Celsion CORP
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-15911

CELSION CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**52-1256615**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

997 Lenox Drive, Suite 100,

Lawrenceville, **NJ 08648**

(Address of principal executive offices)

(609) 896-9100

(Registrant's telephone number, including area code)

NA

(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 [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)

Smaller reporting company [X]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 13, 2018, the Registrant had 17,746,285 shares of common stock, $0.01 par value per share, outstanding.

CELSION CORPORATION

QUARTERLY REPORT ON

FORM 10-Q

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Forward-Looking Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of this Quarterly Report on Form 10-Q, including, without limitation, any projections of earnings, revenue or other financial items, any statements of the plans and objectives of management for future operations (including, but not limited to, pre-clinical development, clinical trials, manufacturing and commercialization), any statements concerning proposed drug candidates potential therapeutic benefits, or other new products or services, any statements regarding future economic conditions or performance, any changes in the course of research and development activities and in clinical trials, any possible changes in cost and timing of development and testing, capital structure, financial condition, working capital needs and other financial items, any changes in approaches to medical treatment, any introduction of new products by others, any possible licenses or acquisitions of other technologies, assets or businesses, our ability to realize the full extent of the anticipated benefits of our acquisition of the assets of EGEN, Inc., including achieving operational cost savings and synergies in light of any delays we may encounter in the integration process and additional unforeseen expenses, any possible actions by customers, suppliers, partners, competitors and regulatory authorities, compliance with listing standards of The NASDAQ Capital Market and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential” or “continue,” or the negative thereof or other comparable terminology. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our industry, business and operations, we cannot guarantee that actual results will not differ materially from our expectations.

Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in Part II, Item 1A “Risk Factors” below and for the reasons described elsewhere in this Quarterly Report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements, except as required by law or applicable regulations. The discussion of risks and uncertainties set forth in this Quarterly Report on Form 10-Q is not necessarily a complete or exhaustive list of all risks facing us 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.

Except where the context otherwise requires, in this Quarterly Report on Form 10-Q, the “Company,” “Celsion,” “we,” “us,” and “our” refer to Celsion Corporation, a Delaware corporation and its wholly-owned subsidiary CLSN Laboratories, Inc., also a Delaware corporation.

Trademarks

The Celsion brand and product names, including but not limited to Celsion® and ThermoDox® contained in this document are trademarks, registered trademarks or service marks of Celsion Corporation or its subsidiary in the United States (U.S.) and certain other countries. This document also contains references to trademarks and service marks of other companies that are the property of their respective owners.

PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CELSION CORPORATION

CONDENSED CONSOLIDATED

BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$12,753,694	$11,444,055
Investment securities – available for sale, at fair value	13,442,107	12,724,020
Accrued interest receivable on investment securities	56,832	54,440
Advances, deposits and other current assets	89,186	89,186
Subtotal current assets	26,341,819	24,311,701
Property and equipment (at cost, less accumulated depreciation and amortization of $2,899,400 and $2,838,716, respectively)	192,785	175,771
Other assets:		
In-process research and development	20,246,491	20,246,491
Other intangible assets, net	681,950	795,608
Goodwill	1,976,101	1,976,101
Patent licensing fees, deposits and other assets, net	70,761	8,761
Subtotal other assets	22,975,303	23,026,961
Total assets	$49,509,907	$47,514,433

See accompanying notes to the condensed consolidated financial statements.

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CELSION CORPORATION

CONDENSED CONSOLIDATED

BALANCE SHEETS

(Continued)

	June 30, 2018 (unaudited)	December 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	$3,703,073	$3,416,863
Other accrued liabilities	2,032,393	2,282,827
Deferred revenue – current portion	500,000	500,000
Subtotal current liabilities	6,235,466	6,199,690
Earn-out milestone liability	13,085,849	12,538,525
Notes payable – non-current portion	9,222,121	-
Deferred revenue – non-current portion	1,750,000	2,000,000
Other liabilities – non-current portion	68,755	71,710
Total liabilities	30,362,191	20,809,925
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred Stock - $0.01 par value (100,000 shares authorized; no shares issued or outstanding at June 30, 2018 and December 31, 2017)	-	-
Common stock - $0.01 par value (112,500,000 shares authorized; 17,746,619 and 17,277,299 shares issued at June 30, 2018 and December 31, 2017, respectively, and 17,746,285 and 17,276,965 shares outstanding at June 30, 2018 and December 31, 2017, respectively)	177,466	172,772
Additional paid-in capital	293,549,124	288,408,976
Accumulated other comprehensive loss	(4,247)	(10,164)
Accumulated deficit	(274,489,439)	(261,781,888)
Subtotal	19,232,904	26,789,696
Treasury stock, at cost (334 shares at June 30, 2018 and December 31, 2017)	(85,188)	(85,188)
Total stockholders' equity	19,147,716	26,704,508
Total liabilities and stockholders' equity	$49,509,907	$47,514,433

See accompanying notes to the condensed consolidated financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Licensing revenue	$125,000	$125,000	$250,000	$250,000
Operating expenses:				
Research and development	4,593,544	3,046,631	7,334,620	6,521,907
General and administrative	3,542,809	1,649,110	5,207,837	3,117,232
Total operating expenses	8,136,353	4,695,741	12,542,457	9,639,139
Loss from operations	(8,011,353)	(4,570,741)	(12,292,457)	(9,389,139)
Other (expense) income:				
Loss from change in valuation of earn-out milestone liability	(277,129)	(292,228)	(547,324)	(575,979)
Investment income	73,461	1,426	147,185	3,417
Interest expense	(15,031)	(29,416)	(15,031)	(91,756)
Other (expense) income	(504)	1,090	76	3,452
Total other (expense) income, net	(219,203)	(319,128)	(415,094)	(660,866)
Net loss	(8,230,556)	(4,889,869)	(12,707,551)	(10,050,005)
Deemed dividend related to warrant modification	-	(345,685)	-	(345,685)
Net loss attributable to common shareholders	$(8,230,556)	$(5,235,554)	$(12,707,551)	$(10,395,690)
Net loss per common share				
Basic and diluted	$(0.46)	$(0.79)	$(0.73)	$(1.75)
Weighted average shares outstanding				
Basic and diluted	17,743,229	6,628,778	17,503,796	5,948,570

See accompanying notes to the condensed consolidated financial statements.

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CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Other comprehensive (loss) gain				
Changes in:				
Realized (gain) loss on investment securities recognized in investment income, net	$(3,902)	$	$(8,337)	$
Unrealized gain on investment securities	31,399		12,584	
Change in unrealized gain on available for sale securities	27,497		4,247	
Net loss	(8,230,556)	(4,889,869)	(12,707,551)	(10,050,005)
Comprehensive loss	$(8,203,059)	$(4,889,869)	$(12,703,304)	$(10,050,005)

See accompanying notes to the condensed consolidated financial statements.

CELSION CORPORATION

CONDENSED CONSOLIDATED

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(12,707,551)	$(10,050,005)
Non-cash items included in net loss:		
Depreciation and amortization	174,342	341,058
Change in fair value of earn-out milestone liability	547,324	575,979
Deferred revenue	(250,000)	(250,000)
Stock-based compensation costs	3,371,301	804,592
Restricted shares issued	29,841	-
Amortization of deferred finance charges and debt discount associated with notes payable	4,237	35,370
Change in deferred rent liability	(2,955)	24,488
Net changes in:		
Accrued interest on investment securities	(2,392)	4,008
Advances, deposits and other current assets	(12,000)	94,461
Accounts payable and accrued liabilities	35,776	1,093,740
Net cash (used in) operating activities:	(8,812,077)	(7,326,309)
Cash flows from investing activities:		
Purchases of investment securities	(5,712,170)	-
Proceeds from sale and maturity of investment securities	5,000,000	1,680,000
Refund (deposit) on corporate office lease	(50,000)	100,000
Purchases of property and equipment	(77,698)	(21,126)
Net cash (used in) provided by investing activities	(839,868)	1,758,874
Cash flows from financing activities:		
Proceeds from sale of common stock equity, net of issuance costs	1,236,584	4,252,948
Proceeds from notes payable, net of issuance costs	9,725,000	-
Proceeds from exercise of common stock warrants	-	4,915,286
Principal payments on notes payable	-	(2,595,923)
Net cash provided by financing activities	10,961,584	6,572,311

Increase in cash and cash equivalents	1,309,639	1,004,876
Cash and cash equivalents at beginning of period	11,444,055	2,624,162
Cash and cash equivalents at end of period	$12,753,694	$3,629,038
Supplemental disclosures of cash flow information:		
Interest paid	$10,794	$56,386
Non-cash investing and financing activities:		
Fair value of warrants issued in connection with the notes payable	$507,116	$-

See accompanying notes to the condensed consolidated financial statements.

CELSION CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Note 1. Business Description

Celsion Corporation, a Delaware corporation based in Lawrenceville, New Jersey, and its wholly owned subsidiary, CLSN Laboratories, Inc., also a Delaware corporation, referred to herein as “Celsion”, “we”, or “the Company,” as the context requires, is a fully-integrated, development stage oncology drug company focused on developing a portfolio of innovative cancer treatments, including directed chemotherapies, immunotherapies and RNA- or DNA-based therapies. Our lead program is ThermoDox®, a proprietary heat-activated liposomal encapsulation of doxorubicin, currently in Phase III development for the treatment of primary liver cancer. Our product pipeline also includes GEN-1, a DNA-based immunotherapy for the localized treatment of ovarian and brain cancers. Our product pipeline is based on three platform technologies have demonstrated the potential to address a broad range of solid tumor cancer indications including novel nucleic acid-based immunotherapies, anti-cancer DNA or RNA therapies, and heat sensitive liposomal formulations of known chemotherapeutics. With these technologies we are working to develop and commercialize efficient, effective and targeted therapeutics that minimize the side-effects common to cancer treatments.

Note 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the accounts of Celsion Corporation and its wholly owned subsidiary CLSN Laboratories, Inc, have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All intercompany balances and transactions have been eliminated. Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

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 condensed consolidated financial statements. Operating results for the three and six-month periods ended June 30, 2018 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 December 31, 2017 filed with the Securities and Exchange Commission (SEC) on March 27, 2018.

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the amount reported in the Company's financial statements and accompanying notes. Actual results could differ materially from those estimates. Events and conditions arising subsequent to the most recent balance sheet date have been evaluated for their possible impact on the financial statements and accompanying notes. No events and conditions would give rise to any information that required accounting recognition or disclosure in the financial statements other than those arising in the ordinary course of business.

Note 3. Financial Condition and Business Plan

Since inception, the Company has incurred substantial operating losses, principally from expenses associated with the Company's research and development programs, clinical trials conducted in connection with the Company's product candidates, and applications and submissions to the Food and Drug Administration. We have not generated significant revenue and have incurred significant net losses in each year since our inception. We have incurred approximately $274 million of cumulated net losses. As of June 30, 2018, we had approximately $26.3 million in cash, investment securities and interest receivable. We have substantial future capital requirements to continue our research and development activities and advance our product candidates through various development stages. The Company believes these expenditures are essential for the commercialization of its technologies.

The Company expects its operating losses to continue for the foreseeable future as it continues its product development efforts, and when it undertakes marketing and sales activities. The Company's ability to achieve profitability is dependent upon its ability to obtain governmental approvals, produce, and market and sell its new product candidates. There can be no assurance that the Company will be able to commercialize its technology successfully or that profitability will ever be achieved. The operating results of the Company have fluctuated significantly in the past. We have substantial future capital requirements associated with our continued research and development activities and to advance our product candidates through various stages of development. The Company believes these expenditures are essential for the commercialization of its technologies.

The actual amount of funds the Company will need to operate is subject to many factors, some of which are beyond the Company's control. These factors include the following:

- the progress of research activities;
- the number and scope of research programs;
- the progress of preclinical and clinical development activities;
- the progress of the development efforts of parties with whom the Company has entered into research and development agreements;
- the costs associated with additional clinical trials of product candidates;
- the ability to maintain current research and development licensing arrangements and to establish new research and development and licensing arrangements;
- the ability to achieve milestones under licensing arrangements;
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

The Company has based its estimate on assumptions that may prove to be wrong. The Company may need to obtain additional funds sooner or in greater amounts than it currently anticipates. Potential sources of financing include strategic relationships, public or private sales of the Company's shares or debt, the sale of its State of New Jersey net operating losses and other sources. If the Company raises funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of existing stockholders may be diluted.

With the $26.3 million in cash, investment securities and interest receivable at June 30, 2018, the Company believes it has sufficient capital resources to fund its operations into the first half of 2020. The Company will be required to obtain additional funding in order to continue the development of its current product candidates within the anticipated time periods, if at all, and to continue to fund operations. As more fully discussed in Note 11, the Company has $12.2 million available for future sale under a controlled equity offering facility it has with Cantor Fitzgerald & Co. as of June 30, 2018.

Annually, the State of New Jersey enables approved technology and biotechnology businesses with New Jersey net operating tax losses the opportunity to sell these losses through the Technology Business Tax Certificate Program (NOL Program), thereby providing cash to companies to help fund their operations. The Company determined it met the eligibility requirements of the NOL Program for 2018 and successfully filed its application with the New Jersey Economic Development Authority in June 2018. In this application, the Company is requesting authorization of up to

$12.5 million in cumulative New Jersey net operating losses to be eligible for sale; and would expect to net approximately 90% of the authorized amount. The Company expects a decision on the NOL Program in the third quarter of 2018.

Note 4. New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by Financial Accounting Standards Board (FASB) and are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued accounting pronouncements will not have a material impact on the Company's consolidated financial position, results of operations, and cash flows, or do not apply to our operations.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09 "Revenue from Contracts with Customers (Topic 606)," which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. ASU 2014 - 09 was originally going to be effective on January 1, 2017; however, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year to January 1, 2018. In March 2016, the FASB issued ASU No. 2016 - 8, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. The amendments in this ASU do not change the core principle of ASU No. 2014 - 09 but the amendments clarify the implementation guidance on reporting revenue gross versus net. The effective date for the amendments in this ASU is the same as the effective date of ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Identifying Performance Obligations and Licensing)," to clarify the implementation guidance on identifying performance obligations and licensing (collectively "the new revenue standards"). The new revenue standards allow for either "full retrospective" adoption, meaning the standard is applied to all periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The new revenue standard became effective for us on January 1, 2018. Under the new revenue standards, we recognize revenue following a five-step model prescribed under ASU No. 2014-09;(i) identify contract(s) with a customer;(ii) identify the performance obligations in the contract;(iii) determine the transaction price;(iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) we satisfy the performance obligation. As further described in Note 15, the Company currently has only one contract subject to the new revenue standards. After performance of the five-step model discussed above, the Company concluded the adoption of the new revenue standards as of January 1, 2018 did not change our revenue recognition policy nor does it have an effect on our financial statements using either the full retrospective or the modified retrospective adoption methods.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income (other than those accounted for under the equity method of accounting). This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Based on the Company’s evaluation, the adoption of the ASU 2016-01 does not have a material impact on its consolidated financial statements or its disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases” (Topic 842), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued Accounting Standard Update No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” This update clarifies how certain cash receipts and payments should be presented in the statement of cash flows and is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. Based on the Company’s evaluation, the adoption of the ASU 2016-01 did not have a material impact on its consolidated financial statements or its disclosures.

In November 2016, the FASB issued Accounting Standard Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This update amends the guidance in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. This guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. Based on the Company’s evaluation, the adoption of the ASU 2016 - 01 did not have a material impact on its consolidated financial statements or its disclosures.

In January 2017, the FASB issued Accounting Standard Update No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standard Update *No. 2017-04,* "Intangibles-Goodwill and Other, Simplifying the Test for Goodwill Impairment," which eliminates Step *2* from the goodwill impairment test. Under the revised test, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should *not* exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for any interim or annual impairment tests for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted this method for its impairment test of goodwill during 2017.

Note 5. Net Loss per Common Share

Basic loss per share is calculated based upon the net loss available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated after adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of preferred stock, options and warrants and their equivalents are computed using the treasury stock method.

The total number of shares of common stock issuable upon exercise of warrants, stock option grants and equity awards were 6,255,757 and 1,284,154 shares for the three and six-month periods ended June 30, 2018 and 2017, respectively. For the three and six month periods ended June 30, 2018 and 2017, diluted loss per common share was the same as basic loss per common share as all options and all warrants that were exercisable into shares of the Company's common stock were excluded from the calculation of diluted earnings attributable to common shareholders per common share as their effect would have been anti-dilutive.

Note 6. Fair Value of Financial Instruments

Short-term investments available for sale of $13,442,107 and $12,724,020 as of June 30, 2018 and December 31, 2017, respectively, consist of money market funds, commercial paper, corporate debt securities, and government agency debt securities. They are valued at estimated fair value, with unrealized gains and losses reported as a separate component of stockholders' equity in accumulated other comprehensive loss.

Securities available for sale are evaluated periodically to determine whether a decline in their value is other than temporary. The term "other than temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the security. Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

A summary of the cost, fair value and maturities of the Company's short-term investments is as follows:

	June 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Short-term investments				
Certificate of deposit	$1,714,375	$1,721,698	$-	$-
Corporate debt securities	11,731,979	11,720,409	12,734,184	12,724,020
Total	$13,446,354	$13,442,107	$12,734,184	12,724,020

	June 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Short-term investment maturities				
Within 3 months	$4,241,961	$4,244,210	$-	$-
Between 3-12 months	9,204,393	9,197,897	12,734,184	12,724,020
Total	$13,446,354	$13,442,107	$12,734,184	$12,724,020

The following table shows the Company's investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017. The Company has reviewed individual securities to determine whether a decline in fair value below the amortizable cost basis is other than temporary.

	June 30, 2018		December 31, 2017	
Available for sale securities (all unrealized holding gains and losses are less than 12 months at date of measurement)	Fair Value	**Unrealized Holding Gains (Losses)**	Fair Value	**Unrealized Holding Gains (Losses)**
Investments with unrealized gains	$4,986,645	$ 10,663	$748,148	$ 570
Investments with unrealized losses	8,455,462	(14,910)	11,975,872	(10,734)
Total	$13,442,107	$ (4,247)	$12,724,020	$ (10,164)

Investment income, which includes net realized losses on sales of available for sale securities and investment income interest and dividends, is summarized as follows:

	Three Months Ended	
	June 30,	
	2018	2017
Interest and dividends accrued and paid	$69,559	$1,426
Realized gains	3,902	-
Investment income, net	$73,461	$1,426

	Six Months Ended	
	June 30,	
	2018	2017
Interest and dividends accrued and paid	$138,848	$3,417
Realized gains	8,337	-
Investment income, net	$147,185	$3,417

Note 7. Fair Value Measurements

FASB Accounting Standards Codification (ASC) Section 820 “Fair Value Measurements and Disclosures,” establishes a three-level hierarchy for fair value measurements which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date;

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs).

Cash and cash equivalents, other current assets, accounts payable and other accrued liabilities are reflected in the condensed consolidated balance sheet at their estimated fair values primarily due to their short-term nature. There were no transfers of assets or liabilities between Level 1 and Level 2 and no transfers in or out of Level 3 during the six months ended June 30, 2018 or 2017. All changes in Level 3 liabilities were the result of changes in the fair value of the earn-out milestone liability included in earnings (see Note 13).

Assets and liabilities measured at fair value are summarized below:

	Total Fair Value	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Recurring items as of June 30, 2018				
Investment securities, available for sale	$13,442,107	$ 13,442,107	$	$
Recurring items as of December 31, 2017				
Investment securities, available for sale	$12,724,020	$ 12,724,020	$	$
Liabilities:				
Recurring items as of June 30, 2018				
Earn-out milestone liability (Note 13)	$13,085,849	$	$	$ 13,085,849
Recurring items as of December 31, 2017				
Earn-out milestone liability (Note 13)	$12,538,525	$	$	$ 12,538,525

Note 8. Acquisition of EGEN Assets

On June 20, 2014, we completed the acquisition of substantially all of the assets of EGEN, Inc., an Alabama corporation, which has changed its company name to EGWU, Inc. after the closing of the acquisition ("EGEN"), pursuant to an Asset Purchase Agreement dated as of June 6, 2014, by and between EGEN and Celsion (the "Asset Purchase Agreement"). We acquired all of EGEN's right, title and interest in and to substantially all of the assets of EGEN, including cash and cash equivalents, patents, trademarks and other intellectual property rights, clinical data, certain contracts, licenses and permits, equipment, furniture, office equipment, furnishings, supplies and other tangible personal property. In addition, CLSN Laboratories assumed certain specified liabilities of EGEN, including the liabilities arising out of the acquired contracts and other assets relating to periods after the closing date.

The total purchase price for the asset acquisition is up to $44.4 million, including potential future earnout payments of up to $30.4 million contingent upon achievement of certain earnout milestones set forth in the Asset Purchase Agreement. At the closing, we paid approximately $3.0 million in cash after the expense adjustment and issued 193,728 shares of our common stock to EGEN. The shares of common stock were issued in a private transaction

exempt from registration under the Securities Act, pursuant to Section 4 (2) thereof. In addition, 47,862 shares of common stock were held back by us at the closing and are issuable to EGEN pending satisfactory resolution of any post-closing adjustments for expenses or in relation to EGEN's indemnification obligations under the Asset Purchase Agreement. These shares were issued to EGEN on June 16, 2017.

After its review in 2016, management concluded that there was no immediate opportunity to out-license TheraSilence. As a result of this analysis, the earnout payments were adjusted prior to 2017 and are now up to $24.4 million that may become payable, in cash, shares of our common stock or a combination thereof, at our option, upon achievement of the remaining two major milestone events as follows:

- $12.4 million will become payable upon achieving certain specified development milestones relating to an ovarian cancer study of GEN-1 (formerly known as EGEN-001) to be conducted by us or our subsidiary; and

- $12.0 million will become payable upon achieving certain specified development milestones relating to a GEN-1 glioblastoma multiforme brain cancer study to be conducted by us or our subsidiary.

The following table summarizes the fair values of these assets acquired and liabilities assumed related to the acquisition.

Property and equipment, net	$35,000
In-process research and development	24,211,000
Other Intangible assets (Covenant not to compete)	1,591,000
Goodwill	1,976,000
Total assets:	27,813,000
Accounts payable and accrued liabilities	(235,000)
Net assets acquired	$27,578,000

Acquired in-process research and development (IPR&D) consists of EGEN's drug technology platforms: TheraPlas and TheraSilence. The fair value of the IPR&D drug technology platforms was estimated to be $24.2 million as of the acquisition date. As of the closing of the acquisition, the IPR&D was considered indefinite lived intangible assets and will not be amortized. IPR&D is reviewed for impairment at least annually as of our third quarter ended September 30, and whenever events or changes in circumstances indicate that the carrying value of the assets might not be recoverable.

At September 30, 2017, after the Company's annual assessment of the totality of the events that could impair IPR&D, the Company determined certain IPR&D assets related to the development of its glioblastoma multiforme cancer (GBM) product candidate may be impaired. To arrive at this determination, the Company assessed the status of studies in GBM conducted by its competitors and the Company's strategic commitment of resources to its studies in primary liver cancer and ovarian cancer. The Company estimated the fair value of the IPR&D related to GBM at September 30, 2017 using the multi-period excess earnings method (MPEEM). The Company concluded that the GBM asset, valued at $9.4 million, was partially impaired and wrote down the GBM asset to $6.9 million, incurring a non-cash charge of $2.5 million in the third quarter of 2017.

At December 31, 2016, the Company determined one of the IPR&D assets related to the development of its RNA delivery system being developed with collaborators using their RNA product candidates may be impaired and after an assessment, the Company concluded that this asset, valued at $1.4 million, was impaired. Therefore, the Company wrote off the value of this IPR&D asset, incurring a non-cash charge of $1.4 million in the fourth quarter of 2016.

As no indicators of impairment existed during the first half of 2018, the Company concluded none of the other IPR&D assets were impaired at June 30, 2018.

Pursuant to the EGEN Purchase Agreement, EGEN provided certain covenants ("Covenant Not To Compete") to the Company whereby EGEN agreed, during the period ending on the seventh anniversary of the closing date of the acquisition on June 20, 2014, not to enter into any business, directly or indirectly, which competes with the business of the Company nor will it contact, solicit or approach any of the employees of the Company for purposes of offering employment. The Covenant Not To Compete which was valued at approximately $1.6 million at the date of the EGEN acquisition has a definitive life and is amortized on a straight-line basis over its life of 7 years. The Company recognized amortization expense of $56,829 and 113,658 in each of the three and six-month periods ended June 30, 2018 and 2017, respectively. The fair value of the Covenant Not to Compete was $681,950, net of $909,264 accumulated amortization, as of June 30, 2018 and $795,608, net of $795,606 accumulated amortization, as of December 31, 2017

The purchase price exceeded the estimated fair value of the net assets acquired by approximately $2.0 million which was recorded as Goodwill. Goodwill represents the difference between the total purchase price for the net assets purchased from EGEN and the aggregate fair values of tangible and intangible assets acquired, less liabilities assumed. Goodwill is reviewed for impairment at least annually as of our third quarter ended September 30 or sooner if we believe indicators of impairment exist. As of September 30, 2017, we concluded that the Company's fair value exceeded its carrying value therefore "it is not more likely than not" that the Goodwill was impaired.

Note 9. Accrued Liabilities

Other accrued liabilities as of June 30, 2018 and December 31, 2017 include the following:

	June 30, 2018	December 31, 2017
Amounts due to contract research organizations and other contractual agreements	$908,556	$665,373
Accrued payroll and related benefits	733,539	1,258,265
Accrued professional fees	370,298	264,668
Other	20,000	94,521
Total	$2,032,393	$2,282,827

Note 10. Note Payable

Horizon Credit Agreement

On June 27, 2018, the Company entered into a loan agreement with Horizon Technology Finance Corporation ("Horizon") that provided $10 million in new capital (the "Horizon Credit Agreement"). The Company drew down $10 million upon closing of the Horizon Credit Agreement on June 27, 2018. The Company anticipates that it will use the funding provided under the Horizon Credit Agreement for working capital and advancement of its product pipeline.

The obligations under the Horizon Credit Agreement are secured by a first-priority security interest in substantially all assets of Celsion other than intellectual property assets. The obligations will bear interest at a rate calculated based on one-month LIBOR plus 7.625%. Payments under the loan agreement are interest only for the first twenty-four (24) months after loan closing, followed by a 24-month amortization period of principal and interest through the scheduled maturity date. At its option, the Company can prepay all of the outstanding principal balance by prepaying the outstanding principal balance and an amount equal to 1-3% of the outstanding principal balance at that time, based on the amount of time prior to the maturity date of the notes.

As a fee in connection with the Horizon Credit Agreement, Celsion issued Horizon warrants exercisable for a total of 190,114 shares of Celsion's common stock (the "Horizon Warrants") at a per share exercise price of $2.63. The Horizon Warrants are immediately exercisable for cash or by net exercise from the date of grant and will expire after ten years from the date of grant. Celsion is required to register the common stock underlying the Horizon Warrants within 90 days from the date of grant and use its best efforts to keep it effective.

The Horizon Credit Agreement contains customary representations, warranties and affirmative and negative covenants including, among other things, covenants that limit or restrict Celsion's ability to grant liens, incur indebtedness, make certain restricted payments, merge or consolidate and make dispositions of assets. Upon the occurrence of an event of default under the Horizon Credit Agreement, the lenders may cease making loans, terminate the Horizon Credit Agreement, declare all amounts outstanding to be immediately due and payable and foreclose on or liquidate Celsion's assets that comprise the lenders' collateral. The Horizon Credit Agreement specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, a material adverse effect on Celsion or its assets, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults.

The Company valued the Horizon Warrants issued using the Black-Scholes option pricing model and recorded a total of $507,116 as a direct deduction from the debt liability consistent with the presentation of a debt discount and are being amortized as interest expense using the effective interest method over the life of the loan. Also, in connection

with each of the Horizon Credit Agreement, the Company is required to pay an end of term charge equal to 4.0% of the original loan amount at time of maturity. Therefore, these amounts totaling $400,000 are being amortized as interest expense using the effective interest method over the life of the loan.

In connection with the Horizon Credit Agreement, the Company incurred financing fees and expenses totaling $175,000 which are recorded and classified as debt discount. In addition, the Company paid loan origination fees of $100,000 which has been recorded and classified as debt discount. These debt discount amounts totaling $782,116 are being amortized as interest expense using the effective interest method over the life of the loan.

For the three and six-month periods ended June 30, 2018 the Company incurred $10,794 in interest expense and amortized $4,237 as interest expense for debt discounts and end of term charges in connection with the Horizon Credit Agreement.

Following is a schedule of future principle payments, net of unamortized debt discounts and amortized end of term charges, due on the Horizon Credit Agreement:

	For the year ending June 30
2019	$–
2020	–
2021	4,583,333
2022	5,000,000
2023 and thereafter	416,667
Subtotal of future principle payments	10,000,000
Net of unamortized debt issuance costs	(777,879)
Total	$9,222,121

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Hercules Credit Agreement

In November 2013, the Company entered into a loan agreement with Hercules Technology Growth Capital, Inc. (Hercules) which permits up to $20 million in capital to be distributed in multiple tranches (the Hercules Credit Agreement). The Company drew the first tranche of $5 million upon closing of the Hercules Credit Agreement in November 2013 and used approximately $4 million of the proceeds to repay the outstanding obligations under its loan agreement with Oxford Finance LLC and Horizon Technology Finance Corporation as discussed further below. On June 10, 2014, the Company closed the second $5 million tranche under the Hercules Credit Agreement. The proceeds were used to fund the $3.0 million upfront cash payment associated with Celsion's acquisition of EGEN, as well as the Company's transaction costs associated with the EGEN acquisition. Upon the closing of the second tranche, the Company had drawn down a total of $10 million under the Hercules Credit Agreement.

The obligations under the Hercules Credit Agreement are in the form of secured indebtedness bearing interest at a calculated prime-based variable rate (11.25% per annum since inception through December 17, 2015, 11.50% from December 18, 2015 through December 15, 2016 and 11.75% since). Payments under the loan agreement were interest only for the first twelve months after loan closing, followed by a 30 -month amortization period of principal and interest through the scheduled maturity date of June 1, 2017. In connection with the Hercules Credit Agreement, the Company incurred cash expenses of $122,378 which were recorded as deferred financing fees. These deferred financing fees were amortized as interest expense using the effective interest method over the life of the loan. In addition, the Company paid loan origination fees of $230,000 which has been classified as debt discount. This amount is being amortized as interest expense using the effective interest method over the life of the loan.

As a fee associated with the Hercules Credit Agreement, the Company issued Hercules a warrant for a total of 6,963 shares of the Company's common stock (the Hercules Warrant) at a per share exercise price of $50.26, exercisable for cash or by net exercise from November 25, 2013. Upon the closing of the second tranche on June 10, 2014, this warrant became exercisable for an additional 6,963 shares of the Company's common stock. The Hercules Warrant will expire November 25, 2018. Hercules has certain rights to register the common stock underlying the Hercules Warrant pursuant to a Registration Rights Agreement with the Company dated November 25, 2013. The registration rights expire on the date when such stock may be sold under Rule 144 without restriction or upon the first-year anniversary of the registration statement for such stock, whichever is earlier. The common stock issuable pursuant to the Hercules Warrant was filed pursuant to Rule 415 under the Securities Act of 1933 on the Prospectus for Registration Statement No. 333 - 193936 and was declared effective on September 30, 2014. The Company valued the Hercules Warrants issued using the Black-Scholes option pricing model and recorded a total of $476,261 as a direct deduction from the debt liability consistent with the presentation of a debt discount and are being amortized as interest expense using the effective interest method over the life of the loan. Also, in connection with each of the $5.0 million tranches, the Company was required to pay an end of term charge equal to 3.5% of each original loan amount at time of maturity. Therefore, these amounts totaling $350,000 were amortized as interest expense using the effective interest method over the life of the loan. For the three-period ended June 30, 2017 the Company incurred $11,731 in interest expense and amortized $17,685 as interest expense for deferred fees, debt discount and end of term charges in connection with the Hercules Credit Agreement. For the six-month period ended June 30, 2017, the Company incurred $56,386 in interest expense and amortized $35,370 as interest expense for deferred fees, debt discount and end of term

charges in connection with the Hercules Credit Agreement

The loan balance and end of term charges on the Hercules Credit Agreement was paid in full in June 2017.

Note 11. Stockholders' Equity

In September 2015, the Company filed with the Securities and Exchange Commission (the SEC) a $75 million shelf registration statement on Form S-3 (the 2015 Shelf Registration Statement) (File No. 333-206789) that allows the Company to issue any combination of common stock, preferred stock or warrants to purchase common stock or preferred stock. This shelf registration was declared effective on September 25, 2015.

Increase in the Number of Authorized Shares

At the 2016 Annual Meeting of Stockholders of the Company in June 2016, the Company's stockholders approved an increase in the number of the authorized shares of the Company's common stock from 75,000,000 shares to 112,500,000 shares. The number of the authorized shares of preferred stock remains at 100,000 shares. The aggregate number of shares of all classes of stock that the Company may issue, after giving effect to such amendment as approved by the stockholders, will be 112,600,000 shares.

Reverse Stock Split

On May 26, 2017, the Company effected a 14-for-1 reverse stock split of its common stock which was made effective for trading purposes as of the commencement of trading on May 30, 2017. As of that date, each 14 shares of issued and outstanding common stock and equivalents was consolidated into one share of common stock. All shares have been restated to reflect the effects of the 14-for-1 reverse stock split. In addition, at the market open on May 30, 2017, the Company's common stock started trading under a new CUSIP number 15117N503 although the Company's ticker symbol, CLSN, remained unchanged.

The reverse stock split was previously approved by the Company's stockholders at the 2017 Annual Meeting held on May 16, 2017, and the Company subsequently filed a Certificate of Amendment to its Certificate of Incorporation to effect the stock consolidation. The primary reasons for the reverse stock split and the amendment are:

To increase the market price of the Company's common stock making it more attractive to a broader range of institutional and other investors, and

To provide the Company with additional capital resources and flexibility sufficient to execute its business plans including the establishment of strategic relationships with other companies and to ensure its ability to raise additional capital as necessary.

Immediately prior to the reverse stock split, the Company had 56,982,418 shares of common stock outstanding which consolidated into 4,070,172 shares of the Company's common stock. No fractional shares were issued in connection with the reverse stock split. Holders of fractional shares have been paid out in cash for the fractional portion with the Company's overall exposure for such payouts consisting of a nominal amount. The number of outstanding options and warrants were adjusted accordingly, with outstanding options being reduced from approximately 2.4 million to approximately 0.2 million and outstanding warrants being reduced from approximately 33.5 million to approximately 2.4 million.

October 2017 *Underwritten Offering*

On October 27, 2017, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Oppenheimer & Co. Inc. (the "Underwriter"), relating to the issuance and sale (the "Offering") of 2,640,000 shares (the "Shares") of the Company's common stock, $0.01 par value per share (the "Common Stock"), and warrants to purchase an aggregate of 1,320,000 shares of Common Stock. Each share of Common Stock is being sold together with 0.5 warrants (the "Investor Warrants"), each whole Investor Warrant being exercisable for one share of Common Stock, at an offering price of $2.50 per share and related Investor Warrants.

Pursuant to the terms of the Underwriting Agreement, the Underwriter agreed to purchase the Shares and related Investor Warrants from the Company at a price of $2.325 per share and related Investor Warrants. Each Investor Warrant is exercisable six months from the date of issuance. The Investor Warrants have an exercise price of $3.00 per whole share and expire five years from the date first exercisable.

The Company received $6.6 million of gross proceeds from the sale of the Shares and Investor Warrant. This Offering was made pursuant to the Company's effective shelf registration statement on Form S-3 (File No. 333-206789) filed with the Securities and Exchange Commission on September 4, 2015, and declared effective on September 25, 2015, including the base prospectus dated September 25, 2017 included therein and the related prospectus supplement. The Company also issued to the Underwriter warrants to purchase up to 66,000 shares of the Company's common stock, such issuance being exempt from registration pursuant to Section 4(a)(2) of the Securities Act. Each Underwriter warrant is exercisable six months from the date of issuance, have an exercise price of $2.87 per whole share, and expire five years from the date first exercisable.

July 6, 2017 *Common Stock Offering*

On July 6, 2017, the Company entered into a securities purchase agreement with several investors, pursuant to which the Company agreed to issue and sell, in a registered direct offering, an aggregate of 2,050,000 shares of common stock of the Company at an offering price of $2.07 per share for gross proceeds of $4,243,500 before the deduction of the placement agent fee and offering expenses. In addition, the Company sold Pre-Funded Series CCC Warrants to purchase 385,000 shares of common stock (and the shares of common stock issuable upon exercise of the Pre-Funded Series CCC Warrants), in lieu of shares of common stock to the extent that the purchase of common stock would cause the beneficial ownership of the Purchaser, together with its affiliates and certain related parties, to exceed 9.99% of our common stock. The Pre-Funded Series CCC Warrants were sold at an offering price of $2.06 per share for gross proceeds of $793,100, are immediately exercisable for $0.01 per share of common stock and do not have an expiration date. In a concurrent private placement, the Company agreed to issue to each investor, for each share of common stock and pre-funded warrant purchased in the offering, a Series AAA Warrant and Series BBB Warrant, each to purchase one share of common stock. The Series AAA Warrants are initially exercisable six months following issuance and terminate five and one-half years following issuance. The Series AAA Warrants have an exercise price of $2.07 per share and are exercisable to purchase an aggregate of 2,435,000 shares of common stock. The Series BBB Warrants are immediately exercisable following issuance and terminate twelve months following issuance. The Series BBB Warrants have an exercise price of $4.75 per share and are exercisable to purchase an aggregate of 2,435,000 shares of common stock. Subject to limited exceptions, a holder of a Series AAA and Series BBB Warrant will not have the right to exercise any portion of its warrants if the holder, together with its affiliates, would beneficially own in excess of 9.99% of the number of shares of common stock outstanding immediately after giving effect to such exercise. During the fourth quarter of 2017, all 385,000 of the Series CCC Pre-Funded warrants were exercised in full.

On October 4, 2017, the Company entered into letter agreements (the “Exercise Agreements”) with the holders of the Series AAA and Series BBB Warrants issued in the July 6, 2017 Common Stock Offering (the “Exercising Holders”). The Exercise Agreements amended the Series AAA Warrants to permit their immediate exercise. Prior to the execution of the Exercise Agreements, the Series AAA Warrants were not exercisable until January 11, 2018. Pursuant to the Exercise Agreements, the Exercising Holders and the Company agreed that the Exercising Holders would exercise all of their Existing Warrants with respect to 4,665,000 shares of Common Stock underlying such Existing Warrants. The Series AAA Warrants and Series BBB Warrants were exercised at a price of $2.07 per share and $4.75 per share, respectively, which were their respective original exercise prices. The Company received approximately $16.6 million in gross proceeds from the sale of these warrants.

The Exercise Agreements also provide for the issuance of 1,166,250 Series DDD Warrants, each to purchase one share of Common Stock (the “Series DDD Warrants”). The Series DDD Warrants have an exercise price $6.20, are exercisable one year following issuance and terminate six months after they are initially exercisable. The Series DDD Warrants and the shares of Common Stock issuable upon the exercise of the Series DDD Warrants were offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act or Rule 506(b) promulgated thereunder. Pursuant to the Exercise Agreements, the Series DDD Warrants shall be substantially in the form of the Existing Warrants and the Company will be required to register for resale the shares of Common Stock underlying the

Series DDD Warrants.

February 14, 2017 *Public Offering*

On February 14, 2017, the Company entered into a securities purchase agreement whereby it sold, in a public offering (the February 14, 2017 Public Offering), an aggregate of 1,384,704 shares of common stock of the Company at an offering price of $3.22 per share. In addition, the Company sold Series AA Warrants (the Series AA Warrants) to purchase up to 1,177,790 shares of common stock and Pre-Funded Series BB Warrants (the Pre-Funded Series BB Warrants) to purchase up to 185,713 shares of common stock. The Series AA Warrants have an exercise price of $3.22 per share, have a five-year life and are immediately exercisable. The Pre-Funded Series BB Warrants were offered at $3.08 per share, were immediately exercisable for $0.14 per share of common stock, do not have an expiration date and were issued in lieu of shares of common stock to the extent that the purchase of common stock would cause the beneficial ownership of the purchaser of such shares, together with its affiliates and certain related parties, to exceed 9.99% of our common stock. The Company received approximately $5.0 million in gross proceeds before the deduction of the placement agent fees and offering expenses (excluding any proceeds from the exercise of the warrants) in the February 14, 2017 Public Offering.

In connection with the February 14, 2017 Public Offering, the Company filed with the Securities and Exchange Commission a registration statement on Form S-1 (Registration No. 333-215321) on December 23, 2016, as amended by Pre-Effective Amendment No. 1 filed with the Commission on January 20, 2017, as further amended by Pre-Effective Amendment No. 2 filed with the Commission on February 13, 2017, as further amended by Pre-Effective Amendment No. 3 filed with the Commission on February 13, 2017 and as further amended by Pre-Effective Amendment No. 4 filed with the Commission on February 14, 2017 for the registration of the securities issued and sold under the Securities Act of 1933, as amended.

As of December 31, 2017, all 185,713 of the Series BB Pre-Funded warrants were exercised in full. During 2017, we received approximately $2.4 million from the exercise of Series AA Warrants to purchase 747,254 shares of common stock.

Reduced Exercise Price of Warrants

On February 22, 2013, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company agreed, among other things, to issue warrants (the "2013 Warrants") to purchase up to 95,811 shares of our common stock at an exercise price of $74.34 per share to such investors in a registered direct offering. On January 15, 2014, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company agreed, among other things, to issue warrants (the "2014 Warrants") to purchase up to 64,348 shares of our common stock at an exercise price of $57.40 per share to such investors in a registered direct offering. On June 9, 2017, the Company entered into warrant exercise agreements (the "Exercise Agreements") with certain holders of the 2013 Warrants, the 2014 Warrants and the June 2016 Warrants (the "Exercising Holders"), which Exercising Holders own, in the aggregate, warrants exercisable for 790,410 shares of our common stock. Pursuant to the Exercise Agreements, the Exercising Holders and the Company agreed that the Exercising Holders would exercise their 2013 Warrants, the 2014 Warrants and the June 2016 Warrants with respect to 790,410 shares of our common stock underlying such warrants for a reduced exercise price equal to $2.70 per share. The Company received aggregate gross proceeds of approximately $2.1 million from the exercise of the 2013 Warrants, the 2014 Warrants and the June 2016 Warrants by the Exercising Holders.

The reduced exercise price of the 2013 Warrants, the 2014 Warrants and the June 2016 Series C Warrants increased the fair value of the warrants by approximately $0.2 million. This increase in fair value is recorded as a deemed dividend in additional paid in capital due to the retained deficit and it increased the net loss available to common shareholders on the consolidate statement of operations.

On May 27, 2015 entered into a securities purchase agreement with certain investors pursuant to which the Company agreed, among other things, to issue warrants (the "2015 Warrants") to purchase up to 139,284 shares of the Company's common stock at an exercise price of $36.40 per share, to such investors in a registered direct offering. Between June 22, 2017 through June 26, 2017, the Company and holders of the 2015 Warrants and the December 2016 Warrants (the Exercising Investors) entered into agreements whereby the Company agreed that the Exercising investors would exercise their 2015 Warrants and the June 2016 Warrants with respect to 506,627 shares of our common stock underlying such warrants for a reduced exercise price equal to $1.65 per share. The Company received aggregate gross proceeds of approximately $0.8 million from the exercise of the 2015 Warrants and the June 2016 Warrants by the Exercising Investors.

The reduced exercise price of the 2015 Warrants increased the fair value of the warrants by approximately $0.1 million. This increase in fair value is recorded as a deemed dividend in additional paid in capital due to the retained deficit and it increased the net loss available to common shareholders on the consolidate statement of operations.

Controlled Equity Offering

On February 1, 2013, the Company entered into a Controlled Equity Offering SM Sales Agreement (the "ATM Agreement") with Cantor Fitzgerald & Co., as sales agent ("Cantor"), pursuant to which Celsion may offer and sell, from time to time, through Cantor, shares of our common stock having an aggregate offering price of up to $25.0 million (the "ATM Shares") pursuant to the Company's previously filed and effective Registration Statement on Form S-3. Under the ATM Agreement, Cantor may sell ATM Shares by any method deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on The NASDAQ Capital Market, on any other existing trading market for our common stock or to or through a market maker. From February 1, 2013 through June 30, 2018, the Company sold and issued an aggregate of 1,784,396 shares of common stock under the ATM Agreement, receiving approximately $12.8 million in gross proceeds.

The Company is not obligated to sell any ATM Shares under the ATM Agreement. Subject to the terms and conditions of the ATM Agreement, Cantor will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of The NASDAQ Capital Market, to sell ATM Shares from time to time based upon the Company's instructions, including any price, time or size limits or other customary parameters or conditions the Company may impose. In addition, pursuant to the terms and conditions of the ATM Agreement and subject to the instructions of the Company, Cantor may sell ATM Shares by any other method permitted by law, including in privately negotiated transactions.

The ATM Agreement will terminate upon the earlier of (i) the sale of ATM Shares under the ATM Agreement having an aggregate offering price of $25 million or (ii) the termination of the ATM Agreement by Cantor or the Company. The ATM Agreement may be terminated by Cantor or the Company at any time upon 10 days' notice to the other party, or by Cantor at any time in certain circumstances, including the occurrence of a material adverse change in the Company. The Company pays Cantor a commission of 3.0% of the aggregate gross proceeds from each sale of ATM Shares and has agreed to provide Cantor with customary indemnification and contribution rights. The Company also reimbursed Cantor for legal fees and disbursements of $50,000 in connection with entering into the ATM Agreement.

On October 2, 2015 and again on February 6, 2018, we filed prospectus supplements to the base prospectus that forms a part of the 2015 Shelf Registration Statement, pursuant to which we may offer and sell up to $17.5 million of shares collectively of common stock from time to time under the ATM Agreement. In January 2018 and thus far in 2018, we have sold 457,070 shares of common stock for net proceeds of $1.3 million under the ATM. As of the date of this filing, we have approximately $12.2 million remaining under the ATM.

Note 12. Stock-Based Compensation

The Company has long-term compensation plans that permit the granting of equity based-awards in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, other stock awards, and performance awards.

At the 2018 Annual Stockholders Meeting of the Company held on May 15, 2018, stockholders approved the Celsion Corporation 2018 Stock Incentive Plan (the 2018 Plan). The 2018 Plan, as adopted, permits the granting of 2,700,000 shares of Celsion common stock as equity awards in the form of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, other stock awards, performance awards, or in any combination of the foregoing. Prior to the adoption of the 2018 Plan, the Company had maintained the Celsion Corporation 2007 Stock Incentive Plan (the 2007 Plan). The 2007 Plan permitted the granting of 688,531 shares of Celsion common stock as equity awards in the form of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, performance awards, or in any combination of the foregoing. The 2018 Plan replaced the 2007 Plan although the 2007 Plan remains in effect for awards previously granted under the 2007 Plan. Under the terms of the 2018 Plan, any shares subject to an award under the 2007 Plan which are not delivered because of the expiration, forfeiture, termination or cash settlement of the award will become available for grant under the 2018 Plan.

The Company has issued stock awards to employees and directors in the form of stock options and restricted stock. Options are generally granted with strike prices equal to the fair market value of a share of Celsion common stock on the date of grant. Incentive stock options may be granted to purchase shares of common stock at a price not less than 100% of the fair market value of the underlying shares on the date of grant, provided that the exercise price of any incentive stock option granted to an eligible employee owning more than 10% of the outstanding stock of Celsion must be at least 110% of such fair market value on the date of grant. Only officers and key employees may receive incentive stock options.

Option and restricted stock awards vest upon terms determined by the Compensation Committee of the Board of Directors and are subject to accelerated vesting in the event of a change of control or certain terminations of employment. The Company issues new shares to satisfy its obligations from the exercise of options or the grant of restricted stock awards.

As of June 30, 2018, there were a total of 3,399,893 shares reserved, which were comprised of 3,034,741 shares subject to equity awards previously granted under the 2018 Plan and 2007 Plan and 365,152 shares available for future issuance under the 2018 Plan.

Total compensation cost charged related to employee stock options and restricted stock awards amounted to $3,217,633 and $676,918 for the three-month periods ended June 30, 2018 and 2017, respectively. Total compensation cost charged related to employee stock options and restricted stock awards amounted to $3,371,301 and $804,592 for the six-month periods ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was $2.7 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.3 years. The weighted average grant date fair values of the stock option awards granted during six-month periods ended June 30, 2018 and 2017 was $2.23 and $2.32, respectively.

A summary of stock option awards and restricted stock grants for the six-months ended June 30, 2018 is presented below:

Equity Awards	Stock Options		Restricted Stock Awards		Weighted Average Contractual Terms of Equity Awards (in years)
	Options Outstanding	**Weighted Average Exercise Price**	**Non-vested Restricted Stock Outstanding**	**Weighted Average Grant Date Fair Value**	
Equity awards outstanding at January 1, 2018	703,442	$ 10.34	–	$ –	
Equity awards granted	2,440,000	$ 2.22	11,000	$ 2.64	
Vested and issued	–	$ –	(6,000)	$ 2.64	
Equity awards forfeited, cancelled or expired	(113,701)	$ 40.23	–	$ –	
Equity awards outstanding at June 30, 2018	3,029,741	$ 4.48	5,000	$ 2.61	9.6
Aggregate intrinsic value of outstanding awards at June 30, 2018	$1,913,490		$1,700		
Equity awards exercisable at June 30, 2018	1,657,820	$ 2.95			9.6
Aggregate intrinsic value of awards exercisable at June 30, 2018	$983,522				

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was originally developed for use in estimating the fair value of traded options, which have different characteristics from Celsion's stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option pricing model:

	Six Months Ended June 30,			
	2018		2017	
Risk-free interest rate	3.08	%	2.21	%
Expected volatility	100.0	%	90.4	%
Expected life (in years)	9.5 - 10.0		10.00	
Expected forfeiture rate	–	%	–	%
Expected dividend yield	–	%	–	%

Expected volatilities utilized in the model are based on historical volatility of the Company's stock price. The risk-free interest rate is derived from values assigned to U.S. Treasury bonds with terms that approximate the expected option lives in effect at the time of grant. Starting in 2017, the Company elected to account for any forfeitures when they occur.

Note 13. Earn-out Milestone Liability

The total aggregate purchase price for the EGEN Acquisition included potential future Earn-out Payments contingent upon achievement of certain milestones. The difference between the aggregate $30.4 million in future Earn-out Payments and the $13.9 million included in the fair value of the acquisition consideration at June 20, 2014 was based on the Company's risk-adjusted assessment of each milestone (10% to 67%) and utilizing a discount rate based on the estimated time to achieve the milestone (1.5 to 2.5 years). The earn-out milestone liability will be fair valued at the end of each quarter and any change in their value will be recognized in the financial statements.

As of June 30, 2018, March 31, 2018 and December 31, 2017, the Company fair valued these milestones at $13.1 million, $12.8 million and $12.5 million, respectively, and recognized a non-cash charge of $270,195 and $547,324 during the three and six months ended June 30, 2018 as a result of the change in the fair value of these milestones from the beginning of each period respectively.

As of June 30, 2017, March 31, 2017 and December 31, 2016, the Company fair valued these milestones at $13.8 million, $13.5 million and $13.2 million, respectively, and recognized a non-cash charge of $292,228 and $575,979 during the three and six months ended June 30, 2017 as a result of the change in the fair value of these milestones

from the beginning of each period respectively.

The following is a summary of the changes in the earn-out milestone liability for 2018:

Balance at January 1, 2018	$12,538,525
Non-cash charge from the adjustment for the change in fair value included in net loss	547,324
Balance at June 30, 2018	$13,085,849

The following is a schedule of the Company's risk-adjustment assessment of each milestone:

Date	**Risk-adjustment Assessment of each Milestone**	Discount Rate	**Estimated Time to Achieve**
June 30, 2018	35% to 80%	9%	0.83 to 1.00 year
March 31, 2018	35% to 80%	9%	1.08 to 1.25 years
December 31, 2017	35% to 80%	9%	1.33 to 1.50 years
June 30, 2017	50% to 80%	9%	1.50 to 2.00 years
March 31, 2017	50% to 80%	9%	1.75 to 2.25 years
December 31, 2016	50% to 80%	9%	2.00 to 2.50 years

Note 14. Warrants

Common Stock Warrants

Following is a summary of all warrant activity for the six months ended June 30, 2018:

Warrants	Number of Warrants Issued	Weighted Average Exercise Price
Warrants outstanding at December 31, 2017	3,058,402	$ 5.29
Warrants issued during the six months ended June 30, 2018 (see Note 10)	190,114	$ 2.63
Warrants outstanding at June 30, 2018	3,248,516	$ 5.14
Aggregate intrinsic value of outstanding warrants at June 30, 2018	$119,686	
Weighted average remaining contractual terms at June 30, 2018 (in years)	3.49	

Note 15. Contingent Liabilities and Commitments

In July 2011, the Company executed a lease (the “Lease”) with Brandywine Operating Partnership, L.P. (Brandywine), a Delaware limited partnership for a 10,870 square foot premises located in Lawrenceville, New Jersey. In October 2011, the Company relocated its offices to Lawrenceville, New Jersey from Columbia, Maryland. The lease has a term of 66 months and provides for 6 months of rent free, with the first monthly rent payment of approximately $23,000 due and paid in April 2012. Also, as required by the Lease, the Company provided Brandywine with an irrevocable and unconditional standby letter of credit for $250,000, which the Company secured with an escrow deposit at its banking institution of this same amount. The standby letter of credit was reduced by $50,000 on each of the 19th, 31st and 43rd months from the initial term, and the remaining $100,000 amount was reduced when the Lease term expired in April 2017. In late 2015, Lenox Drive Office Park LLC, purchased the real estate and office building and assumed the lease. This lease was set to expire on April 30, 2017. In April 2017, the Company and the landlord amended the Lease effective May 1, 2017. The Lease amendment extended the term of the agreement for an additional 64 months, reduced the premises to 7,565 square feet, reduced the monthly rent and provided four months free rent. The monthly rent will range from approximately $18,900 in the first year to approximately $20,500 in the final year of the amendment. The Company also has a one-time option to cancel the lease as of the 24th month after the commencement date of the Lease amendment.

In connection with the EGEN Asset Purchase Agreement in June 2014, the Company assumed the existing lease with another landlord for an 11,500 square foot premises located in Huntsville Alabama. This lease expired at the end of January 2018. In January 2018, the Company and this landlord entered into a new 60-month lease which reduced the premises to 9,049 square feet with rent payments of approximately $18,100 per month.

Note 16. Technology Development and Licensing Agreements

On May 7, 2012, the Company entered into a long-term commercial supply agreement with Zhejiang Hisun Pharmaceutical Co. Ltd. (Hisun) for the production of ThermoDox® in the China territory. In accordance with the terms of the agreement, Hisun will be responsible for providing all of the technical and regulatory support services, including the costs of all technical transfer, registration and bioequivalence studies, technical transfer costs, Celsion consultative support costs and the purchase of any necessary equipment and additional facility costs necessary to support capacity requirements for the manufacture of ThermoDox®. Celsion will repay Hisun for the aggregate amount of these development costs and fees commencing on the successful completion of three registration batches of ThermoDox®. Hisun is also obligated to certain performance requirements under the agreement. The agreement will initially be limited to a percentage of the production requirements of ThermoDox® in the China territory with Hisun retaining an option for additional global supply after local regulatory approval in the China territory. In addition, Hisun will collaborate with Celsion around the regulatory approval activities for ThermoDox® with the China State Food and Drug Administration (CHINA FDA). During the first quarter of 2015, Hisun completed the successful manufacture of three registration batches of ThermoDox®.

On January 18, 2013, we entered into a technology development contract with Hisun, pursuant to which Hisun paid us a non-refundable research and development fee of $5 million to support our development of ThermoDox® in mainland China, Hong Kong and Macau (the China territory). Following our announcement on January 31, 2013 that the HEAT study failed to meet its primary endpoint, Celsion and Hisun have agreed that the Technology Development Contract entered into on January 18, 2013 will remain in effect while the parties continue to collaborate and are evaluating the next steps in relation to ThermoDox®, which include the sub-group analysis of patients in the Phase III HEAT Study for the hepatocellular carcinoma clinical indication and other activities to further the development of ThermoDox® for the Greater China market. The $5.0 million received as a non-refundable payment from Hisun in the first quarter 2013 has been recorded to deferred revenue and will continue to be amortized over the 10-year term of the agreement, until such time as the parties find a mutually acceptable path forward on the development of ThermoDox® based on findings of the ongoing post-study analysis of the HEAT Study data.

On July 19, 2013, the Company and Hisun entered into a Memorandum of Understanding to pursue ongoing collaborations for the continued clinical development of ThermoDox® as well as the technology transfer relating to the commercial manufacture of ThermoDox® for the China territory. This expanded collaboration includes development of the next generation liposomal formulation with the goal of creating safer, more efficacious versions of marketed cancer chemotherapeutics.

Among the key provisions of the Celsion-Hisun Memorandum of Understanding are:

Hisun will provide the Company with non-dilutive financing and the investment necessary to complete the technology transfer of its proprietary manufacturing process and the production of registration batches for the China territory;

Hisun will collaborate with the Company around the clinical and regulatory approval activities for ThermoDox® as well as other liposomal formations with the CHINA FDA; and

Hisun will be granted a right of first offer for a commercial license to ThermoDox® for the sale and distribution of ThermoDox® in the China territory.

On August 8, 2016, we signed a Technology Transfer, Manufacturing and Commercial Supply Agreement (“GEN-1 Agreement”) with Hisun to pursue an expanded partnership for the technology transfer relating to the clinical and commercial manufacture and supply of GEN-1, Celsion’s proprietary gene mediated, IL-12 immunotherapy, for the greater China territory, with the option to expand into other countries in the rest of the world after all necessary regulatory approvals are in effect. The GEN-1 Agreement will help to support supply for both ongoing and planned clinical studies in the U.S., and for potential future studies of GEN-1 in China. GEN-1 is currently being evaluated by Celsion in first line ovarian cancer patients.

Key provisions of the GEN-1 Agreement are as follows:

the GEN-1 Agreement has targeted unit costs for clinical supplies of GEN-1 that are substantially competitive with the Company's current suppliers;

once approved, the cost structure for GEN-1 will support rapid market adoption and significant gross margins across global markets;

Celsion will provide Hisun a certain percentage of China's commercial unit demand, and separately of global commercial unit demand, subject to regulatory approval;

Hisun and Celsion will commence technology transfer activities relating to the manufacture of GEN-1, including all studies required by CFDA for site approval; and

Hisun will collaborate with Celsion around the regulatory approval activities for GEN-1 with the CFDA. A local China partner affords Celsion access to accelerated CFDA review and potential regulatory exclusivity for the approved indication.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.