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CALLISTO PHARMACEUTICALS INC  
Form 10QSB/A  
July 02, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

AMENDMENT NO. 2 TO  
FORM 10-QSB/A

(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, 2003

( ) 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: 33-63474

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 ----- (Address of principal executive offices)	10170 ----- (Zip Code)

(212) 297-0010  
-----  
(Registrant's telephone number)

Webtronics, Inc.  
420 Lexington Avenue, Suite 601  
New York, New York 10170  
-----

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date:

Class	Outstanding at August 15, 2003
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-----  
Common Stock, par value \$0.0001

-----  
23,204,851 shares

Transitional Small Business Disclosure Format (check one): Yes  No

EXPLANATORY NOTE

This Amendment No. 2 to our Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003 is being filed to reflect the following change (to Amendment No. 1) on the Condensed Consolidated Balance Sheet as of June 30, 2003, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2003 and 2002 and for the period June 5, 1996 (inception) to June 30, 2003, and the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2003 and 2002 and June 5, 1996 (inception) to June 30, 2003.

Stock-based compensation from June 5, 1996 (inception) to June 30, 2003 had not been fully and properly recorded. A review of stock and option records back to inception, together with a re-assessment of the facts and circumstances at the time, indicated a need to restate stock-based compensation expense. This Amendment No. 2 amends and restates only those sections of the previously filed Form 10-QSB that have been affected by the corrections discussed above, the impact of which is quantified in Note 1 to Notes to Unaudited Condensed Consolidated Financial Statements.

CALLISTO PHARMACEUTICALS, INC.  
FORM 10-QSB/A  
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## INTRODUCTORY NOTE

This report on Form 10-QSB 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 Report on Form 8-K and other periodic reports filed with the SEC. Accordingly, to the extent that this Report contains forward-looking statements regarding the acquisitions, financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements.

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## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

CALLISTO PHARMACEUTICALS, INC.  
(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2003  
(Unaudited)

#### ASSETS

##### Current assets:

Cash and cash equivalents	\$ 1,269,257
Prepaid insurance (\$146,614) and other current assets	217,150
	-----
	1,486,407
	-----

Fixed assets, net of accumulated  
depreciation of \$18,244

66,393  
-----

Other assets:

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Rent deposit	47,246
	-----
	47,246
	-----
	\$ 1,600,046
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable, accruals and other current liabilities	\$ 810,650
	-----
Shareholders' equity:	
Common stock \$.0001 par value, 60,000,000 authorized shares and issued and outstanding 23,217,578	2,319
Additional paid-in-capital	29,558,475
Unamortized deferred stock based compensation	(5,963,905)
Accumulated deficit during the development stage	(22,807,493)
	-----
	789,396
	-----
	\$ 1,600,046
	=====

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 STATEMENT OF OPERATIONS  
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Revenues	\$ --	\$ --	\$ --	\$ --
	-----	-----	-----	-----
Costs and expenses:				
Research and development	308,986	298,527	231,532	231,532
General and administrative	490,563	618,831	403,166	403,166
Purchased in process R&D	6,833,454	--	6,833,454	6,833,454
Stock based compensation	2,463,007	332	2,106,636	2,106,636
	-----	-----	-----	-----

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Net loss	\$ (10,096,010)	\$ (917,690)	\$ (9,574,788)	\$
	=====	=====	=====	=====
Weighted average shares outstanding:				
basic and diluted	19,306,915	17,318,994	21,272,990	
Net loss per common share:				
basic and diluted	\$ (0.52)	\$ (0.05)	\$ (0.45)	\$

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)

	For the Six Months Ended June 30, 2003	F Mo Ju
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (10,096,010)	\$
Adjustments to reconcile net loss to Net cash used in operating activities:		
Purchased in process research and development	6,833,454	
Stock based compensation	2,463,007	
Depreciation and amortization	7,810	
Unrealized loss on investment	--	
Common and preferred stock issued for services	--	
Cancellation of note receivable	--	
Increase in note receivable	--	
Changes in operating assets and liabilities		
Increase in prepaid insurance and other current assets	(179,253)	
Increase in accounts payable, accruals and other liabilities	23,992	
Total adjustments	9,149,011	
Net cash used in operating activities	(946,999)	
Cash flows from investing activities:		
Acquisition of furniture & equipment	(54,452)	
Rent deposit	47,246	

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Proceeds (loss) on sale of marketable securities	--	
	-----	-----
Net cash used in investing activities	(7,206)	
	-----	-----
Cash flows from financing activities:		
Issuance of common and preferred stock (net of repurchases)	--	
	-----	-----
Net cash provided by financing activities	--	
	-----	-----
Net (decrease) increase in cash and cash equivalents	(954,205)	
Cash and cash equivalents at beginning of period	2,223,462	
	-----	-----
Cash and cash equivalent at end of period	\$ 1,269,257	\$
	=====	=====
Supplementary disclosures of cash flows information:		
Cash paid for taxes	\$ 28,858	\$
	=====	=====

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

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NOTES TO JUNE 30, 2003 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of presentation:

The accompanying unaudited condensed consolidated financial statements of Callisto Pharmaceuticals, Inc., and its wholly owned subsidiary Synergy Pharmaceuticals Inc. ("Synergy") acquired April 30, 2003 (collectively the "Company" or "Callisto", a development stage company), have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-QSB and do not include all of the information and footnote disclosures required by GAAP for complete financial statements. Certain prior year expenses in our unaudited Condensed Consolidated Statement of Operations have been reclassified to conform to our current year results. These statements should be read in conjunction with the Callisto's audited financial statements and notes thereto for the year ended December 31, 2002, included in Form 8-K/A filed with the SEC on May 12, 2004.

This Amendment No. 2 to our Quarterly Report on Form 10QSB for the quarter ended June 30, 2003 is being filed to reflect certain changes (to Amendment No. 1) on the Condensed Consolidated Balance Sheet as of June 30, 2003, the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2003 and 2002 and for the period June 5, 1996 (inception) to June 30, 2003, and the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2003 and 2002 and June 5, 1996 (inception) to June 30, 2003.

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Stock-based compensation from June 5, 1996 (inception) to June 30, 2003 had not been fully and properly recorded. A review of stock and option records back to inception, together with a re-assessment of the facts and circumstances at the time, indicated a need to restate stock-based compensation expense. Stock-based compensation expense for the three and six months ended June 30, 2003 and 2002 and for the period from June 5, 1996 (inception) to June 30, 2003 was adjusted as follows:

	As reported in Amendment No. 1 -----	Restated -----	Increase -----
Three months ended June 30, 2002	\$ 83,977	\$ 83	\$ (8)
Three months ended June 30, 2003	\$ 2,429,987	\$ 2,106,636	\$ (32)
Six months ended June 30, 2002	\$ 167,954	\$ 332	\$ (16)
Six months ended June 30, 2003	\$ 3,306,550	\$ 2,463,007	\$ (84)
June 5, 1996 (inception) to June 30, 2003	\$ 4,470,165	\$ 7,247,563	\$ 2,77
Net loss per share:			
Three months ended June 30, 2002	\$ (0.04)	\$ (0.04)	\$
Three months ended June 30, 2003	\$ (0.47)	\$ (0.45)	\$
Six months ended June 30, 2002	\$ (0.06)	\$ (0.05)	\$
Six months ended June 30, 2003	\$ (0.57)	\$ (0.52)	\$

In the opinion of management, the accompanying unaudited 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, 2003 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2003.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that Callisto will continue as a going concern. Management believes that current resources will be sufficient to support its planned operations through the fourth quarter 2003. Callisto does not have commercial biopharmaceutical products, and does not expect to have such for several years, if at all. In addition, Callisto merged with Synergy Pharmaceuticals Inc. ("Synergy") in April 2003, which will require additional cash to integrate the combined companies. Callisto believes that it will need additional funds to complete the development of its biomedical products. These circumstances raise substantial doubt about Callisto's ability to continue as a going concern beyond December 31, 2003. Management's plans with regard to these matters include continued development of its products as well as seeking additional research support funds and financial arrangements. Although management continues to pursue these plans, there is no assurance that Callisto will be successful in obtaining sufficient financing on terms acceptable to Callisto. In the event that the Callisto is unable to raise additional funds, planned operations will need to be scaled back or discontinued. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## 2. Significant Accounting Policies

### BUSINESS COMBINATIONS

The Company accounts for business combinations in accordance with the provisions of Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141"). SFAS 141 requires business combinations completed after June 30, 2001 to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets required to be recognized and reported separately from goodwill.

### Long-lived assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset and its fair value. Changes in events or circumstances impacting long-lived assets include, but are not limited to, cancellations or terminations of research contracts or pending government research grants.

### Income taxes

Income taxes are accounted for under the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or the entire deferred tax asset will not be realized.

### Accounting for stock based compensation

The Company has adopted Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). As provided for by SFAS 123, the Company has elected to continue to account for its stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees ("APB 25")." Accordingly, compensation expense has been recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the plans. The Company has adopted the disclosure provisions required by SFAS 123, as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment to FASB Statement No. 123."

Had compensation cost for stock options granted to employees been determined based upon the fair value at the grant date for awards, consistent with the methodology prescribed under SFAS 123, the Company's net loss and net loss per share would have been as follows:



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	Six Months Ended June 30,		
	2003	2002	
	-----	-----	-----
Net loss, as reported	\$ (10,096,010)	\$ (917,690)	\$
Add: Stock-based employee compensation expense recorded under APB 25	1,245,876	0	
Deduct: Total stock-based compensation expense determined under fair value based method for employee options	(1,504,199)	0	
	-----	-----	-----
Pro forma net loss	\$ (10,354,332)	\$ (917,690)	\$
	=====	=====	=====
Net loss per share:			
Basic and diluted -as reported	\$ (0.52)	\$ (0.05)	\$
	=====	=====	=====
Basic and diluted -pro forma	\$ (0.54)	\$ (0.05)	\$
	=====	=====	=====

The fair value of the options granted to employees during 2003 and 2002 ranged from \$0.00 to \$5.53 on the date of the respective grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for 2003 and 2002: no dividend yield, expected volatility of 0% to April 30, 2003 and 100% since Callisto's common stock began to trade publicly on June 16, 2003, risk free interest rates of 2.87%-4.50% and an expected term of 7 to 10 years.

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3. Merger and consolidation:

On April 30, 2003 Webtronics, Inc. entered into a merger agreement with Callisto Research Labs, LLC ("Callisto Research", formerly known as Callisto Pharmaceuticals, Inc.) and Synergy Pharmaceuticals Inc., ("Synergy") an unaffiliated company also in the development stage, under which agreement Callisto Research and Synergy agreed to merge in a stock for stock transaction and each become subsidiaries of Webtronics, Inc. Webtronics subsequently changed its name to Callisto Pharmaceuticals, Inc. Pursuant to the merger agreement 17,318,994 shares of Webtronics common stock were issued to holders of Callisto Research common stock and 4,395,684 shares to holders of Synergy common stock in exchange for outstanding Callisto Research and Synergy common stock.

The 4,395,684 shares issued to the former shareholders of Synergy were valued at \$6,593,526. The purchase price in excess of the tangible net worth acquired was allocated in full to the Synergy research and development projects which had not yet reached technological possibility and had no alternative use.

Net assumed liabilities in excess of Synergy assets acquired in the merger at April 30, 2003 were as follows:

Cash	\$	9,501
Accounts receivable		258,928

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Rent deposit	44,746
Fixed assets	38,343
	-----
Total assets acquired	351,518
Accounts payable and other liabilities assumed	591,446
	-----
Net liabilities assumed in excess of assets acquired	\$ 239,928
	=====

The merged companies are considered to be in the development stage. No revenues have been realized and all activities have been concentrated in research and development of biopharmaceutical products yet to be approved by the Food and Drug Administration. The value of the shares issued to former Synergy shareholders in the merger plus the net liabilities assumed in excess of assets acquired totaling \$6,833,454 was charged to expense during the quarter ended June 30, 2003. The results of operations of Synergy for the period May 1, 2003 through June 30, 2003 are included in the consolidated statement of operations for the quarter and six months ended June 30, 2003, as well as the consolidated balance sheet as of June 30, 2003.

4. Cash and cash equivalents:

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

5. Proforma results of operations:

The following (unaudited) combined proforma results of operations for the six months ended June 30, 2003 and 2002 have been prepared as if the merger of the companies had occurred at January 1, 2003, and 2002

	2003	2002
	-----	-----
Revenues	\$ --	\$ --
Net loss	(10,503,482)	(1,510,360)
Net loss per common share		
(23,217,578 common shares)	(.45)	(.07)

6. Research and development:

The Company is engaged in various pharmaceutical patent and research and development projects under arrangements with various research facilities and universities whereby certain minimum annual fees and royalty payments are required to be paid. Research and development costs are expensed as incurred and include mainly expenditures made to research facilities and universities, as well as legal and professional fees associated with filing and maintaining Callisto's patent and license rights to its proposed products.

7. Stock option plan:

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In 1996, the Company adopted an incentive and non-qualified stock option plan (the "Plan") for employees, consultants and outside directors to purchase up to 2,000,000 shares of common stock. The Plan was amended in December 2002 to increase the number of shares authorized under the Plan to 10,000,000. The option term for options granted under the Plan is ten years from date of grant.

The following represent options outstanding for the six months ended June 30, 2003 and for the years ended December 31, 2002 and 2001 generally to non-employees:

	Total
Balance, January 1, 2001	1,931,505
Year 2001:	
Granted	400,000
Exercised	--
Balance, December 31, 2001	2,331,505
Year 2002:	
Granted	330,000
Cancelled	
Exercised	--
Balance, December 31, 2002	2,661,505
Six month ended June 30, 2003:	
Granted	3,286,055
Exercised	--
Cancelled	(917,333)
Balance, June 30, 2003	5,030,227

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### 7. Stock Option Plan (Continued)

Included in the above balance at June 30, 2003 were 2,386,338 non-Plan options. Options are exercisable at various prices as follows at June 30, 2003:

Exercise Price	Total
\$0.75	615,839
1.10	500,000
1.25	400,000
1.30	383,055
1.50	1,523,000
1.75	27,500
1.95	266,667
2.25	90,000

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2.85	262,500
4.90	125,000
6.75	36,666
2.50	800,000 (A)
	-----
	5,030,227
	=====

(A) Vesting subject to achievement of certain future drug development milestones.

### 8. Income taxes:

At December 31, 2002, the Company had available net operating tax loss carry forwards of approximately \$8,000,000 for income tax purposes expiring through 2022 to offset future taxable income. The net deferred tax asset has been fully offset by a valuation allowance due to uncertainties regarding realization of benefits from these future tax deductions. As a result of the change in control provisions of Internal Revenue Code Section 382, a significant portion of these net operating loss carry forwards may be subject to limitation on future utilization.

### 9. Loss per share:

The assumed exercise of all the Company's outstanding options was excluded from the computation of net loss per share due to their anti-dilutive effect as a result of the net losses reported for the three and six months ended June 30, 2003 and 2002.

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### 10. Contractual Obligations:

On August 28, 2002, Callisto's wholly-owned subsidiary, Synergy Pharmaceuticals Inc. entered into a license agreement with AnorMED Inc. to license Atiprimod from AnorMED. The license agreement provides for milestone payments and royalties on net sales. Commencing on January 1, 2004 and on January 1 of each subsequent year Synergy is obligated to pay AnorMED a maintenance fee of \$200,000.

On June 13, 2003, the Company entered into employment agreements with Gary S. Jacob, Ph.D., our Chief Executive Officer and Chief Scientific Officer and Kunwar Shailubhai, Ph.D., our Executive Vice President and Head of Research and Development. Each of their employment agreements is for a term of 18 months beginning June 13, 2003 and is automatically renewable for successive one year periods at the end of the term. Dr. Jacob's salary is \$225,000 per year and he is eligible to receive a cash bonus of up to 15% of his salary per year. Dr. Jacob received a grant of 500,000 stock options which vest over a three year period and are exercisable at \$1.50 per share. Dr. Shailubhai's salary is \$170,000 per year and he is eligible to receive a cash bonus of up to 15% of his salary per year. Dr. Shailubhai received a grant of 25,000 stock options which are fully vested and have an exercise price of \$1.50 per share. Dr. Shailubhai also received a grant of 325,000 stock options which vest over a three year period and are exercisable at \$1.50 per share.

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

The following discussion should be read in conjunction with our financial

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statements and notes to those 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 information that involves risks and uncertainties.

### OVERVIEW

We are a development stage biopharmaceutical company, whose primary focus is on biopharmaceutical product development. Since inception in June 1996 our efforts have been principally devoted to research and development, securing patent protection, obtaining corporate relationships and raising capital. Since inception through June 30, 2003, we have sustained cumulative net losses of \$22,807,493. Our losses have resulted primarily from expenditures incurred in connection with the purchase of in-process research and development, stock compensation expenses, patent filing and maintenance, outside accounting and legal services and regulatory consulting fees.

From inception through June 30, 2003 we have not generated any revenue from operations. We expect to incur additional losses to perform further research and development activities. We do not currently have any commercial biopharmaceutical products, and do not expect to have such for several years, if at all. Our lead drug candidate, Atiprimod, is a small molecule, orally available drug, with antiproliferative and antiangiogenic activity. Atiprimod successfully completed Phase I clinical trials in rheumatoid arthritis patients and we plan to enter Atiprimod in a safety and proof of principle clinical trial in multiple myeloma patients. The IND application (Investigative New Drug) for Phase I of these clinical trials is planned to be filed with the FDA during the third quarter of 2003. Our product development efforts are thus in their early stages and we cannot make estimates of the costs or the time it will take to complete. The risk of completion of any program is high because of the long duration of clinical testing, extended regulatory approval and review cycles and uncertainty of the costs. Net cash inflows from any products developed may take several years to achieve. We could however receive grants, contracts or technology licenses in the short-term. The amount and timing of these inflows, if any, is not known. We are also in the process of raising additional capital through a private placement of common stock which began in July 2003. There can be no assurance we will be successful in these fund raising efforts.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. We believe that current resources will be sufficient to support planned operations through the fourth quarter 2003. These circumstances raise substantial doubt about our ability to continue as a going concern. Our plan is to continue product development beyond December 31, 2003 and seek additional research support and investment capital. There is no assurance that we will be successful in obtaining sufficient financing on terms acceptable to us. In the event that we are unable to raise additional funds, planned operations will need to be scaled back or discontinued. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

On April 30, 2003, pursuant to an Agreement and Plan of Merger dated March 10, 2003, as amended April 4, 2003, Synergy Acquisition Corp., our wholly-owned subsidiary, merged into Synergy Pharmaceuticals Inc. ("Synergy") and Callisto Pharmaceuticals, Inc., our wholly-owned subsidiary, merged into the predecessor of Callisto Research Labs, LLC ("Callisto Research"). As a result of the merger Callisto Research and Synergy are our wholly owned subsidiaries. We issued 17,318,994 shares of our common stock in exchange for all outstanding Callisto Research, LLC common stock and an additional 4,395,684 shares in exchange for outstanding Synergy common stock.

### SIGNIFICANT ACCOUNTING POLICIES

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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. Note 2 of the notes to our condensed consolidated financial statements includes a summary of all significant accounting policies and methods used in the preparation of our financial statements, the most critical of which are:

### Accounting for stock based compensation

Callisto has adopted Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). As provided for by SFAS 123, Callisto has also elected to continue to account for its stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees ("APB 25")." Accordingly, compensation expense has been recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the Plan. Callisto has also adopted the disclosure provisions required by SFAS 123, as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment to FASB Statement No. 123."

### Research and development:

Callisto is engaged in various pharmaceutical patent and research and development projects under arrangements with various research facilities and universities whereby certain minimum annual fees and royalty payments are required to be paid. Research and development costs are expensed as incurred and include mainly expenditures made to research facilities and universities, as well as legal and professional fees associated with filing and maintaining Callisto's patent and license rights to its proposed products.

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## RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002.

We had no revenues during the three months ended June 30, 2003 and 2002 because we do not have any commercial biopharmaceutical products, and we do not expect to have such product for several years, if at all.

Research and development expenses increased 100% to \$231,532 for the three months ended June 30, 2003 from \$115,735 for the same period in 2002. The increase was primarily the result of the Synergy merger discussed elsewhere in this report. The results of operations of Synergy for the period May 1, 2003 through June 30, 2003 are included in the consolidated statement of operations for the quarter ended June 30, 2003, as well as the consolidated balance sheet as of June 30, 2003. The increase in research and development expense was primarily attributable to higher payroll as we retained two key Synergy executive staff scientists subsequent to the Synergy merger. Travel expenses also increased in the period as a result of travel associated with administering and managing the contractors and vendors involved in preparing the IND (Investigational New Drug) application for Atiprimod.

In addition we purchased in-process research and development cost as a result of the Synergy merger valued at \$6,833,454. This cost (non-cash) was charged to expense during the quarter ended June 30, 2003 and there was no such cost during the quarter ended June 30, 2002. All of our product programs are in the early stage of development and we can not make estimates of the potential cost for any program to be completed or the time it will take to complete the project.

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General and administrative expenses for the three months ended June 30, 2003 were \$403,166, a decrease of approximately 28% from \$559,408 for the three months ended June 30, 2002. During the quarter ended June 30, 2002 we incurred a charge of \$400,000 associated with the purchase of Webtronics, Inc., a public company with limited operations, where no such expenses were incurred in quarter ended June 30, 2003. This decrease was partially offset by higher legal, accounting and professional fees related to various regulatory filings related to the Synergy merger during the quarter ended June 30, 2003. In addition facilities and related office overhead increased as we assumed the short term lease obligation of Synergy on its New Jersey operations. It is anticipated that Synergy operations will be consolidated into our expanded New York City office during the third quarter 2003 with no material savings or increase in total facilities cost, however a rent deposit of \$44,746 was incurred and capitalized during the three months ended June 30, 2003 to secure the additional space.

Net loss for the three months ended June 30, 2003 was \$9,574,788 compared to a net loss of \$675,226 incurred for the three months ended June 30, 2002. The increase in the net loss is the result of higher operating expenses as presented in more detail above, plus \$2,106,636 of stock based compensation expense compared to \$83 recorded in the quarter ended June 30, 2002.

SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002.

We had no revenues during the six months ended June 30, 2003 and 2002 because we do not have any commercial biopharmaceutical products, and we do not expect to have such product for several years, if at all.

Research and development expenses increased approximately 4% to \$308,986 for the six months ended June 30, 2003 from \$298,527 for the same period in 2002. The increase in research and development expense was primarily attributable to expenses associated with administering and managing the contractors and vendors who will be involved in preparing the IND (Investigational New Drug) application for Atiprimod during the third quarter of 2003.

In addition we purchased in-process research and development cost as a result of the Synergy merger valued at \$6,833,454. This cost was charged to expense during the six months ended June 30, 2003 and there was no such cost during the same period ended June 30, 2002. All of our product programs are in the early stage of development and we can not make estimates of the potential cost for any program to be completed or the time it will take to complete the project.

General and administrative expenses for the six months ended June 30, 2003 were \$490,563, a decrease of approximately 21% from \$618,831 for the six months ended June 30, 2002. The decrease was primarily due to the \$400,000 charge in the three months ended June 30, 2002 discussed above, partially offset by higher legal, accounting and professional fees related to various regulatory filings related to the Synergy merger in 2003. In addition facilities and related office overhead increased as we assumed the short term lease obligation of Synergy on its New Jersey operations. A rent deposit of \$44,746 was incurred and capitalized during the six months ended June 30, 2003 to secure the additional space.

Net loss for the six months ended June 30, 2003 was \$10,096,010 compared to a net loss of \$917,690 incurred for the six months ended June 30, 2002. The increase in the net loss is primarily the result of the purchased in process research and development cost discussed above plus \$2,463,007 of stock based compensation expense recorded during the six months ended June 30, 2003, as compared to \$332 recorded during the same period ended June 30, 2002.

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### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2003 we had \$1,269,257 in cash and cash equivalents, compared to \$2,223,462 as of December 31, 2002. This decrease in cash of \$954,205 during the six months ended June 30, 2003 was principally the result of \$946,999 used in operating activities. Our working capital as of June 30, 2003 totaled \$675,757 as compared to \$1,808,652 as of December 31, 2002. This decrease of \$1,132,895 was primarily due to the cash used in operating activities, plus the assumption of the net liabilities of Synergy as a result of the merger discussed elsewhere in this report.

Our working capital requirements will depend upon numerous factors including but not limited to the nature, cost and timing of: pharmaceutical research and development programs; pre-clinical and clinical testing; obtaining regulatory approvals; technological advances and our ability to establish collaborative arrangements with research organizations and individuals needed to commercialize our products

Our capital resources will be focused primarily on the clinical development and regulatory approval of Atiprimod for multiple myeloma and bone resorption disease, a major complication associated with multiple myeloma disease. We plan to enter Atiprimod in a safety and proof of principle clinical trial in multiple myeloma patients. The IND (Investigative New Drug) application for Phase I/IIa of these trials is planned to be filed with the FDA during the third quarter of 2003.

On August 28, 2002, our wholly-owned subsidiary, Synergy Pharmaceuticals Inc. entered into a license agreement with AnorMED Inc. to license Atiprimod from AnorMED. The license agreement provides for milestone payments and royalties on net sales. Commencing on January 1, 2004 and on January 1 of each subsequent year we are obligated to pay AnorMED a maintenance fee of \$200,000.

Our product development efforts are thus in their early stages and we cannot make estimates of the costs or the time it will take to complete. The risk of completion of any program is high because of the long duration of clinical testing, extended regulatory approval and review cycles and uncertainty of the costs. Net cash inflows from any products developed make take several years to achieve. We could however receive grants, contracts or technology licenses in the short-term. The amount and timing of these inflows, if any, is not known.

We are also in the process of raising additional capital through a private placement of common stock which began in July 2003. There can be no assurance we will be successful in these fund raising efforts.

### RECENT DEVELOPMENTS

In addition to the merger described in Part II, Item 2 of this Report, on May 20, 2003, we effected a name change from Webtronics, Inc. to Callisto Pharmaceuticals, Inc. and we changed our corporate domicile from Florida to Delaware.

On June 13, 2003, we entered into employment agreements with Gary S. Jacob, Ph.D., our Chief Executive Officer and Chief Scientific Officer and Kunwar Shailubhai, Ph.D., our Executive Vice President and Head of Research and Development. Each of their employment agreements is for a term of 18 months beginning June 13, 2003 and is automatically renewable for successive one year periods at the end of the term. Dr. Jacob's salary is \$225,000 per year and he is eligible to receive a cash bonus of up to 15% of his salary per year. Dr. Jacob received a grant of 500,000 stock options which vest over a three year period and are exercisable at \$1.50 per share. Dr. Shailubhai's salary is



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\$170,000 per year and he is eligible to receive a cash bonus of up to 15% of his salary per year. Dr. Shailubhai received a grant of 25,000 stock options which are fully vested and have an exercise price of \$1.50 per share. Dr. Shailubhai also received a grant of 325,000 stock options which vest over a three year period and are exercisable at \$1.50 per share.

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### ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Principal Financial Officer, based on the 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 the end of the period covered by this report, have concluded that our disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to our company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated there under.

There were no significant changes in our internal controls over financial reporting that could significantly affect internal controls subsequent to June 30, 2003, except that we recently implemented additional controls and procedures designed to better monitor and record capital transactions including stock based compensation transactions.

### PART II. OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES AND LEGAL PROCEEDINGS.

(c) On April 30, 2003, pursuant to an Agreement and Plan of Merger dated March 10, 2003, as amended April 4, 2003, Synergy Acquisition Corp., our wholly-owned subsidiary merged into Synergy Pharmaceuticals Inc. and Callisto Acquisition Corp., our wholly-owned subsidiary merged into the corporate predecessor of Callisto Research Labs, LLC (the "Merger"). As a result of the Merger, Callisto Research Labs, LLC and Synergy Pharmaceuticals Inc. are wholly-owned subsidiaries of our company. In the Merger we issued 17,318,994 shares of our common stock in exchange for outstanding Callisto Research Labs, LLC common stock and an additional 4,395,684 shares in exchange for outstanding Synergy Pharmaceuticals Inc. common stock. The issuance of shares was done in accordance with Regulation D under the Securities Act of 1933, as amended. In connection therewith, a filing on Form D with the Securities and Exchange Commission was made on May 15, 2003.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

10.1 Employment Agreement dated June 13, 2003 by and between Callisto Pharmaceuticals, Inc. and Gary S. Jacob \*

10.2 Employment Agreement dated June 13, 2003 by and between Callisto Pharmaceuticals, Inc. and Kunwar Shailubhai \*

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act

31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act

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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.

\* Previously filed

(b) Reports on Form 8-K.

On May 15, 2003, we filed a Form 8-K describing a change in control of the registrant and the acquisition of Synergy Pharmaceuticals, Inc.

On May 28, 2003, we filed a Form 8-K describing a press release announcing our change of corporate domicile from Florida to Delaware and change of corporate name from Webtronics, Inc. to Callisto Pharmaceuticals, Inc.

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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: July 2, 2004

/s/ Gary S. Jacob  
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Gary S. Jacob  
Acting Chief Executive Officer

Date: July 2, 2004

/s/ Bernard F. Denoyer  
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Bernard F. Denoyer  
Principal Financial Officer

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