

CALLISTO PHARMACEUTICALS INC
Form 10-Q
August 14, 2009

Table of Contents

**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: JUNE 30, 2009

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.

FORM 10-Q

CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	<u>2</u>
	<u>Condensed Consolidated Balance Sheets as of June 30, 2009 (unaudited) and December 31, 2008</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2009 and 2008 (unaudited) and the period June 5, 1996 (Inception) to June 30, 2009 (unaudited)</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the period June 5, 1996 (Inception) to June 30, 2009 (unaudited)</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008 (unaudited) and for the period June 5, 1996 (Inception) to June 30, 2009 (unaudited)</u>	<u>4</u>
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>12</u>
		<u>14</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 4T.</u>	<u>Controls and Procedures</u>	<u>33</u>

PART II OTHER INFORMATION

<u>Item 1</u>	<u>Legal proceedings</u>	<u>35</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>35</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>35</u>
<u>Signatures</u>		<u>36</u>

Table of Contents

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 "may," "will," "expect," "intend," "anticipate," "believe," "estimate" and "continue" 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, 2008 and other periodic reports filed with the SEC. 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.

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

	June 30, 2009	December 31, 2008
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,709,014	\$ 301,323
Cash in escrow		201,908
Prepaid expenses and other		59,756
Total Current Assets	3,709,014	562,987
Property and equipment, net	17,300	20,649
Security deposits	78,116	78,116
Total Assets	\$ 3,804,430	\$ 661,752
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Notes Payable secured short term	\$ 165,452	\$
Accounts payable	4,413,050	3,687,549
Accrued expenses	1,293,000	1,136,264
Total Current Liabilities	5,871,502	4,823,813
Notes payable secured long term		20,176
Derivative financial instruments, at estimated fair value warrants	19,193,193	
Total Liabilities	25,064,695	4,843,989
Commitments and contingencies		
Stockholders' Deficit:		
Series A convertible preferred stock, par value \$0.0001, 700,000 shares authorized, 88,000 and 98,000 shares outstanding with a liquidation preference of \$880,000 and \$980,000 at June 30, 2009 and December 31, 2008, respectively	9	10
Series B convertible preferred stock, par value \$0.0001, 2,500,000 shares authorized, 1,079,166 and 1,137,050 shares outstanding with a liquidation preference of \$10,791,660 and \$11,370,500 at June 30, 2009 and December 31, 2008, respectively	108	114
Common stock, par value of \$.0001 per share: Authorized 225,000,000 shares at December 31, 2008; 50,914,341 and 49,556,661 shares outstanding at June 30, 2009 and December 31, 2008, respectively	5,091	4,955

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Additional paid-in capital	92,079,311	86,799,951
Deficit accumulated during development stage	(112,189,041)	(90,987,267)
Total Stockholders' Deficit	(20,104,522)	(4,182,237)
Non-controlling interest	(1,155,743)	
Total Deficit	(21,260,265)	(4,182,237)
Total Liabilities and Stockholders' Deficit	\$ 3,804,430	\$ 661,752

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30,		June 5, 1996
	2009	2008	2009	2008	(Inception) to June 30, 2009
Revenues	\$	\$	\$	\$	\$
Costs and expenses:					
Research and development	1,145,063	1,064,545	1,543,085	3,081,528	35,641,349
Government grants		(30,000)		(30,000)	(1,135,318)
Purchased in process research and development					6,944,553
General and administrative	1,102,595	1,017,615	2,059,171	2,037,927	41,037,777
Loss from operations	(2,247,658)	(2,052,160)	(3,602,256)	(5,089,455)	(82,488,361)
Interest and investment income	14	8,077	225	53,614	864,552
Other income (expense), net	(73,532)		(115,018)		(286,864)
Change in fair value of derivative instruments - warrants	(16,519,465)		(16,736,568)		(14,145,563)
Net loss	(18,840,641)	(2,044,083)	(20,453,617)	(5,035,841)	(96,056,236)
Net Loss attributable to non-controlling interest	836,853		1,155,743		1,155,743
Net loss attributable to controlling interest	(18,003,788)	(2,044,083)	(19,297,874)	(5,035,841)	(94,900,493)
Series A Preferred stock beneficial conversion feature accreted as a dividend					(4,888,960)
Series A Preferred stock beneficial conversion feature accreted as a dividend					(10,495,688)
Net loss available to common stockholders	\$(18,003,788)	\$(2,044,083)	\$(19,297,874)	\$(5,035,841)	\$(110,285,141)
Weighted average shares outstanding:					
basic and diluted	50,846,570	47,218,161	50,737,615	47,171,183	
Net loss per common share:					
basic and diluted	\$ (0.35)	\$ (0.04)	\$ (0.38)	\$ (0.11)	

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

Table of Contents

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					
Balance, December 31, 2001	4,235,299	423	13,083,695	1,307	14,538,618
Net loss for the year					

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Amortization of Stock based
Compensation

Balance, December 31, 2002	4,235,299	\$	423	13,083,695	\$	1,307	\$ 14,538,618
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

(Unaudited)

	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

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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
Balance, December 31, 2002	\$	\$ (12,711,483)	\$ 1,828,865

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

(Unaudited)

	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.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

(Unaudited)

	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.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

(Unaudited)

	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
Fees and expenses			(176,250)			(176,250)
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.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

(Unaudited)

	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
Fees and expenses					(561,808)			(561,808)
April 2006			666,667	67	799,933			800,000
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
Fees and expenses	11,775	1			(448,909)			(448,908)
Detachable warrants					2,384,485			
Beneficial conversion feature accreted as a dividend							(2,384,485)	
Balance, December 31, 2006	586,125	\$ 58	39,194,996	\$ 3,919	\$61,290,509	\$	\$ (60,444,368)	\$ 850,118

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

	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
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
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)
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.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

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

	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 EITF Issue 07-05							(181,732)	(1,903,900)		(2,085,632)
Net loss for the period								(19,297,874)	(1,155,743)	(20,453,617)
Stock based compensation expense							480,648			480,648
Conversion of Series A preferred stock to common stock	(10,000)	(1)			200,000	20	(19)			
Conversion of Series B preferred stock to common stock			(57,884)	(6)	1,157,680	116	(110)			
Private placements of common stock of majority owned subsidiary							5,138,500			5,138,500
Fees and expenses associated with private placements							(157,927)			(157,927)
Balance June 30, 2009	88,000	\$ 9	1,079,166	\$ 108	50,914,341	\$ 5,091	\$92,079,311	\$(112,189,041)	\$(1,155,743)	(21,260,265)

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2009	Six months ended June 30, 2008	Period from June 5, 1996 (inception) to June 30, 2009
Cash flows from operating activities:			
Net loss	\$ (20,453,617)	\$ (5,035,841)	\$ (96,056,236)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	3,349	3,080	99,933
Purchase discount accreted as interest income on U.S. Treasury bills		(26,950)	(26,950)
Stock-based compensation expense	480,648	131,554	18,215,517
Purchased in-process research and development (non-cash portion)			6,841,053
Interest expense on notes payable	115,018		115,018
Stock-based liquidated damages			579,696
Change in fair value of derivative instruments warrants	16,736,568		14,145,563
Minority interest in net losses of majority owned subsidiary			(335,252)
Changes in operating assets and liabilities:			
Prepaid expenses	59,756	(33,303)	
Security deposit			(78,116)
Accounts payable and accrued expenses	882,233	(357,265)	5,706,047
Total adjustments	18,277,572	(282,884)	45,262,510
Net cash used in operating activities	(2,176,045)	(5,318,725)	(50,793,727)
Cash flows from investing activities:			
Short term investments purchased			(5,921,825)
Short term investments liquidated		2,994,640	5,948,775
Acquisition of equipment			(117,233)
Net cash used in investing activities		2,994,640	(90,283)
Cash flows from financing activities:			
Issuance of common and preferred stock			48,719,673
Finders fees and expenses			(2,981,083)
Proceeds from sale of 11% Notes	603,163		603,163
Proceeds of private placement of majority owned subsidiary's common stock	5,138,500		8,090,413
Fees and expenses on private placement of majority owned subsidiary common stock	(157,927)		(157,927)
Exercise of common stock warrants			318,785
Net cash provided by financing activities	5,583,736		54,593,023

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Net increase (decrease) in cash and cash equivalents	3,407,691	(2,324,085)	3,709,014
Cash and cash equivalents at beginning of period	301,323	3,269,341	
Cash and cash equivalents at end of period	\$ 3,709,014	\$ 945,256	\$ 3,709,014

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2009	Six months ended June 30, 2008	Period from June 5, 1996 (inception) to June 30, 2009
Supplementary disclosure of cash flow information:			
Cash paid for taxes	\$ 17,891	\$ 11,481	\$ 179,615
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

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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business overview:

Callisto Pharmaceuticals, Inc. ("Callisto" or the "Company") is a development stage biopharmaceutical company, whose primary focus is on biopharmaceutical product development. Since inception in June of 1996, Callisto's efforts have been principally devoted to research and development, securing and protecting patents and raising capital. From inception through June 30, 2009, Callisto has sustained cumulative net losses available to common stockholders of \$110,285,141. 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, regulatory, scientific and financial consulting fees, change in fair value of derivative financial instruments (warrants), as well as deemed dividends attributable to the beneficial conversion rights of convertible preferred stock at issuance. From inception on June 5, 1996 through June 30, 2009, Callisto has not generated any revenue from operations, 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 completion of 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.

2. Basis of presentation and going concern:

These unaudited condensed consolidated financial statements include Callisto and subsidiaries, (1) Synergy Pharmaceuticals, Inc. consolidated ("Synergy") (a majority owned subsidiary) and (2) Callisto Research Labs, LLC (a wholly-owned but inactive subsidiary). All intercompany balances and transactions have been eliminated. These unaudited 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, 2008, included in Form 10-K filed with the SEC on April 15, 2009. 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 and six months ended June 30, 2009 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2009. The condensed consolidated balance sheet as of December 31, 2008 was derived from the audited consolidated financial statements as of that date.

The condensed consolidated financial statements as of June 30, 2009 and December 31, 2008 have been prepared under the assumption that Callisto will continue as a going concern for the twelve months ending December 31, 2009. 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

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Basis of presentation and going concern: (Continued)

result from the outcome of this uncertainty. Callisto will be required to raise additional capital within the next twelve months to complete the development and commercialization of current product candidates and to continue to fund operations at its current cash expenditure levels.

Net cash used in operating activities was \$2,176,045 during the six months ended June 30, 2009 as compared to \$5,318,725 for the six months ended June 30, 2008 and \$50,793,727 for the period from June 5, 1996 (inception) to June 30, 2009. To date, Callisto's sources of cash have been primarily limited to the sale of equity securities. Net cash provided by financing activities for the six months ended June 30, 2009 was \$5,583,736 as compared to \$0 for the six months ended June 30, 2008 and \$54,593,023 for the period from June 5, 1996 (inception) to June 30, 2009. Included in net cash provided by financing activities for the six months ended June 30, 2009 was primarily the Synergy private placement of 7,340,715 shares of unregistered common stock at \$0.70 per share to private investors for aggregate proceeds of \$5,138,500. Fees to selling agents and other costs of capital associated with the sale of certain common stock were \$157,927.

As of June 30, 2009 Callisto had a working capital deficit of \$1,997,036 as compared to \$4,260,826 as of December 31, 2008, accordingly Callisto will be required to raise additional capital within the next 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. 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.

On July 2, 2009, Synergy sold 1,870,000 shares of unregistered common stock, to certain investors at a price of \$0.70 per share for aggregate gross proceeds of \$1,309,000. On July 6, 2009, Synergy sold 921,429 shares of unregistered common stock, to certain investors at a per share price of \$0.70 for aggregate gross proceeds of \$645,000. In July 2009 Synergy incurred fees to selling agents of \$87,073 in connection with its July 2009 private placements.

Recent worldwide economic conditions and the international equity and credit markets have significantly deteriorated and may remain depressed for the foreseeable future. These developments will make it more difficult to obtain additional equity or credit financing, when needed. Callisto has accordingly taken steps to conserve cash which include extending payment terms to our suppliers as well as substantial management and staff salary cuts and deferrals. These actions may not be sufficient to allow the Company time to raise additional capital.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162"* ("SFAS 168"), to formally establish the FASB Accounting Standards Codification ("Codification") to become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification is not expected to change U.S. GAAP. All other accounting literature excluded from the Codification will be considered non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS 168 for our quarter ending September 30, 2009. All future references to authoritative accounting literature will be references in accordance with the Codification.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, and is being applied prospectively. The Company adopted SFAS 165 on June 30, 2009 and has evaluated subsequent events through the date of the issuance of this report.

In April 2009, the FASB issued FSP 107-1 and Accounting Principles Board ("APB") 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"). FSP 107-1 amends SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 107-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 107-1 requires comparative disclosures only for periods ending after initial adoption. The Company adopted the provisions of FSP FAS 107-1 on June 30, 2009, and its requirements are reflected herein.

In April 2009, the FASB issued FSP 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP 115-2 and 124-2"). FSP 115-2 and 124-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP 115-2 and 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP 115-2 and 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 115-2 and 124-2 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 115-2 and 124-2 requires comparative disclosures only for periods ending after

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Recent Accounting Pronouncements (Continued)

initial adoption. Callisto adopted FSP FAS 115-2 and FAS 124-2 on June 30, 2009 and the adoption did not have a material effect on its consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4"). FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 157-4 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 157-4 requires comparative disclosures only for periods ending after initial adoption. Callisto adopted FSP FAS 157-4 on June 15, 2009 and the adoption did not have a material effect on its consolidated financial position, results of operations or cash flows.

Effective January 1, 2009, the Company adopted SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements.* This statement amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for a non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a non-controlling interest in a subsidiary is an ownership in the consolidated entity that should be reported as equity in the consolidated financial statements. The adoption of SFAS 160 impacted the presentation and disclosure of noncontrolling (minority) interests in the Company's condensed consolidated financial statements. SFAS 160 was applied prospectively. The noncontrolling (minority) interest relates to the third party shareholders of Synergy who own 38.9% of Synergy as of June 30, 2009. The net loss attributable to the Synergy non-controlling interest totaled \$1,155,743 during the six months ended June 30, 2009. This amount was recorded as a reduction in net loss and stockholder's deficit in the condensed consolidated financial statements prospectively after adoption of SFAS No. 160 on January 1, 2009. The net loss attributable to the non-controlling interest of \$1,139,746 for the period from July 14, 2008 (inception of non-controlling interest) to December 31, 2008 was not retrospectively adjusted in Callisto's Consolidated Financial Statements for the period ended and as of December 31, 2008 because the non-controlling interest had been reduced to zero. If this amount had been recorded, Callisto's net loss available to common stockholders would have been reduced by \$1,139,746 to \$89,847,521 from inception through December 31, 2008.

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ("EITF No. 07-05"). EITF No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The Company adopted EITF No. 07-05 on January 1, 2009. See Note 6 below.

In February 2008, the FASB issued FSP No. 157-2, *Partial Deferral of the Effective Date of Statement 157*, ("FSP No. 157-2"). FSP No. 157-2 delays the effective date of SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157") for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Recent Accounting Pronouncements (Continued)

annually) to fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on January 1, 2009 and the adoption did not have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified EITF Issue No. 07-1, *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property*, ("EITF No. 07-1"), which provides guidance on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure requirements. EITF No. 07-1 is effective for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. The Company adopted the provisions of EITF No. 07-1 on January 1, 2009 and the adoption did not have a material impact on its consolidated financial position, results of operations or cash flows.

4. Accounting for share-based payments

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. The Company adopted SFAS No. 123R for employee awards effective January 1, 2006, and is using the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of APB No. 25 for all awards granted to employees prior to the effective date of SFAS No. 123R that remained unvested on the effective date.

The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with EITF No. 96-18: "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF No. 00-18 "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees" whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Accordingly the fair value of these options is being "marked to market" quarterly until the measurement date is determined.

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Accounting for share-based payments (Continued)

Callisto options

Stock based compensation expense, related to Callisto employee and non-employee share based payments, has been recognized in operating results as follow:

	Three Months Ended June 30,		Six Months Ended June 30,		June 5, 1996 (Inception) to June 30, 2009
	2009	2008	2009	2008	
Employees included in research and development	\$ 7,009	\$ 10,295	\$ 13,941	\$ 22,946	\$ 2,675,826
Employees included in general and administrative	9,591	51,200	27,918	104,943	4,777,871
Subtotal employee stock option grants	16,600	61,495	41,859	127,889	7,453,697
Non-employee research and development		(4,242)		3,577	102,750
Non-employee general and administrative	91,842	(25,770)	84,503	88	9,924,901
Subtotal non-employee stock option grants	91,842	(30,012)	84,503	3,665	10,027,651
Total stock based compensation expense	\$ 108,442	\$ 31,483	\$ 126,362	\$ 131,554	\$ 17,481,348

The unrecognized compensation cost related to employee non-vested Callisto stock options outstanding at June 30, 2009, net of expected forfeitures, was \$42,602, to be recognized over a weighted average vesting period of approximately six months. The weighted-average remaining term of all options outstanding at June 30, 2009 was 4.7 years as compared to 5.1 years at December 31, 2008.

The estimated fair value of each employee stock option award was determined on the date of grant using the Black-Scholes option valuation model. Callisto granted no stock options to employees, and no stock options were exercised, during the three and six months ended June 30, 2009 and 2008.

A summary of stock option activity and of changes in Callisto stock options outstanding under Callisto's plans is presented below:

	Number of options	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Intrinsic Value as of June 30, 2009
Balance outstanding, December 31, 2008	7,938,538	\$0.08 - 6.75	\$ 1.72	\$
Granted		\$	\$	
Forfeitures	(35,000)	\$ 0.75	\$ 0.75	
Balance outstanding, June 30, 2009	7,903,538	\$0.08 - 6.75	\$ 1.72	\$

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Exercisable as of June 30, 2009	5,995,205	\$0.47 - 6.75	\$ 1.64	\$
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Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Accounting for share-based payments (Continued)

Synergy Options

Synergy adopted The 2008 Equity Compensation Incentive Plan (the "Plan") during the quarter ended September 30, 2008. Stock options granted under the Plan typically vest after three years of continuous service from the grant date and have a contractual term of ten years. Synergy did not issue stock options prior to the quarter ended September 30, 2008. Synergy granted no stock options during the quarter ended June 30, 2009.

Stock-based compensation expense, including all options and restricted stock units, has been recognized in operating results as follow:

	Three Months Ended June 30,		Six Months Ended June 30		November 15, 2005
	2009	2008	2009	2008	(inception) to June 30, 2009
Employees included in research and development	\$ 43,055	n/a	\$ 86,296	n/a	\$ 165,825
Employees included in general and administrative	56,695	n/a	112,769	n/a	225,496
Non-employees included in research and development	8,455	n/a	16,817	n/a	25,366
Non-employees included in general and administrative	69,585	n/a	138,404	n/a	317,482
Total stock-based compensation expense	\$ 177,790	n/a	\$ 354,286	n/a	\$ 734,169

The unrecognized compensation cost related to non-vested employee stock options outstanding at June 30, 2009, net of expected forfeitures, was \$1,029,223, to be recognized over a weighted-average remaining vesting period of approximately 2.0 years.

A summary of stock option activity and of changes in stock options outstanding under Synergy's plans is presented below:

	Number of Options	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Intrinsic Value as of June 30, 2009
Balance outstanding, December 31, 2008	4,080,016	\$ 0.25 - 0.95	\$ 0.29	\$ 8,933,935
Granted				
Exercised				
Forfeited				
Balance outstanding, June 30, 2009	4,080,016	\$ 0.25 - 0.95	\$ 0.29	\$ 10,851,543
Exercisable at June 30, 2009	74,871	\$ 0.25	\$ 0.25	\$ 202,152

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Accounting for share-based payments (Continued)

Synergy Restricted Stock Units

Restricted Stock Units, which issue to the holder a specified number of shares of Synergy common stock are accounted for as stock based compensation in accordance with SFAS No. 123R in the same manner as stock options using fair value at the date of grant. Subject to a repurchase agreement, according to which 50% of the units are released after 1 year of continuous service and the remaining 50% are released after 2 years of continuous service from the grant date. The total fair value is being expensed ratably by month over the 2 year service period.

On July 3, 2008, 874,760 restricted stock units were granted by Synergy-DE and assumed by Synergy as part of the Exchange Transaction and are subject to a repurchase agreement, as defined. These restricted stock units were issued to certain officers and a consultant of Synergy. The fair value of each Synergy restricted stock unit is estimated on the grant date based on the price paid by shareholders participating in Synergy's July 14, 2008 private placement. As of June 30, 2009 there were 874,760 Synergy restricted stock units outstanding. The fair value of the 874,760 Synergy restricted stock units on the date of grant was \$524,856 of which \$49,069 and \$97,599 was recorded as stock-based compensation expense during the three and six months ended June 30, 2009. As of June 30, 2009 the unrecognized fair value of the 437,380 unvested stock units, net of expected forfeitures, was \$198,439 to be amortized over 12 months. The intrinsic value of the 874,760 outstanding restricted stock units was \$2,580,542 as of June 30, 2009, measured using the closing stock price of \$2.95 per share as of that date.

SFAS No. 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities. Due to Synergy's accumulated deficit position, no tax benefits have been recognized in the cash flow statement.

5. Net Loss per Share

Basic and diluted net loss per share is presented in conformity with SFAS No. 128, "Earnings per Share," for all periods presented. In accordance with SFAS No. 128, basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted-average common shares outstanding during the period. Diluted weighted-average shares are the same as basic weighted-average shares since the inclusion of issuable shares pursuant to the exercise of stock options and warrants, and the conversion of preferred stock would have been antidilutive. The

Table of Contents

CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Net Loss per Share (Continued)

following table sets forth the potentially dilutive effect of all outstanding derivative instruments which were not included in weighted average common shares outstanding as of:

	June 30, 2009	June 30, 2008
Common Shares outstanding	50,914,341	47,218,161
Potentially dilutive common shares issuable upon:		
Exercise of warrants	85,050,964	45,162,920
Exercise of stock options	7,903,538	7,927,038
Conversion of Series A Convertible Preferred Stock		