent that such aggregate Fair Market Value shall exceed $100,000, or other applicable amount, such stock options shall be treated as nonqualified stock options. In such case, the Corporation may designate the shares of Common Stock that are to be treated as stock acquired pursuant to the exercise of an incentive stock option by issuing a separate certificate for such shares and identifying the certificate as incentive stock option shares in the stock transfer records of the Corporation.

(iv) Grantee. Incentive stock options shall only be issued to employees of the Corporation, or of a Parent or Subsidiary of the Corporation.

(v) Designation. No stock option shall be an incentive stock option unless so designated by the Committee at the time of grant or in the Grant Agreement evidencing such stock option.

(vi) Stockholder Approval. No stock option issued under the Plan shall be an incentive stock option unless the Plan is approved by the shareholders of the Corporation within 12 months of its adoption by the Board in accordance with the Bylaws and Articles of the Corporation and governing law relating to such matters.

(f) Other Terms and Conditions. Stock options may contain such other provisions, not inconsistent with the provisions of the Plan, as the Committee shall determine appropriate from time to time.

7. STOCK APPRECIATION RIGHTS

(a) Award of Stock Appreciation Rights. Subject to the other applicable provisions of the Plan, the Committee may at any time and from time to time grant stock appreciation rights ("SARs") to eligible participants, either on a free-standing basis (without regard to or in addition to the grant of a stock option) or on a tandem basis (related to the grant of an underlying stock option), as it determines. SARs granted in tandem with or in addition to a stock option may be granted either at the same time as the stock option or at a later time; provided, however, that a tandem SAR shall not be granted with respect to any outstanding incentive stock option Award without the consent of the grantee. SARs shall be evidenced by Grant Agreements, executed by the Corporation and the grantee, stating the number of shares of Common Stock subject to the SAR evidenced thereby and the terms and conditions of such SAR, in such form as the Committee may from time to time determine. The term during which each SAR may be exercised shall be determined by the Committee. In no event shall a SAR be exercisable more than ten years from the date it is granted. The grantee shall have none of the rights of a stockholder with respect to any shares of Common Stock represented by a SAR.

(b) Restrictions of Tandem SARs. No incentive stock option may be surrendered in connection with the exercise of a tandem SAR unless the Fair Market Value of the Common Stock subject to the incentive stock option is greater than the exercise price for such incentive stock option. SARs granted in tandem with stock options shall be exercisable only to the same extent and subject to the same conditions as the stock options related thereto are exercisable. The Committee may, in its discretion, prescribe additional conditions to the exercise of any such tandem SAR.

(c) Amount of Payment Upon Exercise of SARs. A SAR shall entitle the grantee to receive, subject to the provisions of the Plan and the Grant Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one share of Common Stock over (B) the base price per share specified in the Grant Agreement, times (ii) the number of shares specified by the SAR, or portion thereof, which is exercised. In the case of exercise of a tandem SAR, such payment shall be made in exchange for the surrender of the unexercised related stock option (or any portion or portions thereof which the grantee from time to time determines to surrender for this purpose).

(d) Form of Payment Upon Exercise of SARs. Payment by the Corporation of the amount receivable upon any exercise of a SAR may be made by the delivery of Common Stock or cash, or any combination of Common Stock and cash, as determined in the sole discretion of the Committee from time to time. If upon settlement of the exercise of a SAR a grantee is to receive a portion of such payment in shares of Common Stock, the number of shares shall be determined by dividing such portion by the Fair Market Value of a share of Common Stock on the exercise date. No fractional shares shall be used for such payment and the Committee shall determine whether cash shall be given in lieu of such fractional shares or whether such fractional shares shall be eliminated.

8. WITHHOLDING OF TAXES

The Corporation may require, as a condition to the grant of any Award under the Plan or exercise pursuant to such Award or to the delivery of certificates for shares issued or payments of cash to a grantee pursuant to the Plan or a Grant Agreement (hereinafter collectively referred to as a "taxable event"), that the grantee pay to the Corporation, in cash or, if approved by the Corporation, in shares of Common Stock, including shares acquired upon grant of the Award or exercise of the Award, valued at Fair Market Value on the date as of which the withholding tax liability is determined, any federal, state or local taxes of any kind

required by law to be withheld with respect to any taxable event under the Plan. The Corporation, to the extent permitted or required by law, shall have the right to deduct from any payment of any kind (including salary or bonus) otherwise due to a grantee any federal, state or local taxes of any kind required by law to be withheld with respect to any taxable event under the Plan, or to retain or sell without notice a sufficient number of the shares to be issued to such grantee to cover any such taxes.

9. TRANSFERABILITY

No Award granted under the Plan shall be transferable by a grantee otherwise than by will or the laws of descent and distribution. Unless otherwise determined by the Committee in accord with the provisions of the immediately preceding sentence, an Award may be exercised during the lifetime of the grantee, only by the grantee or, during the period the grantee is under a legal disability, by the grantee's guardian or legal representative.

10. ADJUSTMENTS; BUSINESS COMBINATIONS

In the event of a reclassification, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, or other similar event, the maximum number and kind of shares reserved for issuance or with respect to which Awards may be granted under the Plan as provided in Section 4 shall be adjusted to reflect such event, and the Committee shall make such adjustments as it deems appropriate and equitable in the number, kind and price of shares covered by outstanding Awards made under the Plan, and in any other matters which relate to Awards and which are affected by the changes in the Common Stock referred to above.

In the event of any proposed Change in Control, the Committee shall take such action as it deems appropriate and equitable to effectuate the purposes of this Plan and to protect the grantees of Awards, which action may include, but without limitation, any one or more of the following: (i) acceleration or change of the exercise and/or expiration dates of any Award to require that exercise be made, if at all, prior to the Change in Control; (ii) cancellation of any Award upon payment to the holder in cash of the Fair Market Value of the Common Stock subject to such Award as of the date of (and, to the extent applicable, as established for purposes of) the Change in Control, less the aggregate exercise price, if any, of the Award; and (iii) in any case where equity securities of another entity are proposed to be delivered in exchange for or with respect to Common Stock of the Corporation, arrangements to have such other entity replace the Awards granted hereunder with awards with respect to such other securities, with appropriate adjustments in the number of shares subject to, and the exercise prices under, the award.

The Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in the preceding two paragraphs of this Section 10) affecting the Corporation, or the financial statements of the Corporation or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

In the event the Corporation dissolves and liquidates (other than pursuant to a plan of merger or reorganization), then notwithstanding any restrictions on exercise set forth in this Plan or any Grant Agreement, or other agreement evidencing a stock option or stock appreciation right: (i) each grantee shall have the right to exercise his stock option or stock appreciation right at any time up to ten (10) days prior to the effective date of such liquidation and dissolution; and (ii) the Committee may make arrangements with the grantees for the payment of appropriate consideration to them for the cancellation and surrender of any stock option or stock appreciation right that is so canceled or surrendered at any time up to ten (10) days prior to the effective date of such liquidation and dissolution. The Committee may establish a different period (and different conditions) for such exercise, delivery, cancellation, or surrender to avoid subjecting the grantee to liability under Section 16(b) of the Exchange Act. Any stock option or stock appreciation right not so exercised, canceled, or surrendered shall terminate on the last day for exercise prior to such effective date.

Except as hereinbefore expressly provided, issuance by the Corporation of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warranty to subscribe therefore, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted or the purchase price per share of Common Stock subject to Awards.

11. TERMINATION AND MODIFICATION OF THE PLAN

The Board, without further approval of the stockholders, may modify or terminate the Plan or any portion thereof at any time, except that no modification shall become effective without prior approval of the stockholders of the Corporation to increase the number of shares of Common Stock subject to the Plan or if stockholder approval is necessary to comply with any tax or regulatory requirement or rule of any exchange or Nasdaq System upon which the Common Stock is listed or quoted (including for this purpose stockholder approval that is required for continued compliance with Rule 16b-3 or stockholder approval that is required to enable the Committee to grant incentive stock options pursuant to the Plan).

The Committee shall be authorized to make minor or administrative modifications to the Plan as well as modifications to the Plan that may be dictated by requirements of federal or state laws applicable to the Corporation or that may be authorized or made desirable by such laws. The Committee may amend or modify the grant of any outstanding Award in any manner to the extent that the Committee would have had the authority to make such Award as so modified or amended. No modification may be made that would materially adversely affect any Award previously made under the Plan without the approval of the grantee.

12. NON-GUARANTEE OF EMPLOYMENT

Nothing in the Plan or in any Grant Agreement thereunder shall confer any right on an employee to continue in the employ of the Corporation or shall interfere in any way with the right of the Corporation to terminate an employee at any time.

13. TERMINATION OF EMPLOYMENT

For purposes of maintaining a grantee's continuous status as an employee and accrual of rights under any Award, transfer of an employee among the Corporation and the Corporation's Parent or Subsidiaries shall not be considered a termination of employment. Nor shall it be considered a termination of employment for such purposes if an employee is placed on military or sick leave or such other leave of absence which is considered as continuing intact the employment relationship; in such a case, the employment relationship shall be continued until the date when an employee's right to reemployment shall no longer be guaranteed either by law or contract.

14. WRITTEN AGREEMENT

Each Grant Agreement entered into between the Corporation and a grantee with respect to an Award granted under the Plan shall incorporate the terms of this Plan and shall contain such provisions, consistent with the provisions of the Plan, as may be established by the Committee.

15. NON-UNIFORM DETERMINATIONS

The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

16. LIMITATION ON BENEFITS

With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

17. LISTING AND REGISTRATION

If the Corporation determines that the listing, registration or qualification upon any securities exchange or upon any listing or quotation system established by the National Association of Securities Dealers, Inc. ("Nasdaq System") or under any law, of shares subject to any Award is necessary or desirable as a condition of, or in connection with, the granting of same or the issue or purchase of shares thereunder, no such Award may be exercised in whole or in part and no restrictions on such Award shall lapse, unless such listing, registration or qualification is effected free of any conditions not acceptable to the Corporation.

18. COMPLIANCE WITH SECURITIES LAW

The Corporation may require that a grantee, as a condition to exercise of an Award, and as a condition to the delivery of any share certificate, provide to the Corporation, at the time of each such exercise and each such delivery, a written representation that the shares of Common Stock being acquired shall be acquired by the grantee solely for investment and will not be sold or transferred without registration or the availability of an exemption from registration under the Securities Act and applicable state securities laws. The Corporation may also require that a grantee submit other written representations which will permit the Corporation to comply with federal and applicable state securities laws in connection with the issuance of the Common Stock, including representations as to the knowledge and experience in financial and business matters of the grantee and the grantee's ability to bear the economic risk of the grantee's investment. The Corporation may require that the grantee obtain a "purchaser representative" as that term is defined in applicable federal and state securities laws. The stock certificates for any shares of Common Stock issued pursuant to this Plan may bear a legend restricting transferability of the shares of Common Stock unless such shares are registered or an exemption from registration is available under the Securities Act and applicable state securities laws. The Corporation may notify its transfer agent to stop any transfer of shares of Common Stock not made in compliance with these restrictions. Common Stock shall not be issued with respect to an Award granted under the Plan unless the exercise of such Award and the issuance and delivery of share certificates for such Common Stock pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any national securities exchange or Nasdaq System upon which the Common Stock may then be listed or quoted, and shall be further subject to the approval of counsel for the Corporation with respect to such compliance to the extent such approval is sought by the Committee.

19. NO TRUST OR FUND CREATED

Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Corporation and a grantee or any other person. To the extent that any grantee or other person acquires a right to receive payments from the Corporation pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

20. NO LIMIT ON OTHER COMPENSATION ARRANGEMENTS

Nothing contained in the Plan shall prevent the Corporation or its Parent or Subsidiary corporations from adopting or continuing in effect other compensation arrangements (whether such arrangements be generally applicable or applicable only in specific cases) as the Committee in its discretion determines desirable, including without limitation the granting of stock options, stock awards, stock appreciation rights or phantom stock units otherwise than under the Plan.

21. NO RESTRICTION OF CORPORATE ACTION

Nothing contained in the Plan shall be construed to prevent the Corporation or any Parent or Subsidiary from taking any corporate action which is deemed by the Corporation or such Parent or Subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award issued under the Plan. No employee, beneficiary or other person shall have any claim against the Corporation or any Parent or Subsidiary as a result of such action.

22. GOVERNING LAW

The validity, construction and effect of the Plan, of any Grant Agreements entered into pursuant to the Plan, and of any rules, regulations, determinations or decisions made by the Board or Committee relating to the Plan or such Grant Agreements, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with applicable federal laws and the laws of the State of Delaware without regard to its conflict of laws rules and principles.

23. PLAN SUBJECT TO ARTICLES AND BY-LAWS

This Plan is subject to the Articles and By-Laws of the Corporation, as they may be amended from time to time.

24. EFFECTIVE DATE; TERMINATION DATE

The Plan is effective as of the date on which the Plan was adopted by the Board; provided that no stock options issued hereunder shall be treated as incentive stock options, regardless of the designation in the Grant Agreement, unless the Plan is approved by the shareholders of the Corporation as provided in Section 6(e)(vi). No Award shall be granted under the Plan after the close of business on the day immediately preceding the tenth anniversary of the effective date of the Plan. Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to such termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.

Date Approved by the Board: February 21, 2001

Date Approved by the Shareholders:

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EXHIBIT 10.21

# EXECUTIVE EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of the 9th day of April 2001 between DANIEL S. REALE (the "Executive"), an individual residing at 16 Goodnough Road, Brookline, MA 02467, and CELSION CORPORATION (the "Company"), a Maryland corporation with offices at 10220-1 Old Columbia Road, Columbia, Maryland 21046-1705.

WITNESSETH:

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 Executive Vice President and President of the BPH 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, 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 have general supervision over the BPH Business and 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 President and CEO 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 Boston, Massachusetts, but the duties of the Executive shall include such periodic visits to the Company's headquarters in Columbia, Maryland and 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 and the Company mutually determine is reasonably required in the performance of the Executive's responsibilities.

2. TERM.

2.1 The term of this Agreement will commence as of April 9, 2001 and will terminate at the close of business on April 8, 2004, 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 Initial Term or any Renewal Term of the election of the Corporation or Executive to terminate the employment of the Executive at the end of the Initial 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 $200,000. 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 bi-weekly installments in keeping with the Company's standard payroll policies applicable to its senior executives.

4. ANNUAL PERFORMANCE BASED BONUS

4.1 The Executive will be eligible for an annual bonus payment in the range of 0 -100% of Base Salary, for the previous financial year.

Payment of the bonus is contingent on meeting or exceeding agreed upon objectives, as determined by the Board of Directors, in its sole discretion. For the calendar year 2001 the Executive will be paid a minimum annual bonus of $50,000 prorated for the partial year from the date of commencement of employment. This bonus will be paid in equal installments with the Executive's bi-weekly salary payment.

4. OPTION TO ACQUIRE COMMON STOCK.

4.1 The Company hereby grants to Executive as a bonus (the "Bonus Option"), a non-qualified stock option to acquire five hundred thousand (500,000) (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 upon exercise of the stock options constituting the Bonus shall be $1.03/share. The options to acquire the 500,000 shares of Common Stock shall vest in accordance with the following vesting schedule: Executive may exercise his option to acquire one hundred sixty seven thousand (167,000) shares on or after April 9, 2001, his option to acquire one hundred sixty-seven thousand (167,000) shares on or after April 9 2002, and his option to acquire one hundred sixty-six thousand (166,000) shares after April 9, 2003. If the Executive is not employed by the Company on any of the three vesting dates, he shall no longer be entitled to exercise his option(s) to acquire Common Stock vesting on or after such date. Subject to the limitations set forth in this Agreement, the Executive may exercise the stock options constituting the Bonus, at any time prior to 5:00 PM (New York time) on April 9,2011 (the "Expiration Date"), upon notice to the Company at its principal office at 10220-1 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), after which time all unexercised options shall expire and be of no further legal force or effect.

4.2 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 upon exercise of the Bonus Option. 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 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. Common Stock issued on exercise of the Bonus Option may be sold by the Executive in transactions permitted by the provisions of Rule 144 of the Securities Act of 1933. Common Stock issued upon exercise of the Bonus Option shall bear an appropriate restrictive legend referring to the provisions hereof.

5. ADDITIONAL PERFORMANCE BASED OPTIONS.

5.1 As a form of incentive compensation to Executive, the Executive, the Company hereby grants to Executive a non-qualified stock option to acquire from the Company, on an original issue basis, an aggregate of four hundred thousand (400,000) fully paid and non-assessable 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 (the "Performance Option").

5.2 For purpose of this Section 5:

A. Corporate Milestones. The Performance Option to acquire Common Stock shall vest and thereafter be available for exercise in tranches as indicated herein if, and at any time after, the Company has achieved the following Milestones:

- Satisfactory completion of enrollment for the BPH clinical trials no later than October 31, 2001. (Tranche: 80,000 shares).
- Obtain pre-marketing approval from the United States Food and Drug Administration for commercialization of the Company's BPH treatment system (Tranche: 80,000 shares).
- Place 50 machines within the first year of commercialization (Tranche: 80,000 shares).
- Achieve profitability goals for year I (Tranche: 80,000 shares).
- Achieve profitability goals for year II (Tranche: 80,000 shares).

B. Exercise Price. The exercise price payable per share for each stock option exercised after the occurrence of a Milestone shall be as follows:

Upon achieving the first Milestone, $1.12 per share;
Upon achieving the second Milestone, $1.23 per share;
Upon achieving the third Milestone, $1.32 per share;
Upon achieving the fourth Milestone, $1.43 per share;
Upon achieving the fifth Milestone, $1.52 per share.

C. Exercise of Performance Option. Subject to the limitations set forth in this Agreement, the Executive may exercise the Performance Option at any time on or after the date on which the applicable Milestone is achieved and so long as he is employed by the Company, but not later than the Expiration Date, upon notice to the Company at its

principal office at 10220-1 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. 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 Performance Option may be exercised without regard to the sequence in which the Milestones have been achieved. A Notice of Exercise of the Performance 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 Performance 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 Performance 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 exercise 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 to the Executive upon achievement of the Milestones set forth herein.

E. Anti-Dilution Provisions.

(1) Adjustment of Number of Shares of Common Stock. Notwithstanding anything in this Section 5.2E to the contrary, 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 exercise 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 Section 5.2E to the contrary, the Company shall not be required to give effect to any adjustment in the exercise price unless and until the net effect of one or more adjustments, determined as above provided, shall have require 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 exercise price by at least one cent, such change in the exercise price shall thereupon be given effect.

(3) Number of Shares of Common Stock Adjusted. Upon any adjustment of the exercise price other than pursuant to Section 5.2E(1) hereof, the Executive shall thereafter (until another such adjustment) be entitled to purchase, at the new exercise 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 exercise price in effect on the date hereof and dividing the product so obtained by the new exercise price.

G. Adjustments in the Event of a Recapitalization or Similar Transaction. In the event of a reclassification, recapitalization, stock split, reverse stock split, stock dividend or combination of shares,

or other similar event, the number and class of shares issuable to the Executive upon exercise of either the Bonus Option or Performance Option shall be adjusted to reflect such event.

H. Acceleration Upon Change of Control. Notwith- standing any language to the contrary contained herein, if this Agreement is in effect at the time of the occurrence of a "Change of Control" event, the Bonus Option and Performance Option shall automatically vest 100% and immediately become exercisable upon the occurrence of the Change of Control event. For purposes of this Agreement, "Change of Control" event has the meaning set forth in Section 11.1 hereof.

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 therefore, utilizing procedures and forms for that purpose as established by Company from time to time. In the event, at some time in the future, the Company requests and the Executive agrees to relocate to the Baltimore/Washington area, the Company will reimburse in full of the actual amount of all relocation expenses incurred by the Executive in moving from his present residence to the area in and around the headquarters of the Company. The reimbursement of relocation expenses will be "grossed up" by such amount as is necessary to cover the Executive's federal, state and local income tax liability arising from such payments.

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 twelve (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 the Company.

8. EMPLOYEE BENEFIT PROGRAMS, ETC.

8.1 The Company shall provide the Executive with a cash allowance in the amount of $450.00 per month to cover use of the Executive's personal automobile in the performance of Executive's duties. The Company will also either provide or pay or reimburse the Executive for the costs of a cellular telephone.

8.2 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.

8.3 Nothing contained herein shall prevent the Company from at any time increasing the compensation provided to be paid to Executive herein, 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) any stock option issued as part of the Bonus Option or Performance Option that was exercisable at the date of death may be exercised by the legal representative of the Executive's estate at any time or times during the period beginning on the date of death and ending one year after the date of death, or until the expiration of the stated term of such stock option, whichever period is shorter, and any stock option not exercisable at the date of death shall be forfeited.

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. At 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 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 payment 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.

9.4 In the event the Executive's employment is terminated due to Disability, in addition to receipt of the Base Salary payments described in Section 9.2, any stock option issued as part of the Bonus or Performance Option that was exercisable at the date of Disability may be exercised by the Executive or his legal representative at any time or times during the period beginning on the date of Disability and ending one year after the date of Disability, or until the expiration of the stated term of such stock option, whichever period is shorter, and any stock option not exercisable at the date of Disability shall be forfeited.

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; or

(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 (ii) or (iv) unless:

(a) the Executive has received at least fifteen (15) 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 thirty (30) 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) any stock options not exercised prior to the date of termination shall automatically be forfeited by the Executive, and the Executive 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.

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 l3d-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; (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; or (C) the Company sells substantially all of its assets to a purchaser other than a subsidiary. 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's 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 or changes.

11.3 Upon the termination of this Agreement in accordance with Section 11.2 above, 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 opportunity to exercise any stock option issued as part of the Bonus Option or Performance Option that was exercisable at the date of termination may be exercised by the Executive at any time or times during the period beginning on the effective date of termination and ending one year after the date of termination, or until the expiration of the stated term of such stock option, whichever period is shorter, and any stock option not exercisable upon the effective date of termination shall be forfeited;

(c) A severance payment equal to 2.99 times the Base Salary in effect on the date of termination, payable at the election of the Executive, in either a lump sum payment payable immediately upon termination or over the course of the year immediately following the termination date; 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.

11.4 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.

11.5 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.

11.6 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.

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, 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.

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 thirty (30) days following the date of termination, to exercise any unexercised option to acquire Common Stock under either Section 4 or Section 5 hereof that was exercisable by the Executive on the date 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.

13. RESTRICTIVE COVENANTS; COMPENSATION.

13.1 During such time as this Agreement shall be in effect, and as otherwise explicitly stated herein, for a period of three (3) years following the termination of Executive's employment with Cause, or one (1) year after voluntary termination of this Agreement by the Executive, 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, know-how, 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' 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 twelve (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, (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 recover 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.

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 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
10220-1 Old Columbia Road
Columbia, Maryland 21046-1705
Attention: Board of Directors

With a copy to:
Venable, Baetjer and Howard, LLP
Mercantile Bank and Trust Building
Two Hopkins Plaza Suite 1800
Baltimore, Maryland 21201
Attention: Greg Cross

If to Executive: Mr. Daniel S. Reale

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With a copy to:

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

16. DISPUTES. The parties shall attempt in good faith to resolve all claims, disputes and other disagreements arising hereunder by negotiation. In the event that a dispute between the parties cannot be resolved within thirty (30) days of written notice from one party to the other party, such dispute shall, at the request of either party, after providing written notice to the other party, be submitted to arbitration in Columbia, Maryland in accordance with the arbitration rules of the American Arbitration Association then in effect. The notice of arbitration shall specifically describe the claims, disputes or other matters in issue to be submitted to arbitration. The parties shall jointly select a single arbitrator who shall have the authority to hold hearings and to render a decision in accordance with the arbitration rules of the American Arbitration Association. If the parties are unable to agree within ten (10) days, the arbitrator shall be selected by the Chief Judge of the Circuit Court for Howard County. The discovery rights and procedures provided by the Federal Rules of Civil Procedure shall be available and enforceable in the arbitration proceeding. The written decision of the arbitrator so appointed shall be conclusive and binding on the parties and enforceable by a court of competent jurisdiction. The expenses of the arbitration shall be borne equally by the parties to the arbitration, and each party shall pay for and bear the cost of its own experts, evidence and legal counsel, unless the arbitrator rules otherwise in the arbitration. Both parties agree to use their best efforts to cause a final decision to be rendered with respect to the matter submitted to arbitration within sixty (60) days after its submission.

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 circumstances, 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 claims shall survive termination of Executive's employment or termination of this Agreement.

17.7 Executive may not assign 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:
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Spencer J. Volk, President

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Daniel S. Reale

RE: Executive Employment Agreement

Dear :

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 Option shares or Performance Option shares. If, in connection with such borrowing, you are requested by the lending institution to pledge the Bonus Option shares or the Performance Option 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,

Spencer J. Volk
President & C.E.O.

Agreed to:

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THE SECURITIES REPRESENTED HEREBY AND ISSUABLE UPON EXERCISE THEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. SUCH SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION THEREUNDER OR EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

CELSION CORPORATION
WARRANT TO PURCHASE SHARES OF COMMON STOCK

VOID AFTER _____ _____, 200_

1. Warrant to Purchase Common Stock.

1.1 Warrant to Purchase Shares. This warrant (this "Warrant") certifies that for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, _____ (the "Warrant Holder") is entitled, effective as of _____, 200_, subject to the terms and conditions of this Warrant to purchase from Celsion Corporation, a Delaware corporation (the "Company") up to a total of_____ shares of Common Stock, par value $0.01 per share, of the Company (the "Shares") at the price of $0.60 per share (the "Exercise Price") prior to 5:00 p.m. prevailing Eastern time on _____ _____, 200_ (the "Expiration Date"). The Warrant must be exercised, in whole or in part, any time on or before the Expiration Date, subject to earlier call by the Company as provided herein. Unless the context otherwise requires, the term "Shares" shall mean and include the Common Stock of the Company and other securities and property at any time receivable or issuable upon exercise of this Warrant. The term "Warrant" as used herein, shall include this Warrant and any warrants delivered in substitution or exchange therefor as provided herein.

1.2 Adjustment of Exercise Price and Number of Shares. The number and character of Shares issuable upon exercise of this Warrant (or any shares of stock or other securities or property at the time receivable or issuable upon exercise of this Warrant) and the Exercise Price therefor, are subject to adjustment upon occurrence of the following events:

(a) Adjustment for Stock Splits, Stock Dividends, Recapitalizations, etc. The Exercise Price of this Warrant and the number of Shares issuable upon exercise of this Warrant each shall be proportionally adjusted to reflect any stock dividend, stock split, reverse stock split,

combination of shares, reclassification, recapitalization or other similar event altering the number of outstanding shares of the Company's Common Stock.

(b) Adjustment for Other Dividends and Distributions. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the Shares payable in securities of the Company then, and in each such case, the Warrant Holder, on exercise of this Warrant at any time after the consummation, effective date or record date of such event, shall receive, in addition to the Shares (or such other stock or securities) issuable on such exercise prior to such date, the securities of the Company to which such Warrant Holder would have been entitled upon such date if such Warrant Holder had exercised this Warrant immediately prior thereto (all subject to further adjustment as provided in this Warrant).

(c) Adjustment for Capital Reorganization, Consolidation, Merger. If any capital reorganization of the capital stock of the Company, or any consolidation or merger of the Company with or into another corporation, or the sale of all or substantially all of the Company's assets to another corporation shall be effected in such a way that holders of the Company's Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for the Company's Common Stock, then in each such case the Warrant Holder, upon the exercise of this Warrant at any time after the consummation of such capital reorganization, consolidation, merger, or sale, shall be entitled to receive, in lieu of the stock or other securities and property receivable upon the exercise of this Warrant prior to such consummation, the stock or other securities or property to which such Warrant Holder would have been entitled upon such consummation if such Warrant Holder had exercised this Warrant immediately prior to the consummation of such capital reorganization, consolidation, merger, or sale, all subject to further adjustment as provided in this Section 1.2; and in each such case, the terms of this Warrant shall be applicable to the shares of stock or other securities or property receivable upon the exercise of this Warrant after such consummation.

2. Manner of Exercise.

2.1 Warrant Exercise Agreement. This Warrant may be exercised, in whole or in part, on any business day on or prior to the Expiration Date, subject to earlier call by the Company as provided herein. To exercise this Warrant, the Warrant Holder must surrender to the Company this Warrant and deliver to the Company: (a) a duly executed exercise agreement in the form attached hereto as Exhibit A, or in such other form as may be approved by the Company from time to time (the "Warrant Exercise Agreement"); (b) if applicable, a spousal consent in the form attached hereto as Exhibit B; and (c) payment in full of the Exercise Price for the number of Shares to be purchased upon exercise hereof. If someone other than the Warrant Holder exercises this Warrant, then such person must submit to the Company each of the items set forth in clauses (a) through (c) of the foregoing sentence and, in addition, must submit documentation acceptable to the Company that such person has the right to exercise this Warrant. Upon a partial exercise, this Warrant shall be surrendered, and a new Warrant of the same tenor for purchase of the number of remaining Shares not previously purchased shall be issued by the Company to the Warrant Holder. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender of, if such date is not a business day, then as of the close of business on the next succeeding business day, for exercise as provided above, and the person entitled to receive the Shares issuable upon such exercise shall be treated for all purposes as the holder of record of such Shares as of the close of business on such deemed exercise date.

2.2 Limitations on Exercise. This Warrant may not be exercised as to fewer than One Hundred (100) Shares unless it is exercised as to all Shares as to which this Warrant is then exercisable.

2.3 Payment. The Warrant Exercise Agreement shall be accompanied by full payment of the Exercise Price for the Shares being purchased in cash (by certified or cashier's check or wire transfer or other immediately available funds) or, where permitted by law and provided that a public market for the Company's stock exists, (a) through a "same day sale" commitment from the Warrant Holder and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer"), whereby the Warrant Holder irrevocably elects to exercise this Warrant and to sell a portion of the Shares so purchased to pay for the Exercise Price and whereby the NASD Dealer irrevocably commits, upon receipt of such Shares, to forward the Exercise Price directly to the Company or (b) through a "margin" commitment from the Warrant Holder and an NASD Dealer, whereby the Warrant Holder irrevocably elects to exercise this Warrant and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company.

2.4 Tax Withholding. Prior to the issuance of the Shares upon exercise of this Warrant, the Warrant Holder must pay or provide for any applicable federal or state withholding obligations of the Company.

2.5 Issuance of Shares. Provided that the Warrant Exercise Agreement and payment have been received by the Company as provided above, the Company shall issue the Shares (adjusted as provided herein) registered in the name of the Warrant Holder, the Warrant Holder's authorized assignee, or the Warrant Holder's legal representative, and shall deliver one or more certificates representing the Shares as the Warrant Holder reasonably may request with the appropriate legends affixed thereto.

3. Registration Rights. The Shares will have the registration rights as provided for in Section 4 of the Subscription Agreement entered into between the Company and the Warrant Holder in connection with the issuance and purchase of this Warrant (the "Subscription Agreement").

4. Redemption. The Company, at its sole discretion, may, at any time and from time to time after January 31, 2002, redeem and cancel all or any part of the outstanding Warrants upon the payment of consideration consisting of one cent ($0.01) for each Warrant redeemed and cancelled; provided, however, that any such redemptions and cancellations may be made by the Company only upon thirty (30) calendar days' prior written notice (the "Redemption Date" being the close of business on the thirtieth (30th) day following the date the notice is deemed to be given to Warrant Holders pursuant to Section 9 hereof) and only if the closing sales price for a share of the Company's Common Stock as reported on the American Stock Exchange or similar national market has been equal to or greater than $1.50 for any period of at least ten (10) consecutive trading days commencing on or after February 1, 2002; and provided further that the holder of any Warrant subject to such redemption and cancellation may exercise such Warrant at any time prior to the expiration of the thirty (30)-day notice period; and provided further that the Company's right to redeem and cancel the Warrant shall be suspended in the event the shelf registration statement required under Section 4 of the Subscription Agreement is subject to a stop

order or is otherwise not in effect or if a Warrant Holder is advised under Section 4(c) of the Subscription Agreement that the prospectus thereto contains a material misstatement or omission during any portion of the thirty (30)-day notice period, with such suspension to terminate and the Company's right to redeem and cancel to be reinstated on the date following the date on which (i) a registration statement covering the Shares is effective and not subject to any stop orders and (ii) the Company has delivered to the Warrant Holder a prospectus covering the Shares of such Warrant Holder under Section 4(c) of the Subscription Agreement. The notice period shall then be extended for a period equal to the number of days during the notice period during which registration was not effective or the prospectus was not available or contained a material misstatement or omission. If less than all of the outstanding Warrants are redeemed and cancelled, Warrants shall be redeemed and cancelled on a pro rata basis.

5. Compliance with Laws and Regulations. The exercise of this Warrant and the issuance and transfer of Shares shall be subject to compliance by the Company and the Warrant Holder with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange and/or over-the-counter market on which the Company's Common Stock may be listed at the time of such issuance or transfer.

6. Transfer and Exchange. This Warrant and the rights hereunder may not be transferred in whole or in part without the Company's prior written consent, which consent shall not be unreasonably withheld, and may not be transferred unless such transfer complies with all applicable securities laws. If a transfer of all or part of this Warrant is permitted as provided in the preceding sentence, then this Warrant and all rights hereunder may be transferred, in whole or in part, on the books of the Company or its agent maintained for such purpose at the principal office of the Company or its agent, by the Warrant Holder hereof in person or by duly authorized attorney, upon surrender of this Warrant properly endorsed and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. Upon any permitted partial transfer, the Company will issue and deliver to the Warrant Holder a new Warrant or Warrants of like tenor with respect to the portion of the Warrant not so transferred. Each taker and holder of this Warrant or any portion hereof, by taking or holding the same, consents and agrees to be bound by the terms, conditions, representations and warranties hereof, including the registration provisions contained in Section 4 of the Subscription Agreement, (and as a condition to any transfer of this Warrant the transferee shall execute an agreement confirming the same), and, when this Warrant shall have been so endorsed, the person in possession of this Warrant may be treated by the Company, and all other persons dealing with this Warrant, as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented hereby, any notice to the contrary notwithstanding; provided, however that until a transfer of this Warrant is duly registered on the books of the Company or its agent, the Company may treat the Warrant Holder hereof as the owner of this Warrant for all purposes.

7. Privileges of Stock Ownership. The Warrant Holder shall not have any of the rights of a shareholder with respect to any Shares until such time, if any, as the Warrant Holder exercises this Warrant and pays the Exercise Price in accordance with the terms hereof.

8. Entire Agreement. The Warrant Exercise Agreement is incorporated herein by reference. This Warrant, the Warrant Exercise Agreement, and the Subscription Agreement for the purposes and to the extent set forth herein, constitute the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof.

9. Notices. Any notice required to be given or delivered to the Company under the terms of this Warrant shall be in writing and addressed to the Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to the Warrant Holder shall be in writing and addressed to the Warrant Holder at the address indicated below or at such other address as such party may designate in writing from time to time to the Company. All notices shall be deemed to have been given or delivered: upon personal delivery; five (5) calendar days after deposit in the United States mail by certified or registered mail (return receipt requested) with postage thereon prepaid; one (1) business day after deposit for next business day delivery with any return receipt express courier (prepaid); or one (1) business day after transmission by fax or telecopier with confirmation of transmission thereof.

10. Successors and Assigns. This Warrant shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Warrant shall be binding upon the Warrant Holder and the Warrant Holder's heirs, executors, administrators, legal representatives, successors and assigns.

11. Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Maryland as such laws are applied to agreements between Maryland residents entered into and to be performed entirely within Maryland.

12. Acceptance. The Warrant Holder has read and understands the terms and provisions of this Warrant, and accepts this Warrant subject to all the terms and conditions hereof. The Warrant Holder acknowledges that there may be adverse tax consequences upon exercise of this Warrant or disposition of the Shares and that the Warrant Holder should consult a tax adviser prior to such exercise or disposition.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its _____ ____, 200.

CELSION CORPORATION

Signed:
---

Printed:
---

Title:
---

Address:
10220-I Old Columbia Road
Columbia, Maryland 21046-1785

[SIGNATURE PAGE TO WARRANT]

EXHIBIT A

CELSION CORPORATION
WARRANT EXERCISE AGREEMENT

CELSION CORPORATION
10220-I Old Columbia Road
Columbia, Maryland 21046-1785
Attention: Chief Financial Officer

The Warrant Holder hereby elects to purchase the number of shares (the "Shares") of the Common Stock, par value $0.01 per share, of Celsion Corporation (the "Company") as set forth below, pursuant to that certain Warrant dated as of the date set forth below (the "Warrant"), the terms and conditions of which are hereby incorporated by reference (please print):

Warrant Holder: _____

Social Security or Tax I.D. No.: _____

Address: _____

- ---

Warrant Date: _____

Date of Exercise: _____

Exercise Price Per Share: _____

Number of Shares Subject to Exercise and Purchase: _____

Total Exercise Price: _____

Exact Name of Title to Shares: _____

- ---

The Warrant Holder hereby delivers to the Company the Total Exercise Price as follows (check and complete as appropriate):

1. in cash in the amount of $_____, receipt of which is acknowledged by the Company;

2. through a "same-day-sale" commitment from the Warrant Holder and the broker named below in the amount of $_____ and substantially in the form attached hereto as Attachment 1; or

3. through a "margin" commitment from the Warrant Holder and the broker named below in the amount of $_____ and substantially in the form attached hereto as Attachment 2.

Broker Name:_____ Brokerage Firm:_____

Tax Consequences. THE COMPANY IS UNDER NO OBLIGATION TO REPORT THE EXERCISE OF THIS WARRANT TO THE INTERNAL REVENUE SERVICE OR ANY TAXING AUTHORITY OF ANY STATE, LOCAL OR OTHER JURISDICTION. THE WARRANT HOLDER UNDERSTANDS THAT HE, SHE

OR IT MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF THE WARRANT HOLDER'S PURCHASE OR DISPOSITION OF THE SHARES. THE WARRANT HOLDER REPRESENTS THAT HE, SHE OR IT HAS CONSULTED WITH ANY TAX CONSULTANT(S) THE WARRANT HOLDER DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND THAT THE WARRANT HOLDER IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE.

---

Name of Warrant Holder

---

Signature of Warrant Holder

---

Printed Name

---

Title

EXHIBIT B

SPOUSAL CONSENT

The undersigned spouse of the Warrant Holder has read, understands, and hereby approves the Warrant Exercise Agreement between the Warrant Holder and the Company (the "Agreement"). In consideration of the Company's granting the Warrant Holder the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be bound irrevocably by the Agreement and further agrees that any community property interest shall similarly be bound by the Agreement. The undersigned hereby appoints the Warrant Holder as his or her attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Date:
---

---
Warrant Holder's Spouse

Address:
---

---

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ATTACHMENT 1

SAME DAY SALE COMMITMENT

---------------, -------

Celsion Corporation
10220-I Old Columbia Road
Columbia, Maryland 21046-1785
Attention: Chief Financial Officer

The undersigned Warrant Holder ("Warrant Holder") desires to exercise that certain warrant described in the attached Warrant Exercise Agreement (the "Warrant") with respect to _____ shares of Celsion Corporation (the "Company") Common Stock (the "Number of Shares"), and to sell immediately _____ of the Number of Shares (the "Same-Day Sale Shares") through the undersigned broker (the "Broker") and for the Broker to pay directly to the Company from the proceeds from such sale $_____ (the "Exercise Price").

Accordingly, the Warrant Holder hereby represents as follows: (i) the Warrant Holder hereby irrevocably exercises the Warrant with respect to the Number of Shares and (ii) the Warrant Holder hereby irrevocably elects to sell through the Broker the Same-Day-Sale Shares and unconditionally authorizes the Company or its transfer agent to deliver certificates representing the Same-Day-Sale Shares to the Broker.

The Broker hereby represents as follows: (i) the Broker is a member in good standing of the National Association of Securities Dealers, Inc. and (ii) the Broker irrevocably commits to pay to the Company, no more than one (1) business day after receiving certificates representing the Same-Day-Sale Shares, the Exercise Price by check or wire transfer to an account specified by the Company.

| WARRANT HOLDER: | BROKER: |
| --- | --- |
| - ---------- | ---------- |
| (Name) | (Name of Firm) |
| - ---------- | ---------- |
| (Signature) | (Signature) |
| - ---------- | ---------- |
| (Printed) | (Printed Name) |
| - ---------- | ---------- |
| (Title) | (Title) |

ATTACHMENT 2

MARGIN COMMITMENT

----------, -------

CELSION CORPORATION
10220-I Old Columbia Road
Columbia, Maryland 21046-1785
Attention: Chief Financial Officer

The undersigned Warrant Holder ("Warrant Holder") desires to exercise that certain warrant described in the attached Warrant Exercise Agreement (the "Warrant") with respect to _____ shares of Celsion Corporation (the "Company") Common Stock (the "Number of Shares"), and to pledge immediately _____ of the Number of Shares (the "Margin Shares") through the undersigned broker (the "Broker") as security for a loan from the Broker and for the Broker to pay directly to the Company $_____ (the "Exercise Price").

Accordingly, the Warrant Holder hereby represents as follows: (i) the Warrant Holder hereby irrevocably exercises the Warrant with respect to the Number of Shares and (ii) the Warrant Holder hereby irrevocably elects to pledge to the Broker the Margin Shares and unconditionally authorizes the Company or its transfer agent to deliver certificates representing the Margin Shares to the Broker.

The Broker hereby represents as follows: (i) the Broker is a member in good standing of the National Association of Securities Dealers, Inc. and (ii) the Broker irrevocably commits to pay to the Company, no more than one (1) business day after receiving certificates representing the Margin Shares, the Exercise Price by check or wire transfer to an account specified by the Company.

| WARRANT HOLDER: | BROKER: |
| --- | --- |
| - ---------- | ---------- |
| (Name) | (Name of Firm) |
| - ---------- | ---------- |
| (Signature) | (Signature) |
| - ---------- | ---------- |
| (Printed) | (Printed Name) |
| - ---------- | ---------- |
| (Title) | (Title) |

EXHIBIT 10.24

# ADVISORY AGREEMENT

THIS ADVISORY AGREEMENT (the "Agreement") is effective as of the 18th day of May, 2001, by and between CELSION CORPORATION, a Delaware corporation (the "Company"), and DR. KRIS VENKAT ("Venkat"), and SUNDARI ENTERPRISES, a New Jersey corporation (the "Advisor").

In consideration of the mutual covenants and agreements contained in this Agreement, the parties hereby agree as follows:

1. APPOINTMENT TO BOARD OF DIRECTORS; DIRECTOR'S FEES. Venkat has been appointed to the Board of Directors of the Company effective May 18, 2001, and agrees to serve as a director of the Company. Venkat's service as a director shall terminate at the option of the Company in its sole discretion. Compensation as a director of the Company will be comprised of:

(a) Payment of an annual director's fee in the amount of Twenty Thousand Dollars ($20,000) payable in common stock calculated at the closing price of the stock on the last day of the Company's fiscal year (September 30). For fiscal year 2001, the director's fee will be prorated for the period of service from May 18, 2001 through September 30, 2001.

(b) A grant of non-qualified stock options under the Celsion Corporation 2001 Stock Option Plan (the "Plan") entitling Venkat to receive One Hundred Thousand (100,000) shares of common stock of the Company with an exercise price of $0.92/share. These stock options will vest and become exercisable in accordance with the terms of the Plan, and upon the following schedule: options to acquire 50,000 shares shall vest on May 18, 2001 and options to acquire 50,000 shares shall vest on May 18, 2002.

2. RETENTION OF ADVISOR; SCOPE OF SERVICES. The Company hereby retains the Advisor and Advisor hereby agrees to provide the following advisory services to the Company: (1) provide strategic and tactical advise to the Company including development plans, Company positioning, contacts, recruitment of key personnel; (2) assist the Company in developing its Heat Activated Liposome business, including streamlining university/licensor relationships, product development and manufacturing agreements, and the identification and recruitment of a management team and negotiation of appropriate strategic alliances, and development of a business plan for the Heat Activated Liposome business to be used in attracting potential investment partners, (3) assist the Company in developing a financial strategy and securing equity capital and/or debt financing to fund on-going business of the Company; and (4) identify potential investors that best meet the Company's objectives. Venkat agrees that he shall cause Advisor to perform these services in a professional manner.

3. TIME OF PERFORMANCE OF ADVISORY SERVICES. The specific time, schedule and place of the performance of the advisory services shall be determined by the Advisor in its sole discretion. The Advisor shall devote a minimum of sixty (60) days annually to the provision of the advisory services contemplated hereunder. The Advisor agrees to be available to the Company during normal business hours, on a regular basis, as necessary to ensure the timely and professional performance of the duties of the Advisor hereunder.

4. COMPANY'S OBLIGATIONS. The Company shall make available the information, resources and Company personnel and timely perform those tasks necessary to enable Advisor to provide the services. The Company will keep the Advisor informed on a current basis of all material developments which may impact the financial performance of the Company, its businesses, outlook or financial condition.

5. ADDITIONAL SERVICES. If mutually agreed, Advisor may provide additional services to the Company not described herein, but Advisor shall not be obligated to provide any such services unless the nature and terms of such services and the compensation to be provided are mutually agreed in advance in writing.

6. COMPENSATION. In consideration of the advisory services to be provided hereunder, the Company will pay advisory fees to Venkat/Advisor as follows:

(a) A cash retainer payment in the amount of Sixty Thousand Dollars ($60,000) per year to the Advisor to provide the advisory services contemplated hereby, provided however that any payments in excess of $60,000 per year to the Advisor must be approved in writing in advance by the Company prior to the Advisor spending more than sixty (60) days of advisory services per year. The cash fee shall be payable monthly to the Advisor during the Term at $5,000 per month. Advisor agrees to keep reasonably appropriate records of time expended by him on behalf of the Company. Advisor shall be paid an additional fee of $1,000 per day for any time expended by him beyond 60 days per year, subject to provisions of Article 5 above.

(b) Subject to the terms and conditions set forth in this Agreement, the Company hereby grants to Venkat non-qualified stock options under the Plan entitling Venkat to acquire Three Hundred Thousand (300,000) shares of common stock of the Company with an exercise price of $0.68/share. These options will vest and become exercisable in accordance with the terms of the Plan, and upon the following schedule: options to acquire 150,000 shares shall vest on August 1, 2001, and options to acquire 150,000 shares shall vest on August 1, 2002.

(c) The Company also hereby grants to Venkat non-qualified stock options under the Plan entitling Venkat to acquire up to an additional Four Hundred Thousand (400,000) shares of common stock of the Company, which will vest and become exercisable in accordance with the terms of the Plan, and upon the following schedule:

(i) Options to acquire One Hundred Thousand (100,000) shares shall vest upon completion of satisfactory arrangements in streamlining university/licensor relationships and product development arrangements with a suitable third party. The exercise price for these options shall be 125% of the exercise price for the options granted pursuant to Section 6(b) above.

(ii) Options to acquire One Hundred Thousand (100,000) shares shall vest upon Company conclusion of a strategic partner alliance for

one or more of the Company's business. The exercise price for these options shall be 150% of the exercise price for the options granted pursuant to Section 6(b) above.

(iii) Options to acquire One Hundred Thousand (100,000) shares shall vest upon Company conclusion of Phase I clinical studies of heat activated liposomes. The exercise price for these options shall be 175% of the exercise price for the options granted pursuant to Section 6(b) above.

(iv) Options to acquire One Hundred Thousand (100,000) shares shall vest upon conclusion of a definitive agreement with a strategic partner for the sale and distribution of the Company's heat activated liposomes. The exercise price for these options shall be 200% of the exercise price for the options granted pursuant to Section 6(b) above.

(d) Subject to the terms, conditions and limitations set forth in this Agreement and the Plan, Venkat may exercise any and all stock options granted under this Agreement, at any time prior to 5:00 P.M. (EST) on May 1, 2011, upon notice to the Company at its principal office at 10220-1 Old Columbia Road, Columbia, Maryland 21046-1705, Attention: Spencer Volk, President (or at such other location as the Company may advise the Executive in writing), at which time all unexercised options shall expire and be of no further force or effect.

(e) Notwithstanding any language to the contrary contained herein, if this Agreement is in effect at the time of the occurrence of a "Change of Control" event, all stock options granted to Venkat pursuant to Sections 1 and 6 hereof shall automatically vest 100% and immediately become exercisable upon the occurrence of a Change of Control event. For purposes of this Agreement, "Change of Control" event means (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 l3d-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; (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; or (C) the Company sells substantially all of its assets, or transfers its Liposome business or substantially all of the assets related to the Liposome business, to a purchaser other than a subsidiary, or enters into a joint venture with a third party with respect to the Liposome business in which the Company does not retain voting control. 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.

7. REIMBURSEMENT OF EXPENSES. The Company shall reimburse the Advisor from time to time for all reasonable and customary out-of-pocket business expenses incurred in the performance of his duties hereunder, provided that the Advisor has had such expenses pre-approved (either verbally or written) and shall submit vouchers and other reasonable supporting data to substantiate the amount of said expenses. The Company shall reimburse the Advisor for such expenses monthly during the Term upon receipt of an invoice from the Advisor summarizing such expenses.

8. TERM OF AGREEMENT AND PAYMENT UPON TERMINATION. Unless earlier terminated in accordance with the provisions of this Section 8, the term (the "Term") of this Agreement shall be for a two-year period commencing on the date hereof and ending on May 18, 2003, provided however, that the Company shall have the right,

in its sole and absolute discretion, to terminate this Agreement effective as of the one-year anniversary date of the date of this Agreement, upon written notice to the Advisor at least thirty (30) days prior to such anniversary date (the "Term"). The Agreement shall automatically be extended for one-year periods on each annual anniversary date thereafter, unless either party notifies the other party in writing of its desire to terminate this Agreement at least thirty (30) days prior to such annual anniversary date.

During the Term hereof, the Company shall have the right to terminate this Agreement effective upon delivery of written notice thereof to the Advisor upon the occurrence of any of the following events:

(i) If the Advisor has breached any provisions of this Agreement and has failed to cure such breach within thirty (30) days of written notice from the Company describing such breach;

(ii) If the Advisor fails or is unable for any reason to substantially perform the duties required of him hereunder due to a mental or physical illness, condition, incapacity or disability, for a continuous period of sixty (60) days;

(iii) Upon the death of Venkat.

Upon termination of this Agreement for any reason, the Advisor shall be entitled to be paid (i) an amount equal to all reimbursable expenses the Advisor has incurred in accordance with the terms hereof, in providing services hereunder prior to the termination date, and (ii) all fees payable to the Advisor pursuant to Section 6(a) hereof, earned by the Advisor with respect to the advisory services rendered prior to the date of termination, which shall remain due and payable in full in the manner contemplated by Section 6 above. The Advisor shall render a final invoice for all reimbursable expenses. Notwithstanding any other language to the contrary granted herein, if the Company terminates this Agreement prior to May 18, 2003 for any reason other than those set forth in subsections (i) - (iii) immediately above, all stock options granted to Venkat pursuant to Sections 1(b) and 6(b) hereof, shall automatically vest 100% and immediately become exercisable for a one-year period after the effective date of termination. Otherwise, all unvested options shall automatically and immediately be forfeited and null and void and of no further legal force or effect upon termination of this Agreement. Upon termination of this Agreement, the Advisor shall immediately return to the Company all information, records and other materials which the Company may have provided to the Advisor and Company shall return to the Advisor any property of the Advisor not purchased and paid for by the Company.

10. NONCOMPETITION. During the Term of this Agreement, neither Venkat nor Advisor will engage in, carry on, consult with, or otherwise participate in as a designing or advisory Advisor, directly or indirectly, any business in competition with the microwave cancer treatment device or liposome drug therapy for cancer treatment that is being designed, developed, manufactured, marketed, distributed and sold by the

Company, either for himself, as a member of a partnership, as a stockholder (except as a stockholder of less than one percent (1%) of the issued and outstanding stock of a publicly-held corporation whose gross assets exceed one hundred million dollars) or as an investor, employee, officer, director, advisor, agent, or associate of any person, partnership, corporation or other entity (other than the Company) that is in such business.

11. CONFIDENTIAL INFORMATION. Venkat and the Advisor each agree that the Company's business interests require a confidential relationship between the Company and the Advisor and the fullest practical protection and confidential treatment of all proprietary information, trade secrets and know-how of the Company, including without limitation, all concepts, techniques, ideas, protocols, formulae, devices, methods, designs, plans, procedures, programs, inventions, innovations, and information regarding customers, costs, prices, earnings, products, systems, sources of supply, and marketing, financial and business budgets and plans (collectively the "Confidential Information"), which the Company provides the Advisor access to in connection with the Advisor's services under this Agreement. Venkat and the Advisor each agree, both during the Term of this Agreement and thereafter for so long as any such information remains confidential and proprietary to the Company, to keep secret and treat confidentially all such Confidential Information, and not to disclose, divulge, reveal, report, publish, transfer, or use or aid others in using, any such Confidential Information. If either Venkat or the Advisor provides any of the Company's Confidential Information to any subcontractor, the Advisor will make certain that the subcontractor is legally obligated to maintain the confidentiality of such information.

Venkat and the Advisor each acknowledge and agree that all Confidential Information relative to the Company's microwave technology and devices for treating cancer, as well as all formulae and ideas concerning liposome drug therapy, shall remain the sole and exclusive property of the Company, and all improvements, enhancements or modifications to the Company's devices, technology or drug therapy formulae and techniques developed by the Advisor or under Advisor's supervision as part of his advisory services hereunder shall be the sale and exclusive property of Celsion.

The obligation to maintain the confidentiality of such information shall not apply to any information:

(a) which is publicly known or generally known within the trade;

(b) which becomes publicly known or generally known within the trade without breach of any obligation of the recipient to the disclosing party;

(c) which is obtained by the recipient from someone not a party to this Agreement if the recipient is not aware of any such obligation on the part of the person or entity providing the information to keep such information confidential; or

(d) which is required to be disclosed by law, court order or government regulation.

12. REMEDIES. Venkat and the Advisor each recognize and acknowledge that if Venkat breaches the provisions of Sections 10 or 11, damages to the Company would be difficult if not impossible to ascertain, and because of the immediate and irreparable damage and loss that may be caused to the Company for which it would have no adequate remedy, the Advisor therefore agrees that the Company, in addition to and without limiting any other remedy or right it may have, shall be entitled to seek an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach, and Venkat and the Advisor each hereby waives any and all defenses he/it may have on the grounds of lack of jurisdiction or competence of a court to grant such an injunction or other equitable relief. The existence of this right shall not preclude the applicability or exercise of any other rights and remedies at law or in equity which the Company may have.

13. INDEPENDENT CONTRACTOR. In rendering services hereunder, the Advisor is acting solely as an independent contractor and not as an agent, employee or partner of the Company for any purpose. Neither Venkat nor the Advisor has any authority to bind the Company in any contractual manner nor to represent to others than the relationship between the Company and the Advisor is other than stated herein. The Advisor shall be responsible for filing all tax returns and paying all federal, state, local and foreign taxes (including without limitation, income taxes, employment taxes, unemployment taxes and self-employment taxes) due with respect to the compensation paid to the Advisor and Venkat pursuant to Section 6 hereof. Other than the stock options granted to Venkat pursuant to Section 6 hereof, neither Venkat nor the Advisor shall be entitled as a result of any services provided under this Agreement to participate in or receive any benefits from any employee benefit plan maintained by the Company.

14. ARBITRATION. Subject to the provisions of Section 12, the parties shall attempt in good faith to resolve all claims, disputes and other disagreements arising hereunder by negotiation. In the event that a dispute between the parties cannot be resolved within thirty (30) days of written notice from one party to the other party, such dispute shall, at the request of either party, after providing written notice to the other party, be submitted to arbitration in Columbia, Maryland in accordance with the arbitration rules of the American Arbitration Association then in effect. The notice of arbitration shall specifically describe the claims, disputes or other matters in issue to be submitted to arbitration. The parties shall jointly select a single arbitrator who shall have the authority to hold hearings and to render a decision in accordance with the arbitration rules of the American Arbitration Association. If the parties are unable to agree within ten (10) days, the arbitrator shall be selected by the Chief Judge of the Circuit Court for Howard County, Maryland. The discovery rights and procedures provided by the Federal Rules of Civil Procedure shall be available and enforceable in the arbitration proceeding. The written decision of the arbitrator so appointed shall be conclusive and binding on the parties and enforceable by a court of competent jurisdiction. The expenses of the

arbitration shall be borne equally by the parties to the arbitration, provided, however, that each party shall pay for and bear the cost of its own experts, evidence and legal counsel, unless rules otherwise in the arbitration. Both parties agree to use their best efforts to cause a final decision to be rendered with respect to the matter submitted to arbitration within sixty (60) days after its submission.

15. REPRESENTATION BY COUNSEL. Each of the parties hereto acknowledges that (i) it or he has read this Agreement in its entirety and understands all of its terms and conditions, (ii) it or he has had the opportunity to consult with any individuals of its or his choice regarding its or his agreement to the provisions contained herein, including legal counsel of its or his choice, and any decision not to was its or his alone, and (ii) it or he is entering into this Agreement of its or his own free will, without coercion from any source.

16. MISCELLANEOUS.

(a) This Agreement constitutes the entire agreement between the parties, superseding all prior agreements, either oral or written. This Agreement may not be amended or any provision hereof waived except by a document signed by both parties hereto. This Agreement may not be terminated except as provided herein.

(b) This Agreement shall be deemed to be made in and shall be governed and construed in accordance with the laws of the State of Maryland, excluding principles of conflicts of law. Any legal action to enforce any arbitral awards under this Agreement shall be brought in the courts of the State of Maryland.

(c) Any notice given under this Agreement shall be given when delivered in person or by registered or certified mail, postage prepaid, return receipt requested or by other delivery service providing evidence of receipt, to the party to whom such notice is to be given at the following address or at such other address as either party shall hereafter give notice of to the other in writing:

If to the Company to: Celsion Corporation
10220-1 Old Columbia Road
Columbia, Maryland 21046-1705
Attn: Anthony Deasey

If to Advisor to: Dr. Kris Venkat
Sundari Enterprises
c/o Morphochem, Inc.
11 Deer Park Drive, Suite 116
Monmouth Junction, New Jersey 08852

(d) This Agreement shall not restrict or prevent Advisor from pursuing other business interests or providing advisory or other services to other parties while this Agreement is in effect.

(e) If the Company provides Advisor any documents or records of the Company or copies thereof in connection with the services provided by the Advisor under this Agreement, Advisor will, at the Company's request at any time, promptly return all of such documents and records to the Company at the Company's expense.

(f) This Agreement is effective as of the date hereof and shall be legally binding upon and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and permitted assigns. As used herein, the term "successors" shall include without limitation, any successor by way of share exchange, merger, consolidation, sale of all or substantially all of the assets, or similar reorganization. Neither party may assign any of its rights or obligations hereunder without the prior written consent of the other party.

(g) If any one or more of the terms or provisions of this Agreement shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part, such provision(s) shall be deemed null and void, and the remaining provisions of this Agreement shall remain operative and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives effective as of the date written above.

WITNESS/ATTEST:

CELSION CORPORATION

[SIG]
- ----------

By: /s/ ANTHONY P. DEASEY (SEAL)
---

Print Name: ANTHONY P. DEASEY
---

Title: SVP/FINANCE/CFO
---

SUNDARI ENTERPRISES

[SIG]
- ----------

By: /s/ KRIS VENKAT (SEAL)
---

Print Name: K. Venkat
---

Title: CHAIRMAN/CEO
---

[SIG]
- ----------

/s/ KRIS VENKAT (SEAL)
---

Kris Venkat

EXHIBIT 23.1

STEGMAN & COMPANY

CONSENT OF INDEPENDENT ACCOUNTANT

The Board of Directors
Celsion Corporation
Columbia, Maryland

We hereby consent to the inclusion of our report dated November 6, 2001 relating to the statements of financial condition of Celsion Corporation (the "Corporation") as of September 30, 2001 and 2000 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, 2001 in the Corporation's Form 10-K for the year ending September 30, 2001 to be filed with the Securities and Exchange Commission.

/s/ Stegman & Company

Baltimore, Maryland
December 21, 2001