Celsion CORP
Form 10-Q
August 14, 2008
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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, 2008
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-14242

CELSION CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**52-1256615**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. employer identification no.)

10220-L Old Columbia Road, Columbia, Maryland 21046

(Address of Principal Executive Offices) (Zip Code)

(410) 290-5390

(Registrant s telephone number, including area code)

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 o

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

Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company x

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of August 1, 2008 the Registrant had 10,145,850 shares outstanding of Common Stock, $.01 par value per share.

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EXHIBITS

11	Statement Re: Computation of Earnings Per Share. (Filed herewith)

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. (Filed herewith)

31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith)

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. (Furnished herewith)

32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith)

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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CELSION CORPORATION

BALANCE SHEETS

June 30, 2008 and December 31, 2007

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,038,602	$ 2,937,373
Short term investments available for sale, at fair value	11,603,433	3,000,000
Accounts receivable - trade	13,182	183,043
Other receivables	60,403	47,110
Due from Boston Scientific Corporation	15,000,000	15,000,000
Prepaid expenses	225,786	256,874
Total current assets	27,941,406	21,424,400
Property and equipment - at cost		
Furniture and office equipment	194,257	194,200
Computer hardware and software	302,148	338,349
Laboratory and shop equipment	300,686	305,340
Leasehold improvements	132,148	132,148
	929,239	970,037
Less: Accumulated depreciation	717,131	702,156
Net value of property and equipment	212,108	267,881
Other assets		
Advances under Celsion (Canada), Ltd.		
Transition Services Agreement (net of allowance of $449,891 and $442,225 respectively)		200,000
Note receivable (net of discount of $147,154 and $168,473, respectively, and an allowance of $824,831 and $0, respectively)	378,015	1,181,527
Due from Boston Scientific Corporation - Non Current		15,000,000
Deposits with CROs and other assets	1,397,889	899,268
Patent licensing fees (net of accumulated amortization of $13,125 and $7,500, respectively)	61,875	65,625
Total other assets	1,837,779	17,346,420
Total assets	$ 29,991,293	$ 39,038,701

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CELSION CORPORATION

BALANCE SHEETS (Continued)

June 30, 2008 and December 31, 2007

	June 30, 2008 (Unaudited)	December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable - trade	$ 1,309,592	$ 1,830,457
Other accrued liabilities	3,384,948	5,056,380
Income taxes payable		546,000
Accrued non-cash compensation	8,910	8,910
Note payable - current portion	578,218	676,859
Total current liabilities	5,281,668	8,118,606
Long-term liabilities		
Note payable		234,742
Other liabilities	31,440	34,238
Total long-term liabilities	31,440	268,980
Total liabilities	5,313,108	8,387,586
Stockholders equity		
Common stock - $0.01 par value per share (250,000,000 shares authorized; 10,805,558 and 10,783,922 shares issued as of June 30, 2008 and December 31, 2007, respectively.)	108,056	107,839
Additional paid-in capital	88,866,254	88,319,985
Accumulated other comprehensive loss	(7,408)	
Accumulated deficit	(61,649,765)	(55,137,757)
Subtotal	27,317,137	33,290,067
Less: 659,738 shares of treasury stock - at cost	(2,638,952)	(2,638,952)
Total stockholders equity	24,678,185	30,651,115
Total liabilities and stockholders equity	$ 29,991,293	$ 39,038,701

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating expenses:				
Research and development	$ 1,615,082	$ 2,349,036	$ 4,582,192	$ 4,119,849
General and administrative	580,910	1,671,388	1,076,528	2,965,556
Total operating expenses	2,195,992	4,020,424	5,658,720	7,085,405
Loss from operations	(2,195,992)	(4,020,424)	(5,658,720)	(7,085,405)
Other income (expense):				
Other expense	(158,825)	(415,457)	(839,091)	(415,457)
Interest income	28,614	120,253	104,124	301,032
Interest expense	(103,963)	(317,162)	(118,321)	(665,425)
Loss from continuing operations	$ (2,430,166)	$ (4,632,790)	$ (6,512,008)	$ (7,865,255)
Discontinued Operations (Note 12)				
Income from discontinued operations		49,121,362		49,996,156
Income tax expense		(274,000)		(274,000)
Income from discontinued operations		48,847,362		49,722,156
Net (loss) / income	$ (2,430,166)	$ 44,214,572	$ (6,512,008)	$ 41,856,901
Net loss from continuing operations per common share - basic	$ (0.24)	$ (0.43)	$ (0.64)	$ (0.73)
Net loss from continuing operations per common share - diluted	$ (0.24)	$ (0.43)	$ (0.64)	$ (0.73)
Net income from discontinued operations per common share - basic	$	$ 4.53	$	$ 4.62
Net income from discontinued operations per common share - diluted	$	$ 4.20	$	$ 4.33
Net loss per common share - basic	$ (0.24)	$ 4.10	$ (0.64)	$ 3.89
Net loss per common share - diluted	$ (0.24)	$ 3.80	$ (0.64)	$ 3.64
Weighted average shares outstanding - basic	10,146,446	10,773,023	10,144,944	10,760,019
Weighted average shares outstanding - diluted (1)	10,146,446	11,628,480	10,144,944	11,493,854

(1) Potentially dilutive securities are excluded from the computation of earnings per share for periods in which there is a loss as their effect would be anti-dilutive.

See accompanying notes.

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CELSION CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2008

(Unaudited)

	Six Months Ended June 30, 2008							
	Common Stock		Additional Paid-in	Treasury Stock		Accumulated Other Comprehensive	Accumulated	
	Shares	Total	Capital	Shares	Total	Loss	Deficit	Total
Balance at January 1, 2008	10,783,922	$ 107,839	$ 88,319,985	659,738	$ (2,638,952)	$	$ (55,137,757)	$ 30,651,115
Stock-based compensation expense related to employee stock options			493,401					493,401
Stock based compensation - restricted stock			25,185					25,185
Issuance of restricted stock upon vesting	16,666	167	(167)					
Shares issued to employees	5,000	50	27,450					27,500
Extension of warrants			400					400
Change in fair value of investments						(7,408)		(7,408)
Net loss							(6,512,008)	(6,512,008)
Balance at June 30, 2008	10,805,588	$ 108,056	$ 88,866,254	659,738	$ (2,638,952)	$ (7,408)	$ (61,649,765)	$ 24,678,185

CELSION CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities		
Net (loss) / income for the year	$ (6,512,008)	$ 41,856,901
Non-cash items included in net loss:		
Depreciation and amortization	62,695	103,069
Accretion of discount on note receivable	(21,319)	(58,408)
Gain on the sale of Prolieve		(48,029,793)
Loss on disposal of fixed assets	1,009	
Stock based compensation - Options	493,401	368,727
Stock based compensation - Stock grants	52,685	40,039
Amortization of deferred license fee		(269,840)
Exercise of common stock options		2,718
Shares issued in exchange for services		39,125
Amortization of patent license	3,750	57,856
Allowance for bad debts	840,213	415,457
Net changes in:		
Accounts receivable-trade	169,861	854,267
Other receivables	(19,298)	17,567
Due from Boston Scientific Corporation	15,000,000	(994)
Inventories		5,792
Prepaid expenses	31,088	98,689
Escrow account-license fee		1,824,740
Deposits and other assets	(498,621)	(307,879)
Accounts payable - trade and accrued interest	(320,865)	1,089,923
Income taxes payable	(546,000)	274,000
Other accrued liabilities	(1,674,230)	(308,967)
Net cash provided by / (used in) operating activities	7,062,361	(1,927,011)
Cash flows from investing activities		
Purchase of short term investments	(11,593,541)	(5,000,000)
Sale of short-term investments	3,001,597	
Proceeds from the sale of the Prolieve assets		9,958,615
Advances under Celsion Canada transition services agreement	(9,377)	(32,134)
Amortization of premium on investments	823	
Accretion of discount on investments	(923)	
Accrued interest on investments	(18,797)	
Payment of licensing fee		(1,600,000)
Purchase of property and equipment	(7,931)	(68,181)
Net cash (used in) / provided by investing activities	(8,628,149)	3,258,300
Cash flows from financing activities		
Extension of warrants	400	
Draws on line of credit	3,000,000	
Repayment of line of credit	(3,000,000)	
Payments on note payable	(333,383)	
Net cash used in financing activities	(332,983)	

Net (decrease) / increase in cash and cash equivalents		(1,898,771)		1,331,289
Cash and cash equivalents at beginning of period		2,937,373		1,032,674
Cash and cash equivalents at end of period	$	1,038,602	$	2,363,963
Cash paid for:				
Interest	$	36,349	$	
Income taxes	$	546,000	$	

See accompanying notes.

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CELSION CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Month Periods Ended June 30, 2008 and 2007

Note 1. Basis of Presentation

The accompanying unaudited 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 and six month periods ended June 30, 2008 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, 2007 filed with the Securities and Exchange Commission on March 28, 2008.

Note 2. Common Stock Outstanding and Per Share Information

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is computed 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 options, warrants and their equivalents are computed using the treasury stock method.

For the quarter ended June 30, 2008, all options and warrants that were convertible into shares of the Company s common stock were excluded from calculation of diluted earnings per share as their effect would have been anti-dilutive. The total number of outstanding warrants and options for the periods ended June 30, 2008 and 2007 were 2,355,635 and 2,011,986, respectively. Additionally, shares unvested restricted stock were excluded from the calculation. Additionally, shares of unvested restricted stock were excluded from the calculation. The total number of shares of unvested restricted stock as of June 30, 2008 and 2007 was 38,333 and 58,100, respectively. Information relating to the calculation of earnings per share is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net loss from continuing operatons - basic and diluted	$ (2,430,166)	$ (4,632,790)	$ (6,512,008)	$ (7,865,255)

Net income from discontinued operations - basic and diluted	$		$	48,847,362	$		$	49,722,156
Net loss - basic and diluted	$	(2,430,166)	$	44,214,572	$	(6,512,008)	$	41,856,901
Weighted average shares outstanding - basic		10,146,446		10,773,023		10,144,944		10,760,019
Dilutive securities - options and warrants				855,457				733,835
Adjusted weighted average shares outstanding - dilutive		10,146,446		11,628,480		10,144,944		11,493,854
Net loss from continuing operations per common share - basic	$	(0.24)	$	(0.43)	$	(0.64)	$	(0.73)
Net loss from continuing operations per common share - diluted	$	(0.24)	$	(0.43)	$	(0.64)	$	(0.73)
Net income from discontinued operations per common share - basic	$		$	4.53	$		$	4.62
Net income from discontinued operations per common share - diluted	$		$	4.20	$		$	4.33
Net (loss) / income per common share - basic	$	(0.24)	$	4.10	$	(0.64)	$	3.89
Net (loss) / income per common share - diluted	$	(0.24)	$	3.80	$	(0.64)	$	3.64

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Note 3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157 Fair Value Measurements , which defines fair value, establishes a framework for consistently measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 became effective for the Company on January 1, 2008 and did not have an impact on the Company s financial statements.

In November 2007, the EITF issued Issue No. 07-1 (EITF 07-1), Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property. Companies may enter into arrangements with other companies to jointly develop, manufacture, distribute, and market a product. Often the activities associated with these arrangements are conducted by the collaborators without the creation of a separate legal entity (that is, the arrangement is operated as a virtual joint venture). The arrangements generally provide that the collaborators will share, based on contractually defined calculations, the profits or losses from the associated activities. Periodically, the collaborators share financial information related to product revenues generated (if any) and costs incurred that may trigger a sharing payment for the combined profits or losses. EITF 07-1 requires collaborators in such an arrangement to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. EITF 07-1 is effective for collaborative arrangements in place at the beginning of the annual period beginning after December 15, 2008. The Company does not currently expect the adoption of EITF 07-1 to have a material impact on its financial statements.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 became effective for the Company on January 1, 2008 and did not have an impact on the Company s financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161), which requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company does not expect that the adoption of SFAS 160 will have a significant impact on its financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3) to improve the consistency between the useful life of a recognized intangible asset (under SFAS No. 142) and the period of expected cash flows used to measure the fair value of the intangible asset (under SFAS No. 141(R)). FSP No. 142-3 amends the factors to be considered when developing renewal or extension assumptions that are used to estimate an intangible asset s useful life under SFAS No. 142. The guidance in the new staff position is to be applied prospectively to intangible assets acquired after December 31, 2008. In addition, FSP No. 142-3 increases the disclosure requirements related

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to renewal or extension assumptions. The Company is currently assessing the impact of the adoption of FSP No. 142-3 on its financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. The statement establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The *Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not believe implementation of SFAS 162 will have a material impact on its financial statements.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF No. 03-6-1). Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and the Company does not expect it to have a material impact on the Company s financial statements.

Note 4. Stock Based Compensation

Employee Stock Options

The Company has long-term compensation plans that permit the granting of incentive awards in the form of stock options. Generally, the terms of these plans require that the exercise price of the options may not be less than the fair market value of Celsion s Common Stock on the date the options are granted. Options generally vest over various time frames or upon milestone accomplishments. Some vest immediately. Others vest over a period between one and five years. The Company s options generally expire ten years from the date of the grant.

2001 Stock Option Plan

The purpose of the 2001 Plan is to promote the long-term growth and profitability of Celsion by providing key associates with incentives to improve stockholder value and to contribute to the growth and financial success of Celsion and to enable the Company to attract, retain and reward the best available persons for positions of substantial responsibility. The 2001 Plan permitted the granting of stock options (including nonqualified stock options and incentive stock options qualifying under Section 422 of the Internal Revenue Code) and stock appreciation rights or any combination of the foregoing. During the year that ended December 31, 2007, 195,043 options were canceled or expired. During the six months ended June 30, 2008, no options were canceled or expired. All of the 195,043 canceled and expired options under the 2001 Plan became available for issue under the 2007 Plan.

2004 Stock Incentive Plan

The purpose of the 2004 Plan is to promote the long-term growth and financial success of the Company and enable the Company to attract, retain and reward the best available persons for positions of substantial responsibility. The 2004 Plan permits the granting of awards in the form of incentive stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, and performance awards, or in any combination of the foregoing. During the year that ended December 31, 2007, 90,379 options were canceled or expired. During the six months ended June 30, 2008, no options were canceled or expired. All of the 90,379 canceled and expired options under the 2004 Plan became available for issue under the 2007 Plan.

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2007 Stock Incentive Plan

The purpose of the 2007 Plan is to promote the long-term growth and profitability of the Company by providing incentives to improve stockholder value and enable the Company to attract, retain and reward the best available persons for positions of substantial responsibility. The 2007 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, or in any combination of the foregoing. During the year ended December 31, 2007, 103,500 options were issued. No options were canceled or expired under the plan for the year ended December 31, 2007. During the six months ended June 30, 2008, 335,000 options were issued and no options were canceled or expired. Additionally, 5,000 shares of stock were issued under the plan as a performance award and 5,000 shares of restricted stock were issued pursuant to a consulting agreement during the quarter ended June 30, 2008. On June 30, 2008, there were 556,500 shares available out of 1,000,000 shares authorized and available under the 2007 Plan. All canceled and expired options under the 2001 Plan and the 2004 Plan become available for issue under the 2007 Plan.

Options and Restricted Stock Issued to Consultants for Services

The Company enters into agreements with consultants in which the consultants receive restricted stock and stock options in exchange for services. Generally, the terms of these plans require that the exercise price of the options may not be less than the fair market value of Celsion s Common Stock on the date the options are granted. Options and restricted stock generally vest over various time frames or upon milestone accomplishments. Some vest immediately. Others vest over a period between one and five years. The Company s options generally expire ten years from the date of the grant. During the six months ended June 30, 2008, 5,000 shares of restricted stock were issued to a consultant as part of a consulting agreement. There were no options granted to non-employees for the six months ended June 30, 2008.

A summary of the Company s Common Stock option and warrant activity and related information is as follows:

Stock Options	**Options Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2007	1,498,841	$ 6.17		
Granted	335,000	5.49		
Exercised				
Canceled or expired				