

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-14242

CELSION CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

52-1256615
(I.R.S. employer
identification no.)

10220-L Old Columbia Road, Columbia, Maryland 21046-2364
(Address of Principal Executive Offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 5, 2004, the Registrant had outstanding 160,679,331 shares of Common Stock, \$.01 par value.

SEC 1296 (1-04)

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TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1.	Financial Statements and Notes	3
	Balance Sheets	4
	Statements of Operations	6
	Statements of Cash Flows	7
	Notes to Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	17
Item 4.	Controls and Procedures	17

PART II: OTHER INFORMATION

Item 1.	Legal Proceedings	18
Item 2.	Changes in Securities and Use of Proceeds	18
Item 3.	Defaults Upon Senior Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 5.	Other Information	19
Item 6.	Exhibits and Reports on Form 8-K	19

	SIGNATURES	20
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EXHIBITS

3.1	Certificate of Incorporation of the Company, as amended (compiled)
3.2	By-laws of the Company, as amended (compiled).
4.1	Amendment to Rights Agreement adopted January 16, 2003.
10.1	Celsion Corporation 2004 Stock Incentive Plan.
11	Statement Re. Computation of Earnings Per Share.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**PART I
FINANCIAL INFORMATION**

Item 1. Financial Statements.

Index to Financial Statements

	<u>Page</u>
Balance Sheets June 30, 2004 and December 31, 2003	4
Statements of Operations for the Three and Six Months Ended June 30, 2004 and 2003	6
Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003	7
Notes to Financial Statements	8

CELSION CORPORATION
BALANCE SHEETS
June 30, 2004 and December 31, 2003

ASSETS

	June 30, 2004	December 31, 2003
	(Unaudited)	(Unaudited) ⁽¹⁾
Current assets:		
Cash	\$ 17,777,895	\$ 12,272,407
Account receivable – trade	370,000	—
Other receivables	149,422	16,753
Materials	1,224,861	838,992
Work-in-process	—	37,308
Finished goods	1,234,780	41,410
Prepaid expenses	196,538	361,967
	<hr/>	<hr/>
Total current assets	20,953,496	13,568,837
	<hr/>	<hr/>
Property and equipment - at cost:		
Furniture and office equipment	173,905	146,508
Computer hardware and software	251,584	218,758
Laboratory, shop and production equipment	556,016	212,379
Leasehold improvements	120,101	107,258
	<hr/>	<hr/>
	1,101,606	684,903
Less accumulated depreciation	377,018	296,068
	<hr/>	<hr/>
Net value of property and equipment	724,588	388,835
	<hr/>	<hr/>
Other assets:		
Investment in Celsion China, Ltd.	162,293	—
Escrow account – license fee	2,000,635	—
Deposits	17,706	23,622
Prepaid inventory development costs	388,874	417,453
Patent licenses (net of amortization)	35,948	41,087
	<hr/>	<hr/>
Total other assets	2,605,456	482,162
	<hr/>	<hr/>
Total assets	\$ 24,283,540	\$ 14,439,834
	<hr/>	<hr/>

[Table of Contents](#)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2004	December 31, 2003
	(Unaudited)	(Unaudited) ⁽¹⁾
Current liabilities:		
Accounts payable – trade	\$ 1,466,059	\$ 631,097
Accrued non-cash compensation	17,848	153,316
Other accrued liabilities	672,072	202,426
Current portion of deferred revenue	571,428	—
	<hr/>	<hr/>
Total current liabilities	2,727,407	986,839
	<hr/>	<hr/>
Deferred revenue – license fee	3,238,095	—
	<hr/>	<hr/>
Stockholders' equity:		
Common Stock \$0.01 par value: 250,000,000 shares authorized, 160,627,067 and 148,034,473 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively		
	1,606,271	1,480,345
Additional paid-in capital	84,481,250	72,204,867
Accumulated deficit	(67,769,483)	(60,232,217)
	<hr/>	<hr/>
Total stockholders' equity	18,318,038	13,452,995
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 24,283,540	\$ 4,439,834
	<hr/>	<hr/>

See accompanying notes.

⁽¹⁾ During the last quarter of calendar year 2003, the Company changed its fiscal year end from September 30 to December 31. The balance sheet at September 30, 2003 was audited but the balance sheet at December 31, 2003 was not audited.

CELSION CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue:				
Sales	\$ 442,945	\$ —	\$ 542,945	\$ —
Cost of sales	307,638	—	374,704	—
Gross margin	135,307	—	168,241	—
Other manufacturing and distribution costs	41,278	—	48,999	—
Operating expenses:				
General and administrative	367,161	925,279	1,936,549	2,066,300
Research and development	1,386,258	1,929,435	5,972,342	5,581,995
Total operating expenses	1,753,419	2,854,714	7,908,891	7,648,295
Loss from operations	(1,659,390)	(2,854,714)	(7,789,649)	(7,648,295)
License fee income amortization	142,857	—	190,476	—
Interest income	58,619	5,248	99,614	11,812
Loss from investment in Celsion China, Ltd	13,672	—	37,707	—
Loss before income taxes	(1,471,586)	(2,849,466)	(7,537,266)	(7,636,483)
Income taxes	—	—	—	—
Net loss	\$ (1,471,586)	\$ (2,849,466)	\$ (7,537,266)	\$ (7,636,483)
Dividends on preferred stock	—	(49,546)	—	(102,099)
Net loss attributable to common stockholders	\$ (1,471,586)	\$ (2,899,012)	\$ (7,537,266)	\$ (7,738,582)
Net loss per common share (basic and diluted)	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.07)
Weighted average shares outstanding	160,302,355	114,611,288	156,764,532	111,654,502

See accompanying notes.

CELSION CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (7,537,266)	\$ (7,636,483)
Non-cash items included in net loss:		
Depreciation and amortization	86,089	49,124
Amortization of deferred revenue – license fee income	(190,476)	—
Loss from investment in Celsion China, Ltd	37,707	—
Stock based compensation	(605,775)	3,159,748
Net changes in:		
Trade receivable	(370,000)	—
Other receivables	(132,669)	(226,777)
Inventories	(1,541,931)	(49,772)
Prepaid expenses	165,429	99,349
Escrow account – license fee	(2,000,635)	—
Prepaid inventory development costs	28,579	28,064
Accounts payable – trade	834,962	7,974
Other accrued liabilities	505,637	163,484
Deposits	5,916	—
Deferred revenue – license fee	4,000,000	—
Net cash used by operating activities	(6,714,433)	(4,405,289)
Cash flows from investing activities:		
Investment in Celsion China, Ltd	(200,000)	—
Purchase of property and equipment	(416,703)	(56,330)
Net cash used by investing activities	(616,703)	(56,330)
Cash flows from financing activities:		
Proceeds of stock issuances	12,836,624	9,411,523
Payment of note payable	—	(500,000)
Net cash provided by financing activities	12,836,624	8,911,523
Net increase in cash	5,505,488	4,449,904
Cash at beginning of period	12,272,407	1,050,606
Cash at end of the period	\$ 17,777,895	\$ 5,500,510

See accompanying notes.

CELSION CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed financial statements of Celsion Corporation (which we sometimes refer to as Celsion, the Company, we or us) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the three-month and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for any other interim period(s) or for any full year. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003. On December 3, 2003, the Company filed with the Securities and Exchange Commission (SEC) a Current Report on Form 8-K reporting, under Item 5, that, effective December 31, 2003, it was changing its fiscal year end from September 30 to December 31.

Note 2. Common Stock Outstanding and Per Share Information

For the six-month periods ended June 30, 2004 and 2003, per share data is based on the weighted average number of shares of common stock, par value \$0.01 per share (Common Stock), outstanding. Outstanding warrants and options that can be converted into Common Stock are not included, as their effect is anti-dilutive.

Note 3. Fair Value Accounting for Stock Plans

The Company has long-term compensation plans that permit the granting of incentive awards in the form of stock options. The Company had adopted the disclosure-only provisions of Statement of Financial Accounting Standard No. 123 (SFAS 123), which allow companies to continue to measure compensation costs for stock options granted to employees using the value-based method of accounting prescribed by APB Opinion No. 25 *Accounting for Stock Issued to Employees* (APB 25). Celsion has elected to follow APB 25 and the related interpretations in accounting for its employee stock options.

[Table of Contents](#)

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to its stock-based employee plans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss attributable to common stockholders, as reported	\$ (1,471,586)	\$ (2,899,012)	\$ (7,537,266)	\$ (7,738,582)
Adjust for stock-based employee compensation expense included in reported net loss	(1,286,989)	783,250	(1,030,684)	783,250
Adjust for total stock-based employee compensation expense determined using the fair value-based method for all awards	1,126,794	(822,861)	773,286	(898,716)
Pro forma net loss	\$ (1,631,781)	\$ (2,938,623)	\$ (7,794,665)	\$ (7,854,048)
Loss per share:				
Basic – as reported	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.07)
Basic – pro forma	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.07)

Note 4. Investment in Celsion China, Ltd.

We have formed a joint venture with Asia Pacific Life Science Group, Ltd., a Hong Kong-based investment company, to develop our technologies and distribute our products in greater China. We announced the joint venture on December 15, 2003 and made a \$200,000 investment to purchase a 45.65% equity position in Celsion China, Ltd. on February 5, 2004.

The financial records of Celsion China, Ltd. as of June 30, 2004 reflected the following:

	US\$
Cash	\$356,336
Deposits	—
Prepaid expenses	—
Total current assets	356,336
Fixed assets, net	449
Total assets	\$356,785
Liabilities	\$ —
Equity	439,569
Accumulated deficit	(82,784)
Total liabilities and equity	\$356,785

Celsion accounts for its investment in Celsion China, Ltd. under the equity method. The investees' functional currency is the Hong Kong Dollar. No foreign currency adjustment was necessary during the quarter ended June 30, 2004. The loss from this unconsolidated investee for the quarter can be recalculated as follows and is comprised of only general and administrative costs. Celsion China, Ltd. had no commercial sales for the quarter.

Quarterly deficit	\$ (29,949)
Ownership percentage	45.65%
Loss recorded for the quarter	\$ (13,672)

[Table of Contents](#)

Celsion Corporation's balance sheet at June 30, 2004 reflects the investment in Celsion China in the account entitled "Investment in Celsion China, Ltd.," the components of which are as follows:

Initial cash investment	\$200,000
45.65% accumulated loss	(37,707)
	<hr/>
Net investment carrying value	\$162,293
	<hr/>

Note 5. Licensing Agreement

Celsion is a party to a Distribution Agreement dated January 21, 2003 with Boston Scientific Corporation (BSC or Boston Scientific). Under the Distribution Agreement, Celsion was entitled to a \$4,000,000 licensing fee, effective upon the occurrence of certain events, in return for granting BSC a seven-year, royalty-free, exclusive right to market, distribute, import, export, use, sell and offer to sell Celsion's Prolieve™ Thermodilatation system worldwide, with the exception of China, Taiwan, Hong Kong, Macao, Mexico and Central and South America. All of the conditions were met, and we received a payment from BSC during the current quarter in the amount of \$2,000,000. The remaining \$2,000,000 was placed in an escrow account, pursuant to the terms of the Distribution Agreement. The escrow is designed to provide available funds for payment in the event of certain contingencies during the 36-month term of the escrow. The escrow is held in an interest-bearing account. Interest on the escrowed funds accrues for the benefit of Celsion, but becomes part of the balance of the account. All amounts held in the account at the end of the term of the escrow are payable to Celsion. However, Celsion bears full responsibility for payment of claims subject to the escrow in excess of available escrowed funds. The Company is recognizing the entire \$4,000,000 licensing fee at the rate of \$47,619 per month over a seven-year term which began March 1, 2004.

Note 6. Inventory

We have increased inventory levels to meet expected commercial sales requirements for both Prolieve Thermodilatation system control units and associated kits (catheters). June 30, 2004 inventory balances are as follows:

Control units	\$1,234,780
Kit components	948,716
Other parts	276,145
	<hr/>
Total inventory at June 30, 2004	\$2,459,641
	<hr/>

Note 7. Accounts Payable

Accounts payable increased to \$1,466,059 at the close of the current quarter, from \$631,097, at December 31, 2003. The various categories of items that comprise accounts payable are as follows:

Control units	\$ 729,807
Kit components	71,846
Other parts	13,110
Legal fees	46,404
Liposome costs	175,236
Capital equipment for manufacturing	1,844
Patents	59,103
Recruiting	27,097
Travel	15,217
Consulting	114,325
Other	212,070
	<hr/>
	\$1,466,059

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Forward-Looking Statements**

Statements and terms such as “expect”, “anticipate”, “estimate”, “plan”, “believe” and words of similar import regarding the Company’s expectations as to the development and effectiveness of its technologies, the potential demand for our products, and other aspects of our present and future business operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, we cannot guarantee that actual results will not differ materially from our expectations. In evaluating such forward-looking statements, readers should specifically consider the various factors contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2003, as well as its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, including, without limitation, unforeseen changes in the course of research and development activities and in clinical trials; possible changes in cost and timing of development and testing, capital structure, and other financial items; changes in approaches to medical treatment; introduction of new products by others; possible acquisitions of other technologies, assets or businesses; and possible actions by customers, suppliers, competitors and regulatory authorities. These and other risks and uncertainties could cause actual results to differ materially from those indicated by such forward-looking statements, including those set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Factors” contained in the Annual Report on Form 10-K for the fiscal year ended September 30, 2003 and in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as well as those set forth below and elsewhere in this Report.

The discussion of risks and uncertainties set forth in this Report and in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q in other filings with the SEC is not necessarily a complete or exhaustive list of all risks facing the Company at any particular point in time. We operate in a highly competitive, highly regulated and rapidly changing environment and our business is in a state of evolution. Therefore, it is likely that new risks will emerge, and that the nature and elements of existing risks will change, over time. It is not possible for management to predict all such risk factors or changes therein, or to assess either the impact of all such risk factors on our business or the extent to which any individual risk factor, combination of factors, or new or altered factors, may cause results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

Overview

Celsion Corporation is a medical technology company applying proprietary focused-heat technology in the development and commercialization of products to treat cancer and other diseases. In 1989, we obtained premarketing approval (PMA) from the United States Food and Drug Administration (FDA) to use our microwave-based Microfocus 1000 heat therapy system on surface and subsurface tumors in conjunction with radiation therapy. We marketed this system until 1995. Since that time, we have been engaged in research and development of new treatment systems.

[Table of Contents](#)

Our pipeline presently consists of the following products, in the indicated stages of development:

<u>Product</u>	<u>Status</u>
• Prolieve Thermodilatation system for the treatment of BPH	We received premarketing approval for the Prolieve system from the FDA on February 19, 2004. Since that time, we have begun commercialization through Boston Scientific.
• Breast cancer treatment system	On May 25, we announced the suspension of both arms of our pivotal Phase II trials using our adaptive phased array technology in the treatment of small and late-stage breast cancer tumors. Subsequently, we have elected to terminate these trials. We currently are evaluating the feasibility of initiating studies with this product, either alone or in combination with ThermoDox™ or other chemotherapeutic agents.
• ThermoDox™ (Doxorubicin-laden thermo-liposome)	Currently the subject of multi-site Phase I clinical trials in conjunction with the Prolieve system for the treatment of prostate cancer. In addition, we have filed an Investigational New Drug (IND) application with the FDA to enable us to commence Phase I clinical trials in conjunction with radio frequency ablation in the treatment of liver cancer.
• Cancer Repair Inhibitor (CRI)	Currently the subject of pre-clinical studies at Sloan-Kettering Cancer Institute.

Since 1995, we have generated minimal revenues and have funded our operations primarily through private placements of our equity securities. During the most recently completed fiscal quarter, following FDA premarketing approval of our Prolieve Thermodilatation system, we received one-time licensing fees of \$4,000,000 under our agreement with Boston Scientific Corporation, the distributor of our Prolieve system. During the quarter, sales of Prolieve products generated revenues of \$442,945. Until such time, if any, as we are able to complete development and testing of, and gain necessary regulatory approvals for, one or more of our other products, sales of Prolieve products will represent our only source of revenue. We presently do not have any committed sources of financing. Therefore, we are reliant on revenues from the sale of our Prolieve products and from funds generated through the sale of our securities to fund our ongoing operations.

The Prolieve system consists of a microwave generator and conductors, along with a computer and computer software programs that control the focusing and application of heat (control units), plus a specially designed, single-use catheter kit. We expect to continue to generate revenues from sales of control units and catheter kits. Under our agreement with Boston Scientific, we are entitled to receive our costs plus 50% of the difference between such costs and the average selling price (determined in accordance with the agreement) for each control unit and 50% of the revenue generated from the sale of catheter kits, for which Celsion bears the cost of goods sold. During the introduction of the Prolieve system, we anticipate that sales of both control units and catheter kits will increase. However, over time we expect that sales will level off.

[Table of Contents](#)

Our principal costs consist of:

- Cost of sales, relating to the production and sale of Prolieve control units and catheter kits, which are being marketed by Boston Scientific under a seven-year agreement (expiring in 2011);
- Research and development costs, including licensing fees due in connection with various of our technologies, the costs of sponsored research, pre-clinical and clinical trials for our breast cancer treatment system, ThermoDox and Cancer Repair Inhibitor, as well as certain ongoing studies related to our Prolieve system, and the costs of development and design of other products and equipment; and
- Corporate overhead.

Our research and development activities, pre-clinical tests and clinical trials, and the manufacturing, marketing and labeling of each of our products, are subject to extensive regulation by the FDA. We may not bring to market any product until we have received permission to do so, in the form of a premarketing approval from the FDA. We received such premarketing approval for our Prolieve system on February 19, 2004. As we believe we are best suited to conduct or oversee basic research and development activities, to pursue a prototype product through clinical testing and regulatory approval, and to engage in initial manufacturing and marketing activities during product launch, we do not intend to engage in large-scale manufacturing with respect to our products. Instead, for the foreseeable future, we intend generally to outsource the manufacture of final commercial products, components and disposables, as well as the marketing of our products. Therefore, in connection with the approval and commercialization of each product, we will be required to identify and negotiate production and marketing arrangements with third parties, as we have done in connection with our Prolieve system.

Results of Operations

*Comparison of Three Months Ended June 30, 2004
and Three Months Ended June 30, 2003*

	Actual Results			
	Three Months Ended June 30,		Change	
	2004	2003	Dollars	Percent
Revenue:				
Sales	\$ 442,945	\$ —	\$ 442,945	N/A
Cost of sales	307,638	—	307,638	N/A
Gross margin	135,307	—	135,307	N/A
Other manufacturing and distribution costs	41,278	—	41,278	N/A
Operating expenses:				
General and administrative	367,161	925,279	(558,118)	-60%
Research and development	1,386,258	1,929,435	(543,177)	-28%
Total operating expenses	1,753,419	2,854,714	(1,101,295)	-39%
Loss from operations	(1,659,390)	(2,854,714)	(1,195,324)	-42%
Interest income	58,619	5,248	53,371	1017%

[Table of Contents](#)

The Company received a PMA for its Prolieve system from the FDA on February 19, 2004 and thereafter commenced commercial introduction of the system through Boston Scientific Corporation. Product sales for the current quarter are comprised of sales of catheter kits and miscellaneous parts to Boston Scientific. There were no product sales during the comparable quarter in 2003, which predated the commercial introduction of our Prolieve system.

Other manufacturing and distribution costs represent freight charges and incidental manufacturing costs.

The \$558,118 (60%) decrease in general and administrative expense during the quarter ended June 30, 2004 as compared to the comparable period during 2003 was attributable primarily to a reduction in compensation expense (\$463,800) as a result of a decrease in the cumulative value of repriced options under our employee stock option plan and to a reduction in legal fees (\$77,000) attributable to retention of in-house counsel during the current quarter.

The decrease of \$543,177 (28%) in research and development expense during the current quarter in comparison to the quarter ended June 30, 2003 was due primarily to a reduction in compensation expense (\$823,189) as a result of a decrease in the cumulative value of repriced options under our employee stock option plan. This reduction in compensation expense was partially offset by increased salaries, recruiting and relocation expenses for personnel hired after June 30, 2003 as part of our effort to enhance operational capabilities and to additional costs associated with the establishment of commercial-scale Prolieve manufacturing capability and the start-up of manufacturing operations.

The net decrease of \$1,101,295 in operating expenditures during the quarter ended June 30, 2004 when compared to the quarter ended June 30, 2003, as discussed above, combined with gross profit generated from the sale of Prolieve products during the most recent quarter, resulted in an decrease in the loss from operations for the three-month period ended June 30, 2003 of \$1,195,324 or 42%, to \$1,659,390 from \$2,854,714 in the comparable period during the prior fiscal year.

Interest income increased by 1017%, or \$53,371, for the quarter ended June 30, 2004 from the comparable quarter in 2003. The increase was due to a combination of higher average cash balances and a higher rate of return on account balances. The higher cash balances were, in turn, the result of private placements of our equity securities during the last 12 months, as well as payments to us in connection with the sale of our Common Stock to and licensing fees from Boston Scientific, as discussed elsewhere in this Report.

[Table of Contents](#)

Comparison of Six Months Ended June 30, 2004 and Six Months Ended June 30, 2003

	Actual Results			
	Six Months Ended June 30,		Change	
	2004	2003	Dollars	Percent
Revenue:				
Sales	\$ 542,945	\$ —	\$ 542,945	N/A
Cost of sales	374,704	—	374,704	N/A
Gross margin	168,241	—	168,241	N/A
Other manufacturing and distribution costs	48,999	—	48,999	N/A
Operating expenses:				
General and administrative	1,936,549	2,066,300	(129,751)	-6%
Research and development	5,972,342	5,581,995	390,347	7%
Total operating expenses	7,908,891	7,648,295	260,596	3%
Loss from operations	(7,789,649)	(7,648,295)	141,354	2%
Interest income	99,614	11,812	87,802	743%

The Company received a PMA for its Prolieve system from the FDA on February 19, 2004 and thereafter commenced commercial introduction of the system through Boston Scientific Corporation. Product sales for the six months ended June 30, 2004, all of which were generated subsequent to February 19, 2004, consist of the sale of catheter kits and miscellaneous parts to Boston Scientific. There were no product sales during the comparable period in 2003, which predated the commercial introduction of our Prolieve system.

Other manufacturing and distribution costs represent freight charges and incidental manufacturing costs.

The \$129,751(6%) decrease in general and administrative expense during the six months ended June 30, 2004 as compared to the six months ended June 30, 2003, was attributable primarily to a reduction in compensation expense (\$463,800) as a result of a decrease in the cumulative value of repriced options our employee stock option plan and a reduction in legal fees (\$77,000) attributable to the retention of in-house counsel in May 2004, partially offset by a \$410,000 payment to Legg Mason paid in the quarter ended March 31, 2004 for investment banking services rendered in connection with negotiation of our strategic relationship with Boston Scientific, which became due with receipt of the PMA.

The increase of \$390,347 (7%) in research and development expense during the six months ended June 30, 2004 was due primarily to (i) costs in the approximate amount of \$972,000 recorded with respect to the Separation and Release Agreement with Mr. Daniel S. Reale in connection with Mr. Reale's resignation as an Executive Vice President and President of our Oncology Division, as reflected in our Report on Form 8-K filed with the SEC on March 1, 2004; (ii) a termination fee payment in the amount of \$350,000 in connection with migration of manufacturing of the catheter kits for our Prolieve system to a new supplier; and (iii) cash bonuses in the approximate amount of \$554,000 granted to our employees in connection with receipt of the PMA for the Prolieve system. These additional expenses during the most recent six-month period were substantially offset by a decrease of \$1,407,000 in compensation expense as a result of a reduction in the cumulative value of repriced employee stock options. During the six months ended June 30, 2004 substantially all of the net increase in operating expenses not due to the unusual items discussed above was attributable to increased personnel and consulting costs in connection with completion of the PMA process and the commencement of commercialization of the Prolieve system.

In contrast, our expenses for the six months ended June 30, 2003 included an unusual, nonrecurring payment to Duke University in January 2003 under our licensing arrangements for our thermo-liposome technology.

[Table of Contents](#)

The net increase of \$260,596 in operating expenditures during the six months ended June 30, 2004 when compared to the comparable period during 2003, as discussed above, combined with revenues generated from the sale of Prolieve products during the first six months of 2004, resulted in an increase in the loss from operations for the six-month period ended June 30, 2004 of \$141,354 or 2%, to \$7,789,649 from \$7,648,295 in the comparable period during the prior fiscal year.

Interest income increased by 743%, or \$87,802, for the six months ended June 30, 2004 from comparable period in 2003. The increase was due to a combination of higher average cash balances and a higher rate of return on account balances. The higher cash balances were, in turn, the result of private placements of our equity securities during the last 12 months, as well as aggregate payments to us in connection with the sale of our Common Stock to and licensing fees from Boston Scientific, as discussed elsewhere herein.

Liquidity and Capital Resources

Since inception, our expenses have significantly exceeded our revenues, resulting in an accumulated deficit of \$67,769,483 at June 30, 2004. We have incurred negative cash flows from operations since our inception and have funded our operations primarily through the sale of equity securities. In addition, during the six months ended June 30, 2004, we received aggregate payments in the amount of \$8,000,000 from Boston Scientific in the form of payments for shares of our Common Stock and of licensing fees for our Prolieve system. As of June 30, 2004, we had total current assets of \$20,953,496, including cash of \$17,777,895, compared with current liabilities of \$2,727,407, resulting in a working capital surplus of \$18,226,089. As of December 31, 2003, we had \$12,272,407 in cash and total current assets of \$13,568,837, compared with current liabilities of \$986,839, which resulted in a working capital surplus of \$12,581,998 at the fiscal year end. Net cash used in the Company's operating activities was \$6,714,433 for the six months ending June 30, 2004, compared to \$4,405,289 for the six months ended June 30, 2003.

On January 31, 2004, the Company issued 2,727,273 shares of its Common Stock and associated warrants to purchase 818,182 shares of its Common Stock in connection with a private placement offering. The private placement was made exclusively to one institutional "accredited investor" as that term is defined in Rule 501 under the Securities Act of 1933, as amended (the Securities Act). These securities were issued at a price of \$1.10 per share and associated fractional warrant. The warrants issued to the investor entitle the investor to purchase that number of shares of Common Stock equal to 30% of the number of shares of Common Stock initially issued to the investor in the offering. The warrants are exercisable at \$1.50 per share of Common Stock, subject to call under certain circumstances. In connection with the private placement, the Company issued warrants to a finder to purchase 283,636 shares of its Common Stock at an exercise price of \$1.10 per share. The Company realized gross proceeds in the amount of \$3,000,000 and paid a cash finder's fee in the amount of \$240,000 in connection with the sale of these securities. On March 2, 2004, the Company issued 2,083,333 shares of its Common Stock to Boston Scientific Corporation for cash consideration of \$4,000,000 pursuant to the Transaction Agreement between the Company and Boston Scientific (the Transaction Agreement). On April 7, 2004, the Company issued 1,273,885 shares of its Common Stock to Boston Scientific for cash consideration of \$2,000,000 pursuant to the Transaction Agreement. In addition, during the six months ended June 30, 2004, the Company issued a total of 4,762,667 shares of its Common Stock for cash consideration of \$2,985,909 upon exercise of outstanding stock purchase warrants. The warrants were exercised in accordance with their respective terms at prices ranging from \$0.39 to \$1.20 per share. The Company also issued 1,641,466 shares of its Common Stock for cash consideration of \$1,090,715 upon exercise of stock options.

During the six months ended June 30, 2004, we expended approximately \$8,209,722 (including research and development outlays, compensation expenses, including recruitment and relocation expenses for new employees and increased business development costs for BPH, liposome and gene therapy products) for clinical testing of our breast cancer and prostate cancer treatment systems, as well as corporate overhead. For fiscal year ending December 31, 2004, we expect to expend a total of approximately \$12 million for clinical testing of our breast cancer, prostate cancer and liver cancer treatment systems, as well as corporate overhead, all of which we have funded, or expect to fund, from our current resources. On February 19, 2004, we received FDA approval for our Prolieve Thermodilatation system, clearing the path for Celsion and Boston Scientific to introduce the BPH treatment system. We anticipate that sales of Prolieve control units and catheter kits will generate revenues on a going-forward basis, although it is not possible for us to predict the timing or amount of such revenues. The foregoing amounts are estimates based upon assumptions as to the scheduling of institutional clinical research and testing personnel, the timing of clinical trials and other factors that are not fully predictable or within our control.

[Table of Contents](#)

On January 5, 2004, we issued an Irrevocable Letter of Credit (LOC) in the amount of \$500,000 to Sanmina-SCI Corporation (Sanmina), the manufacturer for our Prolieve Thermodilatation system. The LOC, which by its terms expired on June 30, 2004, was renewed through December 31, 2004 at the request of Sanmina. The LOC is collateralized by \$650,000 of U.S. Treasury Bills. Until the LOC termination date, we are restricted from use of these funds.

We anticipate that our available cash on hand will be sufficient to fund our activities through December 2005. However, our dependence on raising additional capital will continue at least until we are able to generate significant sales of our Prolieve system and related kits, as well as of products based on our other new technologies. Our future capital requirements and the adequacy of our financing depend upon numerous factors, including the successful commercialization of our Prolieve Thermodilatation system, 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 additional funding through equity or debt financing, strategic alliances with corporate partners and others, or through other sources not yet identified. We do not have any committed sources of additional financing, and cannot guarantee that additional funding will be available in a timely manner, on acceptable terms, or at all. If adequate funds are not available, we may be required to delay, scale back or eliminate certain aspects of our operations or attempt to obtain funds through unfavorable arrangements with partners or others that may require us to relinquish rights to certain of our technologies, product candidates, products or potential markets or which otherwise may be materially unfavorable to us. Furthermore, if we cannot fund our ongoing development and other operating requirements, particularly those associated with our obligation to conduct clinical trials under our licensing agreements, we will be in breach of our commitments under those licensing agreements and could therefore lose our license rights, which could have material adverse effects on our business.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Not applicable.

Item 4. Controls and Procedures

We have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) under the supervision of our Chief Executive Officer and Chief Financial Officer as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2004, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that Celsion files or submits under the Exchange Act is recorded, processed, summarized and reported in a timely manner. In designing, implementing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and implemented, may not be effective in all circumstances. However, we believe that our disclosure controls and procedures provide reasonable assurance of achieving the desired disclosure control objectives.

There have not been any significant changes in our internal controls or in other factors subsequent to the date the evaluation was completed that could significantly affect such controls and no corrective actions have been required with regard to significant deficiencies and material weaknesses.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

During the fiscal quarter ended June 30, 2004, the Company issued 348,900 shares of its Common Stock for cash consideration of \$228,946 upon exercise of stock options. Additionally, the Company issued the following securities without registration under the Securities Act:

- On April 4, 2004, the Company issued 1,273,885 shares of its Common Stock to Boston Scientific for a cash consideration of \$2,000,000 pursuant to the Transaction Agreement. These shares are restricted stock, endorsed with a restricted legend, with stop transfer instructions recorded by the transfer agent. Accordingly, the Company views the shares issued as exempt from registration under Sections 4(2) and/or 4(6) of the Securities Act.
- During the quarter, the Company issued a total of 953,000 shares of its Common Stock for cash consideration of \$578,220 upon exercise of outstanding stock purchase warrants. The warrants were exercised in accordance with their respective terms at prices ranging from \$0.44 to \$0.74 per share. These shares are restricted stock, and the certificates representing such shares are endorsed with Celsion's standard restrictive legend, with a stop transfer instruction recorded by the transfer agent. Accordingly, Celsion views the shares issued as exempt from registration under Sections 4(2) and/or 4(6) of the Securities Act.
- During the quarter, from time to time the Company also issued a total of 40,091 shares of its Common Stock to two outside consultants for services valued at \$55,620. These shares are restricted stock, endorsed with the Company's standard restricted stock legend, with stop transfer instructions recorded by the transfer agent. Accordingly, the Company views the shares issued as exempt from registration under Sections 4(2) and/or 4(6) of the Securities Act.

Item 3. Defaults upon Senior Securities.

Not applicable.

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

On May 25, 2004, the Company held its Annual Meeting of Stockholders (Annual Meeting). At the Annual Meeting, the stockholders voted to elect Drs. Augustine Y. Cheung, Max E. Link and Kris Venkat to the Board of Directors, to serve as Class III directors, each for a term of three years, until the Company's annual meeting of stockholders in 2007 and until his successor is elected and shall have qualified. The results of the voting on this matter are as follows:

<u>Nominee</u>	<u>For</u>	<u>Withhold</u>
Augustine Y. Cheung	136,560,921	2,188,834
Max E. Link	132,632,811	6,116,944
Kris Venkat	136,882,371	1,867,384

Table of Contents

At the Annual Meeting, the stockholders also voted to amend our Certificate of Incorporation to increase the authorized number of shares of the Company's Common Stock by 50 million, from 200 million to 250 million shares. The results of voting on this matter are as follows:

Votes For	128,467,551
Votes Against	9,909,695
Abstentions and Non-Votes	372,508

In addition, at the Annual Meeting, stockholders voted to approve the Celsion Corporation 2004 Stock Incentive Plan. The results of the voting on this matter are as follows:

Votes For	50,665,636
Votes Against	7,717,514
Abstentions and Non-Votes	579,644

Finally, the stockholders voted to ratify the appointment of Stegman & Company as the Company's independent public accountants for the fiscal year ending December 31, 2004. The results of the voting on this matter are as follows:

Votes For	137,058,306
Votes Against	1,364,698
Abstentions and Non-Votes	326,751

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

- 3.1 Certificate of Incorporation of the Company, as amended (compiled).
- 3.2 By-laws of the Company, as amended (compiled).
- 4.1 Amendment to Rights Agreement adopted January 16, 2003.
- 10.1 Celsion Corporation 2004 Stock Incentive Plan.
- 11 Statement Re. Computation of Earnings Per Share.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

Table of Contents

On May 25, 2004, the Company filed with the SEC a Current Report on Form 8-K reporting, under Item 5, that, at its Annual Meeting of Stockholders on May 25, 2004, the Company made announcements with respect to the following:

- (A) The Company had received a warning letter from the FDA, regarding the Phase I and Phase II clinical trials of its Prolieve(TM) Thermomodilation system for the treatment of benign prostatic hyperplasia, or BPH.
- (B) On Tuesday, May 18, the Company had completed treatment of the fourth cohort of prostate cancer patients in the dose escalation study for Thermodox(R), the Company's liposome encapsulation of the cancer drug doxorubicin.
- (C) Effective May 25, 2004, the Company had suspended both branches of its pivotal Phase II trials using the Company's advanced phase array microwave technology in the treatment of small and late stage breast cancer tumors.
- (D) Effective May 25, the Board of Directors had established a search committee to recruit a new chief executive officer for the Company.

On June 2, 2004, the Company filed with the SEC a Current Report on Form 8-K reporting, under Item 5, that:

- (A) On May 28, 2004, it had become aware that its common stock was listed for trading on the Berlin-Bremen Stock Exchange and that it had requested delisting from that Exchange.
- (B) On June 1, 2004, the Company had issued a press release, announcing that it had filed with the FDA its response to a warning letter issued to it by the FDA on May 7, 2004.

SIGNATURES

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

DATE: August 5, 2004

CELSION CORPORATION
Registrant

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

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

CERTIFICATE OF INCORPORATION
OF
CELSION (DELAWARE) CORPORATION
(Compiled and reflecting all amendments through May 26, 2004*)

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

FIRST: The name of the Corporation is

CELSION (DELAWARE) CORPORATION

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

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

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is two hundred fifty million one hundred thousand (250,100,000) shares, consisting of (i) two hundred fifty million (250,000,000) shares of Common Stock, par value \$0.01 per share ("Common Stock"), and (ii) one hundred thousand (100,000) shares of Preferred Stock, par value \$0.01 per share ("Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series.

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

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

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

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

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

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

* Last Amendment made effective May 26, 2004.

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

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

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

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

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

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

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

<u>NAME</u>	<u>ADDRESS</u>
Michael Barr	10 Bank Street White Plains, NY 10606

SIXTH: The Corporation is to have perpetual existence.

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

EIGHTH:

(a) The management of the business and conduct of the affairs of the Corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-Laws. The Board of Directors shall be classified and divided into three classes, designated as Class I, Class II and Class III. The terms of office of the initial Class I directors shall expire at the first annual meeting of the stockholders of the Corporation after the election of such initial Class I directors, the terms of office of the initial Class II directors shall expire at the second annual meeting of the stockholders of the Corporation after the election of such initial Class II directors and the terms of office of the initial Class III directors shall expire at the third annual meeting after the election of such initial Class III directors. At each annual meeting following such classification and division of the members of the Board of Directors, a number of directors equal to the number

of directorships in the class the term of which expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting of the stockholders of the Corporation. Each director shall hold office for the class term for which he is elected and until his or her successor shall be elected and qualified, or until his or her earlier resignation, removal or death. Any director may be removed for cause (but not without cause) from office at any time by the vote or written consent of the stockholders. In case of any increase or decrease, from time to time, in the number of directors constituting the whole Board of Directors, the number of directors in each class shall be determined by action of the Board of Directors. A director elected by the remainder of the Board of Directors to fill a vacancy shall hold office for the remaining term of the predecessor director and until his or her successor is elected and has qualified, or until his or her earlier resignation, removal or death.

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

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

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

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

NINTH:

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

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

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

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

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

/s/ Michael Barr

Incorporator

BYLAWS
OF
CELSION (DELAWARE) CORPORATION

(Compiled and reflecting all amendments through May 25, 2004*)

ARTICLE I
CORPORATE OFFICES

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

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

ARTICLE II
MEETINGS OF STOCKHOLDERS

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

2.2 ANNUAL MEETING.

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

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date specified in the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting or ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in

* Last Amendment made effective May 25, 2004

this paragraph (b), the chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting in accordance with the provisions of this paragraph (b), and, if he should so determine, he shall declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

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

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

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

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

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

which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.14 INSPECTORS OF ELECTION. In conjunction with any meeting of stockholders, either the corporation's chief executive officer or chief financial officer, or either of their equivalents, or any person or persons designated by either of them, shall appoint an inspector or inspectors of election to act at the meeting or its adjournment and to determine such matters as quorum, validity of proxies and ballots, voting eligibility, and the tabulation of votes. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

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

ARTICLE III DIRECTORS

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

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

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

The board of directors shall be divided into three classes, designated as Class I, Class II and Class III, with each class to be elected for three-year terms on a staggered basis, except with respect to the initial terms of the classes, all as further set forth in Section 3.3 below.

3.3 ELECTION AND TERM OF OFFICE OF DIRECTORS. The terms of office of the initial Class I directors shall expire at the first annual meeting of the stockholders of the Corporation after the election of such initial Class I directors, the terms of office of the initial Class II directors shall expire at the second annual meeting of the stockholders of the Corporation after the election of such initial Class II directors and the terms of office of the initial Class III directors shall expire at the third annual meeting after the election of such initial Class III directors. At each annual meeting following such classification and division of the members of the Board of Directors, a number of directors equal to the number of directorships in the class the term of which expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting of the stockholders of the Corporation. Each director shall hold office for the class term for which he is elected and until his or her successor shall be elected and qualified, or until his or her earlier resignation, removal or death. Directors need not be stockholders unless so required by the Certificate of Incorporation or by these By-Laws.

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

Unless otherwise provided in the Certificate of Incorporation or these By-Laws:

(a) Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected by the remainder of the Board of Directors to fill a vacancy shall hold office for the remaining term of the predecessor director and until his or her successor is elected and has qualified, or until his or her earlier resignation, removal or death.

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

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

3.5 REMOVAL. Any director may be removed for cause (but not without cause) from office at any time by the vote or written consent of the stockholders

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

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

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

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

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by mail, telecopy, telegram or other electronic or wireless means, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation or if the address is not readily ascertainable, notice shall be addressed to the director at the city or place in which the meetings of directors are regularly held. If the notice is mailed, it shall be deposited in the United States mail at least three (3) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone, telecopy, telegram or other electronic or wireless means, it shall be delivered personally or by telephone or other electronic or wireless means at least twenty-four (24) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. A notice of special meeting need not state the purpose of such meeting, and, unless indicated in the notice thereof, any and all business may be transacted at a special meeting.

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

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

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

with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

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

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

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

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

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

ARTICLE IV COMMITTEES

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

4.2 MEETINGS AND ACTION OF COMMITTEES. To the extent feasible, meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.6 (place of meetings), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment), Section 3.12 (notice of adjournment), and Section 3.13 (action without meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members, provided, however, that the board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V OFFICERS

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

corporation. The board of directors may designate a chairman of the board who, in the discretion of the board of directors, may be designated as an executive officer of the corporation.

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

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

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

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

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

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

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

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

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

(iv) To keep a supply of certificates for shares of the corporation, to fill in all certificates issued, and to make a proper record of each such issuance; provided, that so long as the corporation shall have one or more duly

appointed and acting transfer agents of the shares, or any class or series of shares, of the corporation, such duties with respect to such shares shall be performed by such transfer agent or transfer agents.

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

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

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

ARTICLE VI
INDEMNIFICATION OF DIRECTORS,
OFFICERS, EMPLOYEES AND OTHER AGENTS

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

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

6.3 INSURANCE. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his

or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

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

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

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

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

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

ARTICLE VII RECORDS AND REPORTS

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

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

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

ARTICLE VIII
GENERAL MATTERS

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

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

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

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

8.4 FISCAL YEAR. Commencing in 2004, the fiscal year of this corporation shall begin on the first day of January of each year and end on the last day of December of such year.

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

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

special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

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

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

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

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

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

ARTICLE IX AMENDMENTS

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

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

CELSION CORPORATION

AMENDMENT NO. 1

to

RIGHTS AGREEMENT

Dated as of August 15, 2002

This Amendment No. 1 (this "Amendment No. 1") to that certain Rights Agreement (the "Rights Agreement") by and between Celsion Corporation (the "Company") and American Stock Transfer & Trust Company as Rights Agent (the "Rights Agent") dated as of August 15, 2002, is entered into the 16th day of January, 2003. Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed thereto in the Rights Agreement.

WHEREAS, the Board of Directors of the Company has determined that it is necessary and desirable to amend the Rights Agreement to provide an additional exclusion from the definition of an "Acquiring Person";

WHEREAS, pursuant to Section 27 of the Rights Agreement, the Company may amend the Rights Agreement without the approval of any holders of Rights Certificates as the Company may deem necessary or desirable until such time as the Rights are no longer redeemable; and

WHEREAS, the Rights are currently redeemable.

NOW, THEREFORE, in consideration of the foregoing and of the covenants and agreements contained herein and in the Rights Agreement and other good and valuable consideration, the Rights Agreement hereby is amended as follows:

1. Amendatory Provision. Pursuant to Section 27 of the Rights Agreement, Section 1(a) of the Rights Agreement hereby is amended to provide the following additional exclusion to the definition of "Acquiring Person" subsequent to item (iii) of the first sentence of that Section, to be numbered as item (iv) of the first sentence of that Section and to read as follows:

(iv) Boston Scientific Corporation ("BSC") shall not become an "Acquiring Person" as the result of the acquisition of shares of Common Stock by BSC solely (a) pursuant to that certain Transaction Agreement, dated as of January 20, 2003, by and between the Company and BSC (the "BSC Transaction Agreement") and (b) pursuant to a stock dividend on, subdivision of, or similar proportionate adjustment in (collectively, an "Adjustment"), the shares of Common Stock received pursuant to the BSC Transaction Agreement, *provided, however*, that if BSC shall become the Beneficial Owner of an aggregate of 15% or more of the shares of Common Stock then outstanding by reason of share acquisitions *other than* pursuant to the BSC Transaction Agreement or an Adjustment in the shares received pursuant thereto (provided that such aggregate may include shares of Common Stock acquired pursuant to the BSC Transaction Agreement or any Adjustment), then BSC shall be deemed to be an "Acquiring Person".

2. Execution by the Rights Agent. Upon the delivery of a certificate from an appropriate officer of the Company which states that this Amendment No. 1 is compliance with the terms of Section 27 of the Rights Agreement, the Rights Agent shall execute this Amendment No 1.

3. Effective Time. Notwithstanding Section 2 hereof, pursuant to Section 27 of the Rights Agreement, this Amendment No. 1 shall become effective immediately upon execution by the Company.

4. Existing Agreement. Except as expressly amended hereby, all of the terms, covenants and conditions of the Rights Agreement (i) are ratified and confirmed; (ii) shall remain unamended and not waived; and (iii) shall continue in full force and effect.

5. Governing Law. This Amendment No. 1 shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

6. Severability. If any term, provision, covenant or restriction of this Amendment No. 1 or of the Rights Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment No. 1 and the Rights Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

7. Counterparts. This Amendment No. 1 may be executed in counterparts, each of which shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Celsion Corporation has caused this Amendment No. 1 to be duly executed on the date first above written.

CELSION CORPORATION

By: /s/ Anthony P. Deasey

Name: Anthony P. Deasey

Title: Executive Vice President—Finance
and Administration and Chief
Financial Officer

Executed by American Stock Transfer & Trust Company, as Rights Agent, this 6th day of February, 2003.

AMERICAN STOCK TRANSFER & TRUST
COMPANY, as Rights Agent

By: /s/ Herbert J. Lemmer

Name: Herbert J. Lemmer

Title: Vice President

CELSION CORPORATION
2004 STOCK INCENTIVE PLAN
Effective: May 25, 2004

TABLE OF CONTENTS

	<u>Page</u>
1. ESTABLISHMENT, PURPOSE AND TYPES OF AWARDS	1
2. DEFINITIONS	1
3. ADMINISTRATION	3
(a) Procedure	3
(b) Secondary Committees and Sub-Plans	4
(c) Powers of the Committee	4
(d) Limited Liability	5
(e) Indemnification	5
(f) Effect of Committee's Decision	5
(g) Apprising the Board	5
4. STOCK AVAILABLE UNDER THE PLAN; MAXIMUM AWARDS	5
(a) Stock Available Under the Plan	5
(b) Maximum Awards to Covered Employees	6
5. PARTICIPATION	6
6. STOCK OPTIONS	6
(a) Grant of Option	6
(b) Exercise Price	6
(c) Payment	6
(d) Term of Options	6
(e) Restrictions on Incentive Stock Options	6
(f) Other Terms and Conditions	7
7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS	7
(a) In General	7
(b) Vesting Conditions and Other Restrictions	7
(c) Stock Issuance and Stockholder Rights	7
8. STOCK APPRECIATION RIGHTS	8
(a) Award of Stock Appreciation Rights	8
(b) Restrictions of Tandem SARs	8
(c) Amount of Payment upon Exercise of SARs	8
(d) Form of Payment upon Exercise of SARs	8
9. PHANTOM STOCK	9
10. PERFORMANCE AWARDS	9
(a) In General	9
(b) Covered Employee Targets	9
11. WITHHOLDING AND REPORTING OF TAXES	9
12. TRANSFERABILITY	10
13. ADJUSTMENTS; BUSINESS COMBINATIONS	10
(a) Adjustments	10
(b) Change in Control	10
(c) Dissolution and Liquidation	10
(d) Other Adjustments	11
14. TERMINATION AND AMENDMENT	11
(a) Amendment or Termination by the Board	11
(b) Amendments by the Committee	11
(c) Approval of Grantees	11
15. NON-GUARANTEED EMPLOYMENT	11
16. TERMINATION OF EMPLOYMENT	11
17. WRITTEN AGREEMENT	12
18. NON-UNIFORM DETERMINATIONS	12
19. LIMITATION ON BENEFITS	12
20. LISTING AND REGISTRATION	12

21.	COMPLIANCE WITH SECURITIES LAW	12
22.	NO TRUST OR FUND CREATED	12
23.	NO LIMIT ON OTHER COMPENSATION ARRANGEMENTS	13
24.	NO RESTRICTION OF CORPORATE ACTION	13
25.	GOVERNING LAW	13
26.	PLAN SUBJECT TO CHARTER AND BYLAWS	13
27.	EFFECTIVE DATE; TERMINATION DATE	13

CELSION CORPORATION
2004 STOCK INCENTIVE PLAN

1. Establishment, Purpose and Types of Awards

Celsion Corporation, a Delaware corporation (the Company) hereby establishes the Celsion Corporation 2004 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to promote the long-term growth and profitability of the "Company" by (i) providing incentives to improve stockholder value and to contribute to the growth and financial success of the Company, and (ii) enabling the Company to attract, retain and reward the best available persons for positions of substantial responsibility.

The Plan permits the granting of Awards in the form of Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Phantom Stock, and Performance Awards, in each case as such term is defined below, and any combination of the foregoing.

2. Definitions

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

(a) "Affiliate" shall mean any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own directly or indirectly not less than fifty percent (50%) of such entity.

(b) "Awards" shall mean Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Phantom Stock, and Performance Awards, and any combination of the foregoing.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Change in Control" shall mean:

(i) The consummation of an amalgamation, merger or consolidation of the Company with or into another entity or any other corporate reorganization of the Company, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such amalgamation, merger, consolidation or other reorganization (or, if applicable, more than fifty percent (50%) of the combined voting power of the ultimate parent company that directly or indirectly has beneficial ownership of the securities of such continuing or surviving entity) is not owned directly or indirectly by persons who were holders of the Company's then-outstanding voting securities immediately prior to such amalgamation, merger, consolidation or other reorganization;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets to an entity that is not a Parent, a Subsidiary or an Affiliate of the Company;

(iii) Any transaction as a result of which any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least fifty percent (50%) of the total voting power represented by the Company's then-outstanding voting securities. For purposes of this subsection, the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude: (A) any Parent, Subsidiary or Affiliate of the Company, (B) any employee benefit plan (or related trust) sponsored or maintained by the Company, a Parent, or any Subsidiary or Affiliate, and (C) any underwriter temporarily holding securities pursuant to an offering of such securities; or

(iv) A change in the composition of the Board over a period of twenty four (24) consecutive months or less as a result of which individuals who, at the beginning of such period, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual subsequently becoming a director whose election, or nomination for election by the Company's Stockholders, was approved by a vote of at least a majority of the directors then

comprising the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

(e) “Code” shall mean the Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

(f) “Committee” shall mean the Board or a committee of the Board appointed pursuant to Section 3 of the Plan to administer the Plan.

(g) “Committee Delegate” shall mean the Chief Executive Officer or other senior officer of the Company to whom duties and powers of the Board or Committee hereunder have been delegated pursuant to Section 3(b).

(h) “Covered Employee” shall mean an employee of the Company or any Parent, Subsidiary or Affiliate who is subject to Code Section 162(m).

(i) “Exchange Act” shall mean the U.S. Securities Exchange Act of 1934, as amended and any rules or regulations promulgated thereunder.

(j) “Fair Market Value” of the Stock for any purpose on a particular date shall mean:

(i) if the Stock is traded on a public securities exchange or a national automated quotation system, the closing price for Stock on the relevant date, or (if there were no sales on such date) the closing price on the nearest day before the relevant date, as reported in *The Wall Street Journal* or a similar publication selected by the Committee; or

(ii) if the Stock is not traded on a public securities exchange or a national quotation system on such date, the price determined in a manner such as the Committee shall in good faith determine to be appropriate.

(k) “Grant Agreement” shall mean a written agreement between the Company and a grantee memorializing the terms and conditions of an Award granted pursuant to the Plan.

(l) “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.

(m) “Incentive Stock Options” shall mean Stock options that meet the requirements of Code Section 422.

(n) “Nonqualified Stock Options” shall mean Stock options that do not meet the requirements of Code Section 422.

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

(p) “Participant” shall mean a director, officer, employee or consultant of the Company, or any Parent, Subsidiary or Affiliate, who is granted an Award under the Plan.

(q) “Performance Award” shall mean an Award under Section 10 hereof.

(r) “Performance Measure” shall mean one or more of the following criteria, or such other operating objectives as it deems appropriate, selected by the Committee to measure performance of the Company or any Parent, Subsidiary or Affiliate or other business division of same for a Performance Period, whether in absolute or relative terms: basic or diluted earnings per share of Stock; earnings per share of Stock growth; revenue; operating

income; net income (either before or after taxes); earnings and/or net income before interest and taxes; earnings and/or net income before interest, taxes, depreciation and amortization; return on capital; return on equity; return on assets; net cash provided by operations; free cash flow; Stock price; economic profit; economic value; total stockholder return; gross margins and costs. Each such measure shall be determined in accordance with generally accepted accounting principles as consistently applied and, if so determined by the Committee and, in the case of a Performance Award to a Covered Employee, to the extent intended to meet the performance-based compensation exception under Code Section 162(m), adjusted to omit the effects of extraordinary items, gain or loss on the disposal of a business segment, unusual or infrequently occurring events and transactions and cumulative effects of changes in accounting principles.

(s) “*Performance Period*” means a period of not less than one year over which the achievement of targets for Performance Measures is determined.

(t) “*Phantom Stock*” shall mean Awards under Section 9.

(u) “*Restricted Stock*” and “*Restricted Stock Units*” shall mean Awards under Section 7.

(v) “*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.

(w) “*Securities Act*” shall mean the U.S. Securities Act of 1933, as amended and any rules or regulations promulgated thereunder.

(x) “*Stock*” shall mean common stock of the Company, par value \$0.01 per share.

(y) “*Stock Appreciation Rights*” shall mean Awards under Section 8.

(z) “*Subsidiary*” and “*Subsidiaries*” shall mean only a company or companies, whether now or hereafter existing, within the meaning of the definition of “subsidiary company” provided in Section 424(f) of the Code, or any successor thereto of similar import.

(aa) “*2001 Plan*” shall mean the 2001 Celsion Corporation Stock Option Plan.

3. Administration

(a) *Procedure.* The Plan shall be administered by the Board. In the alternative, the Board may delegate authority to a Committee to administer the Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe. Such Committee shall consist of not less than two (2) members of the Board each of whom is a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, or any successor rule of similar import, and an “outside director” within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder.

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) *Secondary Committees and Sub-Plans.* The Board may, in its sole discretion, divide the duties and powers of the Committee by establishing one or more secondary Committees to which certain duties and powers of the Board hereunder are delegated (each of which shall be regarded as a "Committee" under the Plan with respect to such duties and powers), or delegate all of its duties and powers hereunder to a single Committee. Additionally, if permitted by applicable law, the Board or Committee may delegate any or all of its duties and powers hereunder to the Chief Executive Officer and/or to other senior officers of the Company subject to such conditions and limitations as the Board or Committee shall prescribe. However, only the Committee described under Subsection 3(a) may designate and grant Awards to Participants who are subject to Section 16 of the Exchange Act or Section 162(m) of the Code. The Committee shall also have the power to establish sub-plans (which may be included as appendices to the Plan or the respective Grant Agreements), which may constitute separate programs, for the purpose of establishing programs which meet any special tax or regulatory requirements of jurisdictions other than the United States and its subdivisions. Any such interpretations, rules, administration and sub-plans shall be consistent with the basic purposes 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 Participants 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 of Stock and/or amount of cash to be covered by or used for reference purposes for each Award,
- (iv) impose such terms, limitations, vesting schedules, restrictions and conditions upon any such Award as the Committee shall deem appropriate, including without limitation establishing, in its discretion, Performance Measures that must be satisfied before an Award vests and/or becomes payable, the term during which an Award is exercisable, the purchase price, if any, under an Award and the period, if any, following a grantee's termination of employment or service with the Company or any Parent, Subsidiary or Affiliate during which the Award shall remain exercisable,
- (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 that would materially, adversely affect the grantee without the grantee's consent, or constitute a repricing of stock options without the consent of the holders of the Company's voting securities under (vi) below,
- (vi) only with the approval of the holders of the voting securities of the Company to the extent that such approval is required by applicable law, regulation or the rules of a national securities exchange or automated quotation system to which the Company is subject, reprice Incentive Stock Options and Nonqualified Stock Options either by amendment to lower the exercise price or by accepting such stock options for cancellation and issuing replacement stock options with a lower exercise price or through any other mechanism,
- (vii) accelerate the time in which an Award may be exercised or in which an Award becomes payable and waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to an Award,

(viii) establish objectives and conditions, including targets for Performance Measures, if any, for earning Awards and determining whether Awards will be paid after the end of a Performance Period, and

(ix) permit the deferral of, or require a Participant to defer such Participant's receipt of, the delivery of Stock and/or cash under an Award that would otherwise be due to such Participant and establish rules and procedures for such payment deferrals.

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 as the Committee deems necessary, desirable or appropriate in accordance with the Bylaws of the Company.

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

(e) *Indemnification.* The members of the Board and Committee and any Committee Delegate shall be indemnified by the Company in respect of all their activities under the Plan in accordance with the procedures and terms and conditions set forth in the Certificate of Incorporation and Bylaws of the Company as in effect from time to time. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation and Bylaws, as a matter of law, or otherwise.

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

(g) *Apprising the Board.* The Committee will inform the Board regarding its activities under the Plan not less frequently than at each scheduled Board meeting and at such other times as the Board may request. .

4. Stock Available Under the Plan; Maximum Awards

(a) Stock Available Under the Plan.

(i) Subject to adjustments as provided in Section 13 of the Plan, the Stock that may be delivered or purchased or used for reference purposes (with respect to Stock Appreciation Rights, or Phantom Stock) with respect to Awards granted under the Plan, including with respect to Incentive Stock Options, shall not exceed an aggregate of ten million (10,000,000) shares of Stock, plus the number of shares of Stock available from the 2001 Plan as provided in Subsection 4(a)(ii) below. Stock available under the Plan may be, in any combination, authorized but unissued Stock, treasury Stock and Stock that is repurchased, in the market, and canceled by the Company. The Company shall reserve said number of shares of Stock for Awards under the Plan, subject to adjustments as provided in Section 13 of the Plan. If any Award, or portion of an Award, issued under the Plan, expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares of Stock without the delivery by the Company (or, in the case of Restricted Shares, without vesting) of Stock or other consideration, the Stock subject to such Award shall thereafter be available for further Awards under the Plan.

(ii) There shall be available for issuance under the Plan the sum of (A) the number of shares of Stock remaining available for issuance under the 2001 Plan at the effective date of this Plan, plus (B) shares of Stock subject to any stock options issued under the 2001 Plan to the extent such stock options subsequently expire or terminate unexercised, become unexercisable or are forfeited or otherwise terminated, surrendered or canceled, without delivery of shares of Stock or other consideration to the holder.

(b) *Maximum Awards to Covered Employees.* The maximum number of shares of Stock subject to Awards that may be granted during any one calendar year to any one Covered Employee shall be limited to two million (2,000,000). To the extent required by Section 162(m) of the Code and so long as Section 162(m) of the Code is applicable to persons eligible to participate in the Plan, shares of Stock subject to the foregoing maximum with respect to which the related Award is terminated, surrendered or canceled shall nonetheless continue to be taken into account with respect to such maximum for the calendar year in which granted.

5. Participation

Participation in the Plan shall be open to all directors, officers, employees and consultants of the Company, or of any Parent, Subsidiary or Affiliate of the Company, 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 Company or of any Parent or Subsidiary of the Company.

Awards may be granted to such Participants and for or with respect to such number of shares of 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 a Participant 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 Participants Awards of Nonqualified Stock Options and/or Incentive Stock Options. The stock option Awards 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 Company and the grantee, stating the number of shares of Stock subject to the stock option evidenced thereby, the exercise price and the terms and conditions of such stock option, in such form as the Committee may from time to time determine.

(b) *Exercise Price.* The price per share payable upon the exercise of each stock option 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 Stock 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 provided in the Grant Agreement and permitted by applicable law, in shares of Stock which have been held by grantee for at least six (6) months, or a combination of cash and such Stock, or by such other means as the Committee may prescribe. The Fair Market Value of Stock delivered on exercise of stock options shall be determined as of the date of exercise.

If the 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 to deliver promptly to the Company 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 Company to deliver the certificates for such purchased Stock directly to such brokerage firm.

(d) *Term 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 Stock certificates represented thereby, the grantee shall have none of the rights of a stockholder with respect to any Stock represented by an outstanding stock option.

(e) *Restrictions on Incentive Stock Options.* Incentive Stock Option Awards 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 ten (10) years of the earlier of the Plan's adoption by the Board of Directors or approval by the Company's stockholders.

(ii) *Exercise Price and Term.* The exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Stock on the date the stock option is granted and the term of the stock option shall not exceed ten (10) 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 ten percent (10%) of the total combined voting power of all classes of shares of Stock of the Company or any Parent or Subsidiary of the Company shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Stock on the grant date and the term of such stock option shall not exceed five (5) years.

(iii) *Maximum Grant.* The aggregate Fair Market Value (determined as of the Grant Date) of Stock of the Company 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 Company and its Parent and Subsidiaries may not exceed One Hundred Thousand Dollars (\$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 One Hundred Thousand Dollars (\$100,000), or other applicable amount, such stock options to the extent of the Stock in excess of such limit shall be treated as Nonqualified Stock Options. In such case, the Company may designate the shares of Stock that are to be treated as Stock acquired pursuant to the exercise of an Incentive Stock Option.

(iv) *Grantee.* Incentive Stock Options shall only be issued to employees of the Company or of a Parent, Subsidiary or Affiliate of the Company.

(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 stockholders of the Company within twelve (12) months of its adoption by the Board in accordance with the Bylaws of the Company 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. Restricted Stock and Restricted Stock Units

(a) *In General.* Subject to the other applicable provisions of the Plan and applicable law, the Committee may at any time and from time to time grant Restricted Stock or Restricted Stock Units to Participants, in such amounts and subject to such vesting conditions, other restrictions and conditions for removal of restrictions as it determines. Unless determined otherwise by the Committee, Participants receiving Restricted Stock or Restricted Stock Units are not required to pay the Company cash consideration therefor (except as may be required for applicable tax withholding).

(b) *Vesting Conditions and Other Restrictions.* Each Award for Restricted Stock and Restricted Stock Units shall be evidenced by a Grant Agreement that specifies the applicable vesting conditions and other restrictions, if any, on such Award, the duration of such restrictions, and the time or times at which such restrictions shall lapse with respect to all or a specified number of the shares of Stock that are part of the Award. Notwithstanding the foregoing, the Committee may reduce or shorten the duration of any vesting or other restriction applicable to any Restricted Stock or Restricted Stock Units awarded to any grantee under the Plan.

(c) *Stock Issuance and Stockholder Rights.*

(i) *Restricted Stock.* Stock certificates with respect to Stock granted pursuant to a Restricted Stock Award shall be issued, and/or Stock shall be registered, at the time of grant of the Restricted Stock Award, subject to forfeiture if the Restricted Stock does not vest or other restrictions do not lapse. Any

Stock certificates shall bear an appropriate legend with respect to the restrictions applicable to such Restricted Stock Award and the grantee may be required to deposit the certificates with the Company during the period of any restriction thereon and to execute a blank stock power or other instrument of transfer therefor. Except as otherwise provided by the Committee, during the period of restriction following issuance of Restricted Stock certificates, the grantee shall have all of the rights of a holder of Stock, including but not limited to the rights to receive dividends (or amounts equivalent to dividends) and to vote with respect to the Restricted Stock. The Committee, in its discretion, may provide that any dividends or distributions paid with respect to Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the Restricted Stock to which such dividends or distributions relate.

(ii) *Restricted Stock Units.* Stock certificates for the shares of Stock subject to a Restricted Stock Unit shall be issued, and/or Stock shall be registered, upon vesting and lapse of any other restrictions with respect to the issuance of Stock under such Award. The grantee will not be entitled to vote such Stock or to any of the other rights of stockholders during the period prior to issuance of the certificates for such Stock and/or the registration of the Stock. An Award of Restricted Stock Units may provide the Participant with the right to receive amounts equivalent to dividends and distributions paid with respect to Stock subject to the Award while the Award is outstanding, which payments may, in the Committee's discretion, either be made currently or credited to an account for the Participant, and may be settled in cash or Stock, all as determined by the Committee. Unless otherwise determined by the Committee with respect to a particular Award, each outstanding Restricted Stock Unit shall accrue such dividend equivalents, deferred as equivalent amounts of additional Restricted Stock Units, which amounts will be paid only when and if the Restricted Stock Unit (on which such dividend equivalents were accrued) vests and becomes payable. To the extent that a Restricted Stock Unit does not vest or is otherwise forfeited, any accrued and unpaid dividend equivalents shall be forfeited.

8. 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 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 Company and the grantee, stating the number of shares of 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 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 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 Stock over (B) the base price per share of Stock specified in the Grant Agreement, times (ii) the number of shares of Stock specified by the SAR, or portion thereof, that 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 Company of the amount receivable upon any exercise of a SAR may be made by the delivery of Stock or cash, or any combination of 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 Stock, the number of shares of Stock shall be determined by dividing such portion by the Fair Market Value of a share of 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.

9. Phantom Stock

The grant of Phantom Stock shall be evidenced by a Grant Agreement, executed by the Company and the grantee, that incorporates the terms of the Plan and states the number of shares of Phantom Stock evidenced thereby and the terms and conditions of such Phantom Stock in such form as the Committee may from time to time determine. Phantom Stock granted to a Participant shall be credited to a bookkeeping reserve account solely for accounting purposes and shall not require a segregation of any of the Company's assets. Each share of Phantom Stock shall represent the value of one share of Stock. Phantom Stock shall become payable in whole or in part in such form, at such time or times and pursuant to such conditions in accordance with the provisions of the Grant Agreement, and/or such rules and regulations as the Committee may prescribe, and/or such determinations, orders or decisions as the Committee may make. Except as otherwise provided in the applicable Grant Agreement, the grantee shall have none of the rights of a stockholder with respect to any shares represented by Phantom Stock as a result of the grant of Phantom Stock to the grantee. Phantom Stock may contain such other provisions, not inconsistent with the provisions of the Plan, as the Committee shall determine desirable or appropriate from time to time.

10. Performance Awards

(a) *In General.* The Committee, in its discretion, may establish targets for Performance Measures for selected Participants and authorize the granting, vesting, payment and/or delivery of Performance Awards in the form of Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, and/or Phantom Stock to such Participants upon achievement of such targets for Performance Measures during a Performance Period. The Committee, in its discretion, shall determine the Participants eligible for Performance Awards, the targets for Performance Measures to be achieved during each Performance Period, and the type, amount, and terms and conditions of any Performance Awards. Performance Awards may be granted either alone or in addition to other Awards made under the Plan.

(b) *Covered Employee Targets.* After the Company is subject to Code Section 162(m), in connection with any Performance Awards granted to a Covered Employee that are intended to meet the performance-based compensation exception under Code Section 162(m), the Committee shall (i) establish in the applicable Grant Agreement the specific targets relative to the Performance Measures which must be attained before the respective Performance Award is granted, vests, or is otherwise paid or delivered, (ii) provide in the applicable Grant Agreement the method for computing the portion of the Performance Award which shall be granted, vested, paid and/or delivered if the target or targets are attained in full or part, and (iii) at the end of the relevant Performance Period and prior to any such grant, vesting, payment or delivery certify the extent to which the applicable target or targets were achieved and whether any other material terms were in fact satisfied. The specific targets and the method for computing the portion of such Performance Award which shall be granted, vested, paid or delivered to any Covered Employee shall be established by the Committee prior to the earlier to occur of (A) ninety (90) days after the commencement of the Performance Period to which the Performance Measure applies and (B) the elapse of twenty-five percent (25%) of the Performance Period and in any event while the outcome is substantially uncertain. In interpreting Plan provisions applicable to Performance Measures and Performance Awards that are intended to meet the performance-based compensation exception under Code Section 162(m), it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulations Section 1.162-27(e)(2), and the Committee in interpreting the Plan shall be guided by such provisions.

11. Withholding and Reporting of Taxes

The Company may require, as a condition to the grant of any Award under the Plan, vesting or exercise pursuant to such Award or to the delivery of certificates for shares of Stock issued or payments of cash to a grantee pursuant to the Plan or a Grant Agreement, that the grantee pay to the Company, in cash or, if approved by the Company, in Stock, including Stock 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 or any applicable taxes or other required withholding of any other jurisdiction required by law to be

withheld with respect to any taxable event under the Plan. The Company, 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 or any applicable taxes or other required withholding of any other jurisdiction required by law to be withheld with respect to the grant, vesting, exercise or payment of or under any Award under the Plan or a Grant Agreement, or to retain or sell a sufficient number of the shares of Stock to be issued to such grantee to cover any such taxes. The Company or any Parent, Subsidiary or Affiliate shall comply with any applicable tax reporting requirements of any jurisdiction imposed on it by law with respect to the granting, vesting, exercise and/or payment of Awards.

12. 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 accordance 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. Notwithstanding the foregoing, an Award other than an Incentive Stock Option may, in the Committee's sole discretion, be transferable by gift or domestic relations order to (i) the grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law or sister-in-law, including adoptive relationships (such persons, "Family Members"), (ii) a Company, partnership, limited liability company or other business entity whose only stockholders, partners or members, as applicable are the grantee and/or Family Members, or (iii) a trust in which the Grantee and/or Family Members have all of the beneficial interests, and subsequent to any such transfer any Award may be exercised by any such transferee.

13. Adjustments; Business Combinations

(a) *Adjustments.* 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 that relate to Awards and that are affected by the changes in the shares referred to above.

(b) *Change in Control.* In the event of any proposed Change in Control under Section 2(d)(i), (ii) or (iii), 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, 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 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 Stock of the Company, 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.

(c) *Dissolution and Liquidation.* In the event the Company dissolves and liquidates (other than pursuant to a plan of amalgamation, 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, Stock Appreciation Right, Phantom Stock, Restricted Stock or Restricted Stock Unit Award: (i) each grantee shall have the right to exercise his stock option, Stock Appreciation Right, or Phantom Stock or to require delivery of Stock certificates, and/or registration of the Stock, representing any such Restricted Stock or Restricted Stock Unit Award, 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, Stock Appreciation Right, Phantom Stock, Restricted Stock or Restricted Stock Unit Award 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, Stock Appreciation Right or Phantom Stock not so exercised, canceled or surrendered shall terminate on the last day for exercise prior to such effective date; and any Restricted Stock or Restricted Stock Units as to which there has not been such delivery of Stock certificates or that has not been so canceled or surrendered, shall be forfeited on the last day prior to such effective date. The Committee shall give to each grantee written notice of the commencement of any proceedings for such liquidation and dissolution of the Company and the grantee's rights with respect to his outstanding Award.

(d) *Other Adjustments.* 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 paragraphs of this Section 13) affecting the Company, or the financial statements of the Company or any Parent, Subsidiary or Affiliate, 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.

Except as hereinbefore expressly provided, issuance by the Company of stock of any class or securities convertible into stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warranty to subscribe therefor, or upon conversion of stock or obligations of the Company convertible into such stock 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 Stock subject to Awards theretofore granted or the purchase price per share of Stock subject to Awards.

14. Termination and Amendment

(a) *Amendment or Termination by the Board.* The Board, without further approval of the stockholders, may amend or terminate the Plan or any portion thereof at any time, except that no amendment shall become effective without prior approval of the stockholders of the Company to increase the number of shares of 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 national automated quotation system upon which the 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).

(b) *Amendments by the Committee.* The Committee shall be authorized to make minor or administrative amendments to the Plan as well as amendments to the Plan that may be dictated by requirements of U.S. federal or state laws applicable to the Company or that may be authorized or made desirable by such laws. The Committee may amend any outstanding Award in any manner as provided in Section 3(c) and to the extent that the Committee would have had the authority to make such Award as so amended.

(c) *Approval of Grantees.* No amendment to the Plan or any Award may be made that would materially adversely affect any outstanding Award previously made under the Plan without the approval of the grantee.

15. 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 Company or any Parent, Subsidiary or Affiliate or shall interfere in any way with the right of the Company or any Parent, Subsidiary or Affiliate to terminate an employee at any time.

16. 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 Company and the Company's Parent, Subsidiaries or Affiliates 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 that 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.

17. Written Agreement

Each Grant Agreement entered into between the Company 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.

18. Non-Uniform Determinations

The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and time 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.

19. 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.

20. Listing and Registration

If the Company determines that the listing, registration or qualification of Stock subject to any Award upon any securities exchange or listing or quotation system established by the National Association of Securities Dealers, Inc. or under any law is necessary or desirable as a condition of, or in connection with, the granting of same or the issue or purchase of Stock 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 Company.

21. Compliance with Securities Law

The Company may require that a grantee, as a condition to exercise of an Award, and as a condition to the delivery of any Stock certificate, provide to the Company, at the time of each such exercise and each such delivery, a written representation that the 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 Company may also require that a grantee submit other written representations that will permit the Company to comply with applicable federal and state securities laws in connection with the issuance of the 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 Company may require that the grantee obtain a "purchaser representative" as that term is defined in applicable federal and state securities laws. Any Stock certificates for shares issued pursuant to this Plan may bear a legend restricting transferability of the Stock unless such shares are registered or an exemption from registration is available under the Securities Act and applicable securities laws of the states of the U.S. The Company may notify its transfer agent to stop any transfer of Stock not made in compliance with these restrictions. 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 Stock certificates for such shares 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 Stock may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance to the extent such approval is sought by the Committee.

22. 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 Company and a grantee or any other person. To the extent that any grantee or other person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

23. No Limit on Other Compensation Arrangements

Nothing contained in the Plan shall prevent the Company or any Parent, Subsidiary or Affiliate from adopting or continuing in effect other compensation arrangements (whether such arrangements be generally applicable or applicable only in specific cases), including without limitation the granting of stock options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights or Phantom Stock Units otherwise than under the Plan.

24. No Restriction of Corporate Action

Nothing contained in the Plan shall be construed to limit or impair the power of the Company or any Parent, Subsidiary or Affiliate to make adjustments, reclassifications, reorganizations, or changes in its capital or business structure, or to amalgamate, merge or consolidate, liquidate, sell or transfer all or any part of its business or assets or, except as otherwise provided herein, or in a Grant Agreement, to take other actions which it deems to be necessary or appropriate. No employee, beneficiary or other person shall have any claim against the Company or any Parent, Subsidiary or Affiliate as a result of such action.

25. Governing Law

The validity, construction and effect of the Plan, of 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 in accordance with applicable federal laws and the laws of the State of Maryland. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or local courts of the State of Maryland, to resolve any and all issues that may arise out of or relate to the Plan or any related Grant Agreement.

26. Plan Subject to Charter and Bylaws

This Plan is subject to the Certificate of Incorporation and Bylaws of the Company, as they may be in effect from time to time.

27. Effective Date; Termination Date

The Plan is effective as of the date on which the Plan is approved by the stockholders of the Company. No Award shall be granted under the Plan after the close of business on the day immediately preceding the tenth (10th) 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 27, 2004

Date Approved by the Stockholders: May 25, 2003

CELSION CORPORATION
COMPUTATION OF EARNINGS PER SHARE

CELSION CORPORATION
COMPUTATION OF EARNINGS PER SHARE

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss attributable to common stockholders	\$ (1,471,586)	\$ (2,899,012)	\$ (7,537,266)	\$ (7,738,582)
Net (loss) income per common share*	\$ (0.01)	\$ (0.03)	\$ (0.05)	\$ (0.07)
Weighted average shares outstanding	160,302,355	114,611,288	156,764,532	111,654,502

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

CELSION CORPORATION
CERTIFICATION

I, Augustine Y. Cheung, certify that:

1. I have reviewed this report on Form 10-Q of Celsion Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ Augustine Y. Cheung

Augustine Y. Cheung
Chief Executive Officer
Celsion Corporation

CELSION CORPORATION
CERTIFICATION

I, Anthony P. Deasey, certify that

1. I have reviewed this report on Form 10-Q of Celsion Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ Anthony P. Deasey

Anthony P. Deasey
Chief Financial Officer
Celsion Corporation

CELSION CORPORATION
CERTIFICATION
PURSUANT TO 18 UNITED STATES CODE § 1350

The undersigned hereby certifies that the Quarterly Report on Form 10-Q for the period ended December 31, 2003 of Celsion Corporation (the Company) filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Augustine Y. Cheung

Augustine Y. Cheung

Chief Executive Officer

August 5, 2004

CELSION CORPORATION
CERTIFICATION
PURSUANT TO 18 UNITED STATES CODE § 1350

The undersigned hereby certifies that the Quarterly Report on Form 10-Q for the period ended December 31, 2003 of Celsion Corporation (the Company) filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony P. Deasey

Anthony P. Deasey
Chief Financial Officer

August 5, 2004