CALLISTO PHARMACEUTICALS INC
Form 10-Q
May 21, 2007

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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: MARCH 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer	o	Accelerated filer	o	Non-accelerated filer	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 39,694,995 as of May 18, 2007.

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 may, will, expect, intend, anticipate, believe, estimate and cont 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, 2006 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.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

CALLISTO PHARMACEUTICALS, INC.

(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,158,676	$ 3,904,232
Prepaid expenses and other	46,256	66,741
	2,204,932	3,970,973
Property and equipment - net	6,451	6,451
Security deposits	73,716	73,716
	$ 2,285,099	$ 4,051,140
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 1,741,705	$ 1,843,422
Accrued expenses	1,183,449	1,357,600
	2,925,154	3,201,022
Stockholders equity (deficit):		
Series A convertible preferred stock, par value $0.0001, 700,000 shares authorized, 614,125 shares outstanding at March 31, 2007 with a liquidation preference of $6,141,250 and 586,125 shares outstanding at December 31, 2006 with a liquidation preference of $5,861,250.	61	58
Common stock, par value $.0001, 150,000,000 and 100,000,000 shares authorized, respectively, 39,194,996 shares outstanding at both March 31, 2007 and December 31, 2006, respectively.	3,919	3,919
Additional paid-in capital	61,749,956	61,290,509
Deficit accumulated during development stage	(62,393,991)	(60,444,368)
	(640,055)	850,118
	$ 2,285,099	$ 4,051,140

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

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CALLISTO PHARMACEUTICALS, INC.

(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31, 2007	March 31, 2006	For the period from June 5, 1996 (Inception) to March 31, 2007
Revenues	$	$	$
Costs and expenses:			
Research and development	958,683	2,193,840	22,996,497
Government grant	(43,956)	(54,267)	(888,421)
Purchased in process research and development			6,944,553
General and administrative	959,660	1,754,090	21,713,401
Stock-based compensation non-employees	(19,478)	504,047	9,679,083
Loss from operations	(1,854,909)	(4,397,710)	(60,445,113)
Interest and investment income	24,971	23,082	728,587
Other expense			(173,295)
Net loss	(1,829,938)	(4,374,628)	(59,889,821)
Series A Preferred stock beneficial conversion feature accreted as a dividend	(119,685)		(2,504,170)
Net loss available to common stockholders	$ (1,949,623)	$ (4,374,628)	$ (62,393,991)
Weighted average shares outstanding: basic and diluted	39,194,996	35,798,019	
Net loss per common share: basic and diluted	$ (0.05)	$ (0.12)	

See accompanying notes to condensed consolidated financial statements.

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

	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 period					
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 condensed consolidated financial statements

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	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

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

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

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

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	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, December31, 2003			25,928,760	2,590	34,149,975	(5,480,007)	(25,817,730)	2,854,828
Net loss for the period							(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	39,910,187	(2,302,534)	(33,361,197)	4,249,378

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

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	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	$ 39,910,187	$ (2,302,534)	$ (33,361,197)	$ 4,249,378
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			(176,250)			(176,250)
Exercise of common stock warrant	125,000	13	128,737			128,750
Common stock issued for services	34,000	3	47,177			47,180
Balance, December 31, 2005	33,233,096	$ 3,323	$ 46,387,875	$ (1,583,463)	$ (45,140,654)	$ (332,919)

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

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	Series A Convertible Preferred Shares	**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**
Balance, December 31, 2005			33,233,096	$ 3,323	$ 46,387,875	$ (1,583,463)	$ (45,140,654)	$ (332,919)
Net loss for the period							(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			
Beneficial conversion feature accreted as a dividend							(2,384,485)	

Balance, December 31, 2006	586,125	$	58	39,194,996	$	3,919	$	61,290,509	$		$	(60,444,368	)	$	850,118

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

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CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

	Series A Convertible Preferred Shares	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, 2006	586,125	$ 58	39,194,996	$ 3,919	$ 61,290,509	$	$ (60,444,368)	$ 850,118
Net loss for the period							(1,829,938)	(1,829,938)
Stock based compensation expense					96,165			96,165
Series A convertible preferred stock issued via private placement:	28,000	3			279,997			280,000
Finders fees and expenses					(36,400)			(36,400)
Detachable warrants					119,685			
Beneficial conversion feature accreted as a dividend							(119,685)	
Balance, March 31, 2007	614,125	$ 61	39,194,996	$ 3,919	$ 61,749,956	$	$ (62,393,991)	$ (640,055)

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

CALLISTO PHARMACEUTICALS, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months Ended March 31, 2007	2006	Period from June 5, 1996 (inception) to March 31, 2007
Cash flows from operating activities:			
Net loss	$ (1,829,938)	$ (4,374,628)	$ (59,889,821)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation			86,788
Stock-based compensation expense	96,165	994,050	16,613,610
Stock-based liquidated damages			579,696
Purchased in-process research and development (non-cash portion)			6,841,053
Changes in operating assets and liabilities:			
Prepaid expenses	20,486	81,415	(46,255)
Rent deposits		17,480	(73,716)
Accounts payable and accrued expenses	(275,869)	(108,160)	2,632,725
Total adjustments	(159,218)	984,785	26,633,901
Net cash used in operating activities	(1,989,156)	(3,389,843)	(33,255,920)
Cash flows from investing activities:			
Acquisition of equipment		(8,602)	(93,239)
Net cash used in investing activities		(8,602)	(93,239)
Cash flows from financing activities:			
Issuance of common and preferred stock, net of repurchases	280,000	5,140,210	37,249,173
Finders fees and expenses	(36,400)	(561,808)	(2,060,123)
Exercise of common stock warrants		190,035	318,785
Net cash provided by financing activities	243,600	4,768,437	35,507,835
Net (decrease) increase in cash and cash equivalents	(1,745,556)	1,369,992	2,158,676
Cash and cash equivalents at beginning of period	3,904,232	1,420,510	
Cash and cash equivalents at end of period	$ 2,158,676	$ 2,790,502	$ 2,158,676
Supplementary disclosure of cash flow information:			
Cash paid for taxes	$ 1,441	$ 12,146	$ 124,928
Cash paid for interest	$	$	$
Supplemental disclosure of non-cash investing and financing activities:			
Accretion of fair value of beneficial conversion feature as a dividend to Series A Preferred stockholders	$ 119,685		2,504,170
Stock options, warrants and common stock issued for services	$ 96,165	$ 994,050	$ 16,613,610
Stock-based liquidated damages	$	$	$ 579,676

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

CALLISTO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business overview:

Callisto Pharmaceuticals, Inc. (Callisto) is a development stage biopharmaceutical company, whose primary focus is on biopharmaceutical product development. Since inception in June of 1996 Callisto s efforts have been principally devoted to research and development, securing and protecting patents and raising capital. From inception through March 31, 2007, Callisto has sustained cumulative net losses of $59,889,821. 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. From inception through March 31, 2007, Callisto has not generated any revenue from operations, expects to incur additional losses to perform further research and development activities and does not currently have any commercial biopharmaceutical products, and does not expect to have such for several years, if at all.

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

2. Basis of presentation and going concern:

The accompanying unaudited condensed consolidated financial statements of Callisto Pharmaceuticals, Inc. (Callisto), which include its wholly owned subsidiaries: (1) Callisto Research Labs, LLC (including its wholly owned but inactive subsidiary, Callisto Pharma, GmbH (Germany)) and (2) Synergy Pharmaceuticals Inc. (Synergy , including its wholly owned but inactive subsidiary IgX, Ltd (Ireland)), have been prepared in accordance with (i) accounting principles generally accepted in the United States of America (GAAP) for interim financial information and (ii) the rules of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q. The results of operations of Synergy are included in the condensed consolidated financial statements since May 1, 2003. All intercompany balances and transactions have been eliminated and certain expense items in prior periods have been reclassified to conform to current financial statement presentation. 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, 2006, included in Form 10-K filed with the SEC on April 17, 2007. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, primarily consisting of normal adjustments, necessary for the fair presentation of the balance sheet and results of operations for the interim periods. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2007.

Callisto s consolidated financial statements as of March 31, 2007 and December 31, 2006 have been prepared under the assumption that Callisto will continue as a going concern for the twelve months ending December 31, 2007. Callisto s independent registered public accounting firm has issued a report dated April 13, 2007 that included an explanatory paragraph referring to Callisto s recurring losses from operations and net capital deficiency and expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. 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. Callisto will be required to raise additional capital within the next twelve months to complete the development and commercialization of current product candidates and to continue to fund operations at the current cash expenditure levels.

To date, Callisto s sources of cash have been primarily limited to the sale of equity securities. Net cash provided by financing activities for the three months ended March 31, 2007and 2006 and for the period from June 5, 1995 (inception) to March 31, 2007 was approximately $244,000, $4.8 million and $35.5 million respectively. Callisto cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that Callisto can raise additional funds by issuing equity securities, Callisto s stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact Callisto s ability to conduct its business. If Callisto is unable to raise additional capital when required or on acceptable terms, it may have to significantly delay, scale back or discontinue the development and/or commercialization of one or more of Callisto s product candidates. Callisto also may be required to seek collaborators for product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; and relinquish licenses or otherwise dispose of rights to technologies, product candidates or products.

3. Accounting for share-based payments

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), *Share-Based Payments* (SFAS 123R). SFAS 123R requires a public entity to measure the cost of employee services received in exchange for the award of equity instruments based on the 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. SFAS 123R was effective as of the beginning of the first interim or annual reporting period that began after December 15, 2005 and accordingly Callisto adopted SFAS 123R on January 1 , 2006.

SFAS 123R provides for two transition methods. The modified *prospective* method requires that share-based compensation expense be recorded for any employee options granted after the adoption date and for the unvested portion of any employee options outstanding as of the adoption date. The *modified retrospective* method requires that, beginning in the first quarter of 2006, all prior periods presented be restated to reflect the impact of share-based compensation expense consistent with the proforma disclosures previously required under SFAS 123. Callisto has elected to use the modified *prospective* method in adopting this standard.

Prior to January 1, 2006, Callisto had adopted SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). As provided for by SFAS 123, Callisto had elected to continue to account for stock-based compensation according to the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Accordingly, compensation expense had been recognized to the extent of employee or director services rendered based on the intrinsic value of stock options granted. Callisto accounts for common stock, stock options, and warrants granted to non-employees based on the fair 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.

For all awards granted prior to January 1, 2006, stock based compensation expense is being recognized on a straight line basis over the remaining requisite service period, which ranged from nine months to three years at the date of adoption. The adoption of SFAS 123R increased net loss for the three months ended March 31, 2007 and 2006 by $115,643 and $490,003, or $0.003 and $0.01 per share, respectively for stock based compensation cost related to employee stock options.

The unrecognized compensation cost related to non-vested share-based compensation arrangements for all employee stock options outstanding at March 31, 2007 and 2006 was $593,578 and $621,853, respectively, to be recognized over a weighted average vesting period of 1.24 and 1.37 years, respectively.

Effective with the adoption of SFAS 123R stock-based compensation expense related to Callisto s share-based compensation arrangements attributable to employees is being recorded as a component of general and administrative expense and research and development expense in accordance with the guidance of Staff Accounting Bulletin 107 **,** Topic 14, paragraph F . *Classification of Compensation Expense Associated with Share-Based Payment Arrangements* (SAB 107). Total stock based compensation expense related to employee and non-employee stock options recognized in operating results was as follow:

Stock based compensation expense	**Three Months Ended March 31 ,** **2007**	**2006**	**June 5, 1996 (Inception) to March 31 2007**
Employees included in research and development	$ 17,846	$ 148,596	$ 2,570,390
Employees included in general and administrative	97,797	341,407	4,364,137
Subtotal employee stock option grants	115,643		