

CALLISTO PHARMACEUTICALS INC

Form 10-Q

May 15, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2012**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32325

# CALLISTO PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**13-3894575**  
(I.R.S. Employer  
Identification No.)

**420 Lexington Avenue, Suite 1609, New York, New York 10170**

(Address of principal executive offices) (Zip Code)

**(212) 297-0010**

(Registrant's telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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The number of the registrant's shares of common stock outstanding was 158,516,071 as of May 14, 2012.

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CALLISTO PHARMACEUTICALS, INC.

FORM 10-Q

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INTRODUCTORY NOTE

This Report on Form 10-Q for Callisto Pharmaceuticals, Inc. ( Callisto or the Company ) may contain forward-looking statements. You can identify these statements by forward-looking words such as plan, may, will, expect, intend, anticipate, believe, estimate or similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. However, there may be events in the future that we are not able to accurately predict or control. Accordingly, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties set forth under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities Exchange Commission on March 30, 2012. Accordingly, to the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that Callisto's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. All drug candidates to treat GI disorders and diseases, currently plecanatide and SP-333, are being developed exclusively by Synergy Pharmaceuticals, Inc., our controlled subsidiary ( Synergy ). Use of the terms we , our or us in connection with GI drug candidates discussed herein refer to research and development activities and plans of Synergy.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CALLISTO PHARMACEUTICALS, INC.****(A Development Stage Company)****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,123,418	\$ 13,244,961
Prepaid expenses and other	1,268,642	796,028
Tax credits receivable	377,865	377,865
<b>Total Current Assets</b>	<b>7,769,925</b>	<b>14,418,854</b>
Property and equipment, net	5,282	5,774
Security deposits	87,740	87,740
<b>Total Assets</b>	<b>\$ 7,862,947</b>	<b>\$ 14,512,368</b>
<b>LIABILITIES AND STOCKHOLDERS (DEFICIT)/EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 3,806,085	\$ 3,206,827
Accrued expenses	1,047,883	1,457,427
<b>Total Current Liabilities</b>	<b>4,853,968</b>	<b>4,664,254</b>
Derivative financial instruments, at estimated fair value warrants	3,317,168	3,325,114
<b>Total Liabilities</b>	<b>8,171,136</b>	<b>7,989,368</b>
Stockholders (Deficit)/Equity:		
Series A convertible preferred stock, par value \$0.0001, 700,000 shares authorized, 8,000 shares outstanding at March 31, 2012 and December 31, 2011	1	1
Common stock, par value of \$.0001 per share: 225,000,000 shares authorized; 158,516,071 shares outstanding at March 31, 2012 and December 31, 2011	15,852	15,852
Additional paid-in capital	168,982,120	168,531,201
Deficit accumulated during development stage	(145,508,572)	(142,366,313)
<b>Total Callisto Stockholders Equity</b>	<b>23,489,401</b>	<b>26,180,741</b>
Non-controlling interest	(23,797,590)	(19,657,741)
<b>Total Stockholders (Deficit)/Equity</b>	<b>(308,189)</b>	<b>6,523,000</b>
<b>Total Liabilities and Stockholders (Deficit)/Equity</b>	<b>\$ 7,862,947</b>	<b>\$ 14,512,368</b>

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The accompanying notes are an integral part of these condensed consolidated financial statements.

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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	For the period June 5, 1996 (inception) to March 31, 2012
Revenues	\$	\$	\$
Costs and Expenses:			
Research and development	5,338,140	1,371,928	64,432,657
Government grants	3,508		(1,131,810)
Purchased in-process research and development			6,944,553
General and administrative	1,953,309	1,959,844	62,325,966
Loss from Operations	(7,294,957)	(3,331,772)	(132,571,366)
Interest and investment income	4,903	51	921,480
Tax credit			1,393,219
Other income		(12,414)	(943,124)
Loss on debt extinguishment			(2,099,892)
Change in fair value of derivative instruments	7,946	(338,715)	(16,902,339)
Net Loss	(7,282,108)	(3,682,850)	(150,202,022)
Net Loss attributable to noncontrolling interest	4,139,849	1,921,483	23,797,590
Net loss attributable to Callisto	(3,142,259)	(1,761,367)	(126,404,432)
Series A Preferred stock conversion rate change and beneficial conversion feature accreted as a dividend			(5,025,849)
Series B Preferred stock conversion rate change and beneficial conversion feature accreted as a dividend			(12,174,391)
Cumulative effect of adopting ASC Topic 815 January 1, 2009			(1,903,900)
Net loss attributable to Callisto common stockholders	\$ (3,142,259)	\$ (1,761,367)	\$ (145,508,572)
<i>Weighted Average Common Shares Outstanding</i>			
Basic and Diluted	158,516,071	157,645,404	
<i>Net Loss per Common Share</i>			
Basic and Diluted	\$ (0.02)	\$ (0.01)	

The accompanying notes are an integral part of these condensed consolidated financial statements.





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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT)

(Unaudited)

	Preferred Shares	Preferred Stock, Par Value	Common Shares	Common Stock, Par Value	Additional Paid in Capital
Balance at inception, June 5, 1996		\$		\$	\$
Net loss for the year					
Issuance of founder shares			2,642,500	264	528
Common stock issued			1,356,194	136	272
Common stock issued via private placement			1,366,667	137	1,024,863
Balance, December 31, 1996			5,365,361	537	1,025,663
Net loss for the year					
Common stock issued via private placement			1,442,666	144	1,081,855
Balance, December 31, 1997			6,808,027	681	2,107,518
Net loss for the year					
Amortization of Stock based Compensation					52,778
Common stock issued via private placement			1,416,667	142	1,062,358
Common stock issued for services			788,889	79	591,588
Common stock repurchased and cancelled			(836,792)	(84)	(96,916)
Balance, December 31, 1998			8,176,791	818	3,717,326
Net loss for the year					
Deferred Compensation stock options					9,946
Amortization of Stock based Compensation					
Common stock issued for services					3,168,832
Common stock issued via private placement			346,667	34	259,966
Balance, December 31, 1999			8,523,458	852	7,156,070
Net loss for the year					
Amortization of Stock based Compensation					
Common stock issued			4,560,237	455	250,889
Other					432
Preferred shares issued	3,485,299	348			5,986,302
Preferred stock issued for services	750,000	75			1,124,925
Balance, December 31, 2000	4,235,299	423	13,083,695	1,307	14,518,618
Net loss for the year					
Deferred Compensation stock Options					20,000
Amortization of Stock based Compensation					

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Balance, December 31, 2001	4,235,299	423	13,083,695	1,307	14,538,618
Net loss for the year					
Amortization of Stock based Compensation					
Balance, December 31, 2002	4,235,299	\$ 423	13,083,695	\$ 1,307	\$ 14,538,618

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance at inception, June 5, 1996	\$	\$	\$
Net loss for the year		(404,005)	(404,005)
Issuance of founder shares			792
Common stock issued			408
Common stock issued via private placement			1,025,000
Balance, December 31, 1996		(404,005)	622,195
Net loss for the year		(894,505)	(894,505)
Common stock issued via private placement			1,081,999
Balance, December 31, 1997		(1,298,510)	809,689
Net loss for the year		(1,484,438)	(1,484,438)
Amortization of Stock based Compensation			52,778
Common stock issued			1,062,500
Common stock issued for services			591,667
Common Stock repurchased and cancelled			(97,000)
Balance, December 31, 1998		(2,782,948)	935,196
Net loss for the year		(4,195,263)	(4,195,263)
Deferred Compensation stock options	(9,946)		
Amortization of Stock based Compensation	3,262		3,262
Common stock issued for services			3,168,832
Common stock issued via private placement			260,000
Balance, December 31, 1999	(6,684)	(6,978,211)	172,027
Net loss for the year		(2,616,261)	(2,616,261)
Amortization of Stock based Compensation	4,197		4,197
Common stock issue			251,344
Other			432
Preferred shares issued			5,986,650
Preferred stock issued for services			1,125,000
Balance, December 31, 2000	(2,487)	(9,594,472)	4,923,389
Net loss for the year		(1,432,046)	(1,432,046)
Deferred Compensation stock options	(20,000)		
Amortization of Stock based Compensation	22,155		22,155
Balance, December 31, 2001	(332)	(11,026,518)	3,513,498
Net loss for the year		(1,684,965)	(1,684,965)
Amortization of Stock based Compensation	332		332

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Balance, December 31, 2002	\$	\$	(12,711,483)	\$	1,828,865
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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Preferred Stock	Preferred Stock Par Value	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance								
December 31, 2002	4,235,299	\$ 423	13,083,695	\$ 1,307	\$ 14,538,618	\$	\$ (12,711,483)	\$ 1,828,865
Net loss for the year							(13,106,247)	(13,106,247)
Conversion of preferred stock in connection with the Merger	(4,235,299)	(423)	4,235,299	423				
Common stock issued to former Synergy stockholders			4,329,927	432	6,494,458			6,494,890
Common stock issued in exchange for Webtronics common stock			1,503,173	150	(150)			
Deferred Compensation stock options					9,313,953	(9,313,953)		
Amortization of deferred Stock based Compensation						3,833,946		3,833,946
Private placement of common stock, net			2,776,666	278	3,803,096			3,803,374
Balance, December 31, 2003		\$	25,928,760	\$ 2,590	\$ 34,149,975	\$ (5,480,007)	\$ (25,817,730)	\$ 2,854,828

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance, December 31, 2003	25,928,760	\$ 2,590	\$ 34,149,975	\$ (5,480,007)	\$ (25,817,730)	\$ 2,854,828
Net loss for the year					(7,543,467)	(7,543,467)
Amortization of deferred Stock-based compensation expense				3,084,473		3,084,473
Variable accounting for stock options			(816,865)			(816,865)
Stock-based compensation net of forfeitures			240,572	93,000		333,572
Common stock issued via private placements, net	3,311,342	331	6,098,681			6,099,012
Warrant and stock-based compensation for services in connection with the Merger			269,826			269,826
Common stock returned from former Synergy stockholders	(90,000)	(9)	(159,083)			(159,092)
Stock issued for patent rights	25,000	3	56,247			56,250
Common stock issued for services	44,000	7	70,833			70,840
Balance, December 31, 2004	29,219,102	\$ 2,922	\$ 39,910,186	\$ (2,302,534)	\$ (33,361,197)	\$ 4,249,377

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

## STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity (Deficit)
Balance, December 31, 2004	29,219,102	\$ 2,922	\$ 39,910,186	\$ (2,302,534)	\$ (33,361,197)	\$ 4,249,377
Net loss for the year					(11,779,457)	(11,779,457)
Deferred stock-based compensation new grants			1,571,772	(1,571,772)		
Amortization of deferred stock-based compensation				2,290,843		2,290,843
Variable accounting for stock options			75,109			75,109
Common stock issued via private placement:						
March 2005	1,985,791	198	3,018,203			3,018,401
August 2005	1,869,203	187	1,812,940			1,813,127
Finders fees and expenses			176,249			176,249
Exercise of common stock warrant	125,000	13	128,737			128,750
Common stock issued for services	34,000	3	47,177			47,180
Balance, December 31, 2005	33,233,096	\$ 3,323	\$ 46,387,875	\$ (1,583,463)	\$ (45,140,654)	\$ (332,919)

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock	Common Stock	Common Stock Par Value	Additional Paid in Capital	Unamortized Deferred Stock Based Compensation	Deficit Accumulated during the Development Stage	Total Stockholders Equity (Deficit)
Balance, December 31, 2005		\$	33,233,096	\$ 3,323	\$ 46,387,875	\$ (1,583,463)	\$ (45,140,654)	\$ (332,919)
Net loss for the year							(12,919,229)	(12,919,229)
Reclassification of deferred unamortized stock-based compensation upon adoption of FAS 123R					(1,583,463)	1,583,463		
Stock based compensation expense					2,579,431			2,579,431
Common stock issued via private placement: February 2006			4,283,668	428	5,139,782			5,140,210
Finders fees and expenses April 2006			666,667	67	799,933			800,000
Finders fees and expenses					(41,000)			(41,000)
Waiver and Lock-up Agreement			740,065	74	579,622			579,696
Common stock issued for services			87,000	9	121,101			121,110
Exercise of common stock warrants			184,500	18	190,017			190,035
Series A convertible preferred stock issued via private placement:	574,350	57			5,743,443			5,743,500
Finders fees and expenses	11,775	1			(448,909)			(448,908)
Detachable warrants					2,384,485			2,384,485
Beneficial conversion feature accreted as a dividend							(2,384,485)	(2,384,485)
Balance, December 31, 2006	586,125	\$ 58	39,194,996	\$ 3,919	\$ 61,290,509	\$	\$ (60,444,368)	\$ 850,118

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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock, Par Value	Series B Convertible Preferred Shares	Series B Convertible Preferred Stock, Par Value	Common Shares	Common Stock, Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Total Stockholders Equity
Balance, December 31, 2006	586,125	\$ 58		\$	39,194,996	\$ 3,919	\$ 61,290,509	\$ (60,444,368)	\$ 850,118
Net loss for the year								(7,887,265)	(7,887,265)
Stock-based compensation expense							591,561		591,561
Common stock issued for services					80,000	8	36,792		36,800
Series A convertible preferred stock, issued via private placement	28,000	4					279,997		280,001
Finders fees and expenses, Series A private placement							(36,400)		(36,400)
Conversion of Series A preferred stock to common stock	(395,450)	(40)			7,668,165	767	(727)		
Beneficial conversion feature accreted as a dividend to Series A preferred stock							2,504,475	(2,504,475)	
Series B convertible preferred stock, issued via private placement			1,147,050	115			11,470,385		11,470,500
Finders fees and expenses, Series B private placement							(920,960)		(920,960)
Beneficial conversion feature accreted as a dividend to Series B preferred stock							10,495,688	(10,495,688)	
Change in fair value of Series B warrants from date of issuance to expiration of put option							(2,591,005)		(2,591,005)
Balance, December 31, 2007	218,675	22	1,147,050	115	46,943,161	4,694	83,120,315	(81,331,796)	1,793,350
Net loss for the year								(9,655,471)	(9,655,471)

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Recapitalization of majority owned subsidiary via private placements of common stock						2,951,913				2,951,913
Minority interest in equity of subsidiary acquired						(42,824)				(42,824)
Stock-based compensation expense						589,063				589,063
Proceeds from issuance of 11% Notes attributable to detachable warrants						181,732				181,732
Conversion of Series A preferred stock to common stock	(120,675)	(12)		2,413,500	241	(229)				
Conversion of Series B preferred stock to common stock			(10,000)	(1)	200,000	20	(19)			
Balance, December 31, 2008	98,000 \$	10	1,137,050 \$	114	49,556,661 \$	4,955 \$	86,799,951 \$	(90,987,267) \$		(4,182,237)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

(Unaudited)

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock	Series B Convertible Preferred Shares	Series B Convertible Preferred Stock	Common Shares	Common Stock Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Non- Controlling Interest	Total Stockholders Equity (Deficit)
Balance, December 31, 2008	98,000	\$ 10	1,137,050	\$ 114	49,556,661	4,955	\$ 86,799,951	\$ (90,987,267)		\$ (4,182,237)
Cumulative effect of adoption of ASC Topic 815							(181,732)	(1,903,900)		(2,085,632)
Net Loss								(15,073,021)	(3,282,393)	(18,355,414)
Stock based compensation expense							1,119,856			1,119,856
Conversion of Series A preferred stock to common stock	(35,000)	(4)			894,445	89	(85)			
Conversion of Series B preferred stock to common stock			(122,884)	(12)	2,963,236	296	(284)			
Private placements of common stock of majority owned subsidiary							15,970,100			15,970,100
Fees and expenses associated with private placements of majority owned subsidiary							(260,002)			(260,002)
Preferred Stock dividend attributable to reset of conversion price in conjunction with waiver of liquidation preference							1,815,592	(1,815,592)		
Cashless Conversion of					193,769	19	(19)			

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Warrants to Common Stock																	
Balance																	
December 31, 2009	63,000	\$	6	1,014,166	\$	102	53,608,111	\$	5,359	\$	105,263,377	\$	(109,779,780)	\$	(3,282,393)	\$	(7,793,329)
Net Loss													(25,793,488)		(7,854,264)		(33,647,752)
Stock based compensation expense													854,651				854,651
Conversion of Series A preferred stock to common stock	(55,000)		(5)				1,527,777		153				(148)				
Conversion of Series B preferred stock to common stock				(1,014,166)		(102)	28,171,278		2,817				(2,715)				
Common shares in exchange for modification of convertible notes							265,770		27				100,169				100,196
Extinguishment on debt													2,809,531				2,809,531
Cashless conversion of Warrants to common stock upon extinguishment of convertible notes							72,355,769		7,236				(7,236)				
Warrants exchanged							1,505,699		151				(151)				
Direct offering of common stock of controlled subsidiary													7,179,000				7,179,000
Fair value of warrants issued in connection with controlled subsidiary registered direct offerings reclassified to derivative liability													(3,784,743)				(3,784,743)
Fees and expenses associated with direct offering of controlled subsidiary													(468,130)				(468,130)
Reclassification of derivative liability to equity upon termination of price protection													27,511,730				27,511,730
Common stock issued as settlement for director s fees							75,000		8				41,117				41,125
Balance																	
December 31, 2010	8,000	\$	1		\$		157,509,404	\$	15,751	\$	139,496,452	\$	(135,573,268)	\$	(11,136,657)	\$	(7,197,721)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

(Unaudited)

	Series A Convertible Preferred Shares	Series A Convertible Preferred Stock	Series B Convertible Preferred Shares	Series B Convertible Preferred Stock	Common Shares	Common Stock Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Non- Controlling Interest	Total Stockholders Equity (Deficit)
Net Loss								(6,793,045)	(8,521,084)	(15,314,129)
Stock based compensation expense							424,168			424,168
Common stock issued for services					850,000	85	532,915			533,000
Value of common stock issued by controlled subsidiary for consulting services provided							341,295			341,295
Placement of common stock of controlled subsidiary							34,369,064			34,369,064
Fees and expenses associated with direct offering of controlled subsidiary							(2,148,384)			(2,148,384)
Warrant exercise					106,667	11	53,323			53,334
Warrants issued in connection with controlled subsidiary registered direct offering reclassified to derivative liability-net							(5,094,186)			(5,094,186)
Exercise of warrants-controlled subsidiary							415,309			415,309
Common stocks issued for settlement of directors fee					50,000	5	41,245			41,250
Sale of option to purchase shares of controlled subsidiary							100,000			100,000
Balance December 31, 2011	8,000	1			158,516,071	15,852	168,531,201	(142,366,313)	(19,657,741)	6,523,000
Net loss for the period								(3,142,259)	(4,139,849)	(7,282,108)
Stock based compensation expense							358,256			358,256
Common stock issued by controlled subsidiary for services rendered							92,663			92,663

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Balance March 31, 2012	8,000	\$	1	\$	158,516,071	\$	15,852	\$	168,982,120	\$	(145,508,572)	\$	(23,797,590)	\$	(308,189)
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The accompanying notes are an integral part of these condensed consolidated financial statements.



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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011	Period from June 5, 1996 (inception) to March 31, 2012
<b>Cash flows from operating activities:</b>			
Net loss	\$ (7,282,108)	\$ (3,682,850)	\$ (150,202,022)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	492	1,317	111,950
Purchase discount accreted as interest income on U.S.Treasury bills			(26,950)
Stock-based compensation expense	525,919	124,653	21,458,758
Purchased in-process research and development			6,841,053
Interest expense on notes		11,877	759,400
Stock-based liquidated damages			579,696
Change in fair value of derivative instruments warrants	(7,946)	338,715	16,902,339
Loss on debt extinguishment			2,099,892
Net liabilities assumed in excess of assets acquired in merger			(282,752)
Changes in operating assets and liabilities:			
Prepaid expenses	(547,614)	267,898	(1,268,642)
Tax credit receivable		205,727	(377,865)
Security deposit			(87,740)
Accounts payable and accrued expenses	189,714	(205,878)	4,883,842
Total Adjustments	160,565	744,309	51,592,981
Net cash used in operating activities	(7,121,543)	(2,938,541)	(98,609,041)
<b>Cash flows from investing activities:</b>			
Short term investments purchased			(5,921,825)
Short term investments liquidated			5,948,775
Acquisition of equipment			(117,233)
Net cash used in investing activities			(90,283)
<b>Cash flows from financing activities:</b>			
Issuance of common and preferred stock			48,719,673
Issuance of common stock of controlled subsidiary		1,800,000	60,543,162
Selling Agent fees and expenses-combined		(185,000)	(5,930,684)
Proceeds from sale of 11% Notes		500,000	603,163
Proceed from exercise of warrants of controlled subsidiary			415,309
Exercise of common stock warrants			372,119
Proceeds from sale of option		53,334	100,000
Net cash provided by financing activities		2,168,334	104,822,742
Net (decrease) increase in cash and cash equivalents	(7,121,543)	(770,207)	6,123,418

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Cash and cash equivalents at beginning of period		13,244,961		1,708,982	
Cash and cash equivalents at end of period	\$	6,123,418	\$	938,775	\$ 6,123,418

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011	Period from June 5, 1996 (inception) to March 31, 2012
Supplementary disclosure of cash flow information:			
Cash paid for taxes	\$ 35,776	\$ 12,009	\$ 360,660
Supplementary disclosure of non-cash investing and financing activities:			
Series A Preferred stock beneficial conversion feature accreted as a dividend	\$	\$	\$ (4,888,960)
Series B Preferred stock beneficial conversion feature accreted as a dividend	\$	\$	\$ (10,495,688)
Series A Preferred stock conversion rate change accreted as a dividend	\$	\$	\$ (136,889)
Series B Preferred stock conversion rate change accreted as a dividend	\$	\$	\$ (1,678,703)
Common stock issued to extend notes payable	\$	\$	\$ 100,196
Value of warrants classified as derivative liability-net	\$	\$ 1,312,673	\$ 20,331,912
Value of shares issued for services	\$	\$ 533,000	\$ 625,663
Director's fees settled for shares of common stock	\$	\$	\$ 82,375

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CALLISTO PHARMACEUTICALS, INC.**  
**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Business overview:**

Callisto Pharmaceuticals, Inc. (which may be referred to as "Callisto", the Company) is a development stage biopharmaceutical company focused primarily on the development of drugs to treat gastrointestinal (GI) disorders and diseases and was incorporated under the laws of the State of Delaware on June 5, 1996 (inception). Since inception, Callisto's efforts have been principally devoted to research and development, securing and protecting patents and raising capital.

All drug candidates, currently plecanatide and SP-333 to treat GI disorders and diseases, are being developed exclusively by Synergy. Use of the terms "the Company" in connection with the GI drug candidates discussed herein refer to research and development activities and plans of Synergy.

Synergy's lead drug candidates are as follows:

(1) Plecanatide, a guanylyl cyclase C (GC-C) receptor agonist, to treat GI disorders, primarily chronic constipation (CC) and constipation-predominant irritable bowel syndrome (IBS-C).

(2) SP-333, a second generation GC-C receptor agonist, SP-333, now in pre-clinical development to treat gastrointestinal inflammatory diseases.

From inception through March 31, 2012, Callisto has sustained cumulative net losses attributable to common stockholders of \$145,508,572. Callisto's losses have resulted primarily from expenditures incurred in connection with research and development activities, application and filing for regulatory approval of proposed products, stock-based compensation expense, patent filing and maintenance expenses, purchase of in-process research and development, outside accounting and legal services and regulatory, scientific and financial consulting fees, as well as deemed dividends attributable to the beneficial conversion rights of convertible preferred stock at issuance. From inception through March 31, 2012, Callisto has not generated any revenue from operations. The Company expects to incur additional losses to perform further research and development activities and does not currently have any commercial biopharmaceutical products, and does not expect to have such for several years, if at all.

Callisto's product development efforts are thus in their early stages and Callisto cannot make estimates of the costs or the time they will take to complete. The risk of not completing any program is high because of the many uncertainties involved in bringing new drugs to market including the long duration of clinical testing, the specific performance of proposed products under stringent clinical trial protocols, the extended regulatory approval and review cycles, the nature and timing of costs and competing technologies being developed by organizations with significantly greater resources.

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**2. Basis of presentation and going concern:**

These condensed consolidated financial statements include Callisto and subsidiaries: (1) Callisto Research Labs, LLC (including its wholly-owned subsidiary, Callisto Pharma, GmbH (Germany inactive)), and (2) Synergy Pharmaceuticals, Inc. (including Synergy's wholly-owned subsidiaries, Synergy Advanced Pharmaceuticals, Inc. and IgX, Ltd (Ireland inactive)). All intercompany balances and transactions have been eliminated. These condensed consolidated financial statements do not include all of the information and footnote disclosures required by GAAP for complete financial statements. These statements should be read in conjunction with Callisto's audited financial statements and notes thereto for the year ended December 31, 2011, included in Form 10-K filed with the SEC on March 30, 2012. Certain items in the prior year's financial statements have been reclassified to conform to the current year's presentation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, primarily consisting of normal adjustments, necessary for the fair presentation of the balance sheet and results of operations for the interim periods. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2012. The condensed consolidated balance sheet as of December 31, 2011 presented above was derived from the audited consolidated financial statements as of that date.

The condensed consolidated financial statements as of March 31, 2012 and December 31, 2011 have been prepared under the assumption that Callisto will continue as a going concern for the twelve months ending December 31, 2012. Callisto's ability to continue as a going concern is dependent upon its ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate revenue. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Net cash used in operating activities was \$7,121,543 during the three months ended March 31, 2012 as compared to \$2,938,541 for the three months ended March 31, 2011 and \$98,609,041 during the period from June 5, 1996 (inception) to March 31, 2012. During the three months ended March 31, 2012 and 2011, Callisto incurred net losses attributable to common stockholders of \$3,142,259 and \$1,761,367, respectively and \$145,508,572 during the period from June 5, 1996 (inception) to March 31, 2012. To date, Callisto's sources of cash have been primarily limited to the sale of common stocks, warrants, and issuance of debt instruments. There were no financing activities for the three months ended March 31, 2012. As of March 31, 2012 Callisto had working capital of \$2,915,957 as compared to working capital of \$9,754,600 as of December 31, 2011.

On May 9, 2012, Synergy closed an underwritten public offering of 10,000,000 shares of common stock at an offering price of \$4.50 per share. The gross proceeds from this offering are \$45 million, before deducting underwriting discounts and commissions and other estimated offering expenses of approximately \$3 million. Synergy also granted the underwriters a 45-day option to purchase up to an additional 1,500,000 shares of common stock at an offering price of \$4.50 per share to cover over-allotments, if any.

Callisto may be required to raise additional capital within this year to complete the development and commercialization of current product candidates and to continue to fund operations at the current cash expenditure levels. Callisto cannot be certain that additional funding will be available on acceptable terms, or at all. Recently worldwide economic conditions and the international equity and credit markets have significantly deteriorated and may remain difficult for the foreseeable future. These developments may make it more difficult to obtain additional equity or credit financing, when needed. To the extent that Callisto raises additional funds by issuing equity securities, Callisto's stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact Callisto's ability to conduct business. If Callisto is unable to raise additional capital when required or on acceptable terms, Callisto may have to (i) significantly delay, scale back or discontinue the development and/or commercialization of one or more product candidates; (ii) seek collaborators for product

candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; or (iii) relinquish or otherwise dispose of rights to technologies, product candidates or products that Callisto would otherwise seek to develop or commercialize ourselves on unfavorable terms.

### 3. Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* ( ASU 2011-05 ) which is intended to facilitate the convergence of U.S. GAAP and International Financial Reporting Standards ( IFRS ) as well as to increase the transparency of items reported in other comprehensive income. As a result of ASU 2011-05, all nonowner changes in stockholders' equity are required to be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. The option to present other comprehensive income in the statement of changes in equity has been eliminated. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this standard on January 1, 2012 and the adoption did not have a material impact on the Company's consolidated financial statements.

In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends Topic 820 to provide common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles ( U.S. GAAP ) and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, as well as providing guidance on how fair value should be applied where its use is already required or permitted by other standards within U.S. GAAP. ASU No. 2011-04 is to be applied prospectively, and early adoption is not permitted. For public entities, the amendments are effective during interim and annual periods beginning after

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December 15, 2011. The adoption of ASU No. 2011-04 on January 1, 2012 did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 provides for additional disclosures of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this Update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and disclosures required by these amendments should be provided retrospectively for all comparative periods presented. The adoption of ASU No. 2011-11 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): De