

Edgar Filing: Cobalis Corp - Form 10QSB

Cobalis Corp
Form 10QSB
November 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from _____ to _____

000-49620
(Commission file number)

COBALIS CORP.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

91-1868007

(IRS Employer
Identification No.)

2445 McCabe Way, Suite 150, Irvine, California 92614

(Address of principal executive offices)

(949) 757-0001

(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 23, 2004 - 22,940,415 shares of common stock

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

Edgar Filing: Cobalis Corp - Form 10QSB

COBALIS CORP. Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet as of September 30, 2004 (unaudited)

Consolidated Statements of Operations for the
three and six months ended September 30, 2004 and 2003 (unaudited)

Consolidated Statements of Stockholders' Deficit for the
six months ended September 30, 2004 (unaudited)

Consolidated Statements of Cash Flows for the
six months ended September 30, 2004 and 2003 (unaudited)
Notes to Consolidated Financial Statements (unaudited)

Item 2. Management's Discussion and Analysis or Plan of Operations

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits

SIGNATURES 21

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Cobalis Corp. and Subsidiary
(formerly Biogentech Corp.)
(A Development Stage Company)
Consolidated Balance Sheet

Edgar Filing: Cobalis Corp - Form 10QSB

September 30,
2004

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 31,164
Prepaid expenses and other current assets	1,508
Inventory	5,903

TOTAL CURRENT ASSETS	38,575
DEBT ISSUE COSTS	53,940
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$58,475	53,583
WEBSITE DEVELOPMENT COSTS, net of accumulated amortization of \$29,588	5,019
PATENTS, net of accumulated amortization of \$197,918	707,397
DEPOSIT	40,000

TOTAL ASSETS	\$ 898,514
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	\$ 406,782
Accrued expenses	840,778
Due to related parties	1,596,789
Warrant liability	197,057
Convertible note payable, net of discount of \$0	600,000

TOTAL CURRENT LIABILITIES	3,641,406
CONVERTIBLE PREFERRED STOCK (dividends on arrears of \$75,000)	885,000
COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' DEFICIT	
Common stock; \$0.001 par value; 50,000,000 shares authorized; 22,610,657 shares issued and outstanding	22,611
Additional paid-in capital	9,002,007
Deficit accumulated during the development stage	(12,652,510)

TOTAL STOCKHOLDERS' DEFICIT	(3,627,892)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 898,514
	=====

Edgar Filing: Cobalis Corp - Form 10QSB

See accompanying notes to the consolidated financial statements.

3

COBALIS CORP. AND SUBSIDIARY
(FORMERLY BIOGENTECH CORP.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30, 2004	SEPTEMBER 30, 2003	SEPTEMBER 30, 2004	SEPTEMBER 30, 2003
		(as restated)		(as restated)
NET SALES	\$ 120	\$ 1,476	\$ 479	\$ 1,476
COST OF SALES	1,810	39	2,930	2,930
GROSS PROFIT (LOSS)	(1,690)	1,437	(2,451)	(2,451)
OPERATING EXPENSES:				
Professional fees	869,379	91,798	1,082,338	1,082,338
Salary and wages	47,391	145,733	122,895	122,895
Rent expense	35,458	31,094	67,644	67,644
Marketing and promotions	10,895	9,278	11,793	11,793
Depreciation and amortization	20,973	27,075	41,947	41,947
Impairment expense	-	-	-	-
Other operating expenses	57,920	107,005	136,623	136,623
TOTAL OPERATING EXPENSES	1,042,016	411,983	1,463,240	1,463,240
LOSS FROM OPERATIONS	(1,043,706)	(410,546)	(1,465,691)	(1,465,691)
OTHER INCOME (EXPENSE)				
Interest expense and financing costs	(826,219)	(48,569)	(1,027,588)	(1,027,588)
Change in fair value of warrant liability	(125,397)	-	(54,919)	(54,919)
TOTAL OTHER INCOME (EXPENSE)	(951,616)	(48,569)	(1,082,507)	(1,082,507)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,995,322)	(459,115)	(2,548,198)	(2,548,198)
PROVISION FOR INCOME TAXES	-	-	-	-
NET LOSS	(1,995,322)	(459,115)	(2,548,198)	(2,548,198)

Edgar Filing: Cobalis Corp - Form 10QSB

PREFERRED STOCK DIVIDENDS	18,750	-	37,500	
NET LOSS ATTRIBUTED TO COMMON STOCKHOLDERS	\$ (2,014,072)	\$ (459,115)	\$ (2,585,698)	\$ (1,115,000)
NET LOSS PER SHARE: BASIC AND DILUTED	\$ (0.09)	\$ (0.02)	\$ (0.12)	\$ (0.12)
WEIGHTED AVERAGE SHARES OUTSTANDING: BASIC AND DILUTED	21,749,624	20,842,273	21,496,543	20,320,000

See accompanying notes to the consolidated financial statements.

4

COBALIS CORP. AND SUBSIDIARY
(FORMERLY BIOGENTECH CORP.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE PERIOD FROM NOVEMBER 21, 2000 (INCEPTION) TO JUNE 30, 2004

	COMMON STOCK SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION
Balance at inception (November 21, 2000)	-	\$ -	\$ -	\$ -
Issuance of founder's shares in exchange for property and equipment	16,300,000	16,300	-	-
Issuance of common stock for cash - November 2000 @ \$130,000		30	29,970	-
Issuance of common stock for cash - December 2000 @ \$115,000		15	14,985	-
Issuance of common stock for cash - February 2001 @ \$112,000		12	11,988	-
Issuance of common stock for cash - March 2001 @ \$1.0125,000		125	124,875	-
Issuance of common stock for services - March 2001 @ \$10,000		10	9,990	-
Contributed capital	-	-	62,681	-
Net loss for the period from inception (November 21, 2000) to March 31, 2001	-	-	-	-
Balance at March 31, 2001, as restated	16,492,000	16,492	254,489	-
Issuance of common stock for cash - April 2001 @ \$1.0010,000		10	9,990	-
Issuance of common stock for telephone equipment - April 2001 @ \$1.00	6,750	7	6,743	-

Edgar Filing: Cobalis Corp - Form 10QSB

Issuance of common stock for cash - May 2001 @ \$1.00	11,000	11	10,989	-
Issuance of common stock for website development - May 2001 @ \$1.00	17,000	17	16,983	-
Issuance of common stock for legal services - May 2001 @ \$1.00	1,000	1	999	-
Issuance of common stock for cash - June 2001 @ \$1.00	23,500	24	23,476	-
Issuance of common stock for cash - July 2001 @ \$1.00	20,000	20	19,980	-
Issuance of common stock for cash - August 2001 @ \$1.00	25,000	25	24,975	-
Issuance of common stock for services, related party - September 2001 @ \$1.00	65,858	66	65,792	-
Issuance of common stock for cash - September 2001 @ \$15,000		15	14,985	-
Issuance of common stock for services - September 2001	11,000,000	11	10,989	-
Issuance of stock options for services - September 2001	-	-	32,000	-
Issuance of common stock for cash - October 2001 @ \$1.00	5,000	5	4,995	-
Issuance of common stock for cash - December 2001 @ \$130,000		30	29,970	-
Issuance of common stock for services - December 31, 2001 @ \$1.00	33,000	33	32,967	-
Issuance of common stock for services, related party - December 2001 @ \$1.00	117,500	118	117,382	-
Issuance of common stock for prepaid advertising - December 2001 @ \$1.00	15,600	15	15,585	-
Issuance of common stock for property and equipment - January 2002 @ \$3.00	1,000	1	2,999	-
Issuance of common stock for services, related party - January 2002 @ \$1.00	33,000	33	32,967	-
Issuance of common stock for cash - February 2002 @ \$220,000		20	39,980	-
Issuance of common stock for cash - March 2002 @ \$2.00	12,500	12	24,988	-
Contributed capital	-	-	211,269	-
Deferred compensation	-	-	-	(60,108)
Net loss	-	-	-	-
Balance at March 31, 2002, as restated				
	16,965,708	16,966	1,005,492	(60,108)
Issuance of common stock for services - April 2002 @ \$23,000				
		3	5,997	-
Issuance of common stock for cash - April 2002 @ \$1.00				
	10,000	10	9,990	-
Issuance of common stock for cash - April 2002 @ \$2.00				
	17,500	17	34,983	-
Issuance of common stock for cash - May 2002 @ \$1.00				
	10,000	10	9,990	-
Issuance of common stock for cash - May 2002 @ \$2.00				
	16,000	16	31,984	-
Issuance of stock options for services - May 2002				
	-	-	350,000	-
Contributed capital - bonus expense				
	-	-	50,000	-
Issuance of common stock for cash - June 2002 @ \$1.00				
	5,000	5	4,995	-
Issuance of common stock for cash - June 2002 @ \$2.00				
	5,000	5	9,995	-
Issuance of common stock for cash - July 2002 @ \$1.00				
	5,000	5	4,995	-
Issuance of common stock for cash - August 2002 @ \$2.00				
	10,000	10	19,990	-
Issuance of common stock for cash - September 2002 @ \$10,000				
	-	10	19,990	-
Issuance of stock options below fair market value - November 2002				
	-	-	250,000	(250,000)
Issuance of common stock for conversion of note - December 2002 @ \$2.00				
	50,000	2	99,950	-
Issuance of common stock for cash - December 2002 @ \$220,000				
	-	20	39,980	-
Issuance of common stock for services - December 2002				
	15,000	15	29,985	-
Issuance of common stock for patents - December 2002				
	2,000,000	2,000	1,285,917	-
Contributed capital				
	-	-	292,718	-
Issuance of common stock for exercise of options - December 2002				
	574,000	574	574,028	-
Deferred compensation				
	-	-	-	60,108
Contributed capital				
	-	-	5,000	-
Issuance of common stock for services - January 2003				
	-	-	25,000	-
Issuance of common stock for cash February 2003 @ \$2.00				
	11,500	12	22,988	-
Issuance of common stock for cash March 2003 @ \$2.00				
	5,000	5	9,995	-
Deferred compensation				
	-	-	-	54,000
Net loss				
	-	-	-	-

Edgar Filing: Cobalis Corp - Form 10QSB

Balance at March 31, 2003, as restated	19,732,708	19,733	4,193,962	(196,000)
Issuance of common stock for cash April 2003 @ \$2.00	70,000	70	139,930	-
Issuance of common stock for cash May 2003 @ \$2.00	30,000	30	59,970	-
Acquisition by Biogenetech Corp of ("Togs for Tykes")	1,032,000	1,032	(101,032)	-
Issuance of common stock for penalties January 2004	135,000	135	377,865	-
Issuance of common stock for services February 2004 @100,000		100	219,900	-
Issuance of common stock for services February 2004 @ 20,000		20	36,980	-
Value of beneficial conversion feature of convertible debenture issued in September 2003			346,870	-
Fair value allocated to warrant liability for detachable warrants issued with preferred stock			(181,849)	-
Dividend on preferred stock			885,000	-
Deferred compensation				196,000
Net loss				-

Balance at March 31, 2004	21,119,708	21,120	5,977,596	-
Issuance of common stock for penalties May 2004 @ \$1170,000		170	314,330	-
Issuance of common stock for services June 2004 @ \$1.710,000		10	17,490	-
Issuance of common stock for conversion of debt June 371,317\$1.60		371	593,736	-
Issuance of common stock for services July 2004 @ \$1.357,489		8	10,101	-
Issuance of common stock for services July 2004 @ \$1.175,000		75	82,425	-
Conversion of debt to common stock September 2004 @ 1857,143		857	1,499,143	-
Fair value of options issued to consultants			507,186	-
Net loss				-

Balance at September 30, 2004	22,610,657	\$ 22,611	\$ 9,002,007	\$ -
=====				

See accompanying notes to the consolidated financial statements.

COBALIS CORP. AND SUBSIDIARY
(FORMERLY BIOGENTECH CORP.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED	CUMULATIVE
	SEPTEMBER 30,	NOVEMBER
	SEPTEMBER 30,	2000 (INC
	2004	SEPTEMBER
	2003	

Edgar Filing: Cobalis Corp - Form 10QSB

(as restated)

CASH FLOW FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,548,198)	\$ (1,134,068)	\$ (11,7
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	41,947	54,151	3
Common stock issued for services	110,109	-	6
Common stock issued for penalty	314,500	-	6
Change in value of warrant liability	54,919	(48,203)	(1
Amortization of debt issue costs	13,942	2,319	
Exercise of stock options for services	-	-	
Amortization of discounts on notes	492,137	14,347	7
Issuance of stock options for services	507,186	-	9
Capital contribution - bonus (related party)	-	-	
Amortization of prepaid advertising	-	-	
Amortization of deferred compensation	-	168,000	2
Discount on common stock issued for settlement of debt	-	-	
Impairment expense	-	-	2,3
Changes in assets and liabilities:			
Prepaid expenses and other assets	10,111	1,793	
Inventory	-	97	
Accounts payable	294,827	233,362	8
Accrued expenses	178,694	-	1,1
Amounts due to related parties	150,841	164,936	1,3
Net cash used in operating activities	(378,985)	(543,266)	(2,4
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	-	(19,550)	(
Increase in patent costs	-	-	(
Change in restricted cash	-	-	
Merger fees and costs	-	-	
Increase in acquisition deposits	-	(1,970,000)	(2,2
Increase in other deposits	-	-	(
Increase in capitalized website	(3,532)	(450)	(
Net cash used in investing activities	(3,532)	(1,990,000)	(2,3
CASH FLOW FROM FINANCING ACTIVITIES:			
Payment on contract	-	-	(1
Proceeds from advances - related party	353,000	525,400	1,1
Proceeds from issuance of notes payable	-	1,016,500	1,2
Proceeds from sale of common stock	-	200,000	8
Proceeds from sale of preferred stock	-	885,000	8
Proceeds from convertible debenture	-	-	6
Capital contribution	-	-	5
Payment of debt issue costs	-	-	(
Payments on advances - related party	(15,500)	(22,800)	(1
Net cash provided by financing activities	337,500	2,604,100	4,8
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,017)	70,834	
CASH AND CASH EQUIVALENTS, Beginning of period	76,181	2,290	
CASH AND CASH EQUIVALENTS, End of period	\$ 31,164	\$ 73,124	\$

Edgar Filing: Cobalis Corp - Form 10QSB

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Interest paid	\$	-	\$	-	\$
Income taxes paid	\$	-	\$	-	\$

See accompanying notes to the consolidated financial statements.

COBALIS CORP. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
 (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements have been prepared by Cobalis Corp. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended March 31, 2004 included in the Company's Annual Report on Form 10-KSB. The results of the six months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year ending March 31, 2005.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of \$2,548,198 for the six months ended September 30, 2004 and as of September 30, 2004, the Company had a working capital deficit of \$3,602,831 and a stockholder deficit of \$3,627,892. In addition, as of September 30, 2004, the Company has not developed a substantial source of revenue.

These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Edgar Filing: Cobalis Corp - Form 10QSB

The Company is currently attempting to raise additional debt and equity financing for operating purposes.

The Company requires substantial capital to pursue its operating strategy, which includes commercialization of its products, and currently has limited cash for operations. Until the Company can obtain revenues sufficient to fund working capital needs and additional research and development costs necessary to obtain the regulatory approvals for commercialization, the Company will be dependent upon external sources of financing.

There can be no assurances that sufficient financing will be available on terms acceptable to the Company, or at all. If the Company is unable to obtain such financing, the Company will be forced to scale back operations, which could have an adverse effect on the Company's financial condition and results of operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.

7

Stock Options

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company has elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation issued to employees. For options granted to employees where the exercise price is less than the fair value of the stock at the date of grant, the Company recognizes an expense in accordance with APB 25. For non-employee stock based compensation the Company recognizes an expense in accordance with SFAS No. 123 and values the equity securities based on the fair value of the security on the date of grant. For stock-based awards the value is based on the market value for the stock on the date of grant and if the stock has restrictions as to transferability a discount is provided for lack of tradability. Stock option awards are valued using the Black-Scholes option-pricing model.

The pro forma information regarding the effect on operations that is required by SFAS 123 and SFAS 148 has been presented below for the six months ended September 30, 2004 and 2003:

	2004	2003
	-----	-----
Net loss attributed to common stockholders		
Net loss as reported	\$ (2,585,698)	\$ (1,134,068)
Expense recognized	507,186	-
Pro forma expense	(507,186)	-

Edgar Filing: Cobalis Corp - Form 10QSB

	-----	-----
Pro forma net loss	\$ (2,585,698)	\$ (1,134,068)
	=====	=====
Basic and diluted loss per common share:		
As reported	\$ (0.12)	\$ (0.06)
Pro forma	\$ (0.12)	\$ (0.06)

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the six months ended September 30, 2004: risk-free interest rate of 3.5%; dividend yields of 0; volatility factors of the expected market price of the Company's common stock of 108%; and a weighted average expected life of the option of 2 to 3 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

8

NOTE 2 - LOSS PER SHARE

The Company reports loss per share in accordance with SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares available. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted loss per share has not been presented since the effect of the assumed exercise of options and warrants to purchase common shares would have an anti-dilutive effect. There were 5,894,167 and 1,344,167 common equivalent shares outstanding related to the options and warrants at September 30, 2004 and 2003, respectively. In addition, as of September 30, 2004, 716,667 shares of common stock are issuable upon the conversion of the convertible note payable and convertible preferred stock.

NOTE 3 - PROPERTY AND EQUIPMENT

The cost of property and equipment at September 30, 2004 consisted of the following:

Furniture and fixtures	\$ 71,500	
Office equipment	40,558	

		112,058
Less accumulated depreciation and amortization		(58,475)

Edgar Filing: Cobalis Corp - Form 10QSB

\$ 53,583

NOTE 4 - DUE TO RELATED PARTIES

Due to related parties at September 30, 2004 consists of the following:

R&R Holdings, Inc. a)	\$ 1,387,830
Chaslav Radovich b)	62,500
Other officers/executives c)	146,459

	\$ 1,596,789

a) On January 1, 2001, the Company entered into a consulting contract with R&R Development, Inc. DBA R&R Holdings, Inc. ("R&R") whereby they would provide managerial consulting services to the Company at the rate of \$125,000 per year and the rate shall increase to \$135,000 per year when and if the Company completes a merger with a public shell company. R&R is also a shareholder of the Company. As of September 30, 2004, the Company had accrued \$276,142 of consulting fees relating to this agreement.

R&R advances the Company cash from time to time. As of September 30, 2004, the Company owed R&R \$840,357 related to these advances. The Company has accrued interest on these advances at a rate of 10% per annum. Accrued interest at September 30, 2004 related to these advances totaled \$79,184.

In September 2003, R&R advanced the Company an additional amount of \$170,000 at the rate of 10% per annum. These funds were specifically to provide the Company with additional financing with regard to the InnoFood transaction. Accrued interest at September 30, 2004 related to this advance was \$22,147.

9

b) The Company currently owes its Chief Executive Officer \$62,500 in past due compensation. During the three months ended June 30, 2004, the Company's Chief Executive Officer was issued 107,901 shares of the Company's common stock in satisfaction of \$154,500 of past due compensation plus interest. The Company is accruing salary to its CEO at an annual rate of \$125,000.

c) The Company currently owes other current and former executives a total of \$146,459 in past due compensation.

NOTE 5 - CONVERTIBLE NOTE PAYABLE

In September 2003, the Company sold a \$600,000, three-year, 8% convertible note payable, which is convertible into shares of the Company's common stock at the initial conversion price of \$2.00 per share. This price is subject to adjustment should the Company issue shares of its common stock at a price less than \$1.75 per share. The convertible note payable was sold with detachable three-year warrants to purchase 90,000 shares of the Company's common stock at \$2.88 per share. The warrant exercise price is also subject to adjustment based on sales of the Company's common stock below the current fair market value on the contract date.

The Company also entered into a registration rights agreement whereby the Company agreed to file a valid registration statement with the Securities and Exchange Commission to register the shares of common stock underlying the Convertible Debentures and Debenture Warrants. Pursuant to EITF 00-19,

Edgar Filing: Cobalis Corp - Form 10QSB

"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the relative fair value of the warrants has been recorded as a short-term liability until the Company has obtained an effective registration statement for these shares. If the Company does not file such an effective registration statement within 30 days of the closing date, or October 8, 2003, the Company is subject to penalties as follows: 1% of the principal amount of the funding for the first 30 day period in which the Company fails to file such registration statement, and 2% for each 30 day period thereafter. At September 30, 2004, the Company had not filed such a registration statement and accordingly is currently subject to a penalty of approximately \$138,000.

Per the terms of the note agreement, in the event of default, the Company is subject to accrue interest at a default rate of 18% from the date of the default. In addition, the Company is obligated to remit 125% of the outstanding note balance upon the acceleration of repayment by the holder. As of September 30, 2004, Company had accrued interest of \$114,805 related to this convertible note payable.

In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. During the six months ended September 30, the increase of the relative fair value of the warrants was \$27,736. The relative fair value of the warrants was \$82,371 as of September 30, 2004.

10

This convertible debenture is presented in the accompanying balance sheet as a current liability as the Company has not made required interest payment on this convertible debenture which is an event of default that give the holder the right to call the convertible debenture.

A rollforward of the convertible note payable is as follows:

Balance, March 31, 2004	\$	107,863
Conversions into equity		-
Amortization of discounts		492,137

Balance, September 30, 2004	\$	600,000
		=====

During the three months ended September 30, 2004, the Company fully amortized the debt discount associated with the \$600,000 convertible note payable due to the lawsuit filed by the holder of the convertible note payable. See Note 10.

NOTE 6 - CONVERTIBLE PREFERRED STOCK

In September 2003, the Company sold 1,000 shares of its 7.5% convertible preferred stock for \$1,000,000, less direct issuance costs of \$115,000, which were netted against the proceeds of the offering. The Convertible Preferred Stock carries voting rights equivalent to the number of shares of common stock into which it can be converted, and has liquidation preference of \$1,000 per share. The Convertible Preferred Stock is convertible into shares of the Company's common stock at the initial conversion price of \$2.40 per share. This price is subject to change should the Company issue shares of its common stock at a price less than \$1.75 per share. Included with the Convertible Preferred Stock were detachable three-year warrants to purchase 104,167 shares of the

Edgar Filing: Cobalis Corp - Form 10QSB

Company's common stock at the price of \$2.88 per share. The warrant exercise price is also subject to adjustment based on sales of the Company's common stock below the current fair market value on the contract date.

Since the intrinsic value of the beneficial conversion feature and relative fair value of the warrants exceeds the proceeds of the convertible debt, the amount of the discount assigned to the beneficial conversion feature and warrants is limited to the amount of the proceeds of the convertible preferred stock. The discount was recorded as a preferred stock dividend at the date of issuance. The Company recognized \$885,000 of preferred dividends related to the discount.

Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the relative fair value of the warrants, has been recorded as a short-term liability until the Company has obtained an effective registration statement for these shares.

If the Company does not file such an effective registration statement within 30 days of the closing date, or October 25, 2003, the Company is subject to penalties as follows: 1% of the value of the shares and the warrants paid by the purchaser for the first 30 day period in which the Company fails to file such registration statement, and 2% for each 30 day period thereafter. At September 30, 2004, the Company has not filed such a registration statement and accordingly is currently subject to a penalty of \$230,000.

In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. During the six months ended September 30, 2004, the increase of the relative fair value of the warrants was \$27,183. The relative fair value of the warrants was \$59,767 as of September 30, 2004.

As of September 30, 2004, there was \$75,000 of dividends in arrears related to the 1,000 share of convertible preferred stock.

11

NOTE 7 - COMMON STOCK

During the six months ended September 30, 2004 the Company issued common stock for the following:

- o 170,000 shares valued at \$314,500 related to a Forbearance Agreement related to the convertible note payable;
- o 92,489 shares valued at \$110,109 for consulting services;
- o 371,317 shares valued at \$594,107 for the conversion of certain accounts payable and amount payable to related parties and;
- o 857,143 shares valued at \$1,500,000 for the conversion of notes payable and accrued interest.

During the three months ended September 30, 2004, the Company issued 3,350,000 options to consultants with a weighted average exercise price of \$1.74. The options vest over a period ranging from immediately to three years. The fair value of these options amounted to \$1,931,820 which is being amortized to expense over the vesting period of the options. During the three months ended September 30, 2004, the Company recognized an expense of \$507,186 related to these options.

Edgar Filing: Cobalis Corp - Form 10QSB

NOTE 8 - RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Company entered into agreements with Gene Pharmaceuticals, LLC ("GP LLC") to purchase certain patents and other assets. The Company previously had valued the patents based on the present value of the minimum contractual obligations using a 6% discount rate. Per the December 19, 2002 agreement, the Company issued to GP LLC 2,000,000 shares of the Company's common stock in exchange for the minimum contractual payments. At this time the Company valued the transaction based on the deemed current value of the Company's common stock, which resulted in the Company increasing the carrying value of the patents by \$1,658,378. At the time the Company's stock was not publicly traded so the Company valued its stock at \$2.00 per share which was the most recent price that the Company had sold shares for cash. After this increase in the value of patents, the patents carrying value was \$3,905,832. At March 31, 2003, the patents were appraised at \$3,850,000 which resulted in the Company writing down the value of the patents by \$55,832.

The Company has restated its previously issued financial statements to reflect using a discount rate of 15.5% rather than 6% to value the minimum contractual obligations and to value the 2,000,000 shares of common stock issued in the December 19, 2002 transaction at the carrying value of the contractual obligation that was exchanged for the shares rather than at the deemed current value of the shares at the date of issuance.

In addition, the Company did not amortize the value of its patents prior to January 1, 2004. The consolidated financial statements have been restated to reflect the amortization of the Company's patents over the estimated useful life of the patents using the straight line method.

12

The effects of the restatement as of September 30, 2003 and six months ended September 30, 2003 are as follows:

	AS PREVIOUSLY FILED	AS RESTATED
Patents	\$ 3,850,000	\$ 1,125,466
Accumulated amortization of patents	\$ -	\$ 235,962
Total Stockholders' equity (deficit)	\$ 2,761,471	\$ (199,025)
Net loss	\$ (1,090,415)	\$ (1,134,068)

NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of

Edgar Filing: Cobalis Corp - Form 10QSB

SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

NOTE 10 - SUBSEQUENT EVENTS

On November 8, 2004, the Gryphon Master Fund, LP filed a lawsuit against the Company in United States District Court, Northern District of Texas, Dallas Division. The lawsuit seeks repayment of the \$600,000 convertible note payable, accrued interest on the convertible note payable, penalties for failing to register the shares underlying the conversion of the convertible note payable, attorney fees and court costs. As of September 30, 2004, the Company has accrued \$1,257,805 related to this matter.

Subsequent to September 30, 2004, the Company issued 329,758 shares of its common stock to consultants for services.

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

THIS FOLLOWING INFORMATION SPECIFIES CERTAIN FORWARD-LOOKING STATEMENTS OF MANAGEMENT OF THE COMPANY. FORWARD-LOOKING STATEMENTS ARE STATEMENTS THAT ESTIMATE THE HAPPENING OF FUTURE EVENTS ARE NOT BASED ON HISTORICAL FACT. FORWARD-LOOKING STATEMENTS MAY BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY, SUCH AS "MAY", "SHALL", "COULD", "EXPECT", "ESTIMATE", "ANTICIPATE", "PREDICT", "PROBABLE", "POSSIBLE", "SHOULD", "CONTINUE", OR SIMILAR TERMS, VARIATIONS OF THOSE TERMS OR THE NEGATIVE OF THOSE TERMS. THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION HAVE BEEN COMPILED BY OUR MANAGEMENT ON THE BASIS OF ASSUMPTIONS MADE BY MANAGEMENT AND CONSIDERED BY MANAGEMENT TO BE REASONABLE. OUR FUTURE OPERATING RESULTS, HOWEVER, ARE IMPOSSIBLE TO PREDICT AND NO REPRESENTATION, GUARANTY, OR WARRANTY IS TO BE INFERRED FROM THOSE FORWARD-LOOKING STATEMENTS.

THE ASSUMPTIONS USED FOR PURPOSES OF THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION REPRESENT ESTIMATES OF FUTURE EVENTS AND ARE SUBJECT TO UNCERTAINTY AS TO POSSIBLE CHANGES IN ECONOMIC, LEGISLATIVE, INDUSTRY, AND OTHER CIRCUMSTANCES. AS A RESULT, THE IDENTIFICATION AND INTERPRETATION OF DATA AND OTHER INFORMATION AND THEIR USE IN DEVELOPING AND SELECTING ASSUMPTIONS FROM AND AMONG REASONABLE ALTERNATIVES REQUIRE THE EXERCISE OF JUDGMENT. TO THE EXTENT THAT THE ASSUMED EVENTS DO NOT OCCUR, THE OUTCOME MAY VARY SUBSTANTIALLY FROM ANTICIPATED OR PROJECTED RESULTS, AND, ACCORDINGLY, NO OPINION IS EXPRESSED ON THE ACHIEVABILITY OF THOSE FORWARD-LOOKING STATEMENTS. NO ASSURANCE CAN BE GIVEN THAT ANY OF THE ASSUMPTIONS RELATING TO THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION ARE ACCURATE, AND WE ASSUME NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS.

OVERVIEW

BioGentec Incorporated ("BG"), a private Nevada corporation, was incorporated on November 21, 2000 according to the laws of Nevada, under the name St Petka, Inc. On May 4, 2001, St Petka, Inc. formally changed its name to BioGentec Incorporated. On July 2, 2003, BG was merged into Togs for Tykes Acquisition Corp. ("TTAC"), a wholly owned subsidiary formed for the purpose of acquiring BG. TTAC is the wholly owned subsidiary of the registrant, formerly Togs for Tykes, Inc. and most recently, BioGentech Corp. On July 6, 2004, BioGentech Corp. changed its name to Cobalis Corp. As allowed under SFAS 141, "Business

Edgar Filing: Cobalis Corp - Form 10QSB

Combinations" ("SFAS 141"), we designated a date of convenience of the closing for accounting purposes as June 30, 2003. Under the terms of the merger agreement, all of BG's outstanding common stock (19,732,705 shares of \$0.001 par value stock) will be exchanged for 19,732,705 shares newly issued shares of \$0.001 par value stock of Cobalis Corp. common stock. At the date of the transaction, we had 5,532,000 shares of common stock outstanding of which 4,500,000 will be cancelled as part of the transaction leaving 23,864,708 shares outstanding.

This transaction was consummated with the filing of the Articles of Merger with the State of Nevada on July 2, 2003 BG shareholders then effectively controlled approximately 95% of the issued and outstanding common stock of Cobalis. Since the shareholders of BG obtained control of Cobalis, according to SFAS 141, this acquisition has been treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting.

14

GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation as a going concern. We incurred a net loss of \$1,945,191 for the six months ended September 30, 2004 and as of September 30, 2004, we had a working capital deficit of \$2,999,824 and a stockholder deficit of \$3,024,885. In addition, as of September 30, 2004, we have not developed a substantial source of revenue. These conditions raise substantial doubt as to our ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

We are currently attempting to raise additional debt and equity financing for operating purposes. We require substantial capital to pursue our operating strategy, which includes commercialization of our products, and currently has limited cash for operations. Until we can obtain revenues sufficient to fund working capital needs and additional research and development costs necessary to obtain the regulatory approvals for commercialization, we will be dependent upon external sources of financing.

There can be no assurances that sufficient financing will be available on terms acceptable to us, or at all. If we are unable to obtain such financing, we will be forced to scale back operations, which could have an adverse effect on our financial condition and results of operations.

CRITICAL ACCOUNTING POLICY AND ESTIMATES

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates

Edgar Filing: Cobalis Corp - Form 10QSB

and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

Patent Cost Valuation. The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the weighted-average probability method outlined in SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

15

Stock-based Compensation. We record stock-based compensation to outside consultants at fair market value in general and administrative expense. We do not record expense relating to stock options granted to employees with an exercise price greater than or equal to market price at the time of grant. We report pro-forma net loss and loss per share in accordance with the requirements of SFAS 123 and 148. This disclosure shows net loss and loss per share as if we had accounted for our employee stock options under the fair value method of those statements. Pro-forma information is calculated using the Black-Scholes pricing method at the date of grant. This option valuation model requires input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of our employee stock options.

Estimate of Litigation-based Liability. We are defendant in certain claims and litigation in the ordinary course of business. We accrue liabilities relating to these lawsuits on a case-by-case basis. We generally accrue attorney fees and interest in addition to the liability being sought. Liabilities are adjusted on a regular basis as new information becomes available. We consult with our attorneys to determine the viability of an expected outcome. The actual amount paid to settle a case could differ materially from the amount accrued.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: Cobalis Corp - Form 10QSB

We had a cash and cash equivalents of \$31,164 at September 30, 2004. We also had \$1,508 in prepaid and other current assets and \$5,903 in inventory making our total current assets at September 30, 2004 equal to \$38,575. We also had the following long term assets: \$53,940 in debt issue costs; \$53,583 in property and equipment, net, \$5,019 in net website development costs, and \$707,397 represented by net value of our patents, \$40,000 in deposits. Our total assets as of September 30, 2004 were \$898,514.

Our total current liabilities were \$3,038,399 at September 30, 2004, which was represented by accounts payable of \$261,472 and accrued expenses of \$840,778, due to related parties of \$1,596,789, warrant liability of \$197,057, and convertible note payable of \$142,303, net of a discount of \$457,697. Our liabilities exceeded our assets by \$2,139,885 as of September 30, 2004.

We have financed our operations primarily through cash generated from related party debt financing and from the private placement sales of equity securities, as well as issuing a convertible debenture. During the six months ended September 30, 2004, we received an additional \$353,000 from a related party and issued 371,317 shares of our common stock as payment for certain accounts payable and past due salaries to certain related parties.

Our cash used in investing activities was \$3,532 for the six months ended September 30, 2004, as compared to \$1,990,000 for the same period ended in 2003, a decrease of \$1,986,468. In 2003, we made an acquisition deposit of \$1,970,000 related to our InnoFood acquisition.

Our net cash provided by financing activities was \$337,500 for the six months ended September 30, 2004 compared to \$2,604,100 for the same period in 2003. The decrease of \$2,266,600 is primarily due to the proceeds received in 2003 from the sale a preferred stock, convertible debentures and notes payable. There were no such issuances in 2004.

16

RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

We entered into agreements with Gene Pharmaceuticals, LLC, ("GP LLC") to purchase certain patents and other assets. We previously had valued the patents based on the present value of the minimum contractual obligations using a 6% discount rate. Per the December 19, 2002 agreement, we issued to GP LLC 2,000,000 shares of our common stock in exchange for the minimum contractual payments. At that time we valued the transaction based on the deemed current value of our common stock, which resulted in us increasing the carrying value of the patents by \$1,658,378. At the time our stock was not publicly traded so we valued our stock at \$2.00 per share which was the most recent price that we sold shares for cash. After this increase in the value of patents, the patents carrying value was \$3,905,832. At March 31, 2003, the patents were appraised at \$3,850,000 which resulted in us writing down the value of the patents by \$55,832.

We have restated our previously issued financial statements to reflect using a discount rate of 15.5% rather than 6% to value the minimum contractual obligations and to value the 2,000,000 shares of common stock issued in the December 19, 2002 transaction at the carrying value of the contractual obligation that was exchanged for the shares rather than at the deemed current value of the shares at the date of issuance.

In addition, we did not amortize the value of our patents prior to January 1, 2004. The consolidated financial statements have been restated to reflect the amortization of our patents over the estimated useful life of the patents using

Edgar Filing: Cobalis Corp - Form 10QSB

the straight line method.

The effects of the restatement as of September 30, 2003 and six months ended September 30, 2003 are as follows:

	As previously filed	As restated
Patents	\$ 3,850,000	\$ 1,125,466
Accumulated amortization of patents	\$ -	\$ 235,962
Total Stockholders' equity (deficit)	\$ 2,761,471	\$ (199,025)
Net loss	\$ (1,090,415)	\$ (1,134,068)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2003

Revenues and Cost of Sales

We had no significant revenues for the three months ended September 30, 2004 and September 30, 2003 as we are undertaking a Phase III clinical trial in order to obtain FDA approval of PreHistin (TM) as an over the counter drug. Our net revenues were \$120 less \$1,810 for cost of sales for a gross loss of \$1,690 for the three months ended September 30, 2004 as compared net sales of \$1,476 less \$39 for cost of sales for a gross profit of \$1,437 for the restated three months ended September 30, 2003.

Operating Expenses

Our operating expenses for the three months ended September 30, 2004 were \$896,706 compared to \$411,983 for the three months ended September 30, 2003. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin (TM) product and related product management and ii) general management and fund raising efforts. For the three months ended September 30, 2004, this amount was represented by \$20,973 in depreciation and amortization, \$724,069 in professional fees, \$47,391 in salary and wages, \$35,458 in rent expense, \$10,895 in marketing and promotions, and \$57,920 in other operating expenses, as compared to the three months ended September 30, 2003, where we had \$27,075 in depreciation and amortization, \$91,798 in professional fees, \$145,733 in salary and wages, \$31,094 in rent expense, \$9,278 in marketing and promotions, and \$107,005 in other operating expenses. Our operating expenses increased during the three months ended September 30, 2004 as compared to the three months ended September 30, 2003 principally as a result of the increase in professional fees.

17

Interest expense and financing costs for the three months ended September 30, 2004 were \$368,522 compared to \$48,569 for the three months ended September 30, 2003. The significant increase is due to the interest on the convertible note payable, the demand note payable and the advances from related parties. In addition, the amortization of debt issue costs and debt discounts and penalties for not registering shares underlying the conversion of the convertible note payable and convertible preferred stock.

The change in the fair value in the warrant liability relates to the increase in the value of the detachable warrants issued in connection with the convertible note payable and convertible preferred stock. Due to the increase of our stock price, the fair value of these warrants has increased resulting in the increase

Edgar Filing: Cobalis Corp - Form 10QSB

of the warrant liability.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004 AS COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2003

REVENUES AND COST OF SALES

We had no significant revenues for the six months ended September 30, 2004 and September 30, 2003 as we are undertaking a Phase III clinical trial in order to obtain FDA approval of PreHistin (TM) as an over the counter drug. Our net revenues were \$479 less \$2,930 for cost of sales for a gross loss of \$2,451 for the six months ended September 30, 2004 as compared net sales of \$3,163 less \$478 for cost of sales for a gross profit of \$2,685 for the restated six months ended September 30, 2003.

OPERATING EXPENSES

Our operating expenses for the six months ended September 30, 2004 were \$1,317,930 compared to \$1,081,235 for the six months ended September 30, 2003. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin (TM) product and related product management and ii) general management and fund raising efforts. For the six months ended September 30, 2004, this amount was represented by \$41,947 in depreciation and amortization, \$937,028 in professional fees, \$122,895 in salary and wages, \$67,644 in rent expense, \$11,793 in marketing and promotions, and \$136,623 in other operating expenses, as compared to the six months ended September 30, 2003, where we had \$54,151 in depreciation and amortization, \$190,321 in professional fees, \$385,420 in salary and wages, \$51,823 in rent expense, \$192,354 in marketing and promotions, and \$207,166 in other operating expenses. Our operating expenses increased during the six months ended September 30, 2004 as compared to the six months ended September 30, 2003 principally as a result of the increase in professional fees.

Interest expense and financing costs for the six months ended September 30, 2004 were \$569,891 compared to \$55,518 for the six months ended September 30, 2003. The significant increase is due to the interest on the convertible note payable, the demand note payable and the advances from related parties. In addition, the amortization of debt issue costs and debt discounts and penalties for not registering shares underlying the conversion of the convertible note payable and convertible preferred stock.

The change in the fair value in the warrant liability relates to the increase in the value of the detachable warrants issued in connection with the convertible note payable and convertible preferred stock. Due to the increase of our stock price, the fair value of these warrants has increased resulting in the decrease of the warrant liability.

18

OUR PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS.

Over the next 12 months, we plan to continue moving forward with the Phase III clinical trials of our allergy prevention product, PreHistin (TM), followed immediately by submission of an application to the FDA for marketing approval of PreHistin (TM) as an over the counter ("OTC") allergy medication. We hope to receive approval from the FDA in late 2005, enabling our US marketing launch of the product for the spring 2006 allergy season.

While continuing with the US FDA approval process, we are working to finalize the international launch strategy in the primary global markets. Discussions are

Edgar Filing: Cobalis Corp - Form 10QSB

progressing with potential joint venture partners for marketing, manufacturing, regulatory approval and distribution throughout the world, the most advanced of which are with companies in Japan and Canada.

In addition to seeking approval from the FDA for the primary indication of seasonal allergic rhinitis (hay fever) for PreHistin (TM), we plan to conduct additional studies to validate the viability of approval for supplemental indications and alternative delivery mechanisms. The tests will be a combination of clinical trials and laboratory analyses.

We are also actively pursuing the acquisition and development of products that we hope will enable us to leverage our resources. Areas of focus are OTC pharmaceutical products and nutritional supplements.

As of September 30, 2004, we had a cash of \$31,164. To fully execute our business plan for the next 12 months, we will need to raise additional funds in order to complete the Phase III clinical trials, submit the PreHistin (TM) application to the United States FDA and execute a marketing launch of the PreHistin (TM) product. We will also need to raise funds to execute studies for the further development of the PreHistin (TM) product line and to complete the acquisition of additional products. Along with our investment bankers, we plan to raise these funds through private and institution or other equity offerings. We may attempt to secure other loans from lending institutions or other sources. There is no guarantee that we will be able to raise additional funds through offerings or other sources. If we are unable to raise funds, our ability to continue with product development will be hindered.

Other than the research and development related to our PreHistin (TM) product, we do not plan to engage in any other research and development unless we are able to raise additional funds. We do anticipate the purchase of significant equipment within the next 12 months for our PreHistin (TM) product. We do not anticipate any significant hiring over the next 12 months.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

19

ITEM 3. CONTROLS AND PROCEDURES

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure 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 SEC's rules and forms. Disclosure controls and procedures include, without limitation,

Edgar Filing: Cobalis Corp - Form 10QSB

controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Part II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 8, 2004, the Gryphon Master Fund, LP filed a lawsuit against us in United States District Court, Northern District of Texas, Dallas Division. The lawsuit seeks repayment of the \$600,000 convertible note payable, accrued interest on the convertible note payable, penalties for failing to register the shares underlying the conversion of the convertible note payable, attorney fees and court costs. As of September 30, 2004, we have accrued \$1,257,805 related to this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended September 30, 2004, we issued the following shares of our common stock:

- o 857,143 shares to James Hammer for the conversion of notes payable and accrued interest valued at \$1,500,000 or \$1.75 per shares .
- o 3,350,000 options to purchase shares of our common stock to consultants with a weighted average exercise price of \$1.74. The options vest over a period ranging from immediately to three years. The fair value of these options amounted to \$1,931,820 which is being amortized to expense over the vesting period of the options. During the three months ended September 30, 2004, we recognized an expense of \$507,186 related to these options. The options vesting periods range from immediately to three years.

20

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We are currently in default on terms of our \$600,000 convertible note payable to Gryphon Master Fund LP, dated September 8, 2003, for failing to register the shares underlying the conversion.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

REGULATION

Edgar Filing: Cobalis Corp - Form 10QSB

S-B NUMBER	EXHIBIT
3.1	Articles of Incorporation (1)
3.1.1	Certificate of Amendment to Articles of Incorporation (1)
3.1.2	Certificate of Amendment to Articles of Incorporation (2)
3.1.3	Certificate of Amendment to Articles of Incorporation (3)
3.2	Bylaws (1)
4.1	Convertible Note with Gryphon Master Fund LP (4)
10.1	Asset Purchase Agreement between BioGentec Inc., (fka St. Petka, Inc.) and Gene Pharmaceuticals, LLC, (fka Allergy Limited, LLC,) as amended (4)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Chief Financial Officer of the Company (5)
32.1	Section 906 Certification by Chief Executive Officer and Chief Financial Officer (5)

(1) Incorporated by reference to the exhibits to the registrant's registration statement on Form 10-SB filed on February 8, 2002.

(2) Incorporated by reference to the exhibits to the registrant's information statement on schedule 14C filed on June 10, 2003.

(3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K, filed July 8, 2004.

(4) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the fiscal year ended March 31, 2004.

(5) Included herein.

21

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COBALIS CORP.

November 24, 2004

By: / s/ Chaslav Radovich

Chaslav Radovich
Principal Executive Officer, President,
Treasurer, Secretary, Director