

CELSION CORP
Form DEF 14A
April 30, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Celsion Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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April 30, 2007

Dear Stockholder:

We are pleased to invite you to Celsion Corporation's Annual Meeting of Stockholders. The Annual Meeting will be held at 10:00 a.m., local time, on Wednesday, June 13, 2007, at the Four Points by Sheraton BWI Hotel, located at 7032 Elm Road, Baltimore, MD 21240.

Enclosed for your review are a number of important items, including a notice of the Annual Meeting, our proxy statement, a proxy card and our Annual Report to Stockholders on Form 10-K.

At the meeting you are being asked to vote on a proposal to sell our Prolieve assets to Boston Scientific Corporation. Your Board of Directors has unanimously approved and recommends that the stockholders approve the sale of the Prolieve assets pursuant to the Asset Purchase Agreement by and between Celsion Corporation and Boston Scientific Corporation, a copy of which is attached to the proxy statement as Appendix B. In approving the agreement, the Board of Directors considered a number of factors including the following:

1. The proceeds from the sale of the Prolieve assets will provide funding for our drug development program and will allow us to avoid an immediate sale of equity and further dilution to our current stockholders.
2. The proceeds from the sale of the Prolieve assets will fund the substantial completion of our Phase III primary liver cancer program.
3. The proceeds from the sale of the Prolieve assets will fund at least the initiation of our recurrent chest wall breast cancer Phase II/III study.
4. The gain generated by the sale of the Prolieve assets will result in a significant increase in stockholder equity and assist us in achieving compliance with the listing requirements of The American Stock Exchange.
5. The proceeds from the sale of the Prolieve assets will help fund the exploration and development of additional ThermoDox indications and encapsulation of other drugs in our heat activated liposome.
6. The funds generated by the sale of the Prolieve assets will assist us with undertaking market research activities which we believe will facilitate business development initiatives and commercialization strategies.
7. The sale of the Prolieve assets completes our exit from the medical device segment and will allow us to focus on attracting and retaining employees with the skills required to develop and commercialize drug products.

The Board of Directors has determined that the asset sale is in the best interest of stockholders for the reasons cited above and therefore recommends that you vote FOR the asset sale.

The proposed asset sale is an important decision for Celsion Corporation and its stockholders. The Prolieve assets cannot be sold unless the Asset Purchase Agreement is approved by the affirmative

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vote of the holders of at least a majority of the outstanding shares of Celsion Corporation Common Stock. Whether or not you plan to attend the Annual Meeting, please complete, sign and date the enclosed proxy card and return it in the postage-prepaid envelope or you may cast your vote via the internet at www.proxyvote.com or by phone by calling 1-800-690-6903. If you attend the Annual Meeting, you may revoke your proxy and vote your shares personally. **Failure to vote either by proxy or in person at the Annual Meeting will have the effect of a vote AGAINST the sale of the Prolieve assets.** Your prompt cooperation will be greatly appreciated.

Sincerely,

Max E. Link
Chairman of the Board

Michael H. Tardugno
President and Chief Executive Officer

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CELSION CORPORATION
10220-L OLD COLUMBIA ROAD
COLUMBIA, MARYLAND 21046-2364
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD WEDNESDAY, JUNE 13, 2007

To Our Stockholders:

Notice is hereby given that the annual meeting (together with any adjournments, postponements or rescheduling thereof, the Annual Meeting) of the stockholders of Celsion Corporation, a Delaware corporation (the Company), will be held at 10:00 a.m., local time, on Wednesday, June 13, 2007 at the Four Points by Sheraton BWI Hotel, located at 7032 Elm Road, Baltimore, MD 21240, for the following purposes:

- (1) To elect three Class III Directors, to serve for a three-year term;
- (2) To consider and act to approve the Celsion Corporation 2007 Stock Incentive Plan;
- (3) To ratify the selection of Stegman & Company as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007;
- (4) To consider and vote upon a proposal to ratify and approve the sale by us of our Prolieve assets, which may constitute a sale of substantially all of our assets, to Boston Scientific Corporation (BSC) pursuant to an Asset Purchase Agreement dated as of April 17, 2007 by us and BSC; and
- (5) To consider and act upon any other matters that may properly come before the Annual Meeting and any adjournment or postponement thereof.

The close of business on Monday, April 30, 2007 has been fixed as the record date for the determination of stockholders of the Company entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record at the close of business on April 30, 2007 are entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting. However, whether or not you expect to attend in person, please complete, sign, date and return the enclosed Proxy Card as promptly as possible in the envelope provided for that purpose. Returning your Proxy Card will ensure your representation and help to ensure the presence of a quorum at the Annual Meeting. Your proxy is revocable, as set forth in the accompanying Proxy Statement. Therefore, you may attend the Annual Meeting and vote your shares in person even if you send in your Proxy Card.

By Order of the Board of Directors

/s/ Anthony P. Deasey
Secretary

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April 30, 2007

Columbia, Maryland

***WHETHER OR NOT YOU INTEND TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN,
DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED PRE-ADDRESSED
AND POSTAGE-PAID ENVELOPE OR SUBMIT YOUR VOTE VIA THE INTERNET AT www.proxyvote.com OR BY PHONE AT
1-800-690-6903.***

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CELSION CORPORATION

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CELSION CORPORATION

PROXY STATEMENT

SOLICITATION OF PROXY, REVOCABILITY AND VOTING

GENERAL

The Board of Directors of Celsion Corporation (which is sometimes referred to in this Proxy Statement as the Company, Celsion, we or us) is furnishing this Proxy Statement in connection with the solicitation, by the Board of Directors, of proxies to be used at the Annual Meeting of Stockholders (together with any adjournments or postponements thereof, the Annual Meeting) to be held at 10:00 a.m., local time, on Wednesday, June 13, 2007, at the Four Points by Sheraton BWI Hotel, located at 7032 Elm Road, Baltimore, MD 21240 for the purposes set forth in the accompanying Notice of Annual Meeting.

Only stockholders of record at the close of business on the Record Date, Monday, April 30, 2007 are entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, there were 10,831,251 shares of our common stock, par value \$0.01 per share (Common Stock), issued and outstanding. Each share of Common Stock is entitled to one vote on each matter submitted to the stockholders at the Annual Meeting. If you were a stockholder as of the Record Date, you are entitled to vote at the Annual Meeting, and we encourage you to attend and vote in person. **HOWEVER, WHETHER OR NOT YOU INTEND TO ATTEND THE ANNUAL MEETING, THE BOARD OF DIRECTORS REQUESTS THAT YOU COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD IN ORDER TO ENSURE THE PRESENCE OF A QUORUM.** A pre-addressed and postage-paid return envelope is enclosed for your convenience. Alternatively, you may cast your vote via the internet at www.proxyvote.com or by phone by calling 1-800-690-6903.

Our principal executive offices are located at 10220-L Old Columbia Road, Columbia, Maryland 21046-2364, and our telephone numbers are (410) 290-5390 and (800) 262-0394 (toll free). We are first sending this Proxy Statement and accompanying Proxy Card and Annual Report on Securities and Exchange Commission (SEC) Form 10-K for the fiscal year ended December 31, 2006 (our 2006 Annual Report on Form 10-K) to our stockholders on or about May 7, 2007.

Election of Class III Directors at the Annual Meeting will be by plurality vote. This means that the director nominees receiving the greatest number of votes cast, in person or by proxy, by the holders of Common Stock in the election of the Class III Directors, will be elected. Stockholders may not cumulate their votes in electing directors. The proposal to approve the Celsion Corporation 2007 Stock Incentive Plan (the 2007 Plan) requires the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy. Ratification of the selection of Stegman & Company to serve as our independent registered public accounting firm for the current fiscal year requires the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy. The proposal to approve the sale of the Prolieve Assets to Boston Scientific Corporation requires the affirmative vote, whether in person or by proxy, of a majority of the shares of the outstanding Common Stock. The presence in person or by proxy of a majority of the holders of all shares of Common Stock outstanding and entitled to vote on the Record Date will constitute a quorum for all purposes. In the event that the number of shares represented at the Annual Meeting in person or by proxy is less than a quorum, the persons named in the accompanying Proxy Card intend to vote **FOR** an adjournment of the Annual Meeting.

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Stockholder votes will be tabulated by Broadridge Financial Solutions, Inc. Shares represented at the Annual Meeting in person or by proxy but not voted will nevertheless be counted for purposes of determining the presence of a quorum. Abstentions and broker non-votes (shares which a broker or nominee has indicated it does not have discretionary authority to vote) on a particular matter will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Abstentions and broker non-votes therefore will have the same effect as no votes on the proposal to approve the 2007 Plan, the ratification of the selection of Stegman & Company as our independent registered public accounting firm, and the proposal to approve the sale of the Prolieve assets to Boston Scientific Corporation, but will have no effect on the election of directors.

PROXIES

If the enclosed Proxy Card is properly dated, signed and returned so that we receive it prior to the time of the Annual Meeting, the shares represented by that Proxy Card will be voted at the Annual Meeting in accordance with the choices indicated. If no choice is specified as to a matter but the Proxy Card otherwise is properly executed, dated and returned, the proxy holders will vote the shares represented by that Proxy Card in accordance with the recommendations of the Board of Directors.

REVOCABILITY OF PROXIES

Any stockholder giving a proxy prior to the Annual Meeting may revoke it prior to its exercise either by attending the Annual Meeting and voting his or her shares in person or by delivering to the Company, not later than the commencement of the Annual Meeting, a letter or other suitable instrument of revocation or a later dated Proxy Card, duly executed by the stockholder.

SOLICITATION

The Company will bear the entire cost of preparing, assembling, printing and mailing this Proxy Statement, the accompanying Proxy Card and the Company's 2006 Annual Report on Form 10-K, as well as any additional materials that we may furnish to stockholders in connection with the Annual Meeting. Copies of our solicitation materials will be furnished to brokerage houses, fiduciaries and custodians to forward to beneficial owners of stock held in the names of such nominees. The solicitation of proxies will be by mail and direct communication with certain stockholders or their representatives by our officers, directors and employees, who will receive no additional compensation therefore. In addition, D.F. King & Co. Inc. has been retained to aid in the solicitation. Its fees for this solicitation should not exceed \$9,000, exclusive of expenses.

PLEASE COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED PRE-ADDRESSED AND POSTAGE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE OR SUBMIT YOUR VOTE VIA THE INTERNET AT www.proxyvote.com OR BY PHONE AT 1-800-690-6903.

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The following table sets forth certain information known to the Company regarding the beneficial ownership of Company Common Stock as of April 30, 2007 by:

each person or group known by us to own beneficially more than 5% of the outstanding Common Stock;

each of our directors and director nominees, as well as each executive officer named in the Summary Compensation Table appearing under the heading Proposal No. 1: Election of Directors Executive Compensation ; and

our directors and executive officers as a group.

We determine beneficial ownership in accordance with the rules of the SEC. Unless otherwise indicated, the persons included in the table have sole voting and investment power with respect to all shares beneficially owned thereby. Shares of Common Stock subject to options that are currently exercisable or that become exercisable within 60 days of April 30, 2007 are treated as outstanding and beneficially owned by the holder of such options. However, these shares are not treated as outstanding for purposes of computing the percentage ownership of any other person.

NAME OF BENEFICIAL OWNER*	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED	PERCENT OF SHARES OF COMMON STOCK OUTSTANDING ⁽¹⁾
Max E. Link ⁽²⁾	121,659	1.12%
Gary W. Pace ⁽³⁾	9,449	**
Kris Venkat ⁽⁴⁾	53,513	**
Anthony P. Deasey ⁽⁵⁾	156,312	1.44%
Gregory Weaver ⁽⁶⁾	13,448	**
Lawrence S. Olanoff	9,276	**
Augustine Chow	0	**
Michael H. Tardugno	57,716	**
William Hahne ⁽⁷⁾	19,545	**
Michael Oleck ⁽⁸⁾	18,812	**
Boston Scientific Corporation		
One Boston Scientific Place		
Natick, MA 01760-1537	848,838	7.94%
Directors and Executive Officers as a group (10 persons) ⁽⁹⁾	459,730	4.18%

* Except as otherwise indicated, the address of each of the persons named is c/o Celsion Corporation, 10220-L Old Columbia Road, Columbia, MD 21046-2364.

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** Less than 1%.

- (1) Based on 10,831,251 shares of Common Stock outstanding as of April 30, 2007.
- (2) Includes 24,194 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (3) Includes 8,226 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (4) Includes 48,228 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (5) Includes 127,891 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (6) Includes 2,337 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (7) Includes 4,444 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (8) Includes 12,279 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.
- (9) Includes 227,599 shares of Common Stock underlying options currently exercisable or exercisable within 60 days of April 30, 2007.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company s executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file reports regarding ownership and changes in ownership of such equity securities with the SEC. Executive officers, directors and greater than 10% stockholders are required by SEC regulations to furnish to us copies of all reports that they file pursuant to Section 16(a). Based solely on our review of the copies of such forms furnished between January 1, 2006 and December 31, 2006, or with respect to our fiscal year ended December 31, 2006, and on our discussions with directors and executive officers, we believe that, during the fiscal year ended December 31, 2006, all applicable Section 16(a) filing requirements were met.

CODE OF ETHICS

The Company has adopted a Code of Ethics and Business Conduct applicable to its directors, officers (including its Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other officers performing similar functions) and employees. This Code of Ethics constitutes a code of ethics applicable to senior financial officers within the meaning of the Sarbanes-Oxley Act of 2002 and SEC rules. A copy of the Code of Ethics and Business Conduct was filed as Exhibit 14.1 to the Company s Annual Report on Form 10-K for the year ended September 30, 2003. It is available on the Company s website at <http://www.celsion.com> and any stockholder may obtain a copy by making a written request to the Company s Corporate Secretary, 10220-L Old Columbia Road, Columbia, MD 21046-2364. In the event of any amendments to or waivers of the terms of the Code of Ethics, such matters promptly will be posted on the Company s website.

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PROPOSAL NO. 1: ELECTION OF DIRECTORS

GENERAL

The Company's Certificate of Incorporation provides that the number of directors that constitutes the whole Board of Directors is to be fixed by, or in the manner provided in, our Bylaws. The Certificate of Incorporation also provides that the Board of Directors is to be divided into three classes, designated as Class I, Class II and Class III, and it is the Company's practice to have such classes as even in size as possible. The Company's Bylaws provide that the Board of Directors is to consist of between three and nine directors, with the exact number to be fixed by action of the Board of Directors. The current number of directors has been fixed by the Board of Directors at seven.

The terms of the Class III Directors Drs. Max Link and Kris Venkat and Mr. Michael H. Tardugno will expire with the election and qualification of successor directors at the Annual Meeting. Drs. Link and Venkat and Mr. Tardugno have been nominated to stand for re-election for a three-year term. The term of the Class I Directors Mr. Gregory Weaver and Dr. Augustine Chow will expire with the election and qualification of directors at the annual meeting of stockholders in 2008. The terms of the Class II Directors Drs. Gary W. Pace and Lawrence S. Olanoff will expire with the election and qualification of directors at the annual meeting of stockholders in 2009. At each annual meeting of stockholders, the directors elected to succeed those whose terms are expiring succeed to the same class as the directors they replace and each such new director is elected for a term to expire at the third annual meeting of stockholders after his or her election and when his or her successor is duly elected and qualified. A director of any class who is elected to fill a vacancy resulting from an increase in the number of directors would hold office for the remaining term of the class to which he or she is elected, and a director elected to fill a vacancy arising in any other manner would hold office for the remaining term of his or her predecessor.

Dr. Claude Tihon resigned from the Board of Directors in June 2006. Mr. Anthony P. Deasey served as a Class I director from October 2006 to January 2007. Mr. Deasey resigned as the Company's Interim President and Chief Executive and Director in January 2007. Mr. Michael H. Tardugno was appointed as a Class III Director in January 2007. In March 2007, the Board of Directors was expanded from six to seven members and Dr. Augustine Chow was appointed a Class I Director.

The Board of Directors has nominated Drs. Max Link and Kris Venkat and Mr. Michael H. Tardugno to stand for re-election to the Board of Directors as Class III Directors, with a term expiring at the 2010 annual meeting of stockholders and with the election and qualification of their successor. The proxies named in the Proxy Card provided with this Proxy Statement intend to vote FOR the election of Dr. Link, Dr. Venkat and Mr. Tardugno unless otherwise instructed. If you do not wish your shares to be voted for Dr. Link, Dr. Venkat and Mr. Tardugno, you must so indicate by marking the Withhold Authority box on the Proxy Card against the appropriate name or names in which event your shares will not be voted for name or names so marked. In the event that any of Dr. Link, Dr. Venkat and Mr. Tardugno becomes unavailable, which is not expected, the designated proxies will vote in their discretion for a substitute nominee, or the Board may reduce the number of directors.

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VOTE REQUIRED AND RECOMMENDATION

The directors will be elected by a plurality of the votes cast, in person or by proxy, at the Annual Meeting, so long as a quorum is present. As a result, assuming the presence of a quorum, broker non-votes and abstentions will not affect the election of directors.

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE NOMINEES FOR DIRECTORS AND UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES.

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Set forth below is certain information regarding the Company's current directors and the nominees (who are also currently serving as directors), as well as the Company's non-director executive officers.

NAME	AGE	POSITION(S)
Max E. Link	66	Chairman, Director
Michael H. Tardugno	55	President, Chief Executive Officer, and Director
Lawrence S. Olanoff	55	Director
Gary W. Pace	59	Director
Gregory Weaver	50	Director
Kris Venkat	60	Director
Augustine Chow	54	Director
Anthony P. Deasey	57	Executive Vice President, Chief Operating Officer, Chief Financial Officer and Corporate Secretary; Interim President and Chief Executive Officer from October 2006 to January 2007.
William Hahne	54	Vice President Clinical Development and Medical Affairs
Michael Oleck	48	Vice President Operations

Following are the biographical summaries for each of the continuing Class I and Class II Directors, and for the nominees proposed for election as Class III Directors of the Company at the Annual Meeting.

Continuing Class I Directors (Term Expires in 2008)

Mr. Gregory Weaver. Mr. Weaver has been a director of the Company since 2005. Mr. Weaver most recently served as Senior VP and Chief Financial Officer of Sirna Therapeutics (Nasdaq: RNAI), an RNAI therapeutics company from February 2006 until the sale of the firm to Merck, Inc. in December 2006. From April 2002 through September 2005, Mr. Weaver was Chief Financial Officer and Corporate Secretary of Natestch Pharmaceutical Company (Nasdaq: NSTK), a drug delivery company. From April 1999 to April 2002, Mr. Weaver was Chief Financial Officer of Ilex Oncology Inc. (Nasdaq: ILXO), a cancer drug development company, and from 1996 to 1998 he was the Chief Financial Officer of medical device manufacturer Prism Technologies. Previously, Mr. Weaver, a certified public accountant, held increasingly senior positions with Fidelity Capital and Harte-Hanks (NYSE: HHS) in the publishing industry. He began his career with Andersen LLP. Mr. Weaver earned his MBA from Boston College and B.S. in accounting from Trinity University.

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Dr. Augustine Chow. Dr. Augustine Chow was appointed to the Board of Directors in March 2007. Dr. Chow has served as the Chief Executive Officer of Harmony Asset Limited since 1996, a publicly listed investment company specializing in China and Hong Kong. He also serves as the Chief Executive Officer of Pacific Life Science Holdings Limited. From 1990-1998, Dr. Chow was the Chief Executive Officer of Allied Group of Companies based in Hong Kong. Prior to this, Dr. Chow held increasingly senior positions with Brunswick Corporation and Outboard Marine Corporation. Dr. Chow has held numerous directorships of listed and non-listed companies, principally in Hong Kong, China and the UK. He has also participated and managed over fifty direct investments in China. Dr. Chow holds a M.Sc. from London Business School, a Ph.D. in Transfer of Technology from the University of South Australia, a DBA in Internet Research from Southern Cross University, and an Engineering Doctorate in Commercialization of Radical Innovation from the City University of Hong Kong.

Continuing Class II Directors (Term Expires in 2009)

Dr. Gary W. Pace. Dr. Pace has served as a director of the Company since 2002. He is currently Chairman and Chief Executive Officer of QRxPharma Pty Ltd., a development stage biopharmaceutical company and a Visiting Scientist at the Massachusetts Institute of Technology (MIT). He also serves as a director of ResMed (NYSE:RMD), Transition Therapeutics Inc. (CDNX:TTH), Peplin Ltd (ASX:PEP), Protiveris Inc., and CTour A/S. From 1995 to 2001, Dr. Pace was President and Chief Executive Officer of RTP Pharma and from 2000 to 2002, Dr. Pace was Chairman and Chief Executive Officer of Waratah Pharmaceuticals Inc., a spin-off company from RTP Pharma. From 1993 to 1994, he was the founding President and Chief Executive Officer of Transcend Therapeutics Inc. (formerly Free Radical Sciences Inc.), a biopharmaceutical company. From 1989 to 1993, he was Senior Vice President of Clintec International, Inc., a Baxter/Nestle joint venture and manufacturer of clinical nutritional products. Dr. Pace holds a B.S. with honors from the University of New South Wales and a Ph.D. from MIT.

Dr. Lawrence S. Olanoff. Dr. Olanoff was elected to the Board of Directors in August 2005. Dr. Olanoff was appointed President and Chief Operating Officer and a member of the Board of Directors of Forest Laboratories Incorporated in October 2006. Dr. Olanoff served as President and Chief Executive Officer of the Company from July 2005 until October 2006. From 1995 to July 2005, Dr. Olanoff was the senior Research and Development executive for Forest Laboratories Incorporated and was appointed Executive Vice President Scientific Affairs on November 30, 1998. From 1993 to 1995, Dr. Olanoff was Senior Vice President-Clinical Research and Development at Sandoz Pharmaceutical Corporation. For nine years prior thereto, Dr. Olanoff was employed by The Upjohn Company, where his last position was Corporate Vice President Clinical Development and Medical Affairs. Dr. Olanoff holds a Ph.D. degree in Biomedical Engineering and an MD degree from Case Western Reserve University.

Class III Director Nominees (Term Expires in 2010)

Dr. Max E. Link. Dr. Link has served as a director of the Company since 1997 and has been the Chairman of the Board of Directors since October 2001. Dr. Link currently provides consulting and advisory services to a number of pharmaceutical and biotechnology companies. From 1993 to 1994, Dr. Link served as Chief Executive Officer of Corange, Ltd., a life science company that was subsequently acquired by Hoffman-LaRoche. From 1971 to 1993, Dr. Link served in numerous positions with Sandoz Pharma AG, culminating in his appointment as Chairman of their Board of Directors in 1992. From 2001 to 2003, Dr. Link served as Chairman and Chief Executive Officer of Centerpulse Ltd. Dr. Link currently serves on the Boards of Directors of Human Genome Sciences, Inc. (Nasdaq:HGSI), Alexion Pharmaceuticals, Inc. (Nasdaq:ALXN) and Discovery Laboratories, Inc. (Nasdaq:DSCO). Dr. Link holds a Ph.D. in Economics from the University of St. Gallen (Switzerland).

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Dr. Kris Venkat. Dr. Venkat has been a director of the Company since May 2001. Since 2000, he has been Chief Executive Officer and Chairman of Sundari Enterprises, Inc. He has also been Chairman of the Board of Directors of Provid Pharmaceuticals, Inc. (since 2001), Thar Technologies, Inc. (since 2003), and Indus Biotech Private Limited (since 2002), IEP, GmbH (since 1996), Aescula Pharma, Switzerland (since 2006) and Pharmexx India Limited (since 2006). Dr. Venkat is a director of Genomics USA, Inc., Eleos, Inc, Strand Life Sciences Private Limited, Vice Chairman of Transvivo, Inc. and Omicia Inc. Dr. Venkat is also a Senior Adviser to TVM Capital, a large venture capital fund. From 1992 to 2000, he served as Chairman of the Board and Chief Executive Officer of Phyton, Inc. and, from 1993 to 2000, as Chairman of the Board and Managing Director of its wholly owned German subsidiary - Phyton, GmbH. From 1990 to 1991, Dr. Venkat was President and Chief Executive Officer of Genmap, Inc. Dr. Venkat is a Visiting Professor of Chemical and Biochemical Engineering at Rutgers University. He has held visiting faculty positions at Yale University, Dartmouth College, Anna University in India and University College, Galway, in Ireland. From 1986 to 1998, Dr. Venkat served as an adviser to the government of India on biotechnology development. Dr. Venkat holds a Ph.D. and a Masters degree in Chemical and Biochemical Engineering from Rutgers University and an undergraduate degree in Chemical Engineering from the Indian Institute of Technology (I.I.T.).

Mr. Michael H. Tardugno. Mr. Tardugno was appointed President and Chief Executive Officer of the Company on January 3, 2007 and was elected to the Board of Directors on January 22, 2007. Prior to joining the Company and for the period from February 2005 to December 2006, Mr. Tardugno served as Senior Vice President and General Manager of Mylan Technologies Inc, a subsidiary of Mylan Laboratories. Before Mylan, from 1998 to 2005, Mr. Tardugno was Executive Vice President of Songbird Hearing, Inc. From 1996 to 1998 he was Senior Vice President of Technical Operations for the ConvaTec division of Bristol-Myers Squibb, and from 1977 to 1995 he held increasingly senior positions with Bausch & Lomb and Abbott Laboratories. Mr. Tardugno holds a B.S. degree from St. Bonaventure University and completed the Harvard Business School, Program for Management Development.

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Executive Officers

Following are the biographical summaries for each of the Company's executive officers. Each executive officer is elected by, and serves at the pleasure of, the Board of Directors.

Mr. Michael H. Tardugno. Mr. Tardugno's biographical information appears above under the heading Class III Director Nominees (Term Expires in 2010).

Mr. Anthony P. Deasey. Mr. Deasey is currently Executive Vice President Chief Operating Officer and Chief Financial Officer of the Company. He also served as Interim President and Chief Executive Officer and as a Director of the Company from October 2006 to January 2007. Mr. Deasey joined the Company as Senior Vice President Finance and Chief Financial Officer in November 2000, and became Executive Vice President Finance and Administration in February 2002. Prior to joining Celsion, he was Senior Vice President Finance and Chief Financial Officer of World Kitchen (formerly Corning Consumer Products) from 1998 to 2000. He also served as Senior Vice President Chief Financial Officer of Rollerblade Inc. from 1996 to 1998 and previously held the position of Vice President and Chief Financial Officer with Church & Dwight Co. (NYSE:CHD). Mr. Deasey is a Chartered Accountant who gained his early experience in the international operations of Chesebrough Ponds and Price Waterhouse.

Dr. William Hahne. Dr. Hahne is currently Vice President Research and Development. He was appointed Vice President Clinical Development and Medical Affairs in January 2006. Prior to joining Celsion, from 2003 through 2005, Dr. Hahne was Vice President, Clinical Development for Curagen Corporation. From 1997 to 2002, he was Executive Director of Clinical Research and ultimately Vice President Clinical Development for Eisai Inc. Prior to Eisai, Dr. Hahne held positions of increasing responsibility at Glaxo Inc. and Merrel Dow, Marion Merrel Dow, and Hoechst Marion Roussel. Dr. Hahne holds an MD degree from Cornell University Medical College.

Mr. Michael Oleck. Mr. Oleck has been Vice President Operations since September 2004. From 2001 until he joined the Company, Mr. Oleck held various positions at Cordis Corporation (a Johnson & Johnson Company), most recently as Director Worldwide Strategic Sourcing New Product Development. Mr. Oleck previously served as Director Manufacturing & Plant Engineering for Cytometrics Inc. from 2000 to 2001, following a 20-year career with E.I. DuPont de Nemours & Co. Mr. Oleck holds a B.S. in Electrical Engineering from the New Jersey Institute of Technology, an M.S. in Electrical Engineering from Rensselaer Polytechnic Institute and an M.B.A. from the University of Delaware.

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COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors presently maintains separately designated Audit, Compensation, and Nominating and Governance Committees. The Audit Committee's principal responsibilities are to review financial statements and reports filed by the Company with the SEC, select annually a firm of independent accountants to conduct the annual audit of the Company's financial statements, assess the independence of the Company's independent auditors and meet with the independent auditors from time to time in order to review the Company's general policies and procedures with respect to audits, accounting and financial controls. Mr. Weaver (Chairman) and Drs. Link and Pace, each of whom is independent under the applicable rules of The American Stock Exchange (AMEX) and Rule 10A-3 under the Exchange Act currently serve on the Audit Committee.

The Compensation Committee is responsible for establishing and administering the compensation policies applicable to the Company's directors, officers and key personnel, for recommending compensation arrangements to the Board of Directors and for evaluating the performance of senior management. The Compensation Committee does not delegate the authority to approve compensation policies and actions affecting the Company's Named Executive Officers or directors. The Compensation Committee applies discretion in determining compensation for the Company's executives. The Compensation Committee has not established any equity or other security ownership requirements or guidelines in respect of its executive officers. The President and Chief Executive Officer assists the Compensation Committee in evaluating the performance of other executive officers and by providing information to directors as and when requested, such as salary surveys and compensation paid by the Company's competitors, to the extent such information is publicly available. Members of the Compensation Committee undertake to verify such information, prior to referring to it in determining executive compensation. The compensation of the President and Chief Executive is determined by the Compensation Committee based on the Compensation Committee's evaluation of his performance and with reference to such external or competitive data as they consider necessary. Additional discussion of the Compensation Committee's role in setting executive officer compensation may be found under Compensation Discussion and Analysis.

Drs. Pace (Chairman) and Link currently comprise the Compensation Committee. Both Drs. Pace and Link are independent under the applicable AMEX rules and Rule 10A-3 under the Exchange Act.

The Nominating and Governance Committee is responsible for identifying and recruiting new members of the Board of Directors when vacancies arise, identifying and recruiting nominees for election as directors, reconsideration of incumbent directors in connection with nominations for elections of directors and ensuring that the Board of Directors is properly constituted to meet its corporate governance obligations. The current members of the Nominating and Governance Committee are Drs. Venkat (Chairman), Pace and Link, each of whom is deemed to be independent under applicable AMEX rules.

In October 2006, the Board of Directors formed a Special Committee, comprised of Drs. Pace (Chairman) and Venkat, to manage a search for a new President and Chief Executive Officer. The Special Committee was also charged with providing oversight and support for management until such time as a new President and Chief Executive Officer was appointed. The Special Committee having completed its assignment was disbanded on January 22, 2007.

Each of the Audit, Compensation and Nominating and Governance Committees operated under a separate written charter. Current copies of the charters for each of these committees of the Board of Directors can be found on our website located at <http://www.celsion.com>.

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MEETINGS OF THE BOARD AND ITS COMMITTEES

During the fiscal year ended December 31, 2006, there were a total of 13 meetings of the Board of Directors. All directors attended at least 75% of the meetings of the Board of Directors. During the fiscal year ended December 31, 2006, the Audit Committee met four times, the Compensation Committee met two times, and the Nominating and Governance committee met once.

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DIRECTOR NOMINATIONS

The Nominating and Governance Committee

The Nominating and Governance Committee of the Board of Directors operates under a Charter adopted by the full Board of Directors on December 24, 2003 and amended on February 27, 2006, a current copy of which can be found on our website, located at <http://www.celsion.com>. The role of the Nominating and Governance Committee is to act on behalf of the Board of Directors to ensure that the Board of Directors and its standing committees are appropriately constituted to meet their fiduciary and corporate governance obligations. In this role, the Nominating and Governance Committee is responsible for identifying and recruiting new members of the Board of Directors when vacancies arise, identifying and recruiting nominees for election as directors and reconsidering incumbent directors in connection with nominations for elections of directors. The Nominating and Governance Committee is also charged with: (i) reviewing and recommending changes in the size and composition of the Board of Directors and its committees; (ii) developing and maintaining criteria and processes for selecting candidates for election as directors; (iii) identifying and recruiting candidates to stand for election as directors and determining whether incumbent directors should stand for reelection; (iv) ensuring that the Company and the Board of Directors operates in accordance with current best practices; (v) providing for ongoing director training and education; (vi) reporting to the Board of Directors on Nominating and Governance Committee activities; (vii) annually reviewing the Nominating and Governance Committee's performance of its responsibilities and duties; and (viii) annually reviewing the Nominating and Governance Committee Charter, the structure and the processes and membership requirements of the Nominating and Governance Committee and recommending to the Board any improvements or amendments that the Nominating and Governance Committee considers appropriate or necessary.

Director Qualifications

It is a policy of the Nominating and Governance Committee that candidates for director be determined to have unquestionable integrity and the highest ethical character. Candidates must demonstrate the ability to exercise sound, mature and independent business judgment in the best interests of the stockholders as a whole and may not have any interests that would, in the view of the Nominating and Governance Committee, impair their ability to exercise independent judgment or otherwise discharge the fiduciary duties owed as a director. Candidates must have experience and demonstrated achievement in one or more fields of business, professional, governmental, communal, scientific or educational endeavors which will complement the talents of the other members of the Board of Directors and further the interests of the Company, bearing in mind the composition of the Board of Directors and the current state of the Company and the biotechnical/biopharmaceutical industry generally. In particular, the Nominating and Governance Committee believes it is important for one or more members of the Board of Directors to have in-depth experience in the biotechnical/biopharmaceutical industry. The Nominating and Governance Committee has determined that one or more of its members, including the incumbents nominated to stand for reelection at the Annual Meeting, has such biotechnical/biopharmaceutical experience.

Candidates are expected to have an appreciation of the major issues facing public companies of a size and operational scope similar to the Company, including contemporary governance concerns, regulatory obligations of a public issuer, strategic business planning, competition in a global economy, and basic concepts of corporate finance. Candidates must also have the willingness and capability to devote the time necessary to participate actively in meetings of the Board of Directors and committee meetings and related activities, the ability to work professionally and effectively with other members of the Board of Directors and Company management, and the ability and intention to remain on the Board of Directors long enough to make an effective contribution.

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In addition, in accordance with the rules of the SEC and AMEX, the Company requires that at least a majority of the directors serving at any time on the Board of Directors be independent, that at least three directors satisfy the financial literacy requirements for service on the Audit Committee and that at least one qualify as an audit committee financial expert under those rules.

The Board of Directors has determined that Mr. Gregory Weaver is qualified to serve as the audit committee financial expert as defined by Item 401(h) of Regulation S-K. The Board of Directors has also determined that of the seven currently serving directors Drs. Max E. Link, Gary W. Pace, Augustine Chow and Kris Venkat and Mr. Gregory Weaver are independent. Mr. Gregory Weaver acts as the chairman of our Audit Committee. Mr. Weaver is deemed to be independent under applicable rules of the SEC and AMEX. Finally, among candidates who meet the foregoing criteria, the Nominating and Governance Committee also considers the Company's current and anticipated needs, including expertise, diversity and balance of inside, outside and independent directors. In considering the independence of the Directors nominated for election, Dr. Link has no relationship with the Company other than as Chairman and Director. Dr. Venkat has a consulting agreement with the Company which is fully discussed below under Transactions with Related Parties, Promoters and Certain Control Persons. This consulting agreement precludes Dr. Venkat under the Amex rules from being a member of either the audit or compensation committees.

Nominating and Governance Committee Process

In selecting candidates for the Board of Directors, the Nominating and Governance Committee begins by determining whether the incumbent directors whose terms expire at the annual meeting of stockholders desire and are qualified to continue their service on the Board of Directors. Under its charter, the Nominating and Governance Committee is charged with considering incumbent directors as if they were new candidates. However, the Nominating and Governance Committee recognizes the significant value of the continuing service of qualified incumbents in promoting stability and continuity, providing the benefit of the familiarity and insight into the Company's affairs and enhancing the Board of Directors' ability to work as a collective body. Therefore, it is the policy of the Nominating and Governance Committee, absent special circumstances, to nominate qualified incumbent directors whom the Nominating and Governance Committee believes will continue to make important contributions to the Board of Directors and who consent to stand for re-election. If any member of the Board of Directors does not wish to continue in service or if the Nominating and Governance Committee or the Board of Directors decides not to re-nominate a member, there is an existing vacancy on the Board of Directors, or the Board of Directors, upon the recommendation of the Nominating and Governance Committee, elects to expand the size of the Board of Directors, the following process would be followed:

The Nominating and Governance Committee develops a profile for candidates' skills and experience, based on the criteria described above.

The Nominating and Governance Committee initiates a search, polling members of the Board of Directors and management, and retaining a search firm if the Nominating and Governance Committee deems this appropriate.

The Nominating and Governance Committee has a policy with respect to stockholders' suggestions for nominees for directorships. Under this policy, stockholder nominees are given identical consideration as nominees identified by the Nominating and Governance Committee. The process by which stockholders may submit potential nominees is described below under Stockholder Recommendation Process.

The Nominating and Governance Committee then determines the eligibility and suitability of any candidate based on the criteria described above and the Nominating and Governance Committee's search profile.

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The Chairman of the Board of Directors and at least one member of the Nominating and Governance Committee interview prospective candidate(s) who satisfy the qualifications described above.

The Nominating and Governance Committee offers other members of the Board of Directors the opportunity to interview the candidate(s) and then meets to consider and approve the final candidate(s).

The Nominating and Governance Committee seeks full Board endorsement of the final candidate(s).

The final candidate(s) are nominated by the Board of Directors for submission to a stockholder vote or elected to fill a vacancy. To date, the Nominating and Governance Committee has not received any recommendations from stockholders and has not retained a search firm to aid in the identification or evaluation of potential nominees.

Stockholder Recommendation Process

The Nominating and Governance Committee will consider director candidates recommended by stockholders, provided that the stockholder making the recommendation follows the procedure set forth below. Stockholder recommendations should be submitted to the Company in writing, as follows:

Corporate Secretary

Celsion Corporation

10220-L Old Columbia Road

Columbia, Maryland 21046-2364

Suggestions received by the Secretary before January 9, 2008 will be considered by the Nominating and Governance Committee for nomination and election at the 2008 annual meeting of stockholders.

A stockholder's notice to the Secretary must set forth:

- (a) as to each stockholder-proposed nominee:
 - (i) the name, age, business address and residence address of the nominee;
 - (ii) the principal occupation or employment of the nominee;
 - (iii) an undertaking to provide a completed director's and officer's questionnaire in the form required by the Company within two weeks of the submission;
 - (iv) a statement as to the nominee's citizenship; and

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(v) any other information relating to the nominee that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and

(b) as to the stockholder giving the notice:

(i) the name and record address of the stockholder; and

(ii) the number of shares of Common Stock that the stockholder beneficially owns.

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The Company or the Nominating and Governance Committee may require a stockholder who proposes a nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility or suitability of the proposed nominee to serve as director of the Company.

Revisions to Process

The Nominating and Governance Committee and stockholder recommendation processes have been developed to provide a flexible framework to permit the director nomination process to move forward effectively. The Nominating and Governance Committee intends to review these processes from time to time in light of the Company's evolving needs and changing circumstances, as well as changes in legal requirements and stock exchange listing standards. The Nominating and Governance Committee may revise these processes or adopt new ones based on such periodic reviews.

STOCKHOLDER COMMUNICATIONS

The Board of Directors has adopted a process through which interested stockholders may communicate with the Board of Directors. Stockholders who wish to send communications to the Board of Directors, or any particular director, should address such communications to Anthony P. Deasey, Corporate Secretary, at the Company's headquarters in Columbia, Maryland. The envelope containing any such communication should be prominently marked "To the Attention of the Board of Directors" or to a particular committee or director, and the communication should include a representation from the stockholder indicating the stockholder's address and the number of shares of the Company's Common Stock beneficially owned by the stockholder. Our Corporate Secretary is primarily responsible for monitoring communications from stockholders. Depending upon the content of a particular communication, as he deems appropriate, our Corporate Secretary will: (i) forward the communication to the director, directors or committee to whom it is addressed; (ii) attempt to handle the inquiry directly, for example where it is a request for information about the Company or it is a stock-related matter; or (iii) not forward communications such as solicitations, junk mail and obviously frivolous or inappropriate communications. At each meeting of the Board of Directors, the Corporate Secretary will present a summary of all communications, whether or not forwarded, received since the last meeting and will make those communications available to the directors on request.

BOARD ATTENDANCE

The Board of Directors strongly encourages all directors, to the extent reasonable and practicable, to attend the Company's annual meetings of stockholders in person. All of the current Board members, except Mr. Tardugno and Dr. Chow, who were elected to the Board of Directors after the 2006 annual meeting, were present at last year's annual meeting.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee operates under a written charter as amended and restated effective December 24, 2003. A copy of the charter was included in our Proxy Statement in connection with our 2004 annual meeting and is available on our web site, located at <http://www.celsion.com>. Additional copies of the charter are available upon written request to the Company. All members of the Audit Committee meet the independence standards established by the SEC and AMEX. In addition, the Board of Directors has made the affirmative determination that none of the independent directors has a material relationship with the Company and that the Audit Committee members meet the additional independence requirements set forth in Rule 10A-3 under the Exchange Act.

The Audit Committee assists the Board in fulfilling its responsibility to oversee management's implementation of the Company's financial reporting process. In discharging its oversight role, the Audit Committee reviewed and discussed the audited financial statements contained in the Company's 2006 Annual Report on Form 10-K with the Company's management and the Company's independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

The Audit Committee met privately with the Company's independent registered public accounting firm and discussed issues deemed significant by the independent registered public accounting firm, including those required by Statements on Auditing Standards No. 61 and No. 90 (Communications with Audit Committees), as amended. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence from the Company and its management, including the matters in the written disclosures received from the independent registered public accounting firm as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and considered whether the provision of non-audit services by the independent registered public accounting firm was compatible with maintaining the independent registered public accounting firm's independence. The Audit Committee also met with the independent registered public accounting firm, with and without management present, to discuss the results of the independent registered public accounting firm's examination evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions outlined above, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's 2006 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Members of the Audit Committee

Gregory Weaver
Max E. Link
Gary W. Pace

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EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The Company is an early stage drug development company and as such is unlikely, in the short to medium term, to generate revenues and income sufficient to cover product development costs. As a result, the Company's executive compensation philosophy is geared to ensuring that executive compensation aligns management and stockholders' interests by emphasizing rewards for Company performance, while remaining competitive with compensation paid by other early stage biotechnology companies.

The Compensation Committee and the Board of Directors have adopted the following executive compensation approaches:

Executive Compensation Philosophy

The Compensation Committee attempts to design executive compensation programs to achieve three principal objectives. First, the program is intended to attract, motivate and retain talented executives with total compensation that is competitive within the drug development and broader pharmaceutical and biotechnology industry. Second, the program is intended to create an alignment of interests between the Company's executives and stockholders such that a significant portion of each executive's compensation varies with business performance and is dependent on a rising stock price performance. Third the program is designed to award behavior which results in optimizing the commercial potential of the Company's development program.

The Compensation Committee's philosophy is to pay competitive total compensation, comprised of annual salaries, a non-equity incentive compensation plan, cash bonuses and stock option awards, which is geared to provide above average total compensation for superior performance reflected in increases in the Company's stock price. The Compensation Committee considers the elements of the compensation package (consisting of base salary, incentive compensation and stock based compensation) to be reflective of compensation packages given to executives in the industry. Compensation packages are designed to pay competitive salaries at the 50th percentile level, reward superior annual performance through incentive compensation awards and to allow executives to participate in increases in stockholder value through stock option and other stock based grants. The Company considers the income tax affects to both the Company and the employee in structuring its compensation arrangements.

The Compensation Committee reviews the performance of the Chief Executive and other executives at least annually. Management provides the Compensation Committee material and data requested by the Compensation Committee. The Chief Executive provides input relative to the performance of executives but is not involved in determining the amounts or composition of individual executive compensation packages.

A discussion of each individual element of compensation follows.

Annual Salaries

The Company participates in an ongoing industry survey which covers a broad cross-section of the biotechnology industry including all the key positions with the Company. The Compensation Committee compares base salary for Company executives with these benchmarks and targets to pay base salaries that are equivalent to the 50th percentile of the survey.

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Incentive Compensation

The Company has an incentive compensation plan in which all members of senior management participate. The plan is performance driven based on objectives that are established annually by mutual agreement of management and the Compensation Committee. The objectives are operational in nature and include completion of development projects, fund raising, cost controls, business development and profit and loss goals. They do not include share price objectives as all of the operating objectives are ultimately directed at creating shareholder value. These objectives are designed to achieve timely and efficient product development including completion of clinical studies and regulatory approvals. Executives are individually evaluated for their contribution to the Company's achievement of these objectives. Payouts under this plan, which can be as high as 60% of an executive's base salary, can be in cash or restricted stock that vests one year after it is awarded. This component of compensation is provided, among other reasons, to create incentives for executives to meet short and medium term performance goals of the Company, without regard to the stock price. Objectives are weighted in terms of overall importance to meeting the Company's operating plan and the amount of the reward is determined on a sliding scale dependent on the achievement of objectives and the relative importance of the objectives achieved.

Bonuses

Bonuses are awards paid outside the incentive compensation plan. The Compensation Committee has the latitude to reward exceptional performance in circumstances when an individual does not qualify for an incentive compensation award through achievement of pre-determined objectives but has delivered significant contributions not covered by the annual objectives agreed upon between management and the Compensation Committee.

Stock Based Compensation

The 2004 Employee Stock Plan is designed to align the interest of Company employees and its stockholders, encouraging participants to maintain and increase their ownership of Company Common Stock with the opportunity to benefit from the Company's long-term performance. The plan authorizes the issuance of up to 666,667 shares of Common Stock in the form of stock options; stock appreciation rights (SARs) or restricted stock. The plan also authorizes the issuance of phantom stock units (PSUs). The plan is administered by the Compensation Committee, which has the authority to grant options, SARs, restricted stock and PSUs.

During the year ended December 31, 2006, a total of 138,538 options were granted under the Employee Stock Plan, including 67,934 options granted to the Company's Named Executive Officers and 19,606 options granted to directors. Options granted in 2006 become exercisable in equal installments over three years. Options are granted to employees based on their position and responsibilities in the Company. The level of award is determined by the Compensation Committee after considering relevant competitive data.

Executive Officer Compensation

The Compensation Committee, in determining the 2006 compensation of executive officers of the Company, reviewed the total compensation for the Company's CEO, Principal Financial Officer and two other officers for 2004, 2005 and 2006, and compared them to the industry survey referenced above. Additionally, the Compensation Committee members drew on additional experience gleaned from their service as members of Boards of Directors at other biotechnology companies at development stages comparable to the Company. The Compensation Committee concluded that the Company is compensating its executives in accordance with the Compensation Committee's compensation philosophy.

Compensation paid to the Company's Named Executive Officers during the year ended December 31, 2006 consisted of a base salary and non equity incentive compensation accrued at year-end and paid in the first quarter of fiscal 2007

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(based on individual and company goals achieved during 2006), Stock Awards (i.e. grants of restricted stock) and Option Awards (i.e. grants of stock options enabling the recipient to purchase shares of the Company's Common Stock at pre-determined exercise prices). The Compensation Committee from time-to-time may elect to pay all or part of an employee's incentive compensation or bonus in restricted stock as a retentive measure or in order to conserve cash.

Base salaries were determined in accordance with the principals and compensation philosophy described above. The non-equity incentive compensation plan awards payable to each of the Company's Named Executive Officers were determined based on their achievement of objectives set during 2006 and their relative importance to the long-term development of the Company. The Stock Awards were based on the Named Executive Officer's contribution to the development of the Company's business, and vest over a period of one year. All Option Awards to Named Executive Officers, directors, and employees vest over a three-year period from the date of grant.

Chief Executive Compensation

Dr. Lawrence S. Olanoff served as the Company's Chief Executive Officer from July 29, 2005 through October 6, 2006. In December 2005, the Compensation Committee reviewed Dr. Olanoff's performance for 2005 and concluded that he had made sufficient progress toward his predetermined objective of repositioning the Company as a drug development company, as established by the Compensation Committee, to warrant a grant of 12,255 shares of restricted stock vesting twelve months from its issue date. The Compensation Committee also granted him an option to purchase 13,000 shares of common stock exercisable in equal installments over three years. Dr. Olanoff tendered his resignation as Chief Executive Officer effective October 6, 2006, and accordingly, none of these options vested.

Mr. Anthony P. Deasey, the Company's Executive Vice-President, Chief Operating Officer and Chief Financial Officer, served as the Company's Interim President and Chief Executive Officer for the period from October 6, 2006 to January 3, 2007. As compensation for acting as Interim President and Chief Executive Officer, Mr. Deasey's incentive compensation target was increased from 40 to 50% of his base salary. Mr. Deasey was not separately compensated for his service as a member of the Company's Board of Directors.

Effective January 3, 2007, the Company hired Mr. Michael Tardugno as the Company's President and Chief Executive Officer. The Compensation Committee negotiated the terms of Mr. Tardugno's employment contract after considering relevant data from the industry survey referenced above, board experience from similar companies, Mr. Tardugno's personal requirements, and an objective of aligning his interests with those of shareholders. Mr. Tardugno's compensation package includes a base salary of \$310,000, subject to annual review, a grant of 50,000 shares of restricted stock which vest over three years, and an option to purchase 430,000 shares of the Company's Common Stock vesting in equal installments over four years. The Company also provided Mr. Tardugno with a relocation allowance of \$140,000. Mr. Tardugno is eligible for annual incentive compensation targeted as 60% of his base salary amount, and will also be considered for an annual option grant. Annually, independent members of the Board, under the leadership of the Compensation Committee, will evaluate Mr. Tardugno's performance, as measured by his progress against objectives negotiated with the Compensation Committee, in determining his future compensation.

COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with the Company's management. Management is responsible for the disclosure in this Proxy Statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for the 2007 Annual Meeting.

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Members of the Compensation

Committee

Gary W. Pace
Max E. Link

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The following table sets forth the aggregate cash and other compensation paid, for the year ended December 31, 2006, to the Company's Chief Executive Officer, Principal Financial Officer and each of its other executive officers whose annual salary and non equity incentive compensation for the fiscal year ended December 31, 2006 exceeded \$100,000 (the "Named Executive Officers").

Name and Principal Position	Year	Salary (\$)	Non-Equity				Total
			Stock Awards	Option Awards	Incentive Plan Compensation	All Other Compensation	
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
		(Note 1)	(Note 1)	(Note 10)			
Lawrence S. Olanoff	2006	269,355		305,637		29,294	604,286
Former President and Chief Executive Officer (2) (3) (4)							
Anthony P. Deasey	2006	299,250	34,082	62,592	75,000	5,400	476,324
Executive Vice President							
Chief Operating Officer and Chief Financial Officer; (5) (6)							
William Hahne	2006	250,000	9,921	15,825	62,500	18,035	356,281
Vice President-Research and Development (7) (8)							
Michael Oleck	2006	193,325	14,748	37,355	38,000		283,428
Vice President-Operations (9)							

- (1) Amounts reported in the above table for Stock Awards and Option Awards represent the compensation cost recorded in the Company's financial statements for the year ended December 31, 2006, as determined in accordance with FASB Statement No. 123(R), *Share-Based Payment*. The Company uses the Black-Scholes method of estimating the fair value of stock options granted to employees and directors. See Note 8 to the Company's financial statements included in its 2006 Annual Report on Form 10-K for assumptions used in determining the fair values of stock option awards using the Black-Scholes method.
- (2) Dr. Olanoff resigned as President and Chief Executive Officer on October 6, 2006.
- (3) During fiscal 2006, Dr. Olanoff was granted an option to acquire 13,000 shares of Common Stock vesting equally in three installments starting on March 15, 2007. Such options were forfeited during January 2007.
- (4) Dr. Olanoff's other compensation for 2006 consisted of life insurance premiums (\$792), a car allowance (\$4,050) and a Company provided housing allowance (\$24,452).
- (5) Mr. Deasey also served as the Company's Interim President and Chief Executive Officer for the period from October 2006 to January 2007. On March 15, 2006, Mr. Deasey was granted an option to purchase 33,000 shares of Common Stock vesting in three equal installments starting on March 15, 2007. On March 15, 2006, Mr. Deasey received a grant of 10,478 shares of restricted Common Stock which vested one year from the date of grant.
- (6) Mr. Deasey's other compensation for 2006 consists of a car allowance in the amount of \$5,400.
- (7) Dr. Hahne was granted at the inception of his employment on January 16, 2006 an option to acquire 13,334 shares of Common Stock, such option vesting in three equal installments starting on January 16, 2007. Additionally, in October 2006 Dr. Hahne, as remuneration for his promotion to the position of Vice President-Research and Development, received a grant of 5,100 shares of restricted stock and an option

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to purchase a further 5,100 shares of Common Stock. The restricted stock and the option to purchase Common Stock vest over a three-year period commencing October 5, 2007.

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- (8) Dr. Hahne's other compensation for 2006 consists of a Company provided housing allowance in the amount of \$18,035.
- (9) On March 15, 2006, Mr. Oleck was granted an option to acquire 3,500 shares of Common Stock vesting in three equal installments starting on March 15, 2007. During March 2006, Mr. Oleck also received a grant of 4,535 shares of restricted Common Stock which vested one year from the date of grant.
- (10) Non-equity incentive compensation plan awards were paid during the first quarter of 2007, in respect of 2006 performance.

Table of Contents**2006 GRANTS OF PLAN-BASED AWARDS TABLE**

The following table sets forth the plan-based awards granted to each Named Executive Officer of the Company during the year ended December 31, 2006. All grants were made under the 2004 Employee Stock Plan.

Name	Grant Date	Board Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
			Threshold (\$)	Target (\$)	Maximum (\$)	(#)	(#)	(\$ / Sh)	(\$)
Lawrence S. Olanoff (1)	March 13, 2006	March 13, 2006		140,000	175,000				
	March 15, 2006	March 13, 2006					13,000	4.08	45,740
Anthony P. Deasey (3)	March 13, 2006	March 13, 2006		119,700	149,625				
	March 15, 2006	March 13, 2006					33,000	4.08	116,110
	March 15, 2006	December 5, 2005				10,478			42,750
William Hahne (4)	January 16, 2006	March 13, 2006					13,334	4.65	45,221
	March 13, 2006	March 13, 2006		87,500	93,750				
	October 3, 2006	October 3, 2006				5,100			12,444
	October 3, 2006	October 3, 2006					5,100	2.44	8,996
Michael Oleck (5)	March 13, 2006	March 13, 2006		57,998	72,497				
	March 15, 2006	March 15, 2006					3,500	4.08	12,315
	March 15, 2006	December 5, 2005				4,534			18,500

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Notes to 2006 Grants of Plan-Based Awards Table

- (1) Dr. Lawrence S. Olanoff was granted options to purchase 13,000 shares of Common Stock on March 15, 2006. Dr. Olanoff resigned before any such options vested. The options had a grant date fair value of \$45,740.
- (2) Amounts represent 2006 Incentive Compensation Payout for executives of the Company. Such amounts were based upon performance goals established by Company at the beginning of fiscal 2006, including quantitative goals as well as personal objectives. The final payout was determined by the Board of Directors on February 8, 2007. The 2006 Incentive Compensation Payouts were based on a percentage of the Named Executive Officer's base salary as follows:

	As Percentage of Base Salary		
	Threshold	Target	Maximum
Dr. Olanoff	0%	40%	50%
Mr. Deasey	0%	40%	50%
Dr. Hahne	0%	35%	37.5%
Mr. Oleck	0%	30%	37.5%

- (3) Mr. Deasey was granted a discretionary stock award on March 15, 2006, consisting of 10,478 shares of restricted Common Stock. Such shares vest over a one-year period from the date of grant. Dividends will accrue on the restricted shares to the benefit of Mr. Deasey if declared by the Board of Directors.
- (4) Dr. Hahne was granted stock award on March 15, 2006, as remuneration for his promotion to the position of Vice President-Research and Development, consisting of 5,100 shares of restricted Common Stock. Such shares vest over a three-year period from the date of grant. Dividends will accrue on the restricted shares to the benefit of Dr. Hahne if declared by the Board of Directors. As part of Dr. Hahne's initial compensation package, he was granted, subject to approval by the Board of Directors, an option to purchase shares of the Company's Common Stock. This grant was approved at the first Compensation Committee meeting subsequent to his hire. In accordance with Company policy, these options were priced as of the close of business on his first day of employment with the Company.
- (5) Mr. Oleck was granted a discretionary stock award on March 15, 2006, consisting of 4,534 shares of restricted Common Stock. Such shares vest over a one-year period from the date of grant. Dividends will accrue on the restricted shares to the benefit of Mr. Oleck if declared by the Board of Directors.
- (6) There was no consideration paid by any of the Named Executive Officers for options issued during the year ended December 31, 2006. There were no re-pricings or modifications of any option awards during the year ended December 31, 2006.

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EXECUTIVE EMPLOYMENT AGREEMENTS

We have entered into an employment agreement with Mr. Michael H. Tardugno, pursuant to which Mr. Tardugno serves as our President and Chief Executive Officer. The agreement is for a term of three years, effective January 3, 2007. We have also entered into an employment agreement with Anthony P. Deasey, pursuant to which Mr. Deasey serves as our Chief Operating Officer and Chief Financial Officer. This agreement, which had a term of two years effective January 1, 2004, was renewed for a one-year period on January 1, 2007.

Mr. Tardugno's employment agreement provides for an initial annual base salary of \$310,000, subject to annual adjustment by the Board of Directors or the Compensation Committee (the "Base Salary"). Mr. Tardugno also is eligible for an annual performance bonus from the Company. The amount of such bonus will be determined by the Board or the Compensation Committee and will not exceed 60% of current Base Salary except pursuant to a specific finding by the Board or the Compensation Committee that a higher percentage is appropriate. The Company provided Mr. Tardugno with a relocation allowance in the amount of \$140,000. In addition, on the effective date of his agreement, Mr. Tardugno received a grant of non-statutory options to purchase 430,000 shares of the Company's Common Stock, which will vest in four equal installments on the first, second, third and fourth anniversaries of the effective date. If the agreement is terminated by the Company prior to the first anniversary of the effective date other than for cause (as defined in the agreement) or on account of death or disability, the first installment will vest on the termination date. Once vested, these options will be exercisable for a period of ten years, measured from the effective date, at a price per share equal to the closing price of the Common Stock on AMEX on the effective date.

In the event: (A) that the Company terminates the agreement other than for cause (as defined in the agreement) or upon death or disability or (B) Mr. Tardugno terminates the agreement upon the occurrence of (i) a material adverse change in his duties or authority; (ii) Mr. Tardugno is not at least one of President or Chief Executive Officer of the Company during the term of the agreement; (iii) of a bankruptcy filing or similar action by or against the Company; or (iv) of another material breach of the agreement by the Company (a "Triggering Event"), Mr. Tardugno will be entitled to receive a severance payment equal to his base annual salary at the time of termination (the "Reference Amount"). In the event of termination of his employment upon a Triggering Event within two years following a change in control (as described below), or, if within such two-year period (i) there is a material adverse change in his compensation or benefits, or (ii) any successor to the Company does not assume the Company's obligation under the agreement, and he terminates his employment, Mr. Tardugno also is entitled to a severance payment equal to the Reference Amount. The agreement also provides that such severance is payable upon a change in control if Mr. Tardugno elects to terminate his employment commencing with the sixth and ending with the twelfth month following the change in control. Under the agreement, a change in control is deemed to occur: (i) if any person becomes the direct or indirect beneficial owner of more than 40% of the combined voting power of the Company's then-outstanding securities; (ii) there is a change in a majority of the directors in office; (iii) the Company engages in a merger, asset sale, tender offer or other transaction after which the holders of the Company's voting securities before the transaction do not continue to hold at least 50% of the voting securities of the Company or its successor after the transaction; or (iv) upon the complete liquidation or dissolution of the Company or the disposition of substantially all of its assets. The agreement also contains customary confidentiality and other provisions.

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Mr. Deasey's employment agreement had an initial term of two years effective January 1, 2004 with renewals for one-year periods from January 1, 2006. The agreement provides for a base salary of not less than \$275,000 per annum, subject to annual review, an annual performance bonus at the discretion of the Board of Directors based on the Company's management incentive bonus program and an annual grant of stock options. In addition, the agreement provides that, in the event of a termination of the agreement by Mr. Deasey as a result of a material adverse change in his duties or authority, all options will remain exercisable for the lesser of ten years or the longest period permitted by law. The agreement also provides for a severance payment of two times Mr. Deasey's base salary at the time of termination plus the average of his bonuses for the prior two years (the Reference Amount) in the event: (A) the Company terminates the agreement other than for cause (as defined in the agreement) or upon the death or disability of Mr. Deasey; (B) Mr. Deasey terminates the agreement upon the occurrence of (i) a material adverse change in Mr. Deasey's duties or authority, (ii) Mr. Deasey is not continuously as at least an Executive Vice President and the Chief Operating Officer and Chief Financial Officer of the Company; (iii) of a bankruptcy filing or similar action by or against the Company; or (iv) of another material breach of the agreement by the Company; or (C) of termination of Mr. Deasey's employment by the Company, at the end of the term of the agreement, in the capacities of Executive Vice President, Chief Operating Officer and Chief Financial Officer, on terms substantially similar to those of the agreement (such events being referred to as Triggering Event). The agreement provides for a severance payment equal to 2.99 times Mr. Deasey's Reference Amount in the event of termination of his employment upon a Triggering Event within two years following a change in control (as described below), or, if within such two-year period (i) there is a material adverse change in his compensation or benefits, or (ii) any successor to the Company does not assume the Company's obligation under the agreement, and Mr. Deasey terminates his employment. The agreement also provides that such severance is payable upon a change in control if Mr. Deasey elects to terminate his employment commencing with the sixth and ending with the twelfth month following the change in control. In the circumstances in which Mr. Deasey is entitled to 2.99 times the Reference Amount, all unvested options under the agreement vest and become immediately exercisable. The agreement carries forward stock options granted under prior employment agreements. Under the agreement, a change in control is deemed to occur: (i) if any person becomes the direct or indirect beneficial owner of more than 40% of the combined voting power of the Company's then-outstanding securities; (ii) there is a change in a majority of the directors in office; (iii) the Company engages in a merger, asset sale, tender offer or other transaction after which the holders of the Company's voting securities before the transaction do not continue to hold at least 50% of the voting securities of the Company or its successor after the transaction; or (iv) upon the complete liquidation or dissolution of the Company or the disposition of substantially all of its assets. Finally, the agreement contains customary confidentiality and other provisions.

Dr. Hahne and Mr. Oleck have customary employment letters outlining their terms of employment, including their initial salaries and stock option grants, incentive compensation and stock option eligibility, vacation, health benefits, and severance payments. The Company has not entered into employment agreements with either Dr. Hahne or Mr. Oleck. The employment letters with Dr. Hahne and Mr. Oleck provide for post-employment payments and other benefits as described below under Post-Employment Compensation.

Table of Contents**2006 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE**

The following table summarizes the unexercised options, nonvested stock and equity incentive plan awards outstanding and held by each Named Executive Officers as of December 31, 2006.

Name	Option Awards		Option Awards		Stock Awards	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Lawrence S. Olanoff (1)	107,334	322,000	5.70	7/29/2015		
Anthony P. Deasey (2)	5,334		9.00	8/9/2011		
	18,000		10.50	8/9/2011		
	44,334		9.60	5/14/2012		
	22,334		11.40	5/14/2012		
	10,000		10.05	5/14/2012		
	8,000		6.00	12/6/2012		
	4,444	2,222	10.05	6/9/2014		
	2,222	4,444	6.90	2/22/2015		
		33,000	4.08	3/15/2016		
					10,478	19,908
William Hahne (3)		13,334	4.65	1/16/2016		
		5,100	2.44	10/3/2016		
					5,100	\$ 9,690
Michael Oleck (4)	8,889	4,445	7.80	9/20/2014		
	1,112	2,222	6.90	2/22/2015		
		3,500	4.08	3/16/2016		
					4,534	8,614

Notes:

- (1) Dr. Olanoff resigned as President and Chief Executive Officer as of October 6, 2006. All options held by Dr. Olanoff were forfeited during January 2007.
- (2) Unvested options held by Mr. Deasey as of December 31, 2006 vest according to the following schedule: 2,222 options with an exercise price of \$10.05 vest during June 2007; 2,222 options with an exercise price of \$6.90 vest during February 2007; 2,222 options with an exercise price of \$6.90 vest during February 2008; 33,000 options with an exercise price of \$4.08 vest in equal tranches during each of March 2007, March 2008 and March 2009.
- (3) Unvested options held by Dr. Hahne vest according to the following schedule: 4,445 options with an exercise price of \$4.65 vest during each of January 2007, 2008 and 2009; 1,700 options with an exercise price of \$2.44 vest during each of October 2007, 2008 and 2009.
- (4) Unvested options held by Mr. Oleck vest according to the following schedule: 4,445 options with an exercise price of \$7.80 vest during September 2007; 1,111 options with an exercise price of \$6.90 vest during each of February 2007 and 2008; and 1,167 options with an exercise price of \$4.08 vest during each of March 2007, 2008 and 2009.

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2006 OPTION EXERCISES AND STOCK VESTED INFORMATION

None of the Company's Named Executive Officers exercised any stock options during the year ended December 31, 2006. No awards of nonvested stock during the year ended December 31, 2006 vested to the benefit of any Named Executive Officer during the year ended December 31, 2006.

PENSION BENEFITS

The Company does not provide pension benefits for any employee or director.

NONQUALIFIED DEFERRED COMPENSATION

The Company does not provide non-qualified deferred compensation to any employee or director.

POST-EMPLOYMENT COMPENSATION

Mr. Tardugno's employment agreement provides for post-employment benefits. If the agreement is terminated by the Company prior to the first anniversary of the effective date other than for cause (as defined in the agreement) or on account of death or disability, the first installment of the option to purchase 430,000 shares of Company Common Stock, granted as an inducement to take up employment with the Company, will vest on the termination date. Once vested, these options will be exercisable for a period of ten years measured from the effective date. In the event: (A) that the Company terminates the agreement other than for cause (as defined in the agreement) or upon death or disability, or (B) Mr. Tardugno terminates the agreement upon the occurrence of (i) a material adverse change in his duties or authority; (ii) of a prohibited event (as described below); (iii) of a bankruptcy filing or similar action by or against the Company; or (iv) of another material breach of the agreement by the Company (a Triggering Event), Mr. Tardugno will be entitled to receive a severance payment equal to his base annual salary at the time of termination (the Reference Amount). In the event of termination of his employment upon a Triggering Event within two years following a change in control (as described below), or, if within such two-year period (i) there is a material adverse change in his compensation or benefits, or (ii) any successor to the Company does not assume the Company's obligation under the agreement, and he terminates his employment, Mr. Tardugno also is entitled to a severance payment equal to the Reference Amount. The agreement also provides that such severance is payable upon a change in control if Mr. Tardugno elects to terminate his employment commencing with the sixth and ending with the twelfth month following the change in control. Under the agreement, a change in control is deemed to occur: (i) if any person becomes the direct or indirect beneficial owner of more than 40% of the combined voting power of the Company's then-outstanding securities; (ii) there is a change in a majority of the directors in office; (iii) the Company engages in a merger, asset sale, tender offer or other transaction after which the holders of the Company's voting securities before the transaction do not continue to hold at least 50% of the voting securities of the Company or its successor after the transaction; or (iv) upon the complete liquidation or dissolution of the Company or the disposition of substantially all of its assets.

In the event that Mr. Tardugno is terminated for cause or is receiving severance payments contemplated under his employment agreement Mr. Tardugno shall, among other things, not provide any services, directly or indirectly, to any other business or commercial entity in the Company's Field of Interest (as such term is defined in his employment agreement), solicit any customers or suppliers of the Company, directly or indirectly, or employ or seek to employ an employee of the Company for a period of one year following the date of termination. In addition, at no time during the term of the employment agreement or thereafter will Mr. Tardugno knowingly make any written or oral untrue statement that disparages the Company in communications with any customer, client or the public. Mr. Tardugno is also subject to confidentiality provisions in his employment agreement.

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Mr. Deasey's employment agreement provides for post-employment benefits. The agreement provides that, in the event of a termination of the agreement by Mr. Deasey as a result of a material adverse change in his duties or authority, all issued options will vest and remain exercisable for the lesser of ten years or the longest period permitted by law. The agreement also provides for a severance payment of two times Mr. Deasey's base salary at the time of termination plus the average of his bonuses for the prior two years (the Reference Amount) in the event: (A) the Company terminates the agreement other than for cause (as defined in the agreement) or upon the death or disability of Mr. Deasey; (B) Mr. Deasey terminates the agreement upon the occurrence of (i) a material adverse change in Mr. Deasey's duties or authority, (ii) Mr. Deasey is not continuously at least an Executive Vice President and the Chief Operating Officer and Chief Financial Officer of the Company, (iii) of a bankruptcy filing or similar action by or against the Company; or (iv) of another material breach of the agreement by the Company; or (C) of termination of Mr. Deasey's employment by the Company, at the end of the term of the agreement, in the capacities of Executive Vice President, Chief Operating Officer and Chief Financial Officer, on terms substantially similar to those of the agreement (such events being referred to as Triggering Event). The agreement provides for a severance payment equal to 2.99 times Mr. Deasey's Reference Amount in the event of termination of his employment upon a Triggering Event within two years following a change in control (as described below), or, if within such two-year period (i) there is a material adverse change in his compensation or benefits, or (ii) any successor to the Company does not assume the Company's obligation under the agreement, and Mr. Deasey terminates his employment. The agreement also provides that such severance is payable upon a change in control if Mr. Deasey elects to terminate his employment commencing with the sixth and ending with the twelfth month following the change in control. In the circumstances in which Mr. Deasey is entitled to 2.99 times the Reference Amount, all unvested options under the agreement vest and become immediately exercisable. The agreement carries forward stock options granted under prior employment agreements. Under the agreement, a change in control is deemed to occur: (i) if any person becomes the direct or indirect beneficial owner of more than 40% of the combined voting power of the Company's then-outstanding securities; (ii) there is a change in a majority of the directors in office; (iii) the Company engages in a merger, asset sale, tender offer or other transaction after which the holders of the Company's voting securities before the transaction do not continue to hold at least 50% of the voting securities of the Company or its successor after the transaction; or (iv) upon the complete liquidation or dissolution of the Company or the disposition of substantially all of its assets. Finally, the Agreement contains customary confidentiality and other provisions.

In the event that Mr. Deasey is terminated for cause or is receiving severance payments contemplated under his employment agreement Mr. Deasey shall, among other things, not provide any services, directly or indirectly, to any other business or commercial entity in the Company's Field of Interest (as such term is defined in his employment agreement), solicit any customers or suppliers of the Company, directly or indirectly, or employ or seek to employ an employee of the Company for a period of one year following the date of termination. In addition, at no time during the term of the employment agreement or thereafter will Mr. Deasey knowingly make any written or oral untrue statement that disparages the Company in communications with any customer, client or the public. Mr. Deasey is also subject to confidentiality provisions in his employment agreement.

The Company also has an agreement in place with Mr. Oleck. The Company has agreed that in the event that Mr. Oleck's employment is terminated other than for cause he will be entitled to a severance payment equal to the sum of six months of his current salary and benefits at the time of his termination. In the event that Boston Scientific Corporation exercises its option to purchase the Company's Prolieve assets and, as a result, Mr. Oleck's employment is terminated, Mr. Oleck will be entitled to the following payments and benefits: (a) a retention bonus of \$138,750; (b) a severance payment of \$144,484; and (c) company-paid health and dental benefits for up to the earlier of one year following the date of termination or the date Mr. Oleck commences new employment. Mr. Oleck's severance payment will increase by an amount equal to three months of his base salary (\$48,331) in the event that Mr. Oleck is unable to find suitable employment nine months after his termination. In the event that Boston Scientific Corporation exercises its option to purchase the Company's Prolieve assets and, as a result, Mr. Oleck's employment is terminated, all of Mr. Oleck's unvested option awards will vest upon his termination and those and any other option awards that have previously vested will be allowed to run to term.

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The Company does not have any nonqualified deferred compensation arrangements with any of its executives.

Table of Contents**2006 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL TABLE**

The following table sets forth the potential payments to the Company's Named Executive Officers at, following, or in connection with:

Resignation, severance, retirement, or other termination;

A change in the Named Executive Officer's responsibilities (whether or not in connection with a change in control); or

A change in control of the Company.

Name	Benefit	Before Change in Control Termination	After Change in Control Termination	Voluntary Termination (1)	Death	Disability	Upon Change in Control
		w/o Cause or for Good Reason (\$)	w/o Cause or Good Reason (\$)				
Lawrence S. Olanoff (2)	Severance payment Accelerated vesting of options (1) Accelerated vesting of restricted stock						
Anthony P. Deasey	Severance payment (3) Continuation of base salary Group health benefits Excise tax payment Accelerated vesting of options (1) Accelerated vesting of restricted stock	759,210 Note(7) 19,908	1,135,019 Note(7) 19,908	1,135,019 Note(7) 19,908	759,210 Note(5) Note(5) Note(7) 19,908	759,210 Note(6) Note(6) Note(7) 19,908	 Note(7)
William Hahne	Severance payment Accelerated vesting of options (1) Accelerated vesting of restricted stock	9,690	9,690	9,690	9,690	9,690	
Michael Oleck	Retention bonus (4) Severance payment (4) Health and dental benefits Accelerated vesting of options (1) Accelerated vesting of restricted stock	96,663	138,750 144,494 Note(4) 8,614	8,614	8,614	8,614	

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Notes to 2006 Potential Payments Upon Termination or Change in Control Table

The following is a summary only and is qualified in its entirety by the definitive agreements in place between the Company and its Named Executive Officers.

- (1) The exercise prices of unvested options held by Named Executive Officers are greater than the Company's stock price as of December 31, 2006. Therefore, no value has been attributed to the accelerated vesting of options that may occur in case of a change in control or termination of the Named Executive Officers' employment contract with or without cause.
- (2) Dr. Olanoff resigned as President and Chief Executive Officer on October 6, 2006.
- (3) The employment agreement with Mr. Deasey provides that a severance payment (equal to \$1,108,482, and calculated as 2.99 times the Reference Amount as such term is defined in his employment agreement) is payable upon a change in control if Mr. Deasey elects to terminate employment commencing with the sixth and ending with the twelfth month following a change in control. In the event that Mr. Deasey is terminated for cause or is receiving severance payments contemplated under his employment agreement, for a period of one year after termination, Mr. Deasey shall, among other things, not provide any services, directly or indirectly to any other business or commercial entity in the Company's Field of Interest (as such term is defined in his employment agreement), solicit any customers of suppliers of the Company, directly or indirectly, or employ or seek to employ an employee of the Company for a period of one year following the date of termination. In addition, at no time during the term of the employment agreement or thereafter will Mr. Deasey knowingly make any written or oral untrue statement that disparages the Company in communications with any customer, client or the public. Mr. Deasey is also subject to confidentiality provisions in his employment agreement.
- (4) The Company has agreed that in the event that Mr. Oleck's employment is terminated other than for cause he will be entitled to a severance payment equal to the sum of six months of his current salary at the time of his termination and benefits. In the event that Boston Scientific Corporation exercises its option to purchase the Company's Prolieve assets and, as a result, Mr. Oleck's employment is terminated, Mr. Oleck will be entitled to the following payments and benefits: (a) a retention bonus of \$138,750; (b) a severance payment of \$144,484; and (c) company-paid health and dental benefits for up to the earlier of one year following the date of termination or the date Mr. Oleck commences new employment. Mr. Oleck's severance payment will increase by an amount equal to three months of his base salary (\$48,331) in the event that Mr. Oleck is unable to find suitable employment nine months after his termination. In the event that Boston Scientific Corporation exercises its option to purchase the Company's Prolieve assets and, as a result, Mr. Oleck's employment is terminated, all of Mr. Oleck's unvested option awards will vest upon his termination and those and any other option awards that have previously vested will be allowed to run to term.
- (5) In the event of Mr. Deasey's death, his legal representatives shall be entitled to receive: (a) Mr. Deasey's base salary through the date which is 90 days after the executive's date of death; and (b) a pro rata performance bonus with respect to the fiscal year during which death occurs. Upon his death, stock options previously granted to him shall vest and become immediately exercisable. In addition, the Company shall continue to provide, at its cost, all benefits subject to COBRA with respect to Mr. Deasey and his dependents for the maximum period provided by COBRA.
- (6) The Company may terminate Mr. Deasey's employment agreement upon 90 days of written notice if he becomes physically or mentally disabled and is unable substantially to perform his services for a period of 120 consecutive days, or two shorter periods aggregating 180 days within any twelve-month period. Notwithstanding such disability, the Company shall continue to pay his base salary through the date of such termination. In addition, Mr. Deasey shall be entitled to a pro rata performance bonus with respect to the fiscal year. Upon such a disability, stock options previously granted to him shall vest and become fully exercisable in accordance with their original terms. The Company shall continue to provide, at its cost, all benefits subject to COBRA with respect to Mr. Deasey and his dependents for the maximum period provided by COBRA.

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- (7) Mr. Deasey's employment agreement provides that, in the event that any payments made in respect of his employment or termination with the Company become subject to tax as described in Section 4999 of the Internal Revenue Code of 1986, the Company shall make a special payment to him sufficient, on an after-tax basis, to put him in the same position as would have been the case had no such taxes be payable.

Table of Contents**DIRECTOR COMPENSATION****2006 DIRECTOR COMPENSATION TABLE**

The following table sets forth the cash and noncash compensation paid to the Company's directors for the year ended December 31, 2006:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) (2)	Total (\$)
Max E. Link (1)	62,000	25,000	16,601	103,601
Gary W. Pace	52,250		10,050	62,300
Gregory Weaver	44,000		9,992	53,992
Claude Tihon	7,250			7,250
Kris Venkat	58,500		10,050	68,550

- (1) On March 15, 2006, the Company issued 6,127 shares of common stock to Dr. Link as a retainer for his services as Chairman of the Board of Directors for the fiscal year ended December 31, 2006. The fair value of this award on the date of grant (\$25,000) was recognized as an expense during fiscal 2006.
- (2) Amounts presented for option awards represent the dollar amount of compensation cost recorded in the financial statements of the Company for an individual award under SFAS 123R, *Share-Based Payments*. The grant date fair values of stock option awards to directors during the year ended December 31, 2006 were as follows:

Name	Number of Options Granted	Exercise Price	Expires	Grant Date Fair Value
Max E. Link	8,578	\$ 4.08	3/15/2016	\$ 30,181
Gary W. Pace	3,676	\$ 4.08	3/15/2016	\$ 12,934
Gregory Weaver	3,676	\$ 4.08	3/15/2016	\$ 12,934
Kris Venkat	3,676	\$ 4.08	3/15/2016	\$ 12,934
Claude Tihon	3,676	\$ 4.08	3/15/2016	\$ 12,934

The above option grants vest in equal tranches at March 15, 2007, 2008 and 2009.

Dr. Tihon's options noted above, along with his other vested and non-vested stock options, expired or were forfeited 90 days after his resignation from the Board of Directors.

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(3) The following table sets forth the aggregate number of unexercised option awards held by directors as of December 31, 2006:

Name	Stock Options Outstanding At December 31, 2006			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date
	(#) (Exercisable)	(#) (Unexercisable)		
Max E. Link	13,334		8.25	5/14/2012
	3,334		10.35	5/14/2012
	3,111	1,556	8.55	2/22/2015
		8,578	4.08	3/15/2016
Gregory Weaver	1,112	2,222	5.70	8/12/2015
		3,676	4.08	3/15/2016
Gary W. Pace	3,334		6.45	2/6/2013
	2,444	1,223	8.55	2/22/2015
		3,676	4.08	3/15/2016
Kris Venkat	6,667		13.80	5/18/2011
	20,000		10.20	8/1/2011
	6,667		12.75	8/1/2011
	6,667		15.30	8/1/2011
		6,667	17.85	8/1/2011
		6,667	20.40	8/1/2011
	3,334		10.35	5/14/2012
	2,444	1,223	8.55	2/22/2015
		3,676	4.08	3/15/2016

(4) Neither Dr. Olanoff nor Mr. Deasey was separately compensated for serving on the Board of Directors.

During the year ended December 31, 2006, each director who was not also an officer of the Company received annual cash compensation in the amount of \$25,000 payable quarterly, and an additional \$1,000 for attendance at special meetings of the Board of Directors and each meeting of a committee of the Board of Directors that was not held in conjunction with a meeting of the Board of Directors. In addition, on March 15, 2006 the Company issued 6,127 shares of common stock to Dr. Link as a retainer for his services as Chairman of the Board of Directors for the fiscal year ended December 31, 2006 and a cash allowance of \$25,000 to cover his expenses as Chairman of the Board of Directors. Each other non-executive director is reimbursed for his out-of-pocket costs of attending meetings of the Board of Directors and of committees of the Board of Directors. Additionally, the Chairman of the Audit Committee received an additional annual cash fee of \$8,000 and the Chairman of the Compensation Committee received an additional annual cash fee of \$5,000. Additionally, during 2005, Dr. Pace was paid a fee of \$11,250 and reimbursed for out-of-pocket expenses incurred as Chairman of a Special Committee of the Board of Directors assigned to provide oversight and support for management during the period from October 6, 2006 through December 31, 2006. Dr. Venkat, as a member of the Special Committee, was paid a fee of \$25,500 and reimbursed for out-of-pocket expenses in performing his responsibilities as a member of that committee.

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SECTION 162(M)

Section 162(m) of the Internal Revenue Code provides for non-deductibility, in certain cases, of compensation paid to certain executives in excess of \$1 million per year. The Company does not have a policy limiting compensation to amounts deductible under Section 162(m). The Company's compensation plans are designed so that qualified performance-based awards issued under the plans would not be subject to Section 162(m) limits. Section 162(m) limits would apply to salary, non-performance based bonuses, restricted stock awards that are not performance based and certain amounts included under Other Annual Compensation and All Other Compensation in the Summary Compensation Table.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2006, the Compensation Committee of the Board of Directors was comprised of Drs. Gary W. Pace and Max E. Link and, from January 2006 until his resignation from the Board of Directors in June 2006, Dr. Claude Tihon. No interlocking relationships exist between any of these members of the Compensation Committee or any executive officer of the Company and any other of the members of the Company's Board of Directors or Compensation Committee.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS

In August 2001, the Company entered into an advisory agreement with Dr. Kris Venkat, one of its directors, pursuant to which Dr. Venkat was to provide at least 60 days of consulting services per year to the Company for an initial term of two years. This agreement was renewed for two additional two-year terms, until August 2007. Dr. Venkat's services under this advisory agreement are in addition to his services as a director and include providing: (i) strategic business and tactical advice to the Company regarding its development, management and personnel; (ii) assistance with the Company's heat-activated liposome business; (iii) assistance with developing a financial and business development strategy and securing additional capital and/or financing, and (iv) identifying potential investors that meet the Company's objectives.

As compensation for his consulting services, the Company is obligated to pay Dr. Venkat a fee of \$60,000 per year during the term of the agreement. Upon prior approval by the Company, he will be paid an additional \$1,000 per day for any time expended beyond 60 days. In addition to the fees, the initial agreement provided for performance-based incentive options to purchase up to 26,666 shares of common stock, exercisable only if certain business development milestones were reached. The exercise price of such options ranges from \$12.75 to \$20.40 per share. The agreement also granted Dr. Venkat an option, not subject to performance conditions, for the purchase of 20,000 shares of Common Stock at a price of \$10.20 per share, which became fully vested on August 1, 2002.

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All of Dr. Venkat's unvested options (other than the performance-based options) would immediately vest and become exercisable if the Company terminates the agreement for any reason other than his breach of the agreement or his substantial failure to perform his duties under the agreement due to disability or his death. All of his unvested options (including the performance-based options) would also immediately vest upon a change in control of the Company. For purposes of Dr. Venkat's agreement, a change in control is defined as: (i) the change in beneficial ownership of 25% or more of the outstanding common stock of the Company; (ii) the change in a majority of the members of the Board of Directors, with none of the new members being approved by at least 75% of the members of the Board of Directors as of August 2000; (iii) the sale of substantially all of the assets of the Company; (iv) a transfer of all or substantially all of the Company's liposome business to a person that is not a subsidiary of the Company; or (v) the Company's entry into a joint venture with regard to the liposome business in which the Company does not retain voting control.

As discussed in Proposal No. 4, the Company has entered into an Asset Purchase Agreement with Boston Scientific, dated April 17, 2007, which may constitute the sale of substantially all the assets of the Company.

On August 25, 2005, the Company formed Celsion (Canada) Limited ("Celsion Canada"), a wholly-owned subsidiary, to hold all the tangible and intangible assets related to its Adaptive Phase Array ("APA") technology for the treatment of breast cancer. Such subsidiary conducted no financial transactions but was consolidated for purposes of financial reporting.

On January 16, 2006, the Company sold 100% of the outstanding shares of Celsion Canada to Dr. Augustine Y. Cheung, the Company's founder and former President, Chief Executive Officer and Director, in exchange for a non-interest bearing promissory note of \$1.5 million to be paid over 78 months. The promissory note is secured by a pledge of 100,536 shares of Celsion Common Stock owned by Dr. Cheung and his wife. The promissory note accrues interest only in the event that scheduled payments are in arrears. On January 16, 2006, the Company and Dr. Cheung also entered into a two-year consulting services agreement pursuant to which Dr. Cheung will provide certain services to the Company in exchange for an annual retainer of \$100,000, payable on a quarterly basis, and additional per diem amounts of at least \$60,000 per year.

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In conjunction with the sale of Celsion Canada, Celsion and Celsion Canada entered into a Transition Services Agreement pursuant to which Celsion agreed to: (a) sublet space in the Company's offices for use by Celsion Canada to carry on its business for a period of up to six months from the date of the agreement; (b) provide administrative support services as needed in the operation of Celsion Canada's business for the period of the sublease; and (c) advance funds to pay salary and health and dental insurance for certain employees of Celsion Canada and, in addition, the Company agreed to pay expenses reasonably incurred in connection with the operation of Celsion Canada's business of up to \$100,000 for the shorter of the period ending June 30, 2006 or the date of closing by Celsion Canada of a transaction involving the merger of Celsion Canada into a newly created Canadian Capital Pool Company and a simultaneous funding through a private placement of shares under terms approved by the Toronto Stock Exchange.

The Transition Services Agreement was amended on March 28, 2006 to advance Celsion Canada an additional \$200,000 to fund reasonable operating expenses. This additional advance is repayable under the same terms as the Transition Services Agreement. However, in the event of default, Dr. Cheung will forgo payments due under the above-referenced consulting agreement between Celsion and Dr. Cheung.

POLICIES AND PROCEDURES FOR REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PERSONS

The Company has written policies and procedures in place to identify transactions with related parties that may be reportable under Item 404(a). The Company maintains a list of known related parties, including directors, executive officers, affiliated companies and others with whom the Company may transact business from time-to-time during the year. Transactions that may be reviewed for related party treatment in the Company's audited financial statements and proxy statement include the transactions involving the sale of business lines, financing or capital raising transactions, contracted research and development arrangements, contracts for clinical research and testing, and contracts outside of the normal course of business. The Audit Committee of the Board of Directors, which includes Mr. Gregory Weaver (Chairman) and Drs. Max Link and Gary Pace, reviews and approves transactions with related parties, if any, to ensure they were performed at arm's length and in the best interests of the Company's stockholders, and have been appropriately accounted for and disclosed in the Company's audited financial statements, proxy statements and other SEC filings.

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PROPOSAL NO. 2: APPROVAL OF THE CELSION CORPORATION 2007 STOCK INCENTIVE PLAN

BACKGROUND

Our stockholders are being asked to approve the Celsion Corporation 2007 Stock Incentive Plan (the "2007 Plan"). The 2007 Plan, which will replace the Celsion Corporation 2004 Stock Option Plan (the "2004 Plan"), is a broad-based incentive plan that provides for the grant of incentive stock options, stock options that do not constitute incentive stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, and performance awards, to employees, consultants and non-executive directors.

Taking into account stock option grants to be awarded to employees and directors in March 2007, substantially all of the 666,667 shares presently authorized under the 2004 Plan are subject to currently outstanding stock options granted under that Plan or have been issued upon the exercise of such options. In the event that our stockholders approve the 2007 Plan, to the extent that any shares remain available under the 2004 Plan or become available due to the expiration or forfeiture of currently outstanding options, such shares will become part of the pool available under the 2007 Plan and no further options will be granted under the 2004 Plan.

The purpose of the 2007 Plan is to make available additional authorized but unissued shares of Common Stock for issuance pursuant to awards to be granted to the Company's key employees (including officers and directors), consultants and non-executive directors, to provide flexibility to the Company by permitting the grant of a range of types of equity compensation and to ensure compliance with certain newly adopted SEC and AMEX rules governing stockholder approval of equity compensation arrangements.

The 2007 Plan reserves 1,000,000 shares of Common Stock (without adjustment for any reverse stock split). Management anticipates that the shares reserved under the 2007 plan should be sufficient to meet the Company's needs for at least the next three years. The availability of additional shares and of additional forms of equity consideration would allow the Company to provide its key employees, consultants and non-executive directors with equity compensation in lieu of cash compensation. This would help curtail the Company's cash outlays and permit it to conserve its cash resources for the development of its products and business. The 2007 Plan is also intended to encourage and reward key contributors to the Company's business by giving them an opportunity to share in any future success of the Company without burdening the Company's cash resources.

REASONS FOR THE 2007 PLAN

In the discussion and analysis of compensation included earlier in this proxy statement, the Company states that it designs its executive compensation package to align the interests of executives with those of stockholders. The 2007 Plan is designed to ensure that the Company will continue to have shares of Common Stock available to provide for the equity component of executive as well as employee and director compensation packages. The 2007 Plan also would allow the Company to continue to provide its key employees, consultants and non-executive directors with equity compensation in lieu of cash compensation, thereby permitting the Company to limit its cash outlays for compensation and conserve its cash resources. The Board of Directors believes that the 2007 Plan will help the Company effectively to compete for, motivate and retain directors, executives, other key employees and consultants.

The Company presently is evolving from a development stage enterprise to an operating company. However, the Company expects to continue to incur operating losses and to place a heavy emphasis on product development and commercialization for the foreseeable future. Therefore, for the foreseeable future the Company anticipates that substantially all of the Company's limited cash resources will be required for

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the commercialization of the products presently in our development pipeline and the development of new products. As a result, the Company will continue to have relatively few cash resources to apply to hiring and retaining key personnel. In the absence of cash resources, management believes that it is critically important that the Company continue to be able to grant meaningful equity-based compensation in order to ensure that it will be able to hire and retain highly qualified personnel.

DILUTIVE EFFECTS OF THE 2007 PLAN

The Company is reserving 1,000,000 shares for the 2007 Stock Plan. The number of shares was designed to fulfill compensation requirements for three years based on the average annual distribution of stock option grants. Management also compared its usage to competitive benchmarks and ensured that the absolute number of shares reserved relative to issued and outstanding shares was comparable to previous Company plans. The 1,000,000 shares of Common Stock to be reserved for issuance pursuant to the 2007 Plan (together with any residual shares that may become available under the 2004 Plan) will consist of authorized but unissued shares of our Common Stock. Celsion stockholders do not have preemptive rights. Therefore, the issuance of shares under the 2007 Plan will dilute the interests of our current stockholders in the Company. To the extent that the exercise price of any option is less than the net book value per share of the Company at the time of issuance, and to the extent of the issuance of restricted stock or restricted stock units not subject to a cash payment in excess of such net book value per share, the value of other stockholders' interests in the Company will be diluted.

SUMMARY DESCRIPTION OF THE 2007 PLAN

The following summary provides a description of the significant provisions of the 2007 Plan. However, the summary is qualified in its entirety by reference to the full text of the 2007 Plan, a copy of which is included as Appendix A to this Proxy Statement. Stockholders should read Appendix A carefully in connection with their consideration of Proposal No. 2.

NUMBER OF SHARES SUBJECT TO THE 2007 PLAN

An aggregate of 1,000,000 shares of Common Stock are reserved for issuance pursuant to the 2007 Plan. In addition, any shares reserved under the 2004 Plan that are available at the time the 2007 Plan is approved by our stockholders, or that become available due to the expiration or forfeiture of options granted under the 2004 Plan, will be added to the pool of shares available under the 2007 Plan.

ELIGIBILITY

All directors, officers, employees and consultants of the Company or any parent, subsidiary or affiliate are eligible to participate in the 2007 Plan. The selection of those directors, officers, employees and consultants, from among those eligible, who will receive awards under the 2007 Plan, is within the discretion of the Compensation Committee, provided that awards of Incentive Stock Options may be made only to employees of the Company and any parent or subsidiary of the Company. Currently there are 6 non executive directors, 4 officers and 23 employees and consultants eligible to participate in the 2007 Plan.

PLAN ADMINISTRATION

The 2007 Plan may be administered by the Board of Directors or, at the election of the Board of Directors, by a committee appointed by the Board of Directors comprised solely of two or more non-executive directors within the meaning of Rule 16b-3 under the Securities Act, who also qualify as outside directors (as described under Section 162(m) of the Internal Revenue Code). The Board of Directors has determined that the Compensation Committee should administer the 2007 Plan.

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The Compensation Committee will have full power and authority to administer and interpret the 2007 Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the 2007 Plan it deems necessary, desirable or appropriate in accordance with the terms of the 2007 Plan and the Certificate of Incorporation and Bylaws of the Company. The Compensation Committee also will have full power and authority to take all other actions necessary to carry out the purpose and intent of the 2007 Plan, including the authority to (i) determine the participants to whom, and the time or times at which, awards shall be granted; (ii) determine the types of awards to be granted; (iii) determine the number of shares of Common Stock and/or amount of cash to be covered by or used for reference purposes for each award; (iv) impose such terms, limitations, vesting schedules, restrictions and conditions upon any such award as the Compensation Committee shall deem appropriate; (v) modify, extend or renew outstanding awards, accept the surrender of outstanding awards and substitute new awards, provided that no such action shall be taken with respect to any outstanding award that would materially or adversely affect the grantee without the grantee's consent, or constitute a repricing of stock options without the consent of the holders of the Company's voting securities; (vi) reprice Incentive Stock Options and Nonqualified Stock Options either by amendment to lower the exercise price or by accepting such stock options for cancellation and issuing replacement stock options with a lower exercise price or through any other mechanism (but only with the approval of the holders of the voting securities of the Company to the extent that such approval is required by applicable law, regulation or the rules of any national securities exchange or automated quotation system to which the Company is subject); (vii) accelerate the time in which an award may be exercised or in which an award becomes payable and waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to an award; (viii) establish objectives and conditions for earning awards and determining whether awards will be paid after the end of a performance period; and (ix) permit the deferral of, or require a participant to defer such participant's receipt of, the delivery of Common Stock and/or cash under an award that would otherwise be due to a participant and establish rules and procedures for such payment deferrals.

PERMITTED AWARDS

Our Board of Directors believes that it is appropriate to adopt a flexible and comprehensive stock compensation plan that permits the granting of a variety of long-term incentive awards to eligible individuals. In keeping with the aim of providing a comprehensive and flexible plan, the 2007 Plan authorizes the following types of discretionary awards:

Incentive Stock Options, which are stock options that meet the definition set out in Section 422 of the Internal Revenue Code;

Nonqualified Stock Options, which are stock options that do not meet the definition of Incentive Stock Options under the Internal Revenue Code;

Stock Appreciation Rights (SARs), which represent the right to receive payments in cash, Common Stock or a combination of the two, of up to the amount by which the fair market value of a share of Common Stock on the date of exercise exceeds the designated base price of a share of Common Stock on the grant date. SARs may be freestanding or may be granted in tandem with stock options;

Phantom Stock, which represents the right to receive payments in cash, Common Stock or other consideration, equal to the fair market value of a specified number of shares of Common Stock at such time, and subject to such conditions, as are set forth in the grant agreement;

Restricted Stock, which is a specified number of shares of Common Stock that are subject to restrictions on disposition and forfeiture to the Company under certain circumstances;

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Restricted Stock Units, which represent the right to receive shares of Common Stock without any cash payment therefor upon the satisfaction of vesting and other conditions, and may also include the right to receive dividend equivalents, in the form of additional Restricted Stock Units, equal to the amount of dividends or other distributions payable in respect of shares of Common Stock during the period from grant to satisfaction of all vesting and other conditions; and

Performance Awards, which are amounts payable in Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, and/or Phantom Stock that may be earned upon satisfaction of various performance measures.

TERM AND TERMINATION

The 2007 Plan will become effective as of the date it is approved by our stockholders. If not sooner terminated, the 2007 Plan will terminate on the business day immediately preceding the tenth anniversary of its effective date and no further awards may be granted thereafter. The Board of Directors, in its discretion, may terminate the 2007 Plan at any time with respect to any shares of Common Stock for which awards have not previously been granted.

AMENDMENT

The Board of Directors may amend or terminate the 2007 Plan at any time, except that stockholder approval will be required to increase the number of shares of Common Stock subject to the 2007 Plan or if such approval is necessary to comply with any tax or regulatory requirement or rule of any exchange or national automated quotation system upon which the Common Stock is listed or quoted.

The Compensation Committee may make minor or administrative amendments to the 2007 Plan as well as amendments that may be dictated by requirements of applicable U.S. federal or state laws or that may be authorized or made desirable by such laws.

TERMS APPLICABLE TO ALL TYPES OF AWARDS

Term: The term of each award will be as specified by the Compensation Committee at the date of grant, but may not exceed ten years.

Maximum Annual Awards: No more than 200,000 shares of Common Stock may be issued to any one individual in any calendar year during the term of the 2007 Plan, subject to adjustment upon a reclassification, recapitalization, stock split, reverse stock split, stock dividend, combination of shares or other change in the Company's capital structure.

Changes in Control: In the event of any proposed change in control, as that term is defined in the 2007 Plan, the Compensation Committee will take such action as it deems appropriate and equitable to effectuate the purposes of the 2007 Plan and to protect the grantees of awards. Such actions may include:

acceleration or change of the exercise and/or expiration dates of any award to require that exercise be made, if at all, prior to the change in control;

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cancellation of any award upon payment to the holder in cash of the fair market value of the stock subject to such award as of the date of the change in control, less the aggregate exercise price, if any, of the award; and

in any case where equity securities of another entity are proposed to be delivered in exchange for or with respect to Common Stock, arrangements to have such other entity replace the awards granted under the 2007 Plan with awards with respect to such other securities, with appropriate adjustments in the number of shares subject to, and the exercise prices under, the award.

For purposes of the 2007 Plan, a change in control includes:

the merger or consolidation of the Company with or into another entity or other reorganization of the Company, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately thereafter is not owned directly or indirectly by persons who were holders of the Company's voting securities immediately prior thereto;

the sale, transfer or other disposition of all or substantially all of the Company's assets to an entity that is not a parent, subsidiary or affiliate of the Company;

any transaction as a result of which any person becomes the beneficial owner, directly or indirectly, of securities of the Company representing at least 50% of the total voting power represented by the Company's then-outstanding voting securities; or

a change in the composition of the Board of Directors over a period of 24 consecutive months or less as a result of which individuals who, at the beginning of such period, constitute the Board of Directors (the Incumbent Board) cease to constitute at least a majority of the Board; provided, however, that any individual subsequently becoming a director whose selection as a director or nominee was approved by a vote of at least a majority of the directors then comprising the Board of Directors will be considered to be a member of the Incumbent Board, except if such selection occurs as a result of either an actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

Amendment: The Compensation Committee may not amend an outstanding award in any manner that would materially and adversely affect the award, except with the approval of the participant to whom the award was granted. Otherwise, the Compensation Committee may amend an outstanding award to the extent that it would have had the authority initially to grant the award as so amended.

Transferability: An Incentive Stock Option is not transferable other than by will or the laws of descent and distribution, and may be exercised during the employee's lifetime only by the employee or his or her guardian or legal representative. Other awards may, in the discretion of the Compensation Committee, also be transferable by gift or pursuant to a domestic relations order to certain specified family members, entities and trusts.

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TERMS OF SPECIFIC TYPES OF AWARDS

Stock Options

Exercise Price: The exercise price will be determined by the Compensation Committee, in its discretion. Although it is the general policy of the Compensation Committee to grant options at not less than the fair market value of the Common Stock on the date of grant, the Compensation Committee has reserved the right, in its discretion, to grant options at a lower price as and when it deems appropriate. In no event, however, will Incentive Stock Options be granted at an exercise price of less than the fair market value of the Common Stock on the grant date.

Special Rules for Certain Stockholders: If an Incentive Stock Option is granted to an employee who then owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a subsidiary, then the term of the option will not exceed five years, and the exercise price will be at least 110% of the fair market value of the shares on the date that the option is granted. In addition, no more than 200,000 shares of Common Stock may be subject to Awards granted during any one calendar year to any one Covered Employee, as that term is defined in Section 162(m) of the Internal Revenue Code.

Status of Options: The Compensation Committee will designate the status of each option granted to an employee as either an Incentive Stock Option or a Nonqualified Stock Option at the time of grant. If, however, the aggregate fair market value (determined as of the date of grant) of shares with respect to which Incentive Stock Options become exercisable for the first time by an employee exceeds \$100,000 in any calendar year, the options with respect to the excess shares will be Nonqualified Stock Options. All options granted to consultants and non-executive directors will be Nonqualified Stock Options.

Payment: The Compensation Committee may determine the method by which the option price may be paid, including in cash, check or other shares of Common Stock. The 2007 Plan also allows the Compensation Committee, in its discretion, to permit cashless exercises.

Other Terms and Conditions: The Compensation Committee may establish such other terms and conditions on the grant of stock options, not inconsistent with the terms of the 2007 Plan, as it deems appropriate.

Restricted Stock and Restricted Stock Units

Payment: Unless otherwise determined by the Compensation Committee or as may be required to comply with applicable tax withholding obligations, grantees of Restricted Stock and Restricted Stock Units will not be required to pay the Company cash consideration for such Restricted Stock or Restricted Stock Units.

Vesting Conditions and Other Conditions: The Compensation Committee, in its discretion, shall determine the vesting conditions and other restrictions applicable to each award of Restricted Stock or Restricted Stock Units, including the duration and conditions to termination of such restrictions. The Compensation Committee may, in its discretion, reduce or shorten the duration of any vesting period or other restriction applicable to any award of Restricted Stock or Restricted Stock Units.

Stock Issuance and Stockholder Rights: Certificates representing shares of Restricted Stock will be issued to the grantee, subject to forfeiture if the Restricted Stock does not vest or other restrictions do not lapse. Except as the Compensation Committee otherwise might determine, during the restricted period the grantee will have all the rights of a stockholder to receive dividends and to vote the Restricted Stock. Certificates representing shares subject to a Restricted Stock Unit will be issued at such time as the Restricted Stock Unit has vested and other restrictions have lapsed. The grantee of Restricted Stock Units will not be entitled to any of the rights of a stockholder until the time that certificates are issued, provided that the Compensation Committee, in its d