Celsion CORP
Form 10-Q
May 09, 2008

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 March 31, 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 large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	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 April 22, 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)

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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CELSION CORPORATION

BALANCE SHEETS

March 31, 2008 and December 31, 2007

		March 31, 2008 (Unaudited)		December 31, 2007
ASSETS				
Current assets				
Cash and cash equivalents	$	1,543,125	$	2,937,373
Short term investments				3,000,000
Accounts receivable - trade		169,721		183,043
Other receivables		40,554		47,110
Due from Boston Scientific Corporation		15,000,000		15,000,000
Prepaid expenses		247,715		256,874
Total current assets		17,001,115		21,424,400
Property and equipment - at cost				
Furniture and office equipment		194,257		194,200
Computer hardware and software		344,144		338,349
Laboratory and shop equipment		305,340		305,340
Leasehold improvements		132,148		132,148
		975,889		970,037
Less: Accumulated depreciation		731,894		702,156
Net value of property and equipment		243,995		267,881
Other assets				
Advances under Celsion (Canada), Ltd.				
Transition Services Agreement (net of allowance of $451,556 and $442,225 respectively)				200,000
Note receivable (net of discount of $147,154 and $168,473, respectively, and an allowance of $664,978 and $0, respectively)		537,868		1,181,527
Due from Boston Scientific Corporation - Non Current		15,000,000		15,000,000
Deposits and other assets		1,003,257		899,268
Patent licensing fees (net of accumulated amortization of $9,375 and $7,500, respectively)		63,750		65,625
Total other assets		16,604,875		17,346,420
Total assets	$	33,849,985	$	39,038,701

		March 31, 2008 (Unaudited)		December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable - trade	$	2,489,130	$	1,830,457
Other accrued liabilities		3,912,447		5,056,380
Income taxes payable				546,000
Accrued non-cash compensation		8,910		8,910
Note payable - current portion		687,029		676,859
Total current liabilities		6,897,516		8,118,606
Long-term liabilities				
Note payable		59,124		234,742
Other liabilities		32,829		34,238
Total long-term liabilities		91,953		268,980
Total liabilities		6,989,469		8,387,586
Stockholders equity				
Common stock - $0.01 par value per share (250,000,000 shares authorized; 10,145,850 and 10,124,184 shares outstanding at March 31, 2008 and December 31, 2007, respectively.)		108,062		107,845
Additional paid-in capital		88,611,005		88,319,979
Accumulated deficit		(59,219,599)		(55,137,757)
Subtotal		29,499,468		33,290,067
Less: Treasury stock - at cost		(2,638,952)		(2,638,952)
Total stockholders equity		26,860,516		30,651,115
Total liabilities and stockholders equity	$	33,849,985	$	39,038,701

See accompanying notes.

CELSION CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating expenses:		
Research and development	$ 2,967,111	$ 1,770,812
General and administrative	1,175,977	1,294,169
Total operating expenses	4,143,088	3,064,981
Loss from operations	(4,143,088)	(3,064,981)
Other income (expense):		
Other income	94	
Interest income	75,510	180,779
Interest expense	(14,358)	(348,263)
Loss from continuing operations	(4,081,842)	(3,232,465)
Discontinued Operations (Note 10)		
Income from discontinued operations		874,795
Net loss	$ (4,081,842)	$ (2,357,670)
Net loss from continuing operations per common share - basic	$ (0.40)	$ (0.30)
Net loss from continuing operations per common share - diluted	$ (0.40)	$ (0.30)
Net income from discontinued operations per common share - basic	$	$ 0.08
Net income from discontinued operations per common share - diluted	$	$ 0.08
Net loss per common share - basic	$ (0.40)	$ (0.22)
Net loss per common share - diluted	$ (0.40)	$ (0.22)
Weighted average shares outstanding - basic	10,143,442	10,746,869
Weighted average shares outstanding - diluted (1)	10,143,442	10,750,869

(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.

CELSION CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities		
Net loss for the year	$ (4,081,842)	$ (2,357,670)
Non-cash items included in net loss:		
Depreciation and amortization	31,818	52,460
Accretion of discount on note receivable	(21,319)	(38,202)
Stock based compensation - Options	251,679	143,548
Stock based compensation - Restricted Stock	39,514	25,590
Amortization of deferred license fee		(142,857)
Shares issued in exchange for services	50	29,750
Amortization of patent license	1,875	25,063
Allowance for bad debts	680,360	
Net changes in:		
Accounts receivable-trade	13,322	769,327
Other receivables	551	(4,018)
Inventories		(68,994)
Prepaid expenses	9,159	7,554
Escrow account-license fee		1,824,740
Deposits and other assets	(103,989)	(133,772)
Accounts payable - trade and accrued interest	658,673	343,660
Income taxes payable	(546,000)	
Other accrued liabilities	(1,145,342)	(323,881)
Net cash (used) / provided by operating activities	(4,211,491)	152,298
Cash flows from investing activities		
Sale of short-term investments	3,000,000	1,000,000
Advances under Celsion Canada transition services agreement	(9,377)	(17,460)
Payment of licensing fee		(1,600,000)
Purchase of property and equipment	(7,932)	(15,125)
Net cash provided by / (used in) investing activities	2,982,691	(632,585)
Cash flows from financing activities		
Payments on note payable	(165,448)	
Net cash used by financing activities	(165,448)	
Net decrease in cash and cash equivalents	(1,394,248)	(480,287)
Cash and cash equivalents at beginning of period	2,937,373	1,032,674
Cash and cash equivalents at end of period	$ 1,543,125	$ 552,387
Cash paid for:		
Interest	$ 12,807	$
Income taxes	$ 546,000	$

See accompanying notes.

CELSION CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 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 month period ended March 31, 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 quarters ended March 31, 2008 and 2007, 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 March 31, 2008 and 2007 were 2,402,302 and 2,053,712, respectively.

Information relating to the calculation of earnings per share is summarized as follows:

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007	
Net loss from continuing operatons - basic and diluted	$	(4,081,842)	$	(3,232,465)
Net income from discontinued operations - basic and diluted	$		$	874,795

Net loss - basic and diluted	$	(4,081,842)	$	(2,357,670)
Weighted average shares outstanding - basic		10,143,442		10,746,869
Dilutive securities - options and warrants				4,000
Adjusted weighted average shares outstanding - dilutive		10,143,442		10,750,869
Net loss from continuing operations per common share - basic	$	(0.40)	$	(0.30)
Net loss from continuing operations per common share - diluted	$	(0.40)	$	(0.30)
Net income from discontinued operations per common share - basic	$		$	0.08
Net income from discontinued operations per common share - diluted	$		$	0.08
Net loss per common share - basic	$	(0.40)	$	(0.22)
Net loss per common share - diluted	$	(0.40)	$	(0.22)

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 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.

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 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 three months ended March 31, 2008, no options were canceled or expired. All of the 195,043 canceled and expired options under the 2001 Plan become 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 three months ended March 31, 2008, no options were canceled or expired. All of the 90,379 canceled and expired options under the 2004 Plan become available for issue under the 2007 Plan.

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. During the three months ended March 31, 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 during the quarter ended March 31, 2008. On March 31, 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 Issued to Consultants for Services

The Company enters into agreements with consultants in which the consultants receive 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 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. There were no options granted to non-employees for the three months ended March 31, 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						
Outstanding at March 31, 2008	1,833,841	$	6.04	7.6	$	1,701,435
Exercisable at March 31, 2008	992,049	$	7.35	6.3	$	674,957

Warrants	**Warrants Outstanding**		**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in years)**		**Aggregate Intrinsic Value**
Outstanding at December 31, 2007	568,461	$	15.59			
Granted						
Exercised						
Canceled or expired						
Outstanding at March 31, 2008	568,461	$	15.59	0.7	$	80,925
Exercisable at March 31, 2008	568,461	$	15.59	0.7	$	80,925

The following is additional information with respect to options outstanding at March 31, 2008:

	Three Months Ended March 31, 2008
Risk-free interest rate	2.18% to 2.81%
Dividend Yield	0.0%
Expected volatility	281.83% to 282.51%
Expected option life in years	6.0

For all of the Company s stock-based compensation plans, the fair value of each grant was estimated at the date of grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. 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 strips as published in the Wall Street Journal in effect at the time of grant. The model incorporates exercise, pre-vesting and post-vesting forfeiture assumptions based on analysis of historical data. The expected life of the fiscal 2008 grants was generated using the simplified method as allowed