BLOCKBUSTER INC
Form DEFC14A
April 22, 2005

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SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant [ ]

Filed by a Party other than the Registrant [x]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to ss. 240.14a-12

Blockbuster Inc.

(Name of Registrant as Specified In Its Charter)

Icahn Partners LP
Icahn Partners Master Fund LP
High River Limited Partnership
Icahn & Co., Inc.
Carl C. Icahn
Keith A. Meister
Vincent J. Intrieri
Nick Graziano

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rule 14a-6(i)(4) 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:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

2005 ANNUAL MEETING OF STOCKHOLDERS
OF
BLOCKBUSTER INC.

PROXY STATEMENT
OF
ICAHN PARTNERS LP,
ICAHN PARTNERS MASTER FUND LP,
HIGH RIVER LIMITED PARTNERSHIP
AND
ICAHN & CO., INC.

To Our Fellow Blockbuster Stockholders:

This Proxy Statement and the accompanying GOLD proxy card are being furnished to stockholders ("Stockholders") of Blockbuster Inc. ("Blockbuster") in connection with the solicitation of proxies by Carl C. Icahn and certain of his affiliates and associates, to be used at the 2005 Annual Meeting (the "Annual Meeting") of Stockholders of Blockbuster, which is scheduled to be held at 10:00 a.m., Central Daylight Time, on Wednesday, May 11, 2005, at Blockbuster's corporate headquarters, 1201 Elm Street, 42nd Floor, Renaissance Tower Conference Center, Dallas, Texas 75270 and at any adjournments, postponements or continuations thereof. This Proxy Statement and the GOLD proxy card are first being furnished to Stockholders on or about April 22, 2005.

At the Annual Meeting, the Participants (as hereinafter

defined) will seek to elect to the Board of Directors of Blockbuster a slate of three nominees, comprised of Carl C. Icahn, Edward Bleier and Strauss Zelnick. Each of the nominees (each a "Nominee" and, collectively, the "Nominees") has consented, if elected, to serve as a director.

THE NOMINEES ARE COMMITTED TO ACTING IN THE BEST INTEREST OF THE STOCKHOLDERS. WE BELIEVE THAT YOUR VOICE IN THE FUTURE OF BLOCKBUSTER CAN BEST BE EXPRESSED THROUGH THE ELECTION OF THE NOMINEES. ACCORDINGLY, WE URGE YOU TO VOTE YOUR GOLD PROXY CARD FOR CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK.

IF YOUR SHARES ARE HELD IN THE NAME OF A BROKERAGE FIRM, BANK, BANK NOMINEE OR OTHER INSTITUTION ON THE RECORD DATE, ONLY IT CAN VOTE SUCH SHARES AND ONLY UPON RECEIPT OF YOUR SPECIFIC INSTRUCTIONS. ACCORDINGLY, PLEASE CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT AND INSTRUCT THAT PERSON TO EXECUTE ON YOUR BEHALF THE GOLD PROXY CARD AS SOON AS POSSIBLE.

IMPORTANT

The election of the Nominees requires the affirmative vote of a plurality of the votes cast by Stockholders present in person or represented by proxy, assuming a quorum is present or otherwise represented at the Annual Meeting. As a result, your vote is extremely important in deciding the future of Blockbuster. We urge you to mark, sign, date and return the enclosed GOLD proxy card to vote FOR the election of Carl C. Icahn, Edward Bleier and Strauss Zelnick.

WE URGE YOU NOT TO SIGN ANY PROXY CARD SENT TO YOU BY BLOCKBUSTER. IF YOU HAVE ALREADY DONE SO, YOU MAY REVOKE YOUR PROXY BEFORE IT IS VOTED BY DELIVERING A LATER-DATED GOLD PROXY CARD IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE, OR BY VOTING IN PERSON AT THE ANNUAL MEETING, OR BY DELIVERING TO THE CORPORATE SECRETARY OF BLOCKBUSTER A WRITTEN NOTICE, BEARING A DATE LATER THAN THE DATE OF THE PROXY, STATING THAT THE PROXY IS REVOKED. SEE "VOTING PROCEDURES" AND "PROXY PROCEDURES" BELOW.

If you have any questions about giving your proxy or require assistance, please call:

D.F. KING & CO., INC.

48 Wall Street
New York, NY 10005
Call Toll-Free: 1-800-431-9645
Banks and Brokerage Firms Call Toll-Free: 1-212-269-5550

Only holders of record of Blockbuster's voting securities as of the close of business on March 17, 2005 (the "Record Date") are entitled to notice of, and to attend and to vote at, the Annual Meeting and any adjournments or postponements thereof. According to the proxy statement of Blockbuster filed with the Securities and Exchange Commission on March 31, 2005 ("Blockbuster's Proxy Statement"), as of the Record Date, there were outstanding 118,338,343 shares of Class A Common Stock (the "Class A Shares") and 72,000,000 shares of Class B Common Stock (the "Class B Shares," and together with the Class A Shares, the "Common Stock"). Stockholders of record at the close of business on the Record Date will be entitled to one vote at the Annual Meeting for each Class A Share held on the Record Date and two votes for each Class B Share held on the Record Date. The two classes will vote together as a single class on the

matters to be considered at the Annual Meeting. If all of the outstanding Class A Shares and Class B Shares vote, the aggregate number of possible votes, taking into account that Class B Shares carry two votes, is 262,338,343.

As of the Record Date, the Participants and their affiliates beneficially owned an aggregate of 11,484,100 of the Class A Shares and 5,540,331 of the Class B Shares, representing approximately 9.7% of the outstanding shares of Class A Shares and 7.7% of the outstanding Class B Shares. The Participants and their affiliates intend to vote such shares FOR the election of the Nominees. If the Participants and their affiliates vote all of their beneficially owned on the Record Date Class A Shares and Class B Shares, the aggregate number of possible votes of the Participants, taking into account that Class B Shares carry two votes, is 22,564,762, which would represent approximately 8.6% of the aggregate number of possible votes.

PLEASE VOTE FOR CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK BY RETURNING YOUR COMPLETED GOLD PROXY TODAY.

BACKGROUND

On April 5, 2005, Carl C. Icahn spoke with John Antioco, the Chief Executive Officer of Blockbuster, about the possibility of Blockbuster extending the period of time that a Stockholder would have to notify Blockbuster that it intended to nominate directors at the Annual Meeting. The additional time would be used to explore methods of enhancing Stockholder value that the Icahn Parties and Blockbuster would find acceptable. Mr. Antioco said that he would get back to Mr. Icahn regarding the additional time.

In the conversation, Mr. Icahn suggested that the Board of Directors of Blockbuster (the "Board") consider at least a one-time extraordinary dividend to Stockholders and also consider placing nominees of the Icahn Parties on the Board to diversify the Board's representation with the directors nominated by the largest Stockholder. Mr. Icahn also expressed his opinion to Mr. Antioco that management of Blockbuster mishandled Blockbuster's failed attempt to acquire Hollywood Entertainment Corp., which Mr. Icahn supported and believed would have been extremely beneficial for Blockbuster.

On April 6, 2005, Mr. Antioco wrote to Mr. Icahn and indicated that Blockbuster was rejecting all of Mr. Icahn's suggestions and would not consider an extension of the time for Stockholders to notify Blockbuster of their intent to nominate candidates for directorships. As a result, the Icahn Parties determined to nominate a slate of candidates to the Board and on April 8, 2005, notified Blockbuster of its proposed nominees.

Mr. Icahn has since written to Mr. Antioco and complained about Mr. Antioco's compensation package as being too large, and has expressed his opinion that Blockbuster should put itself up for sale.

Mr. Icahn expects that the slate proposed by the Icahn Parties, if elected, would, subject to their fiduciary duties to all Stockholders, help bring more accountability and discipline to the way Blockbuster is being managed, by, among other things, considering all the relevant data available to the management of Blockbuster and deciding, after such due consideration, on the appropriate course of action. Mr. Icahn believes that Blockbuster's management and its Board should in setting and approving executive compensation, better tie such compensation to Blockbuster performance, and in that regard, if elected, the slate proposed by the Icahn Parties will

closely examine and bring financial analysis to initiatives proposed by management of Blockbuster, and if appropriate, will propose its own initiatives concerning Blockbuster, including among other matters, the level of compensation of Blockbuster's senior management and the best uses of Blockbuster's resources. Although Mr. Icahn believes Blockbuster should put itself up for sale, he may, if elected, after considering all of the data currently available only to Blockbuster, decide on proposing some other alternative course of action, or he may be reassured in his believe that the sale strategy is a viable alternative for Blockbuster.

The slate proposed by the Icahn Parties will, if elected, constitute a minority of the Board, at least until the next Annual Meeting or some other change in composition of the Board. Accordingly, the slate proposed by the Icahn Parties, even if unanimous, will not be able to adopt any measures without the support of at least some members of the current Board. The slate proposed by the Icahn Parties therefore should be expected to articulate and raise its concerns about Blockbuster's business activities with the rest of the Board members. The Icahn Parties may, depending upon future events, seek to nominate additional directors to the Board in the future.

The Nominees do not anticipate that they will have any conflicts of interest with respect to Blockbuster, if elected, and recognize their fiduciary duty obligations to all Stockholders. None of the Nominees has any contract, arrangement or understanding with Blockbuster, and no other financial interest concerning Blockbuster, other than through the beneficial ownership of stock of Blockbuster by Mr. Icahn disclosed in this Proxy Statement.

PARTICIPANTS IN SOLICITATION OF PROXIES

In addition to the Nominees (who are Mr. Carl C. Icahn, Mr. Edward Bleier, and Mr. Strauss Zelnick), the participants in the solicitation of proxies (the "Participants") are Icahn Partners LP ("Icahn Partners"), Icahn Partners Master Fund LP ("Icahn Master"), High River Limited Partnership ("High River"), Icahn & Co., Inc. ("Icahn & Co."), Mr. Keith A. Meister, Mr. Vincent J. Intrieri and Mr. Nick Graziano. Icahn Partners, Icahn Master, High River and Icahn & Co. (collectively, the "Icahn Parties") are entities controlled by Carl C. Icahn. Keith A. Meister, Vincent J. Intrieri and Nick Graziano are employees of the Icahn Parties who may also participate in soliciting proxies from Blockbuster Stockholders. Mr. Meister, Mr. Intieri, Mr. Graziano, Mr. Bleier and Mr. Zelnick do not own beneficially or of record any interest in securities of Blockbuster, and none will receive any special compensation in connection with such solicitation. Mr. Icahn does not own of record any securities of Blockbuster. Mr. Icahn may be deemed to be the beneficial owner of 11,484,100 Class A Shares and 5,566,131 Class B Shares, as described herein.

THE ICAHN PARTIES

Icahn Partners is a Delaware limited partnership principally engaged in the business of investing in securities. Icahn Onshore LP ("Icahn Onshore") is a Delaware limited partnership principally engaged in the business of acting as the general partner of Icahn Partners. CCI Onshore LLC ("CCI Onshore") is a Delaware limited liability company principally engaged in the business of acting as the general partner of Icahn Onshore. CCI Onshore is wholly owned by Mr. Icahn.

Icahn Master is a Cayman Islands exempted limited partnership

principally engaged in the business of investing in securities. Icahn Offshore LP ("Icahn Offshore") is a Delaware limited partnership principally engaged in the business of acting as the general partner of Icahn Master. CCI Offshore LLC ("CCI Offshore") is a Delaware limited liability company principally engaged in the business of acting as the general partner of Icahn Offshore. CCI Offshore is wholly owned by Mr. Icahn.

High River is a Delaware limited partnership principally engaged in the business of investing in securities. Hopper Investments LLC ("Hopper") is a Delaware limited liability company principally engaged in the business of serving as the general partner of High River. Barberry Corp. ("Barberry") is a Delaware corporation that serves as the sole member of Hopper. Each of Hopper and Barberry is primarily engaged in the business of investing in securities. Barberry is wholly owned by Mr. Icahn.

Icahn & Co. is a Delaware corporation principally engaged in the business of investing in securities and providing broker-dealer services to its affiliates. Barberry is the sole stockholder of Icahn & Co.

The principal business address and the address of the principal office of each of the foregoing entities is c/o Icahn Associates Corp., 767 Fifth Avenue, 47th Floor, New York, New York 10153, except that (i) the principal business address of each of Barberry, Hopper and High River is 100 South Bedford Road, Mount Kisco, New York 10549, (ii) the principal business address of Icahn Master is c/o Walkers SPV Limited, P.O. Box 908GT, 87 Mary Street, George Town, Grand Cayman, Cayman Islands, and (iii) the principal business address of Icahn & Co. is 1 Whitehall Street, 19th Floor, New York, NY 10004.

OTHER PARTICIPANTS

Keith A. Meister has since June 2002 been a senior investment analyst of High River, a company owned and controlled by Carl C. Icahn, that is primarily engaged in the business of holding and investing in securities. Mr. Meister is also a Senior Investment Analyst of Icahn Partners LP and Icahn Partners Master Fund LP. He is also a director of Icahn Fund Ltd., which is the feeder fund of Icahn Partners Master Fund LP. Icahn Partners and Icahn Master are private investment funds controlled by Carl C. Icahn. Since August 2003, Mr. Meister has served as the President and Chief Executive Officer of American Property Investors, Inc., which is the general partner of American Real Estate Partners, L.P., a public limited partnership controlled by Mr. Icahn that invests in real estate and holds various other interests, including the interests in its subsidiaries that are engaged, among other things, in the oil and gas business and casino entertainment business. From March 2000 through the end of 2001, Mr. Meister co-founded and served as co-president of J Net Ventures, a venture capital fund focused on investments in information technology and enterprise software businesses. From 1997 through 1999, Mr. Meister served as an investment professional at Northstar Capital Partners, an opportunistic real estate investment partnership. Prior to his work at Northstar, Mr. Meister served as an investment analyst in the investment banking group at Lazard Freres. Mr. Meister is a director of TransTexas Gas Corporation, an oil and gas exploration company controlled by Carl C. Icahn. Mr. Meister serves as a director of XO Communications, Inc., a publicly held telecommunications company controlled by Mr. Icahn. Mr. Meister also serves as a director of American Entertainment Properties Corp. and American Casino & Entertainment Properties Finance Corp., which are gaming companies, and Scientia Corporation, a private health care venture company, all of which are companies controlled by American Real Estate Partners, L.P., which is controlled by Mr. Icahn. Mr. Meister received his A.B. in Government cum laude from Harvard College in 1995.

Vincent J. Intrieri is a Senior Managing Director of Icahn Partners LP and Icahn Partners Master Fund LP, private investment funds controlled by Carl C. Icahn. Since January 1, 2005, Mr. Intrieri has been Senior Managing Director of Icahn

Associates Corp., whose principal business is to hold a lease to premises at 767 Fifth Avenue, New York, New York, and High River, which is primarily engaged in the business of holding and investing in securities. From March 2003 to December 2004, Mr. Intrieri served as a Managing Director and from 1998 to March 2003, he served as a portfolio manager of Icahn Associates Corp. and High River. From 1995 to 1998, Mr. Intrieri served as portfolio manager for distressed investments with Elliott Associates L.P., a New York investment fund. Prior to 1995, Mr. Intrieri was a partner at the Arthur Anderson accounting firm. Mr. Intrieri is a certified public accountant. Mr. Intrieri is a director of TransTexas Gas Corporation and Panaco Inc., each of which is an oil and gas exploration company controlled by Carl C. Icahn. Mr. Intrieri is Chairman of the Board of Directors and a director of Viskase Companies, Inc., a publicly owned producer of cellulosic and plastic casings used in preparing and packaging processed meat products, in which Carl C. Icahn has an interest through the ownership of securities. In addition, Mr. Intrieri serves as a director of XO Communications, Inc., a publicly owned telecommunications company controlled by Carl C. Icahn. Mr. Intrieri received a B.S. in Accounting from The Pennsylvania State University.

Nick Graziano is an investment analyst of Icahn Associates Corp. and has over 9 years of financial management experience. Mr. Graziano has been with Icahn Associates Corp. since March of 2004. From 2002 to 2004, Mr. Graziano was employed as an analyst with March Partners LLC, a global event-driven hedge fund. In this position, he was responsible for idea generation and analysis of a wide range of investment activities including merger arbitrage, distressed debt, restructurings, spin-offs and other corporate events. From 1999 to 2001, Mr. Graziano was employed as a Vice President in the Investment Banking Department of Thomas Weisel Partners where he advised clients in the Technology industry on a wide range of corporate finance related transactions, completing over $600 million in financing transactions and mergers and acquisitions advisory. From 1995 to 1999, Mr. Graziano was employed by Salomon Smith Barney as an Associate in the Financial Sponsors Group, completing over $2 billion in financing and advisory transactions. Mr. Graziano earned a BA in Economics from Duke University in 1994 and an MBA in Finance from Duke University in 1995.

The address of each of Messrs. Meister, Intrieri and Graziano is c/o Icahn Associates Corp., 767 Fifth Avenue, 47th Floor, New York, New York 10153.

Information concerning Messrs. Icahn, Bleier and Zelnick, including their ages and business backgrounds, may be found below under the heading "PROPOSAL 1: ELECTION OF DIRECTORS." Mr Icahn's business address is c/o Icahn Associates Corp., 767 Fifth Avenue, 47th Floor, New York, New York 10153. Mr. Zelnick's business address is 650 Fifth Avenue, 31st Floor, New York, NY 10019. Mr. Bleier's business address is 1325 Avenue of the Americas, Suite 3010, New York, NY 10019.

OWNERSHIP OF PARTICIPANTS

Each of Icahn Partners and Icahn Master is the record owner of 1000 Class A Shares and 1000 Class B Shares. Each of High River and Icahn & Co. is the record owner of 500 Class A Shares.

High River has sole voting power and sole dispositive power with regard to 1,398,820 Class A Shares and 772,320 Class B Shares. By virtue of the relationships discussed herein, each of Barberry, Hopper and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares. Icahn & Co. has sole voting power and sole dispositive power with regard to 898,000 Class A Shares and 340,906 Class B Shares. By virtue of the relationships discussed herein, each of Barberry and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares. Icahn

Master has sole voting power and sole dispositive power with regard to 4,075,909 Class A Shares and 1,932,985 Class B Shares. By virtue of the relationships discussed herein, each of Icahn Offshore, CCI Offshore and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares. Icahn Partners has sole voting power and sole dispositive power with regard to 5,111,371 Class A Shares and 2,519,920 Class B Shares. By virtue of the relationships discussed herein, each of Icahn Onshore, CCI Onshore and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares.

Each of Hopper, Barberry and Mr. Icahn, by virtue of their relationships to High River (as disclosed herein), may be deemed to beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares which High River directly beneficially owns. Each of Hopper, Barberry and Mr. Icahn disclaims beneficial ownership of such shares for all other purposes. Each of Icahn Offshore, CCI Offshore and Mr. Icahn, by virtue of their relationships to Icahn Master (as disclosed herein), may be deemed to beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares which Icahn Master directly beneficially owns. Each of Icahn Offshore, CCI Offshore and Mr. Icahn disclaims beneficial ownership of such shares for all other purposes. Each of Icahn Onshore, CCI Onshore and Mr. Icahn, by virtue of their relationships to Icahn Partners (as disclosed herein), may be deemed to beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares which Icahn Partners directly beneficially owns. Each of Icahn Onshore, CCI Onshore and Mr. Icahn disclaims beneficial ownership of such shares for all other purposes. Each of Barberry and Mr. Icahn, by virtue of their relationships to Icahn & Co. (as disclosed herein), may be deemed to beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares which Icahn & Co. directly beneficially owns. Each of Barberry and Mr. Icahn disclaims beneficial ownership of such shares for all other purposes.

Mr. Icahn, through his control of the Icahn Parties, may be deemed to be the indirect beneficial owner of 11,484,100 of the Class A Shares, which represents approximately 9.7% of outstanding Class A Shares, and 5,566,131 Class B Shares, which represents approximately 7.73% of the outstanding Class B Shares.1

1 Except as otherwise noted herein, all share amounts are reported as of the close of business on April 21, 2005.

Except as noted above, none of the Participants or their associates is a record or beneficial owner of Class A Shares or Class B Shares. Except as noted above, none of the Participants owns beneficially, directly or indirectly, securities of any parent or subsidiary of Blockbuster.

All transactions in the securities of Blockbuster effected within the past 2 years by the Icahn Parties, Mr. Icahn and each other Participants and their affiliates are contained in Appendix I attached hereto.

OTHER INFORMATION

Part of the purchase price of the shares of Common Stock purchased by High River was obtained through margin borrowing. The shares of Common Stock purchased by High River are maintained in a margin account that includes positions in securities in addition to the shares of Common Stock. The indebtedness of the margin account as of April 20, 2005 was approximately $265,000,000.

Other than as disclosed in this Proxy Statement, none of the Participants is, and was within the past year, a party to any contract, arrangement or understanding with any person with respect to any securities of

Blockbuster, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

None of the Participants has any position or office with Blockbuster, and none of Messrs. Icahn, Bleier or Zelnick has any arrangement or understanding with any other person pursuant to which he was selected to be a nominee. None of the Participants nor any of their associates have any arrangement or understanding with any person with respect to (A) any future employment by Blockbuster or its affiliates; or (B) any future transactions to which Blockbuster or any of its affiliates will or may be a party. Except as described above, none of the Participants or their associates has a material interest in any transaction or series of transactions engaged in by Blockbuster since the beginning of Blockbuster's last fiscal year.

None of the entities referred to in this Proxy Statement with which the Participants have been involved during the past five years is a parent, subsidiary, or other affiliate of Blockbuster.

LEGAL PROCEEDINGS

On January 5, 2001, Reliance Group Holdings, Inc. ("Reliance") commenced an action in the United States District Court for the Southern District of New York against Mr. Icahn, Icahn Associates Corp. and High River alleging that High River's tender offer for Reliance 9% senior notes violated Section 14(e) of the Exchange Act. Reliance sought a temporary restraining order and preliminary and permanent injunctive relief to prevent defendants from purchasing the notes. The Court initially imposed a temporary restraining order. Defendants then supplemented the tender offer disclosures. The Court conducted a hearing on the disclosures and other matters raised by Reliance. It then denied plaintiff's motion for a preliminary injunction and ordered dissolution of its temporary restraining order following dissemination of the supplement.

Reliance took an immediate appeal to the United States Court of Appeals for the Second Circuit and sought a stay to restrain defendants from purchasing notes during the pendency of the appeal. On January 30, 2001, the Court of Appeals denied plaintiff's stay application. On January 30, Reliance also sought a further temporary restraining order from the District Court. The Court considered the matter and reimposed its original restraint until noon the next day, at which time the restraint was dissolved. The appeal was argued on March 9 and denied on March 22, 2001.

PROPOSAL 1: ELECTION OF DIRECTORS

According to Blockbuster's Proxy Statement, three Class III directors are to be elected to Blockbuster's board of directors at the Annual Meeting. The Participants propose that the Blockbuster Stockholders elect Carl C. Icahn, Edward Bleier and Strauss Zelnick as directors of Blockbuster at the Annual Meeting. Each Nominee, if elected, would hold office until the 2008 Annual Meeting of Stockholders and until a successor has been duly elected and qualified.

Background information about the Nominees is set forth herein. The Nominees are not receiving any compensation from any of the Participants or any of their affiliates in connection with this proxy solicitation. See Appendix I for additional information about the Nominees, including their beneficial ownership, purchase and sale of securities issued by Blockbuster.

CARL C. ICAHN, age 69, has served as Chairman of the Board and a director of Starfire and Chairman of the Board and a director of various subsidiaries of Starfire, since 1984. Mr. Icahn is and has been since 1994 a majority shareholder, the Chairman of the Board and a director of American Railcar

Industries, Inc. ("ARI"), a Missouri corporation. ARI is primarily engaged in the business of manufacturing, managing, leasing and selling of railroad freight and tank cars. Mr. Icahn has also been Chairman of the Board and President of Icahn & Co., Inc., a registered broker-dealer and a member of the National Association of Securities Dealers, since 1968. Since November 1990, Mr. Icahn has been Chairman of the Board of American Property Investors, Inc., the general partner of American Real Estate Partners, L.P., a public limited partnership that invests in real estate and holds various other interests, including the interests in its subsidiaries that are engaged, among other things, in the oil and gas business and casino entertainment business. Mr. Icahn has been a director of Cadus Pharmaceutical Corporation, a firm that holds various biotechnology patents, since 1993. From August 1998 to August 2002, Mr. Icahn served as Chairman of the Board of Maupintour Holding LLC (f/k/a/ Lowestfare.com, LLC), an internet travel reservations company. From October 1998 through May 2004, Mr. Icahn was the President and a director of Stratosphere Corporation, which operates the Stratosphere Hotel and Casino. Since September 29, 2000, Mr. Icahn has served as the Chairman of the Board of GB Holdings, Inc., which owns all of the outstanding stock of Atlantic Coast Entertainment Holdings, Inc., which through its wholly-owned subsidiary owns and operates The Sands Hotel and Casino in Atlantic City, New Jersey. Mr. Icahn also serves in the same capacity with Atlantic Coast Entertainment Holdings, Inc. In January 2003, Mr. Icahn became Chairman of the Board and a director of XO Communications, Inc., a telecommunications company. Mr. Icahn received his B.A. from Princeton University. Please see Appendix I for additional information.

EDWARD BLEIER, age 75, retired in January 2004 from Warner Bros Entertainment Inc. after 34 years, where he had been President of the division responsible for American marketing of movies, animation and TV programs to networks, Pay TV, Cable and Satellite and video-on-demand. Previously, he was a senior executive of ABC TV in charge of, variously, marketing, day time and children's programming, sales and planning. Mr. Bleier is a Director of Real Networks Inc., a leading company in Internet streaming of audio and visual media and a Director of CKX Inc., a newly formed aggregator of entertainment companies e.g., Elvis Presley Enterprises and "American Idol." Mr. Bleier is a member of the Council of Foreign Relations and a Trustee of the Charles A. Dana Foundation and the Martha Graham Dance Company. He is Chairman Emeritus of the Center for Communication and Guild Hall's Academy of the Arts. In 2003, Mr. Bleier published a NY Times bestseller, "The Thanksgiving Ceremony." Mr. Bleier received a B.S. from Syracuse University.

STRAUSS ZELNICK, age 47, is the founder of Zelnick Media LLC, an investment and advisory firm specializing in media and entertainment. From 1998 to 2000, Mr. Zelnick was President and Chief Executive Officer of BMG Entertainment, a then $4.7 billion music and entertainment unit of Bertelsmann A.G., where he managed one of the world's largest music and entertainment companies, one of the leading music publishing companies and the world's largest record club. Before joining BMG, Mr. Zelnick was President and Chief Executive Officer of Crystal Dynamics, a leading producer and distributor of interactive entertainment software. Before joining Crystal Dynamics, Mr. Zelnick was President and Chief Operating Officer of 20th Century Fox, a unit of News Corp., engaged in the production and distribution of feature films and television programming. Mr. Zelnick is a director of Carver Bancorp, Inc., a bank holding company. Mr. Zelnick was recently appointed, subject to approval of shareholders, to the boards of Reed Elsevier PLC, Reed Elsevier N.V. and Reed Elsevier Group plc., a leading provider of global information driven securities and solutions. Mr. Zelnick received a B.A. from Wesleyan University and an MBA and JD from Harvard University.

WE STRONGLY URGE YOU TO VOTE FOR THE ELECTION OF CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD IN THE POSTAGE PAID ENVELOPE PROVIDED TO YOU WITH THIS PROXY STATEMENT. IF YOU HAVE SIGNED THE GOLD PROXY CARD AND NO MARKING IS MADE,

YOU WILL BE DEEMED TO HAVE GIVEN A DIRECTION TO VOTE ALL THE SHARES REPRESENTED BY THE GOLD PROXY CARD FOR THE ELECTION OF ALL THE NOMINEES NAMED ON THE GOLD PROXY CARD.

Appendix I attached hereto sets forth, as to each of the Nominees and the other Participants, all transactions in securities of Blockbuster effected during the past two years.

Except as set forth herein or in Appendix I attached hereto, neither of the Nominees other than Mr. Icahn nor or any of the other Participants: (i) owns any securities of Blockbuster of record but not beneficially; (ii) owns beneficially any securities of Blockbuster or any parent or subsidiary of Blockbuster; (iii) has any agreement or understanding with any person with respect to any future employment by Blockbuster or its affiliates; (iv) has any agreement or understanding with any person with respect to any future transactions to which Blockbuster or any of its affiliates will or may be a party; (v) has engaged in or had a direct or indirect interest in any transaction, or series of similar transactions, since the beginning of Blockbuster's last fiscal year, or any currently proposed transaction, or series of similar transactions, to which Blockbuster or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $60,000; (vi) borrowed any funds for the purpose of acquiring or holding any securities of Blockbuster; or (vii) is presently, or has been within the past year, a party to any contract, arrangement or understanding with any person with respect to securities of Blockbuster. Other than as disclosed in this Proxy Statement, no securities of Blockbuster are beneficially owned by any of the associates of the Participants.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

According to Blockbuster's Proxy Statement, Blockbuster is soliciting proxies with respect to one proposal other than the election of directors. This proposal is discussed briefly below.

At the Annual Meeting, the Stockholders will be asked to ratify the appointment of PricewaterhouseCoopers LLP as Blockbuster's independent auditors for fiscal 2005. Blockbuster's board of directors unanimously recommended a vote for this proposal. Please refer to Blockbuster's Proxy Statement for a detailed discussion of the other proposal, including various arguments in favor of and against such proposal. The Participants recommend that stockholders vote FOR this proposal. IF YOU HAVE SIGNED THE GOLD PROXY CARD AND NO MARKING IS MADE, YOU WILL BE DEEMED TO HAVE GIVEN A DIRECTION TO VOTING ALL THE SHARES REPRESENTED BY THE GOLD PROXY CARD FOR THIS PROPOSAL.

VOTING ON PROPOSAL 2

The accompanying GOLD proxy card will be voted in accordance with your instruction on such card. You may vote for or vote against, or abstain from voting on, Proposal 2 described above by marking the proper box on the GOLD proxy card.

OTHER PROPOSALS

The Participants and their affiliates know of no other business to be presented at the 2005 Annual Meeting. If any other matters should properly come before the Annual Meeting, it is intended that the persons named on the enclosed GOLD proxy card will vote that proxy on such other matters in accordance with their judgment. The Participants will not use such discretionary authority to vote the proxies for matters that any of the Participants know of a reasonable time before the Annual Meeting.

VOTING PROCEDURES

According to Blockbuster's Proxy Statement, the voting procedures are as set forth below.

The presence at the meeting, in person or by proxy, of the Stockholders of record entitled to cast at least a majority of the votes that all Stockholders are entitled to cast is necessary to constitute a quorum. Stockholders of record at the close of business on the Record Date will be entitled to one vote at the Annual Meeting for each Class A Share held on the Record Date and two votes for each Class B Share held on the Record Date. The two classes will vote together as a single class on the matters to be considered at the Annual Meeting. Abstentions and broker non-votes are considered to be shares present for the purpose of determining whether a quorum exists. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

Directors shall be elected by a plurality of the votes cast by Stockholders present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. Votes may be cast in favor of or withheld with respect to each Nominee. Votes that are withheld and broker non-votes will not affect the outcome of the director election. In all matters other than the election of directors, the vote of a majority of the combined voting power of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the subject matter shall be the act of the Stockholders. With respect to such matters, broker non-votes are not considered to be shares present in person or represented by proxy, but abstentions are considered to be shares present in person or represented by proxy, and, therefore, abstentions will have the effect of votes against the proposal.

Whether or not you are able to attend the Annual Meeting, you are urged to complete the enclosed GOLD proxy and return it in the enclosed self-addressed, prepaid envelope. All valid proxies received prior to the meeting will be voted. If you specify a choice with respect to any item by marking the appropriate box on the proxy, the shares will be voted in accordance with that specification. IF NO SPECIFICATION IS MADE, THE PERSONS NAMED ON THE ENCLOSED GOLD PROXY CARD WILL VOTE YOUR SHARES FOR CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK WITH RESPECT TO PROPOSAL 1, AND FOR PROPOSAL 2.

PROXY PROCEDURES

IN ORDER FOR YOUR VIEWS TO BE REPRESENTED AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED GOLD PROXY CARD IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE.

IF YOU ARE A STOCKHOLDER OF RECORD ON THE RECORD DATE OF CLASS A SHARES AND CLASS B SHARES YOU WILL RECEIVE A PROXY STATEMENT WITH RESPECT TO EACH CLASS OF SHARES. PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED GOLD PROXY CARD EVEN IF YOU HAVE PREVIOUSLY SUBMITTED A GOLD PROXY CARD FOR THE OTHER CLASS OF BLOCKBUSTER SHARES THAT YOU OWN.

If you have any questions about giving your proxy or require assistance, please call:

D.F. KING & CO., INC.

48 Wall Street
New York, NY 10005
Call Toll-Free: 1-800-431-9645
Banks and Brokerage Firms Call Toll-Free: 1-212-269-5550

The accompanying GOLD proxy card will be voted at the Annual Meeting in accordance with your instructions on such card.

REVOCATION OF PROXIES

Any Stockholder who has mailed a proxy card to Blockbuster may revoke it before it is voted by mailing a duly executed GOLD proxy card to the Participants bearing a date LATER than the proxy card delivered to Blockbuster. Proxies may also be revoked at any time prior to voting by: (i) delivering to the corporate secretary of Blockbuster a written notice, bearing a date later than the date of the proxy, stating that the proxy is revoked; (ii) delivering a duly executed proxy bearing a later date than the proxy delivered previously; or (iii) attending the Annual Meeting and voting in person.

Only holders of record as of the close of business on the Record Date will be entitled to vote. If you were a Stockholder of record on the Record Date, you will retain your voting rights at the Annual Meeting even if you sell such shares after the Record Date. Accordingly, it is important that you vote the shares held by you on the Record Date, or grant a proxy to vote such shares on the GOLD proxy card, even if you sell such shares after the Record Date.

IF YOUR SHARES ARE HELD IN THE NAME OF A BROKERAGE FIRM, BANK, BANK NOMINEE OR OTHER INSTITUTION ON THE RECORD DATE, ONLY IT CAN VOTE SUCH SHARES AND ONLY UPON RECEIPT OF YOUR SPECIFIC INSTRUCTIONS. ACCORDINGLY, PLEASE CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT AND INSTRUCT THAT PERSON TO EXECUTE ON YOUR BEHALF THE GOLD PROXY CARD AS SOON AS POSSIBLE.

COST AND METHOD OF SOLICITATION

The Icahn Parties have retained D.F. King & Co., Inc. ("King") to conduct the solicitation, for which King is to receive a fee of up to $100,000, plus a fee per call and reimbursement for its reasonable out-of-pocket expenses. The Icahn Parties have agreed to indemnify King against certain liabilities and expenses, including certain liabilities under the federal securities laws. Insofar as indemnification for liabilities arising under the federal securities laws may be permitted to King pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy and is therefore unenforceable. As part of the solicitation, the Icahn Parties and. King may communicate with stockholders of Blockbuster by mail, courier services, Internet, advertising, telephone or telecopier or in person, but it is not anticipated that stockholders will be asked to submit proxies by telephone or internet. It is anticipated that King will employ approximately 45 persons to solicit proxies from Stockholders for the Annual Meeting. The total expenditures in furtherance of, or in connection with, the solicitation of proxies is approximately $75,000 to date, and is estimated to be up to $400,000 in total.

The Icahn Parties will pay all costs related to the solicitation of proxies (including expenditures for public relations and financial advisers, proxy solicitors, advertising, printing, transportation and related expenses). The Icahn Parties intend to seek reimbursement for the costs and expenses associated with the proxy solicitation in the event that the Nominees are elected to the board of directors of Blockbuster, but do not intend

to submit the issue of reimbursement to a vote of security holders.

ADDITIONAL INFORMATION

Certain information regarding the securities of Blockbuster held by Blockbuster's directors, nominees, management and 5% Stockholders is contained in Blockbuster's Proxy Statement. Information concerning the date by which proposals of security holders intended to be presented at the next annual meeting of Stockholders of Blockbuster must be received by Blockbuster for inclusion in Blockbuster's Proxy Statement and form of proxy for that meeting is also contained in Blockbuster's Proxy Statement. This information is contained in Blockbuster's public filings. The Participants take no responsibility for the accuracy or completeness of such information.

Date: April 22, 2005 ICAHN PARTNERS LP
ICAHN PARTNERS MASTER FUND LP
HIGH RIVER LIMITED PARTNERSHIP
ICAHN & CO., INC.

APPENDIX I

SUPPLEMENTAL NOMINEE AND OTHER INFORMATION

Set forth below are the dates, types and amounts of each Participant's purchases and sales of Blockbuster's securities within the past two years.

Transactions Within the Past Two Years in Blockbuster Voting Securities by Icahn Partners, Icahn Master, Icahn & Co. and High River

Name	Date	No. of Class A Shares Purchased
High River	11/11/04	34,300
High River	11/12/04	120,000
High River	11/15/04	49,000
High River	11/16/04	100,000
High River	11/17/04	124,000

High River	11/18/04	40,000
High River	11/19/04	162,000
High River	11/22/04	17,000
High River	11/23/04	15,000
High River	11/24/04	40,000
High River	11/26/04	22,000
High River	11/29/04	80,000
High River	11/30/04	55,800
High River	12/01/04	56,000
High River	12/02/04	138,000
High River	12/03/04	30,000
High River	12/14/04	183,000
High River	12/14/04	62,720
High River	02/14/05	70,000
Icahn & Co.	02/15/05	130,000
Icahn & Co	02/17/05	613,000
Icahn & Co	03/07/05	70,000
Icahn & Co	03/08/05	85,000
Icahn Master	11/11/04	54,880
Icahn Master	11/12/04	192,000
Icahn Master	11/15/04	76,440

Icahn Master	11/16/04	156,000
Icahn Master	11/17/04	193,440
Icahn Master	11/18/04	62,400
Icahn Master	11/19/04	252,720
Icahn Master	11/22/04	26,520
Icahn Master	11/23/04	23,400
Icahn Master	11/24/04	62,400
Icahn Master	11/26/04	34,320
Icahn Master	11/29/04	124,800
Icahn Master	11/30/04	87,048
Icahn Master	12/01/04	87,360
Icahn Master	12/02/04	215,280
Icahn Master	12/03/04	49,200
Icahn Master	12/14/04	300,120
Icahn Master	12/14/04	102,861
Icahn Master	02/14/05	142,800
Icahn Master	02/15/05	265,200
Icahn Master	02/17/05	1,250,520
Icahn Master	03/07/05	142,800
Icahn Master	03/08/05	173,400
Icahn Partners	11/11/04	82,320

Icahn Partners	11/12/04	288,000
Icahn Partners	11/15/04	119,560
Icahn Partners	11/16/04	244,000
Icahn Partners	11/17/04	302,560
Icahn Partners	11/18/04	97,600
Icahn Partners	11/19/04	395,280
Icahn Partners	11/22/04	41,480
Icahn Partners	11/23/04	36,600
Icahn Partners	11/24/04	97,600
Icahn Partners	11/26/04	53,680
Icahn Partners	11/29/04	195,200
Icahn Partners	11/30/04	136,152
Icahn Partners	12/01/04	136,640
Icahn Partners	12/02/04	336,720
Icahn Partners	12/03/04	70,800
Icahn Partners	12/14/04	431,880
Icahn Partners	12/14/04	148,019
Icahn Partners	02/14/05	137,200
Icahn Partners	02/15/05	254,800
Icahn Partners	02/17/05	1,201,480

Icahn Partners	03/07/05	137,200
Icahn Partners	03/08/05	166,600

Name	Date	No. of Class B Shares Purchased
High River	11/15/04	94,000
High River	11/16/04	26,000
High River	11/17/04	31,960
High River	11/18/04	40,000
High River	11/19/04	80,000
High River	11/22/04	12,000
High River	11/23/04	6,000
High River	11/24/04	17,000
High River	11/26/04	7,400
High River	11/29/04	24,000
High River	11/30/04	52,000
High River	12/01/04	35,000
High River	12/02/04	88,000
High River	12/03/04	38,080
High River	12/06/04	16,000

High River	12/07/04	40,900
High River	12/08/04	42,000
High River	12/09/04	31,300
High River	12/10/04	35,000
High River	12/14/04	12,740
High River	12/14/04	12,940
High River	02/14/05	30,000
Icahn & Co.	02/15/05	30,080
Icahn & Co.	02/16/05	53,000
Icahn & Co.	02/17/05	131,626
Icahn & Co.	03/07/05	41,560
Icahn & Co.	03/08/05	79,480
Icahn & Co.	04/01/05	5,160
Icahn Master	11/15/04	146,640
Icahn Master	11/16/04	40,560
Icahn Master	11/17/04	49,858
Icahn Master	11/18/04	62,400
Icahn Master	11/19/04	124,800
Icahn Master	11/22/04	18,720
Icahn Master	11/23/04	9,360
Icahn Master	11/24/04	26,520

Icahn Master	11/26/04	11,544
Icahn Master	11/29/04	37,440
Icahn Master	11/30/04	81,120
Icahn Master	12/01/04	54,600
Icahn Master	12/02/04	137,280
Icahn Master	12/03/04	62,451
Icahn Master	12/06/04	26,240
Icahn Master	12/07/04	67,076
Icahn Master	12/08/04	68,880
Icahn Master	12/09/04	51,332
Icahn Master	12/10/04	57,400
Icahn Master	12/14/04	20,894
Icahn Master	12/14/04	21,222
Icahn Master	02/14/05	61,200
Icahn Master	02/15/05	61,363
Icahn Master	02/16/05	108,120
Icahn Master	02/17/05	268,518
Icahn Master	03/07/05	84,782
Icahn Master	03/08/05	162,139
Icahn Master	04/01/05	10,526

Icahn Partners	11/15/04	229,360
Icahn Partners	11/16/04	63,440
Icahn Partners	11/17/04	77,982
Icahn Partners	11/18/04	97,600
Icahn Partners	11/19/04	195,200
Icahn Partners	11/22/04	29,280
Icahn Partners	11/23/04	14,640
Icahn Partners	11/24/04	41,480
Icahn Partners	11/26/04	18,056
Icahn Partners	11/29/04	58,560
Icahn Partners	11/30/04	126,880
Icahn Partners	12/01/04	85,400
Icahn Partners	12/02/04	214,720
Icahn Partners	12/03/04	89,869
Icahn Partners	12/06/04	37,760
Icahn Partners	12/07/04	96,524
Icahn Partners	12/08/04	99,120
Icahn Partners	12/09/04	73,868
Icahn Partners	12/10/04	82,600
Icahn Partners	12/14/04	30,066
Icahn Partners	12/14/04	30,538

Icahn Partners	02/14/05	58,800
Icahn Partners	02/15/05	58,957
Icahn Partners	02/16/05	103,880
Icahn Partners	02/17/05	257,987
Icahn Partners	03/07/05	81,458
Icahn Partners	03/08/05	155,781
Icahn Partners	04/01/05	10,114

IMPORTANT

1. If your shares are held in your own name, please mark, date and mail the enclosed GOLD proxy card to our Proxy Solicitor, D.F. King & Co., Inc., in the postage-paid envelope provided.

2. If your shares are held in the name of a brokerage firm, bank nominee or other institution, only it can vote such shares and only upon receipt of your specific instructions. Accordingly, you should contact the person responsible for your account and give instructions for a GOLD proxy card to be signed representing your shares.

3. If you have already submitted a proxy card to Blockbuster for the Annual Meeting, you may change your vote to a vote FOR the election of the Nominees by marking, signing, dating and returning the enclosed GOLD proxy card for the Annual Meeting, which must be dated after any proxy you may have submitted to Blockbuster. ONLY YOUR LATEST DATED PROXY FOR THE ANNUAL MEETING WILL COUNT AT THE ANNUAL MEETING.

4. If you are a stockholder of record on the record date of Class A Shares and Class B Shares you will receive a proxy statement with respect to each class of shares. Please mark, sign, date and return the enclosed gold proxy card even if you have previously submitted a gold proxy card for the other class of Blockbuster shares that you own.

If you have any questions about giving your proxy or require assistance, please call:

D.F. KING & CO., INC.

48 Wall Street
New York, NY 10005
Call Toll-Free: 1-800-431-9645

Banks and Brokerage Firms Call Toll-Free: 1-212-269-5550

PROXY CARD - CLASS A SHARES (BBI)

BLOCKBUSTER INC.
2005 ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED BY
ICAHN PARTNERS LP
ICAHN PARTNERS MASTER FUND LP
HIGH RIVER LIMITED PARTNERSHIP AND
ICAHN & CO., INC.

The undersigned hereby appoints and constitutes each of Keith A. Meister, Vincent J. Intrieri and Nick Graziano (acting alone or together) as proxies, with full power of substitution in each, to represent the undersigned at the Annual Meeting of Stockholders of Blockbuster Inc. ("Blockbuster") to be held on May 11, 2005, at 10:00 a.m., Central Daylight Time, and at any adjournment or postponement thereof, hereby revoking any proxies previously given, to vote all Class A Shares of Blockbuster held or owned by the undersigned as directed below, and in their discretion upon such other matters as may come before the meeting. IF NO DIRECTION IS MADE, THE PERSONS NAMED ON THIS GOLD PROXY CARD WILL VOTE YOUR SHARES FOR CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK FOR DIRECTOR, AND FOR PROPOSAL TO RATIFY APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS FOR FISCAL 2005.

SIGN, DATE AND MAIL YOUR PROXY TODAY

(CONTINUED AND TO BE SIGNED ON THE REVERSE SIDE)

ICAHN PARTNERS LP, ICAHN PARTNERS MASTER FUND, HIGH RIVER LIMITED PARTNERSHIP AND ICAHN & CO., INC., EACH RECOMMEND A VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED IN PROPOSAL 1 BELOW AND "FOR" PROPOSAL 2 BELOW.

[X] PLEASE MARK VOTES AS IN THIS EXAMPLE.

STOCKHOLDERS ARE URGED TO DATE, MARK, SIGN, AND RETURN THIS PROXY.

YOUR VOTE IS VERY IMPORTANT TO US.

1.Election of Class III directors --

Nominees:	[ ]	[ ]	[ ]
(01) Carl C. Icahn	FOR ALL	WITHHELD	FOR ALL
(02) Edward Bleier	NOMINEES	FROM ALL	EXCEPT
(03) Stauss Zelnick		NOMINEES	

NOTE: If you do not wish your shares voted "For" a particular nominee, mark the "FOR ALL EXCEPT" box and write the name(s) of the nominee(s) you do not support on the line below. Your shares will be voted for the remaining nominee(s).

2.Ratification of appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal 2005. ( ) FOR ( ) AGAINST ( ) ABSTAIN

Please be sure to sign and date this Proxy.

SIGNATURE(S) OF STOCKHOLDER(S) DATE

TITLE, IF ANY

SIGNATURE (IF HELD JOINTLY):

Note: Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by a duly authorized officer. If a partnership, please sign in partnership name by an authorized person.

PROXY CARD - CLASS B SHARES (BBI.B)

BLOCKBUSTER INC.
2005 ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED BY
ICAHN PARTNERS LP
ICAHN PARTNERS MASTER FUND LP
HIGH RIVER LIMITED PARTNERSHIP AND
ICAHN & CO., INC.

The undersigned hereby appoints and constitutes each of Keith A. Meister, Vincent J. Intrieri and Nick Graziano (acting alone or together) as proxies, with full power of substitution in each, to represent the undersigned at the Annual Meeting of Stockholders of Blockbuster Inc. ("Blockbuster") to be held on

May 11, 2005, at 10:00 a.m., Central Daylight Time, and at any adjournment or postponement thereof, hereby revoking any proxies previously given, to vote all Class B Shares of Blockbuster held or owned by the undersigned as directed below, and in their discretion upon such other matters as may come before the meeting. IF NO DIRECTION IS MADE, THE PERSONS NAMED ON THIS GOLD PROXY CARD WILL VOTE YOUR SHARES FOR CARL C. ICAHN, EDWARD BLEIER AND STRAUSS ZELNICK FOR DIRECTOR, AND FOR PROPOSAL TO RATIFY APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS FOR FISCAL 2005.

SIGN, DATE AND MAIL YOUR PROXY TODAY

(CONTINUED AND TO BE SIGNED ON THE REVERSE SIDE)

ICAHN PARTNERS LP, ICAHN PARTNERS MASTER FUND, HIGH RIVER LIMITED PARTNERSHIP AND ICAHN & CO., INC., EACH RECOMMEND A VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED IN PROPOSAL 1 BELOW AND "FOR" PROPOSAL 2 BELOW.

[X] PLEASE MARK VOTES AS IN THIS EXAMPLE.

STOCKHOLDERS ARE URGED TO DATE, MARK, SIGN, AND RETURN THIS PROXY.

YOUR VOTE IS VERY IMPORTANT TO US.

1.Election of Class III directors --

Nominees:	[ ]	[ ]	[ ]
(01) Carl C. Icahn	FOR ALL	WITHHELD	FOR ALL
(02) Edward Bleier		NOMINEES FROM	ALLEXCEPT
(03) Stauss Zelnick		NOMINEES	

NOTE: If you do not wish your shares voted "For" a particular nominee, mark the "FOR ALL EXCEPT" box and write the name(s) of the nominee(s) you do not support on the line below. Your shares will be voted for the remaining nominee(s).

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2. Ratification of appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal 2005. ( ) FOR ( ) AGAINST ( ) ABSTAIN

Please be sure to sign and date this Proxy.

SIGNATURE(S) OF STOCKHOLDER(S) DATE

TITLE, IF ANY

SIGNATURE (IF HELD JOINTLY):

Note: Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by a duly authorized officer. If a partnership, please sign in partnership name by an authorized person.

as any failure to enter into collaborative agreements when appropriate, could significantly increase our capital requirements and could adversely impact our liquidity. While our estimated future capital requirements are uncertain and could increase or decrease as a result of many factors, including the extent to which we choose to advance our research, development and clinical trials or whether we are in a position to pursue manufacturing or commercialization activities, it is clear we will need significant additional capital to develop our product candidates through clinical development, manufacturing and commercialization. We do not know whether we will be able to access additional capital when needed or on terms favorable to us or our stockholders. Our inability to raise additional capital, or to do so on terms reasonably acceptable to us, would jeopardize the future success of our business.

Corporate Information

We were founded in 1982 and are a Delaware corporation. Our shares of common stock trade on The NASDAQ Capital Market under the symbol “CLSN.” Our principal executive offices are located at 997 Lenox Drive, Suite 100, Lawrenceville, New Jersey 08648. Our telephone number is (609) 896-9100 and our website is www.celsion.com. The information available on or through our website is not part of, nor incorporated by reference into, this prospectus supplement or the accompanying prospectus, and should not be relied upon.

S-5

THE OFFERING

Common stock offered by us	3,603,604 shares
Common stock to be outstanding before this offering	13,604,975 shares (as more fully described in the notes following this table)
Common stock to be outstanding after this offering	17,208,579 shares (as more fully described in the notes following this table)
Warrants offered by us	Warrants to purchase up to 1,801,802 shares of common stock will be offered in this offering. Each Series A warrant will be exercisable at any time on or after its issuance date and until the five-year anniversary of the issuance date. Each Series B warrant will be exercisable at any time on or after its issuance date and until the one-year anniversary of the issuance date. Each warrant will be exercisable at an exercise price of $4.10 per share of our common stock. This prospectus also relates to the offering of the share of our common stock issuable upon exercise of the warrants.
	There is no established public trading market for the warrants and we do not expect a market to develop. We do not intend to apply for a listing of the warrants on any national securities exchange. Without an active market, the liquidity of the warrants will be limited.
Manner of offering	Registered direct offering. See “Plan of Distribution” on page S-24 of this prospectus supplement.
Use of proceeds	We currently intend to use the net proceeds from this offering for general corporate purposes, including research and development activities, capital expenditures and working capital. We may also use all or a portion of the net proceeds from this offering to fund possible investments in, or acquisitions of, complementary businesses, technologies or products, but we currently have no agreements or commitments with respect to any investment or acquisition. See “Use of Proceeds” on page S-19 of this prospectus supplement.
NASDAQ Capital Market symbol	CLSN
Risk factors	Investing in our securities involves a high degree of risk. See “Risk Factors” beginning on page S-7 of this prospectus supplement.

The number of shares of our common stock shown above to be outstanding immediately after this offering is based on 13,604,975 shares outstanding as of September 30, 2013 (after giving effect to the one-for-4.5 reverse split of our

common stock effective as of October 28, 2013), and excludes, as of such date:

865,609 shares of our common stock subject to outstanding options having a weighted average exercise price of $12.29 per share, and 3,037 shares of common stock subject to outstanding non-vested restricted stock awards with a weighted average grant date fair value of $13.64;

326,966 shares of our common stock reserved for future issuance pursuant to our existing stock incentive plans;

3,073,027 shares of our common stock issuable upon exercise of warrants outstanding as of September 30, 2013, having a weighted average exercise price of $10.89 per share;

194,986 shares of common stock issuable upon exercise of the warrant issued to Hercules Technology Growth Capital, Inc. on November 25, 2013 in connection with the extension of a secured term loan to us, including 97,493 shares of common stock that will become exercisable upon an additional advance under the secured term loan to us, at an exercise price of $3.59 per share;

147,760 shares of our common stock held as treasury stock; and

up to 1,801,802 shares of our common stock issuable upon exercise of the warrants to be issued in this offering, having an exercise price of $4.10 per share.

RISK FACTORS

Investing in our securities involves a high degree of risk. Before deciding whether to invest in our securities, you should consider carefully the risks discussed below, together with the risks under the heading "Risk Factors" beginning on page 18 under Part I, Item IA of our Annual Report on Form 10-K and Amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission on March 18, 2013 and April 30, 2013, respectively, and any subsequent Quarterly Report on Form 10-Q, which are incorporated by reference into this prospectus supplement and the accompanying prospectus, as well as the other information in this prospectus supplement, the accompanying prospectus, the information and documents incorporated by reference and in any free writing prospectus that we have authorized for use in connection with this offering. If any of the identified risks actually occur, they could materially adversely affect our business, financial condition, operating results or prospects and the trading price of our securities. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business, financial condition, operating results and prospects and the trading price of our securities.

RISKS RELATED TO OUR BUSINESS

We have a history of significant losses from continuing operations and expect to continue such losses for the foreseeable future.

Since our inception, our expenses have substantially exceeded our revenues, resulting in continuing losses and an accumulated deficit of $165.0 million at September 30, 2013. Because we presently have no product revenues and we are committed to continuing our product research, development and commercialization programs, we will continue to experience significant operating losses unless and until we complete the development of ThermoDox® and other new products and these products have been clinically tested, approved by the U.S. Food and Drug Administration (FDA) and successfully marketed.

Drug development is an inherently uncertain process with a high risk of failure at every stage of development. Our lead drug candidate failed to meets its primary endpoint in the Phase III HEAT study.

We have a number of drug candidates in research and development ranging from the early discovery research phase through preclinical testing and clinical trials. Preclinical testing and clinical trials are long, expensive and highly uncertain processes and failure can unexpectedly occur at any stage of clinical development. Drug development is very risky. It will take us several years to complete clinical trials. The start or end of a clinical trial is often delayed or

halted due to changing regulatory requirements, manufacturing challenges, required clinical trial administrative actions, slower than anticipated patient enrollment, changing standards of care, availability or prevalence of use of a comparator drug or required prior therapy, clinical outcomes including insufficient efficacy, safety concerns, or our own financial constraints.

On January 31, 2013, we announced that our lead product ThermoDox® in combination with radiofrequency ablation failed to meet the primary endpoint of the Phase III clinical trial for primary liver cancer (the HEAT study). We have not completed our final analysis of the data and do not know the extent to which, if any, the failure of ThermoDox® to meet its primary endpoint in the Phase III trial could impact our other ongoing studies of ThermoDox®. ThermoDox® is also being evaluated in a Phase II clinical trial for recurrent chest wall breast cancer and other preclinical studies. Even with success in preclinical testing and previously completed clinical trials, the risk of clinical failure for any drug candidate remains high prior to regulatory approval. Even if ThermoDox® has positive results in its Phase II clinical trials, there is a substantial risk that it will fail to have sufficiently positive results in Phase III clinical trials with regard to efficacy, safety or other clinical outcomes. One or more of our clinical studies could fail at any time, as evidenced by the failure of ThermoDox® to meet its primary endpoint in the HEAT study. The failure of one or more of our drug candidates or development programs could have a material adverse effect on our business, financial condition and results of operations.

If we do not obtain or maintain FDA and foreign regulatory approvals for our drug candidates on a timely basis, or at all, or if the terms of any approval impose significant restrictions or limitations on use, we will be unable to sell those products and our business, results of operations and financial condition will be negatively affected.

To obtain regulatory approvals from the FDA and foreign regulatory agencies, we must conduct clinical trials demonstrating that our products are safe and effective. We may need to amend ongoing trials or the FDA and/or foreign regulatory agencies may require us to perform additional trials beyond those we planned. This process generally takes a number of years and requires the expenditure of substantial resources. The time required for completing testing and obtaining approvals is uncertain, and the FDA and foreign regulatory agencies have substantial discretion, at any phase of development, to terminate clinical studies, require additional clinical development or other testing, delay or withhold registration and marketing approval and mandate product withdrawals, including recalls. In addition, undesirable side effects caused by our drug candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restricted label or the delay or denial of regulatory approval by regulatory authorities. Even if we receive regulatory approval of a product, the approval may limit the indicated uses for which the drug may be marketed. The failure to obtain timely regulatory approval of product candidates, any product marketing limitations or a product withdrawal would negatively impact our business, results of operations and financial condition.

We do not expect to generate significant revenue for the foreseeable future.

We have devoted our resources to developing a new generation of products and will not be able to market these products until we have completed clinical trials and obtain all necessary governmental approvals. Our lead product candidate, ThermoDox®, is still in various stages of development and trials and cannot be marketed until we have completed clinical testing and obtained necessary governmental approval. Following our announcement on January 31, 2013 that the HEAT study failed to meet its primary endpoint of progression free survival, we will continue to follow the patients enrolled in the Heat study to the secondary endpoint, overall survival. ThermoDox® is currently also being evaluated in Phase II clinical trials and other preclinical studies. We do not expect to realize any revenues from product sales in the next several years, if at all. Accordingly, our revenue sources are, and will remain, extremely limited until our product candidates are clinically tested, approved by the FDA or foreign regulatory agencies and successfully marketed. We cannot guarantee that any of our product candidates will be successfully tested, approved by the FDA or foreign regulatory agency or marketed, successfully or otherwise, at any time in the foreseeable future or at all.

We will need to raise substantial additional capital to fund our planned future operations, and we may be unable to secure such capital without dilutive financing transactions. If we are not able to raise additional capital, we may not be able to complete the development, testing and commercialization of our product candidates.

As of September 30, 2013, we had approximately $45.5 million in cash, cash equivalents and short-term investments. We have substantial future capital requirements to continue our research and development activities and advance our drug candidates through various development stages. For example, ThermoDox® is being evaluated in a Phase III clinical trial for hepatocellular carcinoma, a Phase II clinical trial for recurrent chest wall breast cancer and other preclinical studies. We will conduct additional analyses of the data from the HEAT study to assess the future strategic value of ThermoDox® and are performing sub-group analysis of the Chinese cohort of patients in the HEAT study and other activities for further development of ThermoDox® for mainland China, Hong Kong and Macau. To complete the development and commercialization of our product candidates, we will need to raise substantial amounts of additional capital to fund our operations. We do not have any committed sources of financing and cannot assure you that alternate funding will be available in a timely manner, on acceptable terms or at all. We may need to pursue dilutive equity financings, such as the issuance of shares of common stock, convertible debt or other convertible or exercisable securities. Such dilutive equity financings could dilute the percentage ownership of our current common stockholders and could significantly lower the market value of our common stock. In addition, a financing could result in the issuance of new securities that may have rights, preferences or privileges senior to those of our existing stockholders.

We have no internal sales or marketing capability. If we are unable to create sales, marketing and distribution capabilities or enter into alliances with others possessing such capabilities to perform these functions, we will not be able to commercialize our products successfully.

We currently have no sales, marketing or distribution capabilities. We intend to market our products, if and when such products are approved for commercialization by the FDA and foreign regulatory agencies, either directly or through other strategic alliances and distribution arrangements with third parties. If we decide to market our products directly, we will need to commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and with supporting distribution, administration and compliance capabilities. If we rely on third parties with such capabilities to market our products, we will need to establish and maintain partnership arrangements, and there can be no assurance that we will be able to enter into third-party marketing or distribution arrangements on acceptable terms or at all. To the extent that we do enter into such arrangements, we will be dependent on our marketing and distribution partners. In entering into third-party marketing or distribution arrangements, we expect to incur significant additional expense and there can be no assurance that such third parties will establish adequate sales and distribution capabilities or be successful in gaining market acceptance for our products and services.

Our business depends on license agreements with third parties to permit us to use patented technologies. The loss of any of our rights under these agreements could impair our ability to develop and market our products.

Our success will depend, in a substantial part, on our ability to maintain our rights under license agreements granting us rights to use patented technologies. We have entered into license agreements with Duke University, under which we have exclusive rights to commercialize medical treatment products and procedures based on Duke's thermo-sensitive liposome technology. The Duke University license agreement contains a license fee, royalty and/or research support provisions, testing and regulatory milestones, and other performance requirements that we must meet by certain deadlines. Additionally, we have a joint research agreement with Philips Healthcare, a division of Royal Philips Electronics, to evaluate the combination of Philips' high intensity focused ultrasound (HIFU) with ThermoDox® to determine the potential of this combination to treat a broad range of cancers. If we breach any provisions of the license and research agreements, we may our ability to use the subject technology, as well as compensation for our efforts in developing or exploiting the technology. Any such loss of rights and access to technology could have a material adverse effect on our business.

Further, we cannot guarantee that any patent or other technology rights licensed to us by others will not be challenged or circumvented successfully by third parties, or that the rights granted will provide adequate protection. We may be required to alter any of our potential products or processes, or enter into a license and pay licensing fees to a third party or cease certain activities. There can be no assurance that we can obtain a license to any technology that we determine we need on reasonable terms, if at all, or that we could develop or otherwise obtain alternate technology. If a license is not available on commercially reasonable terms or at all, our business, results of operations, and financial condition could be significantly harmed and we may be prevented from developing and commercializing the product. Litigation, which could result in substantial costs, may also be necessary to enforce any patents issued to or licensed by us or to determine the scope and validity of others' claimed proprietary rights.

We rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition.

We rely on trade secrets and confidential information that we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees and consultants. We cannot assure you that these agreements are adequate to protect our trade secrets and confidential information or will not be breached or, if breached, we will have adequate remedies. Furthermore, others may independently develop substantially equivalent confidential and proprietary information or otherwise gain access to our trade secrets or disclose such technology. Any loss of trade secret protection or other unpatented proprietary rights could harm our business, results of operations and financial condition.

Our products may infringe patent rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages or limit our ability to commercialize our products.

Our commercial success depends on our ability to operate without infringing the patents and other proprietary rights of third parties. There may be third party patents that relate to our products and technology. We may unintentionally infringe upon valid patent rights of third parties. Although we currently are not involved in any material litigation involving patents, a third party patent holder may assert a claim of patent infringement against us in the future. Alternatively, we may initiate litigation against the third party patent holder to request that a court declare that we are not infringing the third party's patent and/or that the third party's patent is invalid or unenforceable. If a claim of infringement is asserted against us and is successful, and therefore we are found to infringe, we could be required to pay damages for infringement, including treble damages if it is determined that we knew or became aware of such a patent and we failed to exercise due care in determining whether or not we infringed the patent. If we have supplied infringing products to third parties or have licensed third parties to manufacture, use or market infringing products, we may be obligated to indemnify these third parties for damages they may be required to pay to the patent holder and for any losses they may sustain. We can also be prevented from selling or commercializing any of our products that use the infringing technology in the future, unless we obtain a license from such third party. A license may not be available from such third party on commercially reasonable terms, or may not be available at all. Any modification to include a non-infringing technology may not be possible or if possible may be difficult or time-consuming to develop, and require revalidation, which could delay our ability to commercialize our products. Any infringement action asserted against us, even if we are ultimately successful in defending against such action, would likely delay the regulatory approval process of our products, harm our competitive position, be expensive and require the time and attention of our key management and technical personnel.

We rely on third parties to conduct all of our clinical trials. If these third parties are unable to carry out their contractual duties in a manner that is consistent with our expectations, comply with budgets and other financial obligations or meet expected deadlines, we may not receive certain development milestone payments or be able to obtain regulatory approval for or commercialize our product candidates in a timely or cost-effective manner.

We rely, and expect to continue to rely, on third-party clinical research organizations to conduct our clinical trials. Because we do not conduct our own clinical trials, we must rely on the efforts of others and cannot always control or predict accurately the timing of such trials, the costs associated with such trials or the procedures that are followed for such trials. We do not expect to significantly increase our personnel in the foreseeable future and may continue to rely on third parties to conduct all of our future clinical trials. If these third parties are unable to carry out their contractual duties or obligations in a manner that is consistent with our expectations or meet expected deadlines, if they do not carry out the trials in accordance with budgeted amounts, if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols or for other reasons, or if they fail to maintain compliance with applicable government regulations and standards, our clinical trials may be extended, delayed or terminated or may become significantly expensive, we may not receive development milestone payments when expected or at all, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates.

Our business is subject to numerous and evolving state, federal and foreign regulations and we may not be able to secure the government approvals needed to develop and market our products.

Our research and development activities, pre-clinical tests and clinical trials, and ultimately the manufacturing, marketing and labeling of our products, are all subject to extensive regulation by the FDA and foreign regulatory agencies. Pre-clinical testing and clinical trial requirements and the regulatory approval process typically take years and require the expenditure of substantial resources. Additional government regulation may be established that could prevent or delay regulatory approval of our product candidates. Delays or rejections in obtaining regulatory approvals would adversely affect our ability to commercialize any product candidates and our ability to generate product revenues or royalties.

The FDA and foreign regulatory agencies require that the safety and efficacy of product candidates be supported through adequate and well-controlled clinical trials. If the results of pivotal clinical trials do not establish the safety and efficacy of our product candidates to the satisfaction of the FDA and other foreign regulatory agencies, we will not receive the approvals necessary to market such product candidates. Even if regulatory approval of a product candidate is granted, the approval may include significant limitations on the indicated uses for which the product may be marketed.

We are subject to the periodic inspection of our clinical trials, facilities, procedures and operations and/or the testing of our products by the FDA to determine whether our systems and processes, or those of our vendors and suppliers, are in compliance with FDA regulations. Following such inspections, the FDA may issue notices on Form 483 and warning letters that could cause us to modify certain activities identified during the inspection. A Form 483 notice is generally issued at the conclusion of an FDA inspection and lists conditions the FDA inspectors believe may violate FDA regulations. FDA guidelines specify that a warning letter is issued only for violations of "regulatory significance" for which the failure to adequately and promptly achieve correction may be expected to result in an enforcement action.

Failure to comply with the FDA and other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of product applications, enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the authority to revoke previously granted product approvals. Although we have internal compliance programs, if these programs do not meet regulatory agency standards or if our compliance is deemed deficient in any significant way, it could have a material adverse effect on us.

We are also subject to recordkeeping and reporting regulations. These regulations require, among other things, the reporting to the FDA of adverse events alleged to have been associated with the use of a product or in connection with certain product failures.

Labeling and promotional activities also are regulated by the FDA. We must also comply with record keeping requirements as well as requirements to report certain adverse events involving our products. The FDA can impose other post-marketing controls on us as well as our products including, but not limited to, restrictions on sale and use, through the approval process, regulations and otherwise.

Many states in which we do or may do business, or in which our products may be sold, if at all, impose licensing, labeling or certification requirements that are in addition to those imposed by the FDA. There can be no assurance that one or more states will not impose regulations or requirements that have a material adverse effect on our ability to sell our products.

In many of the foreign countries in which we may do business or in which our products may be sold, we will be subject to regulation by national governments and supranational agencies as well as by local agencies affecting, among other things, product standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements. There can be no assurance that one or more countries or agencies will not impose regulations or requirements that could have a material adverse effect on our ability to sell our products.

Legislative and regulatory changes affecting the healthcare industry could adversely affect our business.

Political, economic and regulatory influences are subjecting the healthcare industry to potential fundamental changes that could substantially affect our results of operations. There have been a number of government and private sector initiatives during the last few years to limit the growth of healthcare costs, including price regulation, competitive pricing, coverage and payment policies, comparative effectiveness of therapies, technology assessments and managed-care arrangements. It is uncertain whether or when any legislative proposals will be adopted or what actions federal, state, or private payors for health care treatment and services may take in response to any healthcare reform proposals or legislation. We cannot predict the effect healthcare reforms may have on our business and we can offer no assurances that any of these reforms will not have a material adverse effect on our business. These actual and potential changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective treatments. In addition, uncertainty remains regarding proposed significant reforms to the U.S. health care system.

The success of our products may be harmed if the government, private health insurers and other third-party payers do not provide sufficient coverage or reimbursement.

Our ability to commercialize our new cancer treatment systems successfully will depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. The reimbursement status of newly approved medical products is subject to significant uncertainty. We cannot guarantee that adequate third-party insurance coverage will be available for us to establish and maintain price levels sufficient for us to realize an appropriate return on our investment in developing new therapies. Government, private health insurers and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new therapeutic products approved for marketing by the FDA. Accordingly, even if coverage and reimbursement are provided by government, private health insurers and third-party payors for uses of our products, market acceptance of these products would be adversely affected if the reimbursement available proves to be unprofitable for health care providers.

Our products may not achieve sufficient acceptance by the medical community to sustain our business.

The commercial success of our products will depend upon their acceptance by the medical community and third-party payers as clinically useful, cost effective and safe. Any or our drug candidates may prove not to be effective in practice. If testing and clinical practice do not confirm the safety and efficacy of our product candidates or even if further testing and clinical practice produce positive results but the medical community does not view these new forms of treatment as effective and desirable, our efforts to market our new products may fail, which would have an adverse effect on our business, financial condition and results of operations.

The commercial potential of a drug candidate in development is difficult to predict. If the market size for a new drug is significantly smaller than we anticipate, it could significantly and negatively impact our revenue, results of operations and financial condition.

It is very difficult to predict the commercial potential of product candidates due to important factors such as safety and efficacy compared to other available treatments, including potential generic drug alternatives with similar efficacy profiles, changing standards of care, third party payor reimbursement standards, patient and physician preferences, the availability of competitive alternatives that may emerge either during the long drug development process or after commercial introduction, and the availability of generic versions of our successful product candidates following approval by government health authorities based on the expiration of regulatory exclusivity or our inability to prevent generic versions from coming to market by asserting our patents. If due to one or more of these risks the market potential for a drug candidate is lower than we anticipated, it could significantly and negatively impact the revenue potential for such drug candidate and would adversely affect our business, financial condition and results of operations.

Technologies for the treatment of cancer are subject to rapid change, and the development of treatment strategies that are more effective than our technologies could render our technologies obsolete.

Various methods for treating cancer currently are, and in the future are expected to be, the subject of extensive research and development. Many possible treatments that are being researched, if successfully developed, may not require, or may supplant, the use of our technologies. The successful development and acceptance of any one or more of these alternative forms of treatment could render our technology obsolete as a cancer treatment method.

We may not be able to hire or retain key officers or employees that we need to implement our business strategy and develop our products and business.

Our success depends significantly on the continued contributions of our executive officers, scientific and technical personnel and consultants, and on our ability to attract additional personnel as we seek to implement our business strategy and develop our products and businesses. During our operating history, we have assigned many essential responsibilities to a relatively small number of individuals. However, as our business and the demands on our key employees expand, we have been, and will continue to be, required to recruit additional qualified employees. The competition for such qualified personnel is intense, and the loss of services of certain key personnel or our inability to attract additional personnel to fill critical positions could adversely affect our business. Further, we do not carry “key man” insurance on any of our personnel. Therefore, loss of the services of key personnel would not be ameliorated by the receipt of the proceeds from such insurance.

Our success will depend in part on our ability to grow and diversify, which in turn will require that we manage and control our growth effectively.

Our business strategy contemplates growth and diversification. Our ability to manage growth effectively will require that we continue to expend funds to improve our operational, financial and management controls, reporting systems and procedures. In addition, we must effectively expand, train and manage our employees. We will be unable to manage our business effectively if we are unable to alleviate the strain on resources caused by growth in a timely and successful manner. There can be no assurance that we will be able to manage our growth and a failure to do so could have a material adverse effect on our business.

If we engage in acquisitions, reorganizations or business combinations, we will incur a variety of risks that could adversely affect our business operations or our stockholders.

We may consider strategic alternatives intended to further the development of our business, which may include acquiring businesses, technologies or products or entering into a business combination with another company. If we do pursue such a strategy, we could, among other things:

issue equity securities that would dilute our current stockholders' percentage ownership;

incur substantial debt that may place strains on our operations;

spend substantial operational, financial and management resources in integrating new businesses, personnel intellectual property, technologies and products;

assume substantial actual or contingent liabilities;

reprioritize our development programs and even cease development and commercialization of our drug candidates;

suffer the loss of key personnel, or

merge with, or otherwise enter into a business combination with, another company in which our stockholders would receive cash or shares of the other company or a combination of both on terms that certain of our stockholders may not deem desirable.

Although we intend to evaluate and consider different strategic alternatives, we have no agreements or understandings with respect to any acquisition, reorganization or business combination at this time.

We face intense competition and the failure to compete effectively could adversely affect our ability to develop and market our products.

There are many companies and other institutions engaged in research and development of various technologies for cancer treatment products that seek treatment outcomes similar to those that we are pursuing. We believe that the level of interest by others in investigating the potential of possible competitive treatments and alternative technologies will continue and may increase. Potential competitors engaged in all areas of cancer treatment research in the United States and other countries include, among others, major pharmaceutical, specialized technology companies, and universities and other research institutions. Most of our current and potential competitors have substantially greater financial, technical, human and other resources, and may also have far greater experience than do we, both in pre-clinical testing and human clinical trials of new products and in obtaining FDA and other regulatory approvals. One or more of these companies or institutions could succeed in developing products or other technologies that are more effective than the products and technologies that we have been or are developing, or which would render our technology and products obsolete and non-competitive. Furthermore, if we are permitted to commence commercial sales of any of our products, we will also be competing, with respect to manufacturing efficiency and marketing, with companies having substantially greater resources and experience in these areas.

We may be subject to significant product liability claims and litigation.

Our business exposes us to potential product liability risks inherent in the testing, manufacturing and marketing of human therapeutic products. We presently have product liability insurance limited to $10.0 million per incident and $10.0 million annually. If we were to be subject to a claim in excess of this coverage or to a claim not covered by our insurance and the claim succeeded, we would be required to pay the claim with our own limited resources, which could have a severe adverse effect on our business. Whether or not we are ultimately successful in any product liability litigation, such litigation would harm the business by diverting the attention and resources of our management, consuming substantial amounts of our financial resources and by damaging our reputation. Additionally, we may not be able to maintain our product liability insurance at an acceptable cost, if at all.

RISKS RELATED TO OUR SECURITIES

The market price of our common stock has been, and may continue to be volatile and fluctuate significantly, which could result in substantial losses for investors and subject us to securities class action litigation.

The trading price for our common stock has been, and we expect it to continue to be, volatile. Our January 31, 2013 announcement that the HEAT study failed to meet its primary endpoint has resulted in significant volatility and a steep decline in the price of our common stock, a level of decline that could result in securities litigation. Plaintiffs' securities litigation firms have publicly announced that they are investigating potential securities fraud claims that they may wish to make against us. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our financial situation, announcements of technological innovations or new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions. Some of these factors are beyond our control. Broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock, regardless of our financial condition, results of operations, business or prospect. Prior to the effectiveness of the one-for-4.5 reverse split of our common stock as of October 28, 2013, the closing sale price of our common stock had a high price of $4.23 and a low price of $1.69 in the 52-week period ended December 31, 2011, a high price of $8.83 and a low price of $1.64 in the 52-week period ended December 31, 2012 and a high price of $9.35 and a low price of $0.77 from January 1, 2013 through October 28, 2013. The closing sale price of our common stock had a high price of $5.14 and a low price of $3.55 for the period from October 29, 2013 to January 17, 2014 after the effectiveness of the one-for-4.5 reverse split of our common stock as of October 28, 2013. Among the factors that may cause the market price of our common stock to fluctuate are the risks described in this "Risk Factors" section and other factors, including:

fluctuations in our quarterly operating results or the operating results of our competitors;

variance in our financial performance from the expectations of investors;

changes in the estimation of the future size and growth rate of our markets;

changes in accounting principles or changes in interpretations of existing principles, which could affect our financial results;

failure of our products to achieve or maintain market acceptance or commercial success;

conditions and trends in the markets we serve;

changes in general economic, industry and market conditions;

success of competitive products and services;

changes in market valuations or earnings of our competitors;

changes in our pricing policies or the pricing policies of our competitors;

announcements of significant new products, contracts, acquisitions or strategic alliances by us or our competitors;

changes in legislation or regulatory policies, practices or actions;

the commencement or outcome of litigation involving our company, our general industry or both;

recruitment or departure of key personnel;

changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;

actual or expected sales of our common stock by our stockholders; and

the trading volume of our common stock.

In addition, the stock markets, in general, The NASDAQ Capital Market and the market for pharmaceutical companies in particular, may experience a loss of investor confidence. Such loss of investor confidence may result in extreme price and volume fluctuations in our common stock that are unrelated or disproportionate to the operating performance of our business, financial condition or results of operations. These broad market and industry factors may materially harm the market price of our common stock and expose us to securities class action litigation. Such litigation, even if unsuccessful, could be costly to defend and divert management's attention and resources, which could further materially harm our financial condition and results of operations.

Investors in this offering will experience substantial dilution in the net tangible book value per share of the common stock issuable upon conversion or exercise of the securities they purchase.

Investors in this offering will suffer substantial dilution in the net tangible book value of our common stock as of September 30, 2013 because each of the purchase price per share for our common stock offered in this offering and the exercise price per share of our common stock for the warrants offered in this offering is higher than the net tangible book value per share of our common stock as of September 30, 2013. See the section titled "Dilution" on page S-20 of this prospectus supplement for a more detailed discussion of the dilution you will incur in this offering. In addition, we have a significant number of options and warrants outstanding which have an exercise price lower than the purchase price or exercise price per share for the common stock or warrants offered in this offering. If the holders of these securities exercise any such securities, the investors will incur further dilution.

We may be unable to maintain compliance with NASDAQ Marketplace Rules which could cause our common stock to be delisted from The NASDAQ Capital Market. This could result in the lack of a market for our common stock, cause a decrease in the value of an investment in us, and adversely affect our business, financial condition and results of operations.

Our common stock is currently listed on The NASDAQ Capital Market. To maintain the listing of our common stock on The NASDAQ Capital Market, we are required to meet certain listing requirements, including, among others, either: (i) a minimum closing bid price of $1.00 per share, a market value of publicly held shares (excluding shares

held by our executive officers, directors and 10% or more stockholders) of at least $1 million and stockholders' equity of at least $2.5 million; or (ii) a minimum closing bid price of $1.00 per share, a market value of publicly held shares (excluding shares held by our executive officers, directors and 10% or more stockholders) of at least $1 million and a total market value of listed securities of at least $35 million. As of January 17, 2014, the closing sale price of our common stock was $3.96, the total market value of our publicly held shares of our common stock (excluding shares held by our executive officers, directors and 10% or more stockholders) was approximately $52.9 million and the total market value of our listed securities was approximately $53.9 million. As of September 30, 2013, we had stockholders' equity of $29 million. However, there is no assurance that we will continue to meet the minimum closing price requirement and other listing requirements.

On October 29, 2013, we effected a one-for-4.5 reverse stock split of its common stock. The reverse split may improve our ability to meet NASDAQ's closing bid price requirement. Other companies have found that the increased stock prices resulting from reverse splits tend to diminish over time unless supported by positive developments in the business.

If the closing bid price of our common stock is below $1.00 per share or the total market value of our publicly held shares of common stock is below $35 million for 30 consecutive business days, we could be subject to delisting from The NASDAQ Capital Market. If our common stock is delisted, trading of the stock will most likely take place on an over-the-counter market established for unlisted securities, such as the Pink Sheets or the OTC Bulletin Board. An investor is likely to find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors may not buy or sell our common stock due to difficulty in accessing over-the-counter markets, or due to policies preventing them from trading in securities not listed on a national exchange or other reasons. In addition, as a delisted security, our common stock would be subject to SEC rules regarding "penny stock," which impose additional disclosure requirements on broker-dealers. The regulations relating to penny stocks, coupled with the typically higher cost per trade to investors in penny stocks due to factors such as broker commissions generally representing a higher percentage of the price of a penny stock than of a higher priced stock, would further limit the ability and willingness of investors to trade in our common stock. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations, including our ability to attract and retain qualified executives and employees and to raise capital.

Future sales of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of January 15, 2014, we had 13,604,975 shares of common stock outstanding, all of which shares were eligible for sale in the public market, subject in some cases to compliance with the requirements of Rule 144, including the volume limitations and manner of sale requirements. In addition, all of the shares of common stock issuable upon exercise of warrants will be freely tradable without restriction or further registration upon issuance.

Our stockholders may experience significant dilution as a result of future equity offerings or issuances and exercise of outstanding options and warrants.

In order to raise additional capital or pursue strategic transactions, we may in the future offer, issue or sell additional shares of our common stock or other securities convertible into or exchangeable for our common stock. Our stockholders may experience significant dilution as a result of future equity offerings or issuance. Investors purchasing shares or other securities in the future could have rights superior to existing stockholders. As of January 15, 2014, we had a significant number of securities convertible into, or allowing the purchase of, our common stock, including 3,268,012 shares of common stock issuable upon exercise of the outstanding warrants (without taking into account the warrants to be issued in the offering covered by this prospectus supplement), 868,646 shares of common stock underlying the outstanding options and outstanding restricted stock awards and 326,966 shares of common stock reserved for future issuance under our stock incentive plans. Under the Controlled Equity Offering^{SM} Sales Agreement entered into with Cantor Fitzgerald & Co. on February 1, 2013, we may offer and sell, from time to time through "at-the-market" offerings, up to an aggregate of $25.0 million of shares of our common stock. In connection with the offering of shares of common stock and warrants covered by this prospectus supplement, the Company agreed to not sell any ATM Shares for a period of six months from the closing date of this offering.

We have broad discretion in the use of the net proceeds from this offering.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways with which you may not agree. Accordingly, you will be relying on the judgment of our management with regard to the use of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. We are currently evaluating our product pipeline, including the future strategic value of ThermoDox®, as well as strategic alternatives. We may use the net proceeds to continue or expand our research and development activities or to fund possible investments in, or acquisitions of, complementary businesses, technologies or products. It is possible that the net proceeds will be invested or otherwise used in a way that does not yield a favorable, or any, return for us.

We reassessed our accounting of our preferred stock offering in 2011 based on a review by the Public Company Accounting Oversight Board of our 2011 financial statement audit.

We reassessed the application of ASC 470-20, *Debt with Conversion and Other Options* as it relates to the 8% Series A redeemable convertible preferred stock offering completed in January 2011 (the Preferred Offering). We received gross proceeds from the Preferred Offering of approximately $5.1 million, in which we sold 5,000 shares of 8% redeemable convertible preferred stock with a stated value of $1,000 per share, each share convertible into 92.5926 shares of common stock, and warrants to purchase up to approximately 463,000 shares of common stock. All of the 5,000 shares of preferred stock sold in the Preferred Offering were converted into the stated number of common stock shares as of August 2011. ASC 470-20 requires us to value the preferred stock and common stock warrants, any resulting beneficial conversion feature(s) resulting from the valuation of these securities and to determine and record the value of each of these securities or conversion feature as debt or equity based on the interpretation and application of ASC 470-20.

We allocated the proceeds of the Preferred Offering between the redeemable preferred stock and the warrants based on fair value and correctly recorded the redeemable preferred stock as a liability (debt), but did not consider the embedded beneficial conversion feature (BCF) associated with the redeemable preferred stock. ASC 470-20 required us to record a BCF of approximately $5.0 million at the time of issuance of the $5.0 million of shares of convertible preferred stock and to amortize the BCF as non-cash interest expense over the conversion period. Since all of the shares of convertible preferred stock were converted by August 8, 2011, the entire $5.0 million of BCF should have been amortized as interest expense during 2011. As a result, our interest expense and net loss were understated by $5.0 million. The error had no effect on cash, cash flows or total shareholders' equity during 2011 and had no effect on cash, cash flows, net income or total shareholders' equity for any subsequent periods. After considering the quantitative and qualitative effects of the errors to the 2011 annual financial statements, as well as the quarterly period financial statements within 2011, in the opinion of management the error is not material to assessing the financial condition or operations of the Company. If the SEC were to disagree with our conclusion, we could be asked to restate our 2011 financial statements. W have adjusted additional paid-in capital and a corresponding offset to retained earnings on the September 30, 2013 and December 31, 2012 balance sheets to reflect this adjustment.

The adverse capital and credit market conditions could affect our liquidity.

Adverse capital and credit market conditions could affect our ability to meet liquidity needs, as well as our access to capital and cost of capital. The capital and credit markets have experienced extreme volatility and disruption in recent years. Our results of operations, financial condition, cash flows and capital position could be materially adversely affected by continued disruptions in the capital and credit markets.

Our ability to use net operating losses to offset future taxable income are subject to certain limitations.

We currently have significant net operating losses (NOLs) that may be used to offset future taxable income. In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the Code), a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. During 2012 and 2011, the Company performed analyses to determine if there were changes in ownership, as defined by Section 382 of the Internal Revenue Code that would limit its ability to utilize certain net operating loss and tax credit carryforwards. The Company determined that it experienced an ownership change, as defined by Section 382, in connection with its registered direct and private placement offerings on July 25, 2011. As a result, the utilization of the Company's federal tax net operating loss carryforwards generated prior to the ownership change is limited. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code, which would significantly limit our ability to utilize NOLs to offset future taxable income.

We have never paid dividends on our common stock in the past and do not anticipate paying cash dividends on our common stock in the foreseeable future.

We have never declared or paid cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future for holders of our common stock.

Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control.

Our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable by authorizing the issuance of "blank check" preferred stock. This preferred stock

may be issued by our board of directors on such terms as it determines, without further stockholder approval. Therefore, our board of directors may issue such preferred stock on terms unfavorable to a potential bidder in the event that our board of directors opposes a merger or acquisition. In addition, our classified board of directors may discourage such transactions by increasing the amount of time necessary to obtain majority representation on our board of directors. Certain other provisions of our bylaws and of Delaware law may also discourage, delay or prevent a third party from acquiring or merging with us, even if such action were beneficial to some, or even a majority, of our stockholders.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission (SEC) and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, we publish forward-looking statements relating to matters such as anticipated financial performance, business prospects, technological developments, new products, research and development activities and other aspects of our present and future business operations as well as similar matters. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include, among others:

- any statements regarding future operations, plans, regulatory filings or approvals, including the plans and objectives of management for future operations or programs or proposed new products or services;
- any statements regarding the performance, or likely performance, or outcomes or economic benefit of any of our research and development activities, proposed or potential clinical trials or new drug filing strategies or timelines, including whether any of our clinical trials will be completed successfully within any specified time period or at all;
- any projections of earnings, cash resources, revenue, operating expense or other financial terms;
- any statements regarding development or changes in the course of research and development activities and in clinical trials;
- any statements regarding cost and timing of development and testing, capital structure, financial condition, working capital needs and other financial items;
- any statements regarding existing or future collaborations, mergers, acquisitions or other strategic transactions;
- any statements regarding approaches to medical treatment, any introduction of new products by others, any possible licenses or acquisitions of other technologies, assets or businesses, or possible actions by customers, suppliers, strategic partners, potential strategic partners, competitors or regulatory authorities;
- any statements regarding compliance with the listing standards of The NASDAQ Capital Market; and

- any statements regarding future economic conditions or performance and any statement of assumptions underlying any of the foregoing.

In some cases, you can identify forward-looking statements by terminology such as “expect,” “anticipate,” “estimate,” “continue,” “plan,” “believe,” “could,” “intend,” “predict,” “project,” “may,” “should,” “will” and words of similar import rega expectations. Forward-looking statements are only predictions and actual events or results may differ materially. Although we believe that our expectations are based on reasonable assumptions within the bounds of our current knowledge of our industry, business and operations, we cannot guarantee that actual results will not differ materially from our expectations. In evaluating such forward-looking statements, you should specifically consider various factors, including the risks outlined under the heading “Risk Factors” contained in this prospectus supplement, the accompanying prospectus and any related free writing prospectus, and in our most recent Annual Report on Form 10-K and our most recent Quarterly Report on Form 10-Q, as well as any amendments thereto reflected in subsequent filings with the SEC. The discussion of risks and uncertainties set forth in those filings is not necessarily a complete or exhaustive list of all risks facing us at any particular point in time. We operate in a highly competitive, highly regulated and rapidly changing environment, and our business is in a state of evolution. Therefore, it is likely that over time new risks will emerge and the nature and elements of existing risks will change. It is not possible for management to predict all such risk factors or changes therein or to assess either the impact of all such risk factors on our business or the extent to which any individual risk factor, combination of factors or new or altered factors may cause results to differ materially from those contained in any forward-looking statement. Forward-looking statements represent our estimates and assumptions only as of the date such forward-looking statements are made. You should carefully read this prospectus supplement, the accompanying prospectus and any related free writing prospectus, together with the information incorporated herein or therein by reference, and with the understanding that our actual future results may materially differ from what we expect.

Except as required by law, forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statements publicly or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available.

USE OF PROCEEDS

We currently intend to use the net proceeds from this offering for general corporate purposes, including research and development activities, capital expenditures and working capital. We may also use all or a portion of the net proceeds from this offering to fund possible investments in, or acquisitions of, complementary businesses, technologies or products, but we currently have no agreements or commitments with respect to any investment or acquisition. Pending the application of the net proceeds, we intend to invest the net proceeds in short-term, investment grade, interest-bearing securities.

As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering, if any. As a result, our management will have broad discretion regarding the timing and application of the net proceeds from this offering.

DILUTION

If you invest in our common stock and warrants to purchase common stock offered by this prospectus supplement and the accompanying prospectus, you will experience immediate dilution to the extent of the difference between the price per unit you pay in this offering and the net tangible book value per share of our common stock immediately after this offering. Our net tangible book value as of September 30, 2013 was approximately $28.8 million, or approximately $2.11 per share of common stock. Net tangible book value per share as of September 30, 2013 equals the sum of our total tangible assets minus total liabilities, divided by the number of shares of our common stock outstanding as of September 30, 2013.

Dilution in net tangible book value per share represents the difference between the amount per share paid by the investors in this offering and the net tangible book value per share of our common stock immediately after this offering. After giving effect to the sale of 3,603,604 shares of our common stock and warrants to purchase up to 1,801,802 shares of common stock in this offering at the offering price of $4.1625 per unit, and after deducting the placement agent fees and the estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2013 would have been approximately $42.5 million, or approximately $2.47 per share of common stock. This represents an immediate increase in the net tangible book value of approximately $0.36 per share to our existing stockholders and an immediate dilution in the net tangible book value of approximately $1.6925 per share to investors participating in this offering. The following table illustrates this calculation on a per share basis.

Public offering price per unit		$4.1625
Net tangible book value per share as of September 30, 2013	$2.11	
Increase in net tangible book value per share attributable to this offering	$0.36	
As adjusted net tangible book value per share as of September 30, 2013, after giving effect to this offering		$2.47
Dilution per share to investors purchasing shares in this offering		$1.6925

The number of shares of our common stock shown above to be outstanding immediately after this offering is based on 13,604,975 shares outstanding as of September 30, 2013 (after giving effect to the one-for-4.5 reverse split of our common stock effective as of October 28, 2013), and excludes, as of such date:

- 865,609 shares of our common stock subject to outstanding options having a weighted average exercise price of $12.29 per share, and 3,037 shares of common stock subject to outstanding non-vested restricted stock awards with a weighted average grant date fair value of $13.64;

- 326,966 shares of our common stock reserved for future issuance pursuant to our existing stock incentive plans;

3,073,027 shares of our common stock issuable upon exercise of warrants outstanding as of September 30, 2013, having a weighted average exercise price of $10.89 per share;

194,986 shares of common stock issuable upon exercise of the warrant issued to Hercules Technology Growth Capital, Inc. on November 25, 2013 in connection with the extension of a secured term loan to us, including 97,493 shares of common stock that will become exercisable upon an additional advance under the secured term loan to us, at an exercise price of $3.59 per share;

147,760 shares of our common stock held as treasury stock; and

up to 1,801,802 shares of our common stock issuable upon exercise of the warrants to be issued in this offering, having an exercise price of $4.10 per share.

If the investors purchasing the shares of common stock and warrants to purchase common stock exercise all of the warrants at the exercise price of $4.10 per share in cash payment, after deducting the placement agent fees and the estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2013 would have been approximately $49.9 million, or approximately $2.63 per share of common stock. This represents an immediate increase in the net tangible book value of approximately $0.52 per share to our existing stockholders and an immediate dilution in the net tangible book value of approximately $1.51 per share to investors participating in this offering.

To the extent that any of our outstanding options or warrants are exercised, new options are issued under our stock incentive plans or we otherwise issue additional shares of common stock in the future, there may be further dilution to the investors participating in this offering.

PRICE RANGE OF OUR COMMON STOCK

Our common stock trades on The NASDAQ Capital Market under the symbol "CLSN." The following table sets forth, for the periods indicated, the reported high and low closing sale prices per share of our common stock on The NASDAQ Capital Market (after giving effect to the one-for-4.5 reverse split of our common stock that became effective as of October 28, 2013).

Period	High	Low
Year Ending December 31, 2014		
First Quarter (January 1, 2014 to January 17, 2014)	$4.57	3.93
Year Ended December 31, 2013		
First Quarter	42.12	4.37
Second Quarter	8.42	3.47
Third Quarter	6.40	4.91
Fourth Quarter	5.14	5.18
Year Ended December 31, 2012		
First Quarter	10.00	7.39
Second Quarter	14.10	7.93
Third Quarter	26.58	12.84
Fourth Quarter	39.77	19.37

On January 17, 2014, the last reported closing sale price of our common stock on The NASDAQ Capital Market was $3.96 per share.

DESCRIPTION OF SECURITIES WE ARE OFFERING

We are offering 3,603,604 shares of our common stock, par value $0.01 per share, and warrants to purchase up to 1,801,802 shares of our common stock to certain institutional investors. The shares of common stock and warrants will be sold in units, with each unit consisting of one share of common stock, a Series A warrant to purchase 0.25 share of common stock at an exercise price of $4.10 per share of common stock and a Series B warrant to purchase 0.25 share of common stock at an exercise price of $4.10 per share of common stock. Each unit will be sold at a purchase price of $4.1625. This prospectus supplement also relates to the offering of the shares of our common stock issuable upon exercise of the warrants. There is no established public trading market for the warrants and we do not expect a market to develop. We do not intend to apply for a listing of the warrants on any national securities exchange.

Common Stock

The material terms and provisions of our common stock are described under the heading “Description of Capital Stock” starting on page 9 of the accompanying prospectus.

Warrants

The following is a brief summary of the warrants and is subject to, and qualified in its entirety by, the terms set forth in the forms of the Series A common stock purchase warrant and the Series B common stock purchase warrant to be filed as exhibits to our Current Report on Form 8-K, which we expect to file with the Securities and Exchange Commission in connection with this offering.

Exercisability. Holders of Series A warrants may exercise the warrants at any time on or after the date of issuance and on or prior to the close of business on the date that is five years after the date of issuance, subject to the beneficial ownership limitation described below. Holders of Series B warrants may exercise the warrants at any time on or after the date of issuance and on or prior to the close of business on the date that is one year after the date of issuance, subject to the beneficial ownership limitation described below. Each warrant is exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice. The holder shall deliver the aggregate exercise price for the shares of common stock specified in the exercise notice within three trading days following the date of exercise unless the cashless exercise is specified in the exercise notice.

Cashless Exercise. If, at the time of exercise of a warrant, there is no effective registration statement registering the shares of common stock issuable upon exercise of the warrant or the prospectus contained in the registration statement

is not available for the issuance of the shares of common stock issuable upon exercise of the warrant, the holder may only exercise the warrant, in whole or in part, on a cashless basis. When exercised on a cashless basis, a portion of the warrant is cancelled in payment of the purchase price payable in respect of the number of shares of our common stock purchasable upon such exercise. Any warrant that is outstanding on the termination date of the warrant shall be automatically exercised via cashless exercise.

Exercise Price. The exercise price of each warrant is $4.10 per share of common stock and is subject to adjustment as described below.

Beneficial Ownership Limitation.

We shall not effect any exercise of a warrant, and a holder shall have no right to exercise any portion of a warrant, to the extent that, after giving effect to such exercise, such holder, together with such holder's affiliates, and any persons acting as a group together with such holder or any such affiliate, would beneficially own in excess of, at the initial option of the holder thereof, 4.99% or 9.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of the shares of common stock upon such exercise. The holder of the warrant, upon not less than 61 days' prior notice to us, may increase or decrease the beneficial ownership limitation to a percentage not to exceed 9.99%. Beneficial ownership of the holder and its affiliates will be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Exercise Price Adjustment.

Stock dividends and stock splits. If we pay a stock dividend or otherwise make a distribution payable in shares of common stock on shares of common stock or any other common stock equivalents, subdivide or combine outstanding common stock, or reclassify common stock, the exercise price will be adjusted by multiplying the then exercise price by a fraction, the numerator of which shall be the number of shares of common stock (excluding treasury shares, if any) outstanding immediately before such event, and the denominator of which shall be the number of shares outstanding immediately after such event.

Rights Offerings. If we issue common stock equivalents or rights to purchase stock, warrants, securities or other property pro rata to holders of common stock, a holder of a warrant will be entitled to acquire, subject to the beneficial ownership limitation described above, such common stock equivalents or rights that such holder could have acquired if such holder had held the number of shares of common stock issuable upon complete exercise of the warrant immediately prior to the date a record is taken for such issuance.

Pro Rata Distributions. If we distribute to holders of common stock evidences of our indebtedness, assets, warrants or other rights to subscribe for any security, then the exercise price will be adjusted by multiplying the exercise price in effect immediately prior to the record date for such distribution by a fraction, the numerator of which is the volume weighted average price (as defined in the warrant) of the common stock on such record date minus the fair market value at such record date of the distributed evidence of indebtedness, asset, warrant or other right applicable to one share of common stock, such fair market value to be determined by our board of directors in good faith, and the

denominator of which is the volume weighted average price (as defined in the warrant) of the common stock on such record date.

Fundamental Transaction. If we effect a fundament transaction, including, among other things, a merger, sale of substantially of the assets, tender offer, exchange offer and other business combination transactions, then upon any subsequent exercise of a warrant, the holder thereof shall have the right to receive, for each share of common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of the successor's or acquiring corporation's common stock or of our common stock, if we are the surviving corporation, and any additional consideration receivable as a result of such fundamental transaction by a holder of the number of shares of common stock for which the warrant is exercisable immediately prior to such fundamental transaction.

Transferability. Each warrant and all rights thereunder are transferable, in whole or in part, upon surrender of the warrant, together with a written assignment of the warrant.

No Rights as Stockholder Until Exercise. The holders of the warrants do not have any voting rights, dividends or other rights as a holder of our capital stock until they exercise the warrants.

Fractional Shares. No fractional shares of common stock will be issued upon exercise of any warrant. We shall, at our election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the exercise price or round up to the next whole share.

PLAN OF DISTRIBUTION

Pursuant to an engagement letter dated as of May 30, 2013, as amended as of January 14, 2014, by and between H.C. Wainwright & Co., LLC and us, we have engaged H.C. Wainwright & Co., LLC as our exclusive placement agent in connection with this offering. H.C. Wainwright & Co., LLC is not purchasing any shares of our common stock for its own account in this offering and is not required to arrange the purchase or sale of any specific number or dollar amount of the shares of our common stock.

H.C. Wainwright & Co., LLC has agreed to use it reasonable best efforts to arrange for the sale of all of the shares of our common stock in this offering. There is no requirement that any minimum number or dollar amount of the shares of our common stock be sold in this offering and there can be no assurance that we will sell all or any of the shares being offered. We have entered into a securities purchase agreement on January 15, 2014 directly with the investors who agree to purchase shares of commons stock and warrants to purchase common stock in this offering. The engagement letter, as amended, and the securities purchase agreement provide that the obligations of H.C. Wainwright & Co., LLC and the investors are subject to certain conditions precedent, including, among other things, the absence of any material adverse change in our business and the receipt of certain opinions, letters and certificates from us or our counsel, as applicable.

We currently anticipate that the closing of this offering will take place on or about January 21, 2014. On the closing date, the following will occur:

- we will receive funds in the amount of the aggregate purchase price;
- H.C. Wainwright & Co., LLC, as the placement agent, will receive the placement agent fees in accordance with the terms of the engagement letter; and
- we will deliver the shares of our common stock to the investors.

We have agreed to pay H.C. Wainwright & Co., LLC the placement agent fees equal to 7.5%, or $1,125,000.12, of the gross proceeds from the sale of the shares in this offering.

The following table shows the per share and total placement agent fees we will pay in connection with the sale of the units, assuming the purchase of all of the units we are offering.

Per unit placement agent fees	$0.3121875
Maximum Offering Total	$1,125,000.12

Because there is no minimum offering amount required as a condition to the closing in this offering, the actual total offering commissions, if any, are not presently determinable and may be substantially less than the maximum amount set forth above.

In no event will the total amount of compensation paid to the placement agent or any other member of FINRA or independent broker-dealer upon completion of this offering exceed 8% of the gross proceeds of the offering. We estimate the total expenses of this offering, which will be payable by us, excluding the placement agent fees, will be approximately $89,000. After deducting the fees due to the placement agent and our estimated offering expenses, we expect the net proceeds from this offering to be approximately $13.8 million.

Our obligations to issue and sell units to the investors is subject to the conditions set forth in the securities purchase agreement, which may be waived by us at our discretion. An investor’s obligation to purchase units is subject to the conditions set forth in the securities purchase agreement as well, which may also be waived.

We have agreed to indemnify H.C. Wainwright & Co., LLC and certain other persons against certain liabilities relating to or arising out of H.C. Wainwright & Co., LLC’s activities under the engagement letter. We have also agreed to contribute to payments H.C. Wainwright & Co., LLC may be required to make in respect of such liabilities. We have agreed to indemnify H.C. Wainwright & Co., LLC and specified other persons against some civil liabilities, including liabilities under the Securities Act of 1933, as amended (Securities Act), and the Securities Exchange Act of 1934, as amended (Exchange Act), and to contribute to payments that H.C. Wainwright & Co., LLC may be required to make in respect of such liabilities.

H.C. Wainwright & Co., LLC may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act, and any commissions received by it and any profit realized on the resale of the units sold by it while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. As an underwriter, H.C. Wainwright & Co., LLC would be required to comply with the requirements of the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act. These rules and regulations may limit the timing of purchases and sales of shares of common stock by H.C. Wainwright & Co., LLC acting as principal. Under these rules and regulations, H.C. Wainwright & Co., LLC.

- may not engage in any stabilization activity in connection with our securities; and

- may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

Prior to the offering, H.C. Wainwright & Co., LLC and its affiliates beneficially owned no shares of our common stock.

A copy of the amendment to engagement letter, the securities purchase agreement we entered into with the purchasers, the form of the Series A common stock purchase warrant and the form of the Series B common stock purchase warrant will be included as exhibits to our Current Report on Form 8-K that will be filed with the Securities and Exchange Commission in connection with the consummation of this offering.

The transfer agent for our common stock is American Stock Transfer & Trust Company, LLC, located at 6201 15th Avenue, Brooklyn, NY 11219. Its telephone number is 718-921-8200.

Our common stock is traded on The NASDAQ Capital Market under the symbol “CLSN.”

LEGAL MATTERS

Certain legal matters in connection with the shares of common stock offered hereby will be passed upon for us by O'Melveny & Myers LLP, Menlo Park, California.

EXPERTS

Stegman & Company, independent registered public accounting firm, has audited our financial statements included in our Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended December 31, 2012, as set forth in their report, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. Our financial statements are incorporated by reference in reliance on Stegman & Company's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act). In accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information filed by us are available to the public free of charge at www.sec.gov. You may also read and copy any document we file with the SEC at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. Copies of certain information filed by us with the SEC are also available on our website at www.celsion.com. The information available on or through our website is not part of this prospectus supplement or the accompanying prospectus and should not be relied upon.

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the SEC. This prospectus supplement and the accompanying prospectus omit some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information about us and the securities being offered hereby. Statements in this prospectus supplement or the accompanying prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to the filings. You should review the complete document to evaluate these statements.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission (SEC) rules allow us to "incorporate by reference" into this prospectus supplement and the accompanying prospectus much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference into this prospectus supplement and the accompanying prospectus is considered to be part of this prospectus supplement and the accompanying prospectus. These documents may include Annual Reports on Form 10-K and Form 10-K/A, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

This prospectus supplement and the accompanying prospectus incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act (in each case, other than those documents or the portions of those documents deemed to be furnished and not filed in accordance with SEC rules):

our Annual Report on Form 10-K and Amended No. 1 on Form 10-K/A for the fiscal year ended December 31, 2012, filed with the SEC on March 18, 2013 and April 30, 2013, respectively;

our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013, filed with the SEC on May 9, 2013;

our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013, filed with the SEC on August 8, 2013;

our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013, filed with the SEC on November 12, 2013;

our Current Reports on Form 8-K filed with the SEC on January 25, 2013, January 31, 2013, February 1, 2013, February 6, 2013, February 22, 2013, February 26, 2013, May 31, 2013, June 3, 2013, July 2, 2013, July 22, 2013, October 29, 2013, November 12, 2013, November 26, 2013 and January 15, 2014;

our Definitive Proxy Statement on Schedule 14A filed with the SEC on June 7, 2013; and

the description of our common stock contained in our registration statement on Form 8-A filed with the SEC on May 26, 2000, as amended by a Form 8-A/A dated February 7, 2008, and any amendments or reports filed for the purpose of updating such description.

Any statement contained in any document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or any additional prospectus supplement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

Because we are incorporating by reference future filings with the SEC, this prospectus supplement and the accompanying prospectus are continually updated and later information filed with the SEC may update and supersede some of the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus supplement and the accompanying prospectus or in any document previously incorporated by reference have been modified or superseded.

We will provide without charge to each person, including any beneficial owners, to whom this prospectus supplement is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement. You may request a copy of these documents by writing or telephoning us at the following address:

Celsion Corporation

997 Lenox Drive, Suite 100

Lawrenceville, New Jersey 08648

(609) 896-9100

Attention: Jeffrey W. Church

Senior Vice President and Chief Financial Officer