

ARBIOS SYSTEMS INC
Form 10QSB
May 18, 2007

**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 March 31, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 000-32603

ARBIOS SYSTEMS, INC.

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

Delaware
(State or other jurisdiction of incorporation or
organization)

91-1955323
(I.R.S. Employer Identification No.)

1050 Winter Street, Suite 1000, Waltham, MA
(Address of principal executive offices)

02451
(Zip Code)

(781) 839-7293
(Issuer's telephone number)

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 .

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

On May 7, 2007, there were 24,956,643 shares of common stock, \$.001 par value per share, issued and outstanding.

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

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ARBIOS SYSTEMS, INC.
(A development stage company)
CONDENSED BALANCE SHEETS

PART I - FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 1,344,817	\$ 2,054,280
Prepaid expenses	105,300	147,163
Total current assets	1,450,117	2,201,443
Net property and equipment	66,256	73,110
Patent rights, net of accumulated amortization of \$119,014 and \$113,894, respectively	147,653	152,773
Other assets	50,818	62,827
Total assets	\$ 1,714,844	\$ 2,490,153
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable	\$ 446,933	\$ 310,162
Accrued expenses	550,941	132,073
Total current liabilities	997,874	442,235
Long term contract obligations	250,000	-
Accrued warrant liability	-	763,654
Total liabilities	1,247,874	1,205,889
Stockholders' equity		
Preferred stock, \$.001 par value; 5,000,000 shares authorized: none issued and outstanding	-	-
Common stock, \$.001 par value; 60,000,000 shares authorized; 17,460,181 shares issued and outstanding at March 31, 2007 and December 31, 2006	17,460	17,460
Additional paid-in capital	16,080,301	14,507,939
Deficit accumulated during the development stage	(15,630,791)	(13,241,135)
Total stockholders' equity	466,970	1,284,264
Total liabilities and stockholders' equity	\$ 1,714,844	\$ 2,490,153

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

ARBIOS SYSTEMS, INC.
(A development stage company)
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31,		Inception to
	2007	2006	March 31, 2007
Revenues	\$ -	\$ -	\$ 320,966
Operating expenses:			
General and administrative	675,831	744,064	8,997,920
Research and development	1,030,993	366,190	6,844,169
Total operating expenses	1,706,824	1,110,254	15,842,089
Loss before other income (expense)	(1,706,824)	(1,110,254)	(15,521,123)
Other income (expense):			
Change in fair value of warrant liability	-	-	521,187
Equity offering contingency	(180,000)	-	(180,000)
Interest income	18,355	40,786	314,470
Interest expense	-	-	(244,138)
Total other income (expense)	(161,645)	40,786	411,519
Net loss	\$ (1,868,469)	\$ (1,069,468)	\$ (15,109,604)
Net loss per share:			
Basic and diluted	\$ (0.11)	\$ (0.06)	
Weighted-average shares:			
Basic and diluted	17,460,181	16,587,454	

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

ARBIOS SYSTEMS, INC.
(A development stage company)
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended March 31,		Inception to
	2007	2006 (Restated)	March 31, 2007
Cash flows from operating activities:			
Net loss	\$ (1,868,469)	\$ (1,069,468)	\$ (15,109,604)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of debt discount	-	-	244,795
Depreciation and amortization	11,974	12,651	264,193
Change in fair value of warrant liability	-	-	(521,187)
Patent rights impairment	-	-	91,694
Interest earned on discounted short term investments	-	8,406	-
Issuance of common stock, options and warrants for compensation	212,951	210,739	3,012,885
Insurance of warrant for patent acquisition	74,570	-	74,570
Settlement of accrued expense	-	-	54,401
Deferred compensation costs	-	-	319,553
Changes in operating assets and liabilities:			
Prepaid expenses	41,863	43,348	(105,302)
Other assets	12,009	4,987	(50,818)
Accounts payable and accrued expenses	555,639	(24,758)	904,372
Other liabilities	-	-	64,695
Contractual obligation	250,000	-	250,000
Net cash provided by operating activities	(709,463)	(814,095)	(10,505,753)
Cash flows from investing activities:			
Additions of property and equipment	-	(3,447)	(144,796)
Purchase of short term investments	-	(5,954,653)	(21,866,787)
Maturities of short term investments	-	4,965,947	21,866,787
Net cash provided by and (used in) investing activities	-	(992,153)	(144,796)
Cash flows from financing activities:			
Proceeds from issuance of convertible debt	-	-	400,000
Proceeds from common stock option/warrant exercise	-	-	65,200
Net proceeds from issuance of common stock and warrants	-	1,310,092	11,313,249
Net proceeds from issuance of preferred stock	-	-	238,732
Payments on capital lease obligation, net	-	-	(21,815)
Net cash provided by financing activities	-	1,310,092	11,995,366
Net (decrease) increase in cash	(709,463)	(496,156)	1,344,817
Cash at beginning of period	2,054,280	2,379,738	-

Cash at end of period	\$	1,344,817	\$	1,883,582	\$	1,344,817
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Supplemental disclosures of non-cash financing activity

Issuance of securities for obligation related to finder's fees		-		-	\$	47,500
Accrued warrant liability	\$	-	\$	951,841	\$	1,284,841

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

ARBIOS SYSTEMS, INC.
(A Development Stage Company)
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
PERIOD FROM AUGUST 23, 2000 (INCEPTION) TO MARCH 31, 2007
(Unaudited)

	Preferred Stock		Common Stock		Additional	Deferred	Deficit	
	Shares	Amount	Shares	Amount	Paid-In	Costs	Accumulated	Total
					Capital		During the	
							Development	
							Stage	
Balance, August 23,								