CALLISTO PHARMACEUTICALS INC
Form 10-Q
August 20, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2012

or

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

For the transition period from to

Commission File Number: 001-32325

CALLISTO PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3894575**
(State or Other Jurisdiction of Incorporation or Organization)	(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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of the registrant s shares of common stock outstanding was 158,965,071 as of August 17, 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.

On May 9, 2012, Callisto deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from its financial statements. All drug candidates to treat GI disorders and diseases, currently plecanatide and SP-333, are being developed exclusively by Synergy Pharmaceuticals, Inc., our former 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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 120	$ 13,244,961
Prepaid expenses and other		796,028
Tax credits receivable		377,865
Total Current Assets	120	14,418,854
Equity investment in Synergy	117,814,450	
Property and equipment, net		5,774
Security deposits	73,715	87,740
Total Assets	$ 117,888,285	$ 14,512,368
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,710,216	$ 3,206,827
Accrued expenses	332,507	1,457,427
Total Current Liabilities	2,042,723	4,664,254
Derivative financial instruments, at estimated fair value warrants		3,325,114
Due to related party	1,936,610	
Total Liabilities	3,979,333	7,989,368
Commitments and contingencies		
Stockholders Deficit:		
Series A convertible preferred stock, par value $0.0001, 700,000 shares authorized, 8,000 shares outstanding at June 30, 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 June 30, 2012 and December 31, 2011	15,852	15,852
Additional paid-in capital	169,106,403	168,531,201
Deficit accumulated during development stage	(55,213,304)	(142,366,313)
Total Callisto Stockholders Equity	113,908,952	26,180,741
Non-controlling interest		(19,657,741)

Total Stockholders Equity		113,908,952		6,523,000
	$	117,888,285	$	14,512,368

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

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CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	June 5, 1996 (Inception) to June 30, 2012
Revenues	$	$	$	$	$
Costs and expenses:					
Research and development	2,542,089	2,356,099	7,880,229	3,728,027	66,974,746
Government grants			3,508		(1,131,810)
Purchased in process research and development					6,944,553
General and administrative	805,193	1,875,688	2,758,502	3,835,532	63,131,159
Loss from operations	(3,347,282)	(4,231,787)	(10,642,239)	(7,563,559)	(135,918,648)
Gain on deconsolidation of Synergy	120,393,000		120,393,000		120,393,000
Loss related to equity method investment	(2,390,000)		(2,390,000)		(2,390,000)
Interest and investment income	16,039	3	20,942	54	937,519
Tax credit (expense)	(224,963)		(224,963)		1,168,256
Other income	85,180	6,208	85,180	(6,206)	(857,944)
Loss on debt extinguishment					(2,099,892)
Change in fair value of derivative instruments	(439,116)	(697,660)	(431,170)	(1,036,375)	(17,341,455)
Net income/(loss)	114,092,858	(4,923,236)	106,810,750	(8,606,086)	(36,109,164)
Add: Net Loss (income) of subsidiary attributable to non-controlling interest	2,817,956	2,422,640	6,957,805	4,344,123	26,615,546
Net income/(loss) attributable to Callisto	116,910,814	(2,500,596)	113,768,555	(4,261,963)	(9,493,618)
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)
	$ 116,910,814	$ (2,500,596)	$ 113,768,555	$ (4,261,963)	$ (28,597,758)

Net income/(loss) available to Callisto common stockholders								
Weighted average common shares outstanding								
basic		158,516,071		158,506,181		158,516,071		158,078,170
diluted		158,629,281		158,506,181		158,629,281		158,078,170
Net income/(loss) per common share								
Basic	$	0.74	$	(0.02)	$	0.72	$	(0.03)
Diluted	$	0.74	$	(0.02)	$	0.72	$	(0.03)

The accompanying notes are an integral part of these unaudited 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					

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 unaudited 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
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

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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 unaudited 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)

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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					(561,808)			(561,808)
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

The accompanying notes are an integral part of these unaudited 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, 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)
	218,675	22	1,147,050	115	46,943,161	4,694	83,120,315	(81,331,796)	1,793,350

Balance, December 31, 2007									
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)

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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)		
					193,769	19	(19)			

Cashless Conversion of 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)
Balance December 31, 2010	8,000	$ 1			157,509,404	$ 15,751	$ 139,496,452	$ (135,573,268)	$ (11,136,657)	(7,197,721)
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
								113,768,555	(6,957,805)	106,810,750

Net income/(loss) for the period									
Stock based compensation expense						482,539			482,539
Common stock issued by controlled subsidiary for services rendered						92,663			92,663
Reclass non-controlling interest upon deconsolidation May 9, 2012							(26,615,546)	26,615,546	
Balance June 30, 2012	8,000	$ 1	$	158,516,071	$ 15,852	$ 169,106,403	$ (55,213,304)	$	$ 113,908,952

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)

	Six months ended June 30, 2012	Six months ended June 30, 2011	Period from June 5, 1996 (inception) to June 30, 2012
Cash flows from operating activities:			
Net income/(loss)	$ 106,810,750	$ (8,606,086)	$ (36,109,164)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation		2,634	111,458
Purchase discount accreted as interest income on U.S.Treasury bills			(26,950)
Stock-based compensation expense	650,202	469,444	21,583,041
Purchased in-process research and development			6,841,053
Interest expense on notes			759,400
Loss on disposal of property and equipment	5,774		5,774
Stock-based liquidated damages			579,696
Change in fair value of derivative instruments warrants	431,170	1,036,375	17,341,455
Loss on debt extinguishment			2,099,892
Net liabilities assumed in excess of assets acquired in merger			(282,752)
Gain on deconsolidation of Synergy	(120,393,000)		(120,393,000)
Loss related to equity method investment	2,390,000		2,390,000
Changes in operating assets and liabilities:			
Prepaid expenses	721,028	158,004	
Tax credit receivable	377,865	531,127	
Security deposit	14,025		73,715
Accounts payable and accrued expenses	(6,192,265)	(336,641)	(1,498,137)
Due to related party	395,153		395,153
Total Adjustments	(120,055,591)	1,860,943	(68,623,175)
Net cash used in operating activities	(13,244,841)	(6,745,143)	(104,732,339)
Cash flows from investing activities:			
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)
Cash flows from financing activities:			
Issuance of common and preferred stock			48,719,673
Issuance of common stock of controlled subsidiary		5,461,242	60,543,162
Proceeds from exercise of warrants of controlled subsidiary		415,309	415,309
Selling Agent fees and expenses-combined		(395,620)	(5,930,684)
Proceeds from sale of 11% Notes			603,163

Exercise of common stock warrants		53,334	372,119
Proceeds from sale of option		100,000	100,000
Net cash provided by financing activities		5,634,265	104,822,742
Net (decrease) increase in cash and cash equivalents	(13,244,841)	(1,110,878)	120
Cash and cash equivalents at beginning of period	13,244,961	1,708,982	
Cash and cash equivalents at end of period	$ 120	$ 598,104	$ 120

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

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CALLISTO PHARMACEUTICALS, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Six months ended June 30, 2012	Six months ended June 30, 2011	Period from June 5, 1996 (inception) to June 30, 2012
Supplementary disclosure of cash flow information:			
Cash paid for taxes	$ 42,415	$ 5,147	$ 367,299
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)
Director s fees settled for shares of common stock		41,250	82,375
Cash received in escrow for June 30, 2010 direct registered offering		2,499,000	
Accrued finders fees related to direct registered offering		261,630	
Common stock issued to extend notes payable			100,196
Value of warrants classified as derivative liability - net	$	$ 3,434,172	$ 20,331,912
Value of shares issued for services	$	$ 533,000	$ 625,663

The accompanying notes are an integral part of these unaudited 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.

From inception through June 30, 2012, Callisto has sustained cumulative net losses attributable to common stockholders of $28,597,758. 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 June 30, 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.

2. Basis of presentation and going concern:

These condensed consolidated financial statements include Callisto and one subsidiary Callisto Research Labs, LLC (including its wholly-owned subsidiary, Callisto Pharma, GmbH (Germany 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.

Deconsolidation

On May 9, 2012, Callisto s controlled subsidiary, Synergy Pharmaceuticals, Inc. (Synergy) closed an underwritten public offering of 10 million shares of common stock at an offering price of $4.50 per share, resulting in gross proceeds of $45 million before deducting underwriting discounts, commissions and other estimated offering expenses of approximately $3 million. As a result Callisto s equity ownership decreased to approximately 34% of Synergy and Callisto determined that it no longer had control over the operations and decision making of Synergy. Therefore, Callisto deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from its financial statements. For the quarter ended June 30, 2012, the gain attributed to the deconsolidation was $120,393,000. As of the date of deconsolidation, May 9, 2012, the Company began accounting for its investment in Synergy under the equity method and accordingly recognized its share of Synergy losses in the amount of $2,390,000 for the period from May 9, 2012 through June 30, 2012. As of June 30, 2012, Callisto s investment in Synergy was $117,814,450.

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, 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.

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The condensed consolidated financial statements as of June 30, 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 $13,244,841 during the six months ended June 30, 2012 as compared to $6,745,143 for the six months ended June 30, 2011 and $104,732,339 during the period from June 5, 1996 (inception) to June 30, 2012. During the three months and six months ended June 30, 2012 Callisto earned net income attributable to common stockholders of $116,910,814 and $113,768,555, respectively and net loss of attributable to common stockholders $28,597,758 during the period from June 5, 1996 (inception) to June 30, 2012, which all included gain recognized upon deconsolidation of $120,393,000. Net losses attributable to common shareholders for the three months and six months ended June 30, 2011 were $2,500,596 and $4,261,963, respectively. To date, Callisto s sources of cash have been primarily limited to the sale of equity securities and issuance of debt instruments. Net cash provided by financing activities for the six months ended June 30, 2011 and for the period from June 5, 1996 (inception) to June 30, 2012, was $5,634,265, and $104,822,742, respectively. There were no financing activities for the six months ended June 30, 2012.

On July 20, 2012, Callisto s former controlled subsidiary, Synergy Pharmaceuticals, Inc. (Synergy) entered into an Agreement and Plan of Merger (the Merger Agreement) with Callisto. Pursuant to the Merger Agreement, following the satisfaction or waiver of each of the applicable conditions set forth in the Merger Agreement, Callisto and Synergy will merge (the Merger), whereupon Callisto s separate corporate existence will cease and Synergy will continue as the surviving corporation of the Merger. Please see footnote 11for further discussions.

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 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.

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4. Accounting for share-based payments

ASC Topic 718 *Compensation Stock Compensation* requires companies to measure the cost of employee services received in exchange for the award of equity instruments based on the estimated fair value of the award at the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the award.

ASC Topic 718 did not change the way Callisto accounts for non-employee stock-based compensation. Callisto continues to account for shares of common stock, stock options and warrants issued to non-employees based on the fair value of the stock, stock option or warrant, if that value is more reliably measurable than the fair value of the consideration or services received. The Company accounts for stock options issued and vesting to non-employees in accordance with ASC Topic 505-50 *Equity-Based Payment to Non-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.

ASC Topic 718 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 Callisto s accumulated deficit position, no tax benefits have been recognized in the cash flow statement.

Callisto accounts for common stock, stock options, and warrants granted to employees and non-employees based on the fair market value of the instrument, using the Black-Scholes option pricing model based on assumptions for expected stock price volatility, term of the option, risk-free interest rate and expected dividend yield, at the grant date.

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,**
	2012	**2011**	**2012**	**2011**	**2012**
Employees included in research and development	$	$	$	$	$ 2,692,258
Employees included in general and administrative	5,836	14,890	11,671	20,776	4,869,832
Subtotal employee stock option grants	5,836	14,890	11,671	20,776	7,562,090
Non-employee research and development					102,750
	371	180,703	82,384	152,110	10,393,405

Non-employee general and administrative										
Subtotal non-employee stock option grants		371		180,703		82,384		152,110		10,496,155
Total stock based compensation expense	$	6,207	$	195,593	$	94,055	$	172,886	$	18,058,245

The unrecognized compensation cost related to employee non-vested Callisto stock options outstanding at June 30, 2012, net of expected forfeitures, was $15,184 to be recognized over a weighted average vesting period of approximately half year. No options were granted during the quarter ended June 30, 2012.

The estimated fair value of each Callisto stock option award was determined on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions during the six months ended June 30, 2011.

	Six months ended June 30,	
	2012	**2011**
Risk free interest rate	(*)%	1.85%
Dividend yield	(*)	n/a
Expected volatility	(*)%	100%
Expected term	(*)	5 years

(*) No options were granted during six months ended June 30, 2012.

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

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	Number of options		Exercise Price Per Share		Weighted Average Exercise Price Per Share		Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Balance outstanding, December 31, 2011	7,435,372	$	0.08 - 3.60	$	1.49	$	7,200	3.39
Granted		$		$				
Forfeitures		$		$				
Balance outstanding, June 30, 2012	7,435,372	$	0.08 - 3.60	$	1.49	$	162,580	2.89
Exercisable as of June 30, 2012	5,903,372	$	0.08 - 3.60	$	1.37	$	113,210	2.67

Synergy Options

ASC Topic 718 *Compensation Stock Compensation* requires companies to measure the cost of employee services received in exchange for the award of equity instruments based on the estimated fair value of the award at the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the award. ASC Topic 718 did not change the way Synergy accounts for non-employee stock-based compensation. Synergy continues to account for shares of common stock, stock options and warrants issued to non-employees based on the fair value of the stock, stock option or warrant, if that value is more reliably measurable than the fair value of the consideration or services received. The Company accounts for stock options issued and vesting to non-employees in accordance with ASC Topic 505-50 *Equity-Based Payment to Non-Employees* and accordingly the value of the stock compensation to non-employees 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.

ASC Topic 718 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 excess tax benefits have been recognized. Synergy accounts for common stock, stock options, and warrants granted to employees and non-employees based on the fair market value of the instrument, using the Black-Scholes option pricing model based on assumptions for expected stock price volatility, term of the option, risk-free interest rate and expected dividend yield, at the grant date.

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.

	Three Months Ended June 30,				Six Months Ended June 30				November 15, 2005 (inception) to	
		2012		2011		2012		2011		June 30, 2012
Employees included in research and development	$	48,690	$	37,157	$	164,460	$	73,906	$	791,242
Employees included in general and administrative		33,364		45,115		127,013		89,733		901,424
				8,456				16,818		168,096

Non-employees included in research and development										
Non-employees included in general and administrative		36,022		58,370		264,674		116,101		1,664,034
Total stock-based compensation expense	$	118,076	$	149,098	$	556,147	$	296,558	$	3,524,796

The estimated fair value of stock option awards was determined on the date of grant using the Black-Scholes option valuation model. On May 9, 2012, Callisto deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from its financial statements.

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5. Investment in Synergy

On May 9, 2012, Callisto s controlled subsidiary, Synergy Pharmaceuticals, Inc. (Synergy) closed an underwritten public offering of 10 million shares of common stock at an offering price of $4.50 per share, resulting in gross proceeds of $45 million before deducting underwriting discounts, commissions and other estimated offering expenses of approximately $3 million. As a result, Callisto s equity ownership decreased to approximately 34% of Synergy and Callisto determined that it no longer had control over the operations and decision making of Synergy. Therefore, Callisto deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from its financial statements. For the quarter ended June 30, 2012, the gain attributed to the deconsolidation was $120,393,000. As of the date of deconsolidation, May 9, 2012, the Company began accounting for its investment in Synergy under the equity method and accordingly recognized its share of Synergy losses in the amount of $2,390,000 for the period from May 9, 2012 through June 30, 2012.

The following table summarizes financial information of Synergy Pharmaceuticals, Inc. (Synergy) at June 30, 2012.

Income Statement data:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	November 15, 2005 (inception) to June 30, 2012
Loss from Operations	$ (9,544,756)	$ (16,614,024)	$ (92,828,322)
Total Other Income/(Expense)	(1,013,692)	(967,068)	5,710,033
Net Loss	(10,558,448)	(17,581,092)	(87,190,110)

Balance Sheet data:

	June 30, 2012 (unaudited)
Cash and cash equivalents	$ 27,426,900
Available-for-sales securities short term	16,149,789
Available-for-sale securities long term	4,010,787
Due from related party (Callisto Pharmaceuticals)	1,936,609
Total Assets	50,954,779
Total Current Liabilities	4,919,563
Derivative financial instruments, at estimated fair value-warrants	4,803,717
Total Liabilities	9,723,280
Total Stockholders Equity	41,231,499

6. Research and Development Expense

Research and development costs include expenditures in connection with an in-house research and development laboratory, salaries and staff costs, application and filing for regulatory approval of proposed products, purchased in-process research and development, regulatory and scientific consulting fees, as well as contract research, patient costs, drug formulation and tableting, data collection, monitoring, insurance and

FDA consultants.

In accordance with FASB ASC Topic 730-10-55, Research and Development, Synergy recorded prepaid research and development costs of $577,745 as of December 31, 2011, for nonrefundable pre-payments for production of drug substance and analytical testing services for its drug candidates. In accordance with this guidance, the Company expenses deferred research and development costs when drug compound is delivered and services are performed. As of June 30, 2012 Synergy s assets and liabilities have been deconsolidated and as a result there are no prepaid research and development costs on the balance sheet. See Note 5 above.

7. Income Taxes

During the year ended December 31, 2011, Synergy recorded a refundable tax credit in prepaid and other current assets for its (i) 2010 New York State QETC credit, totaling $248,486 and (ii) its New York City Biotechnology Tax Credit for the tax year of 2011 totaling $118,437. On April 25, 2012, Synergy received $246,402 for its 2010 New York State QETC credit. In addition Callisto recorded a $225,000 New York State investment tax expense during the quarter ended June 30, 2012 related to tax years 2008 through 2011.

8. Net Loss per Share

Basic and diluted net loss per share is presented in conformity with ASC Topic 260, Earnings per Share, for all periods presented. In accordance with ASC Topic 260, basic and diluted net loss per common share was determined by dividing net loss attributable 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 following table sets forth the potentially dilutive effect of all outstanding equity instruments which were not included in the computation of diluted earnings per share because they would be antidilutive:

	June 30, 2012	**June 30, 2011**
Common Shares outstanding	158,516,071	158,516,071
Potentially dilutive common shares issuable upon:		
Exercise of warrants	988,741	9,290,248
Exercise of Callisto stock options	5,756,237	7,435,371
Conversion of Series A Convertible Preferred Stock	222,222	222,222
Total fully diluted	165,483,271	175,463,912

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9. Derivative Financial Instruments

Effective January 1, 2009, the Company adopted provisions of ASC Topic 815-40, Derivatives and Hedging: Contracts in Entity s Own Equity (ASC Topic 815-40). ASC Topic 815-40 clarifies the determination of whether an instrument issued by an entity (or an embedded feature in the instrument) is indexed to an entity s own stock, which would qualify as a scope exception under ASC Topic 815-10.

Synergy Derivative Financial Instruments

Effective January 1, 2009, the Company adopted provisions of ASC Topic 815-40, Derivatives and Hedging: Contracts in Entity s Own Equity (ASC Topic 815-40). ASC Topic 815-40 clarifies the determination of whether an instrument issued by an entity (or an embedded feature in the instrument) is indexed to an entity s own stock, which would qualify as a scope exception under ASC Topic 815-10.

Based upon the Company s analysis of the criteria contained in ASC Topic 815-40, Synergy has determined that certain warrants issued in connection with sale of its common stock must be classified as derivative instruments. In accordance with ASC Topic 815-40, these warrants are also being re-measured at each balance sheet date based on estimated fair value, and any resultant changes in fair value is being recorded in the Company s statement of operations. The Company estimates the fair value of certain warrants using the Black-Scholes option pricing model in order to determine the associated derivative instrument liability and change in fair value described above. The range of assumptions used to determine the fair value of the warrants at each period end during the periods indicated below were:

	January 1, 2012 to May 9, 2012 (1)	**Six Months Ended June 30, 2011**
Estimated fair value of Synergy common stock	$4.05-$4.75	2.56-3.30
Expected warrant term	2.4-5.7 years	5-7 years
Risk-free interest rate	0.32%-1.33%	1.18%-2.5%
Expected volatility	60%	90%
Dividend yield		

(1) Synergy s assets and liabilities have been deconsolidated as of May 9, 2012 and as a result there was no derivative instrument liability on the balance sheet as of June 30 2012. Changes in fair values of Synergy derivative instruments have been recorded through May 9, 2012. (See Note 5 above).

Estimated fair value of stock is the closing market price of the Company s common stock on the date of warrant issuance and at the end of each reporting period when the derivative instruments are marked to market. Expected volatility is based on historical volatility of Synergy s common stock. The warrants have a transferability provision and based on guidance provided in SAB 107 for instruments issued with such a provision, Synergy used the full contractual term as the expected term of the warrants. The risk free rate is based on the U.S. Treasury security rates for maturities consistent with the expected remaining term of the warrants and the date of grant or quarterly revaluation.

Certain of Synergy s warrants issued during the six months ended June 30, 2011 contained a price protection clause which variable term required the Company to use a binomial model to determine fair value. There were no such price protected warrants issued during the six months ended June 30, 2012. The range of assumptions used to determine the fair value of the warrants was as follows:

	Jan 1 to May 9, 2012	Six months ended, June 30, 2011
Estimated fair value of stock	$3.28 - $4.50	$ 1.89
Expected warrant term	4.4 4.6 years	7 years
Risk-free interest rate	0.72% - 1.03%	2.64%
Expected volatility	60%	90%
Dividend yield		

In the Binomial model, the assumption for estimated fair value of the stock is based on a Black-Scholes based apportionment of the unit price paid for the shares and warrants issued in Synergy s most recent registered direct offerings, which resulting stock prices were deemed to be arms-length negotiated prices. Expected volatility is based on historical volatility of Synergy s common stock. The warrants have a transferability provision and based on guidance provided in SAB 107 for instruments issued with such a provision, Synergy used the full

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contractual term as the expected term of the warrants. The risk free rate is based on the U.S. Treasury security rates for maturities consistent with the expected remaining term of the warrants.

The following table sets forth the components of changes in the Synergy s derivative financial instruments liability balance for the periods indicated:

Date	Description	Warrants		Derivative Instrument Liability
12/31/2010	Balance of derivative financial instruments liability	728,469	$	3,487,959
3/31/2011	Fair value of new warrants issued during the quarter	210,000	$	1,312,673
3/31/2011	Change in fair value of warrants during the quarter recognized as other expense in the statement of operations		$	338,715
3/31/2011	Balance of derivative financial instruments liability	938,469	$	5,139,347
6/30/2011	Fair value of new warrants issued during the quarter	611,207	$	2,607,827
6/30/2011	Exercise of warrants during the quarter	(80,000)	$	(486,328)
6/30/2011	Change in fair value of warrants during the quarter recognized as other expense in the statement of operations		$	697,660
6/30/2011	Balance of derivative financial instruments liability	1,469,676	$	7,958,506
9/30/2011	Fair value of new warrants issued during the quarter	40,458	$	285,128
9/30/2011	Change in fair value of warrants during the quarter recognized as other income in the statement of operations		$	(4,382,796)
9/30/2011	Balance of derivative financial instruments liability	1,510,134	$	3,860,838
12/31/2011	Fair value of new warrants issued during the quarter	1,810,294	$	3,082,203
12/31/2011	Reclass of derivative liability to equity during the quarter	(1,055,268)	$	(1,707,317)
12/31/2011	Change in fair value of warrants during the quarter recognized as other income in the statement of operations		$	(1,910,610)
12/31/2011	Balance of derivative financial instruments liability	2,265,160	$	3,325,114
3/31/2012	Change in fair value of warrants during the quarter recognized as other income in the statement of operations			(7,946)
3/31/2012	Balance of derivative financial instruments liability	2,265,160		3,317,168
6/30/2012	Change in fair value of warrants during the quarter recognized as other income in the statement of operations			439,116
6/30/2012	Reclass due to deconsolidation	(2,265,160)		(3,756,284)
6/30/2012	Balance of derivative financial instruments liability			

Synergy Fair Value Measurements

The following table presents the Company s liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2011 and June 30, 2012:

Description	Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs	Balance as of December 31, 2011	Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs	Balance as of June 30, 2012

	Markets for Identical Assets and Liabilities (Level 1)	**Inputs (Level 2)**	**(Level 3)**		**Markets for Identical Assets and Liabilities (Level 1)**	**Inputs (Level 2)**	**(Level 3)**	
Derivative liabilities related to Warrants	$	$	$ 3,325,114	$ 3,325,114	$	$	$	$ *

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The following table sets forth a summary of changes in the fair value of the Company s Level 3 liabilities for the six months ended June 30, 2012:

Description	Balance at December 31, 2011	Fair Value of warrants upon issuance	Unrealized (gains) or losses	Balance as of June 30, 2012
Derivative liabilities related to Warrants	$ 3,325,114	$	$ ()	$ *

(*) Synergy s assets and liabilities have been deconsolidated as of May 9, 2012 and as a result there was no derivative instrument liability on the balance sheet as of June 30 2012. Changes in fair values of Synergy derivative instruments have been recorded through May 9, 2012. (See Note 5 above).

The unrealized gains or losses on the derivative liabilities are recorded as a change in fair value of derivative liabilities in the Company s statement of operations. A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, the Company reviews the assets and liabilities that are subject to ASC Topic 815-40. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

10. Stockholder s Equity

On October 20, 2010 Callisto entered into an option agreement (the Agreement) with a third party (Optionee) granting the Optionee the right to purchase up to 2,000,000 shares of the common stock of Synergy Pharmaceuticals, Inc., currently owned by Callisto (the Shares) at a purchase price of $2.45 per share. On June 3, 2011, the Optionee paid Callisto $100,000 in cash for this option which may be exercised at any time during the period from the date of the Agreement until (i) October 20, 2012 with respect to 1,000,000 Shares and (ii) October 20, 2015 with respect to 1,000,000 Shares. On April 25, 2012, Callisto amended the Agreement (the Amended Agreement) to reflect Synergy s (1:2) reverse stock split and also simplified the option term. This Amended Agreement granted the Optionee the right to purchase up to 1,000,000 shares of the common stock of Synergy Pharmaceuticals, Inc. currently owned by Callisto, at a purchase price of $4.90 per share, at any time during the period from April 25, 2012 until April 20, 2014.

On January 30, 2012 Synergy issued 26,250 unregistered shares of common stock to its corporate counsel for professional services rendered. The shares had a fair value on the date of issuance of $3.53 per share and $92,663 was recorded as legal expense during the quarter ended March 31, 2012.

11. Subsequent Events

On July 20, 2012, Synergy entered into an Agreement and Plan of Merger (the Merger Agreement) with Callisto. Pursuant to the Merger Agreement, following the satisfaction or waiver of each of the applicable conditions set forth in the Merger Agreement, Callisto and Synergy will merge (the Merger), whereupon Callisto s separate corporate existence will cease and Synergy will continue as the surviving corporation of the Merger.

As a result of the Merger, each outstanding share of Callisto common stock will be converted into the right to receive 0.17 of one share of Synergy common stock (the Exchange Ratio) as set forth in the Merger Agreement and the 22,295,000 shares of Synergy held by Callisto will be canceled. Under the terms of the Merger Agreement at closing, Synergy will issue, and Callisto stockholders will receive in a tax-free exchange, shares of Synergy common stock such that Callisto stockholders will own approximately 38.3 percent of the combined company on a pro forma basis and Synergy stockholders will own approximately 61.7

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percent. Each share of Synergy Common Stock received in connection with the Merger shall be subject to a lock-up beginning on the effective date of the Merger and ending on the earlier of (i) eighteen (18) months after such date or (ii) a Change in Control (as defined in the Merger Agreement).

The consummation of the Merger is subject to various customary closing conditions, including but not limited to, (i) approval by Callisto s and Synergy s stockholders, (ii) the Registration Statement on Form S-4 shall have been declared effective by the SEC and (iii) the shares of Synergy common stock to be issued in the Merger shall have been approved for listing on The NASDAQ Capital Market. Upon consummation of the Merger the related party balances due from Callisto, $1,936,609 as of June 30, 2012, (See Note 11) will be eliminated in consolidation.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and other financial information appearing elsewhere in this quarterly report. In addition to historical information, the following discussion and other parts of this quarterly report 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, 2011 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. All drug candidates to treat GI disorders and diseases, currently plecanatide and SP-333, are being developed exclusively by Synergy Pharmaceuticals, Inc., (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.

BUSINESS OVERVIEW

We are 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, our efforts have been principally devoted to research and development, securing and protecting patents and raising capital.

On May 9, 2012, our controlled subsidiary, Synergy Pharmaceuticals, Inc. (Synergy) closed an underwritten public offering of 10 million shares of common stock at an offering price of $4.50 per share, resulting in gross proceeds of $45 million before deducting underwriting discounts, commissions and other estimated offering expenses of approximately $3 million. As a result our equity ownership decreased to approximately 34% of Synergy and we determined that we no longer had control over the operations and decision making of Synergy. Therefore, we deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from our financial statements. For the quarter ended June 30, 2012, the gain attributed to the deconsolidation was $120,393,000. As of the date of deconsolidation, May 9, 2012, we began accounting for our investment in Synergy under the equity method and accordingly recognized our share of Synergy losses in the amount of $2,390,000 for the period from May 9, 2012 through June 30, 2012. As of June 30, 2012, our investment in Synergy was $117,814,450.

Critical Accounting Policies

Investment in Synergy

We account for our investment in Synergy under the equity method of accounting as we do not have the elements of control that would require consolidation. The investment is subsequently adjusted for equity in net income.

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RECENT DEVELOPMENTS

FINANCIAL OPERATIONS OVERVIEW

From inception through June 30, 2012, we have sustained cumulative net losses attributable to common stockholders of $28,597,758. Our losses have resulted primarily from expenditures incurred in connection with research and development activities related to the 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 June 30, 2012, we have not generated any revenue from operations, expect to incur additional losses to perform further research and development activities and do not currently have any commercial biopharmaceutical products, and do not expect to have such for several years, if at all.

Net cash used in operating activities was $13,244,841 during the six months ended June 30, 2012 as compared to $6,745,143 for the six months ended June 30, 2011 and $104,732,339 during the period from June 5, 1996 (inception) to June 30, 2012. During the three months and six months ended June 30, 2012 we earned net income attributable to common stockholders of $116,910,814, $113,768,555, and a net loss of $28,597,758 during the period from June 5, 1996 (inception) to June 30, 2012, respectively, which included gain upon deconsolidation of Synergy at amount of $120,393,000 and loss from equity method investment in Synergy of $2,390,000 on May 9, 2012.

Net losses attributable to common shareholders for the three months and six months ended June 30, 2011 were $2,500,596 and $4,261,963, respectively. To date, our sources of cash have been primarily limited to the sale of equity securities and issuance of debt instruments. Net cash provided by financing activities for the six months ended June 30, 2011 and for the period from June 5, 1996 (inception) to June 30, 2012, was $5,634,265, and $104,822,742 respectively. There were no financing activities during the six months ended June 30, 2012.

On July 20, 2012, Callisto s former controlled subsidiary, Synergy Pharmaceuticals, Inc. (Synergy) entered into an Agreement and Plan of Merger (the Merger Agreement) with Callisto. Pursuant to the Merger Agreement, following the satisfaction or waiver of each of the applicable conditions set forth in the Merger Agreement, Callisto and Synergy will merge (the Merger), whereupon Callisto s separate corporate existence will cease and Synergy will continue as the surviving corporation of the Merger. Please see footnote 11for further discussions.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of June 30, 2012.

RESULTS OF OPERATIONS

THREE MONTHS ENDED June 30, 2012 AND June 30, 2011

We had no revenues during the three months ended June 30, 2012 and 2011 because we do not have any commercial biopharmaceutical products and we do not expect to have such products for several years, if at all.

Research and development expenses for the three months ended June 30, 2012 increased $185,990 or 7.9%, to $2,542,089 from $2,356,099 for the three months ended June 30, 2011. The $2,542,089 during the three months this year represented approximately one month of Synergy s research and development expenses as a result of the deconsolidation, while $ 2,356,099 during the three months last year represented three months of Synergy s expenses. This increase of $185,990 was primary due to Synergy s largely increased development cost prior to deconsolidation.

General and administrative expenses decreased $1,070,495 or 57%, to $805,193 for the three months ended June 30, 2012 from $1,875,688 for the three months ended June 30, 2011. $805,193 during the three months this year represented approximately one month of Synergy s general and administrative expenses, while $1,875,688 during the three months last year represented three months of Synergy s expenses. The difference of $1,070,495 represented approximately two thirds of Synergy s three month of expense, not included as a result of the deconsolidation.

Net income attributable to common stockholders for the three months ended June 30, 2012 increased $119,411,410 to $116,910,814 compared to a net loss of $2,500,596 incurred for the three months ended June 30, 2012. The increase is primary the $120,393,000 gain

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recognized on the deconsolidation of Synergy, net of $ 2,390,000 loss recognized in our investment in Synergy using the equity method. We did not have a similar transaction in the quarter ended June 30, 2012.

SIX MONTHS ENDED JUNE 30, 2012 AND JUNE 30, 2011

We had no revenues during the six months ended June 30, 2012 and 2011 because we do not have any commercial biopharmaceutical products and we do not expect to have such products for several years, if at all.

Research and development expenses for the six months ended June 30, 2012 increased $4,152,202 or 111%, to $7,880,229 from $3,728,027 for the six months ended June 30, 2011. The $7,880,229 during the six months this year represented approximately four months of Synergy s research and development expenses as a result of the deconsolidation, while $3,728,027 during the six months last year represented six months of Synergy s expenses. This increase of $4,152,202 was primary due to Synergy s largely increased development cost prior to deconsolidation.

General and administrative expenses decreased $1,077,030 or 28%, to $2,758,502 for the six months ended June 30, 2012 from $3,835,532 for the six months ended June 30, 2011. $2,758,503 during the six months this year represented approximately four month of Synergy s general and administrative expenses, while $3,835,532 during the six months last year represented six months of Synergy s expenses. The difference of $1,077,029 represented approximately one third of Synergy s six months of expense, not included as a result of the deconsolidation.

Net gain attributable to common stockholders for the three months ended June 30, 2012 increased $118,030,518 to $113,768,555, compared to a net loss of $4,263,963 incurred for the six months ended June 30, 2012. The increase is primary the $ 120,393,000 gain recognized on the deconsolidation of Synergy, net of $ 2,390,000 loss recognized in our investment in Synergy using the equity method. We did not have a similar transaction during the six months ended June 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

We had $ 120 in cash and cash equivalents as of June 30, 2012, compared to $13,244,961 as of December 31, 2011. On May 9, 2012, Synergy closed an underwritten public offering of 10 million shares of common stock at an offering price of $4.50 per share, resulting in gross proceeds of $45 million before deducting underwriting discounts, commissions and other estimated. As a result our equity ownership decreased to approximately 34% of Synergy and we determined that we no longer had control over the operations and decision making of Synergy. Therefore, we deconsolidated Synergy and derecognized the Synergy assets, liabilities, and non-controlling interest from our financial statements as of that date.

Our condensed consolidated financial statements as of June 30, 2012 and December 31, 2011 have been prepared under the assumption that we will continue as a going concern for the next twelve months. Our ability to continue as a going concern is dependent upon our 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 negative outcome of this uncertainty.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our accounting policies are described in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of our Annual Report on Form 10-K as of and for year ended December 31, 2011, filed with the SEC on March 30, 2012. There have been no changes to our critical accounting policies since December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk on the fair values of certain assets is related to credit risk associated with securities held in short term investment accounts, commercial paper included in short term money market accounts and the FDIC insurance limit on our bank balances. At June 30, 2012 we don t have balances in money market balances.

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of June 30, 2012, our Chief Executive Officer and Principal Financial Officer have concluded that as of June 30, 2012, our disclosure controls and procedures were not effective in ensuring

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that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms.

In connection with the preparation of our annual financial statements, our management performed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. Management s assessment included an evaluation of the design of our internal control over financial reporting and the operational effectiveness of those controls. Based on this evaluation, management determined that, as of December 31, 2011, there were material weaknesses in our internal control over financial reporting. The material weaknesses identified during management s assessment were (i) an effective whistle-blower program or other comparable mechanism and (ii) an ongoing program to manage identified fraud risks. As of December 31, 2011, we did not maintain effective internal control over financial reporting. As defined by Regulation S-X, Rule 1-02(a)(4), a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the relationship between the benefit of desired controls and procedures and the cost of implementing new controls and procedures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As of June 30, 2012, we are in the process of remediating the material weakness which existed at December 31, 2011. If these remedial measures are insufficient to address any of the identified material weaknesses or are not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future.

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that could significantly affect internal controls over financial reporting during the quarter ended June 30, 2012.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes from the legal proceedings disclosed in our Form 10-K for the year ended December 31, 2011.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Form 10-K for the year ended December 31, 2011.

ITEM 6 EXHIBITS

(a)

Exhibits

31.1	Certification of Chief Executive Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
31.2	Certification of Principal Financial Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of the Company for the quarter ended June 30, 2012, filed on August 20, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Condensed Consolidated Statement of Stockholders Equity (Deficit) and (v) the Notes to Consolidated Financial Statements tagged as blocks of text.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		CALLISTO PHARMACEUTICALS, INC. (Registrant)
Date: August 20, 2012	By:	/s/ GARY S. JACOB
		Gary S. Jacob *Chief Executive Officer*
Date: August 20, 2012	By:	/s/ BERNARD F. DENOYER
		Bernard F. Denoyer *Senior Vice President, Finance*