ARBIOS SYSTEMS INC
Form 8-K
November 14, 2003
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **October 30, 2003**

Arbios Systems, Inc.

(Exact Name of Registrant as Specified in its Charter)

Nevada	000-32603	91-1955323
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

110 North George Burns Road, Suite D-4018 Los Angeles, CA	90048
(Address of Principal Executive Offices)	(Zip Code)

(310) 423-7702

Registrant s Telephone Number, Including Area Code

Historical Autographs U.S.A., Inc.

(Former Name or Former Address, if Changed Since Last Report)

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Item 1. Changes in Control of Registrant.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Current Report on Form 8-K contains forward-looking statements which reflect the views of the Registrant and its new members of management with respect to future events and financial performance. These forward-looking statements, including statements regarding the future plans of the Registrant, the development of the products and technologies owned by the Registrant and its subsidiary, and the market and need for those products, are subject to certain uncertainties and other factors that could cause actual results to differ materially from such statements. Forward-looking statements are identified by words such as anticipates, believes, estimates, expects, plans, projects, targets and similar expressions. Re cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. The Registrant undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Historical Autographs U.S.A., Inc., a Nevada corporation that recently changed its name to Arbios Systems, Inc. (the Registrant), was formed as a Nevada corporation in February 1999 for the purpose of engaging in the business of acquiring and marketing historical documents, such as letters, photographs and signatures of political and military figures, inventors, Nobel Prize winners, significant physicians entertainers, musicians, composers, authors, artists, and well-known athletes. The Registrant s business to date has been conducted exclusively through its website: http://www.historical-autographs.com. The Registrant s business has not, however, achieved success, and from its inception through September 30, 2003, the Registrant had generated less than $200,000 of revenues from its business and had accumulated an operating deficit of $48,000. For the nine months ended September 30, 2003, the Registrant had a net loss of $9,422 on gross revenues of $6,000.

Because of its lack of success in its existing business, the Registrant considered the acquisition of other, better funded, companies. On October 7, 2003, the Registrant entered into a letter of intent Arbios Technologies, Inc., a Delaware corporation (Arbios Technologies) regarding a possible reorganization transaction (the Reorganization), pursuant to which (i) Arbios Technologies would become a wholly-owned subsidiary of the Registrant, (ii) the stockholders of Arbios Technologies would become the controlling stockholders of the Registrant, and (iii) the officers and directors of Arbios Technologies would become the officers and directors of the Registrant. On October 20, 2003, the Registrant, HAUSA Acquisition, Inc., a Nevada corporation and a newly-formed wholly-owned subsidiary of the Registrant (HAUSA Acquisition), Arbios Technologies and certain stockholders of the Registrant, entered into an Agreement and Plan of Reorganization (the Reorganization Agreement) to effect the Reorganization. HAUSA Acquisition was formed for the sole purpose of merging with and into Arbios Technologies as part of the Reorganization.

On October 30, 2003, the Registrant completed the Reorganization. As a result of the Reorganization, Arbios Technologies became a wholly-owned subsidiary of the Registrant, and all of the issued and outstanding shares of Arbios Technologies common stock, and all of Arbios Technologies outstanding options and warrants, were converted into or exchanged for shares of common stock, options or warrants of the Registrant. Immediately prior to the Reorganization, Arbios Technologies had 11,930,598 shares of its common stock outstanding, which were

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exchanged for 11,930,598 shares of the Registrant s $0.001 par value common stock (the Common Stock). Immediately prior to the closing of the Reorganization, a total of 1,220,000 shares of Common Stock were issued and outstanding. As a result of the Reorganization, the holders of Common Stock immediately prior to the Reorganization now own approximately 9.3% of the issued and outstanding Common Stock.

In addition, in the Reorganization the Registrant assumed (i) options to purchase 198,000 shares of Arbios Technologies common stock, and (ii) warrants to purchase an aggregate of 5,450,000 shares of Arbios Technologies common stock. The options and warrants are exercisable at prices ranging from $0.15 per share to $2.50 per share. Of these warrants, warrants to purchase a total of 4,400,000 shares of Common Stock at a price of $2.50 per share are exercisable for three years and will be callable by the Registrant at $0.01 per share at any time after the Common Stock trades for 20 consecutive trading days at an average closing sales price of $4.00 or more.

As a result of the Reorganization the stockholders of Arbios Technologies acquired control of the Registrant by acquiring a majority of the outstanding shares of Common Stock and, as described below, by replacing the existing officer and director of the Registrant. The source of consideration used by the stockholders of the Registrant in the Reorganization were the shares of common stock of Arbios Technologies owned or held beneficially by the Arbios Technologies stockholders prior to the Reorganization. The table set forth below lists the principal stockholders of the Registrant who, as of the close of business on November 12, 2003, beneficially owned 5% or more of the issued and outstanding shares of Common Stock of the Registrant.

	Ownership of Common Stock After the Reorganization (1)	
Name of Beneficial Owner	**Shares Owned**	**Percentage of Class**
Jacek Rozga, M.D., Ph.D.	2,536,000(2)	19.2%
Kristin P. Demetriou	2,536,000(3)	19.2%
Achilles A. Demetriou, M.D., Ph.D	2,500,000(4)	19.0%
Cedars-Sinai Medical Center	681,818	5.2%
Gary Ballen	1,017,000(5)	7.5%
Suncraft Limited	700,000(6)	5.2%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants and convertible securities currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding, including for purposes of computing the percentage ownership of the person holding such option, warrant or convertible security, but not for purposes of computing the percentage of any other holder.

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(2) Includes currently exercisable options to purchase 36,000 shares of Common Stock.

(3) Consists of (i) 2,500,000 shares owned by the A & K Demetriou Family Trust, of which Kristin P. Demetriou is a co-trustee, and (ii) currently exercisable options to purchase 36,000 shares of Common Stock issued to Kristin P. Demetriou.

(4) Consists of 2,500,000 shares owned by the A & K Demetriou Family Trust, of which Achilles A. Demetriou, M.D., Ph.D. is a co-trustee.

(5) Includes currently exercisable options to purchase 600,000 shares of Common Stock.

(6) Includes currently exercisable warrants to purchase 350,000 shares of Common Stock.

Immediately following the Reorganization, the Registrant ceased the e-commerce business it had conducted through the date of the Reorganization, closed its prior offices in Spokane, Washington, and moved its offices to the offices of Arbios Technologies. The Registrant does not plan to conduct any business other than owning the shares of Arbios Technologies, which wholly-owned subsidiary will continue to conduct the operations that it has, to date, been engaged in.

Arbios Technologies is a Delaware corporation based in Los Angeles, California. Arbios Technologies objective is to develop, manufacture and market liver assist devices to meet the urgent need for therapy that facilitates recovery from liver failure. Its two principal products are in the early stages of development.

The liver controls or affects almost every aspect of metabolism and most physiologic regulatory processes. Global loss of liver function is, therefore, lethal. Liver failure affects all age groups and may be caused by viruses, alcohol, ingestion of common medications, extensive liver removal for trauma or cancer, and other etiologies. It may develop in the absence of preceding liver disease or as an acute exacerbation of a chronic underlying process. At present, no direct treatment for liver failure is available and such patients must receive a liver transplant or endure prolonged hospitalization with a significant mortality rate. Moreover, no prognostic test is available that would help predict which liver failure patient is likely to survive on medical therapy alone. While liver transplants have increased the chances of survival for patients with liver failure, only a small percentage of such patients received a transplant due to the shortage of donor livers. Further, many patients cannot be transplanted because of alcohol or drug abuse, infection, cancer, cardiovascular disease, etc. There is, therefore, an urgent need for artificial means of liver assistance to facilitate recovery from liver failure without a transplant. An effective liver assist device could also help maintain some liver failure patients alive until an organ becomes available for transplantation.

Arbios Technologies has exclusive patent rights to a portfolio of technologies, including two extracorporeal liver assist devices in preclinical development. Each of Arbios Technologies devices is considered by Arbios Technologies to be an innovative approach to the potential treatment of liver failure. Together, they may constitute a comprehensive, integrated approach for treating people suffering from acute liver failure of all etiologies and severity.

Arbios Technologies products in pre-clinical development are as follows:

(1) **SEPET** (selective plasma exchange) is being developed by Arbios Technologies as a blood purification therapy, during which the plasma fraction containing substances that are

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toxic to the brain, the liver and other internal organs and tissues, is removed from patient blood and replaced with normal human plasma and/or its substitute. There is a medical need for an effective blood purification therapy and Arbios Technologies is attempting to prove the clinical utility of SEPET and hopes that this simple, safe and potentially inexpensive therapy will be accepted by the medical community as the first choice of treatment in patients with liver failure.

(2) **LIVERAID** is designed by Arbios Technologies as a bioartificial liver (a BAL) to treat liver failure of all etiologies and severity, including those requiring maximum liver support. Liver cell therapy (porcine hepatocytes) and blood detoxification comprised of either selective plasma exchange (SEPET) or sorbent-based plasma therapy (hemodiafiltration with charcoal and resin sorbents) are integrated in a single module attached to a standard kidney dialysis unit.

Depending on the cause of liver disease, severity of illness and deficiency of specific liver functions, these modes of therapy can be provided individually, simultaneously or sequentially.

Arbios Technologies objective is to demonstrate that as the result of treatment with SEPET and/or LIVERAID, a significant number of liver failure patients can recover without a need for liver transplantation and/or can be discharged from the hospital after shorter stays.

Prior to the Reorganization, Cindy Swank and Scott Wentzel were the sole officers and directors of the Registrant and HAUSA Acquisition. As part of the Reorganization, Cindy Swank and Scott Wentzel resigned from all of their offices with the Registrant and with HAUSA Acquisition, and the officers and directors of Arbios Technologies became the officers and directors of the Registrant. The following table sets forth the persons who currently serve as the directors and executive officers of the Registrant. The following persons also held the same offices with Arbios Technologies prior to the Reorganization and continue to hold those offices with Arbios Technologies.

Name	Age	Position
John Vierling, MD	56	Chairman of the Board and Director
Jacek Rozga, M.D., Ph.D.	54	President, Chief Scientific Officer, Chief Financial Officer, and Director
Kristin P. Demetriou	53	Director and Secretary
Roy Eddleman	62	Director
Marvin S. Hausman MD	61	Director

Directors are elected for a period of one year and thereafter serve until the next annual meeting at which their successors are duly elected by the stockholders. Officers and other employees serve at the will of the Board of Directors.

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The following describes the backgrounds of those directors and the key members of the management team who are now the officers, directors, and key employees of the Registrant:

John Vierling, MD, **FACP**. Director of Hepatology, Medical Director of Multi-Organ Transplantation Program, Cedars-Sinai Medical Center. Professor of Medicine, UCLA School of Medicine. Councilor of the American Association for the Study of Liver Diseases. Former Chairman of the Board of American Liver Foundation. Expert Reviewer and Witness for FDA. Former President of the Southern California Society for Gastroenterology. Member of numerous NIH advisory committees, including NIH Committee for Liver Tissue Procurement and Distribution Program. Member, Scientific Advisory Committee, NIH Alcohol Center Grant, University of Southern California and West Los Angeles VAMC/UCLA and Chairman of the Data Safety Monitoring Board for the NIH, NIDDK ViraHep C multicenter trial. Dr. Vierling s research has focused on the mechanisms of liver injury caused by hepatitis B and C and autoimmune and alloimmune diseases.

Jacek Rozga, MD, PhD. Co-founder, President, Chief Scientific Officer and Director. Platform technology inventor and developer. Professor of Surgery at UCLA School of Medicine. Has 20 years experience in artificial liver support system development, hepatocyte transplantation and liver tissue engineering. Directed all research aspects leading to the development and testing of the first-generation BAL at Cedars-Sinai Medical Center. Dr. Rozga has 6 patents and 5 patent applications pending, most of which have been licensed by Arbios.

Kristin P. Demetriou (wife of Dr. A. A. Demetriou, a co-founder of the Arbios Technologies and a member of the Board of Advisors). Former President & CEO of Bergen Line, Inc., New York City (1989-94), NY, an international owner/operator of cruise and cargo ships. Prior to that she was Director, Sales & Marketing worldwide (1982-88) for Royal Viking Line, Inc., San Francisco, CA. Mrs. Demetriou holds a B.A. in Psychology from Columbia University, New York, NY, and completed post-graduate work in accounting, finance, media and investor relations.

Roy Eddleman. Mr. Eddleman is an inventor, entrepreneur and philanthropist. Chairman & CEO of Spectrum Laboratories, Inc. Founder, Principal and Director of Spectrum Separations, Inc., now a part of UOP/Hitachi. Founder, Principal and Director of ICM, Inc., now a part of Perstorf/Perbio. Founder, Principal and Director of Facilichem, Inc., a joint venture with SRI International. Principal and Director of Nuclepore, Inc., now a part of Corning and Whatman. Principal and Director of Inneraction Chemical, Inc., now a part of Merck Darmstadt. Founder and benefactor of Roy Eddleman Research Museum of Chemistry and the Chemical Heritage Foundation in Philadelphia.

Marvin S. Hausman, MD. President and CEO of Axonyx, Inc. Dr. Hausman has 30 years of drug development and clinical care experience at various pharmaceutical companies, including working in conjunction with Bristol-Meyers International, Mead-Johnson Pharmaceutical Co., and E.R.Squibb. He was a co-founder of Medco Research Inc., a NYSE-traded biopharmaceutical company which was acquired by King Pharmaceuticals, Inc. Dr. Hausman has been the President of Northwest Medical Research Partners, Inc. since 1995 and has previously served as a member of the Board of Directors of Regent Assisted Living, Inc. since 1996 through 2001.

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Scientific Advisory Board of Arbios Technologies

The following persons were on the Board of Advisors of Arbios Technologies prior to the Reorganization and continue to serve on the Board of Advisors of Arbios Technologies. Since the Registrant does not have a Board of Advisors, the following persons do not serve as advisors of the Registrant.

Achilles A. Demetriou, MD, PhD. Dr. Demetriou is Chairman of the Department of Surgery at Cedars-Sinai Medical Center and Director of the Liver Support Unit. He holds the Esther and Marc Schulman Chair in Transplantation Medicine and Surgery and is Professor and Vice Chairman of the Department of Surgery at UCLA School of Medicine. He received his M.D. from the Hebrew University-Hadassah Medical School, Jerusalem, Israel and his Ph.D. in biochemistry from the George Washington University, Washington, D.C. Dr. Demetriou s research has focused on the BAL, hepatocyte transplantation and liver physiology. He is recognized as a pioneer of hepatocyte-based liver support system development, work he initiated in the 1970 s at the National Institutes of Health, Bethesda, MD. He has written extensively, with over 150 papers to his credit and 150 published chapters, proceedings and books.

Jean C. Emond, MD. Zimmer Professor of Surgery, Vice Chair & Chief of Transplantation, College of Physicians & Surgeons, New York Presbyterian Hospital, Columbia University. Dr. Emond is a leading Liver Transplant Surgeon and has held senior positions in the Department of Surgery at the University of Chicago Medical School and the UCSF School of Medicine before assuming his current position. He has made significant contributions to pediatric liver transplantation.

Paul Martin, MD. Medical Director, Liver Transplant Program, Center for Liver Diseases & Transplantation, Cedars-Sinai Medical Center Los Angeles, CA. Dr. Martin is a world known Transplant Hepatologist who has made significant contributions to liver transplantation specifically and hepatology in general. He is an expert in the area of hepatitis and has conducted several clinical trials. He previously held the position of Medical Director of the UCLA Liver Transplant Program. He is a Professor of Medicine at UCLA.

George K. Michalopoulos, MD, PhD. Professor & Chairman, Department of Pathology, School of Medicine, University of Pittsburgh Medical Center. Dr. Michalopoulos is widely recognized as a world leading expert in growth factors, liver regeneration and basic liver cell biology research.

Item 2. Acquisition or Disposition of Assets.

Effective October 30, 2003, the Registrant acquired Arbios Technologies. See, Item 1, above.

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Item 5. Other Events and Regulation FD Disclosure.

In connection with the Reorganization, the Registrant took the following corporate action:

(i) In the Reorganization Agreement, the Registrant agreed to change its name to Arbios Systems, Inc. Accordingly, prior to the closing of the Reorganization, the Board of Directors of the Registrant unanimously agreed to amend the Registrant s Articles of Incorporation to change the company s name. In addition, on October 6, 2003, the holders of 82% of the Registrant s then outstanding shares of Common Stock consented to the amendment of the Articles of Incorporation by written consent. Notice of the consent given by the holders of a majority of the outstanding Common Stock was sent to all stockholders who held shares of Common Stock on October 6, 2003.

(ii) At the end of the fiscal quarter ended September 30, 2003, the Registrant had a total of 610,000 shares of Common Stock issued and outstanding. In connection with the Reorganization, the Registrant in October 2003 declared a 100% stock dividend, in which each holder of Common Stock received a dividend of one share of Common Stock for each share then owned. As a result, immediately prior to the closing of the Reorganization, a total of 1,220,000 shares of Common Stock were issued and outstanding.

Immediately prior to the Reorganization, Arbios Technologies took the following corporate action:

(a) On September 30, 2003, Arbios Technologies accepted subscriptions from a limited number of accredited investors to purchase 2,310,000 of its Units at a price of $1.00 per Unit. Each Unit consisted of one share of Arbios Technologies $0.00001 par value common stock and one common stock purchase warrant that is exercisable at $2.50 per share for a period of three years. The funds from these subscriptions were held in escrow and were released to Arbios Technologies immediately prior to the Reorganization. The 2,310,000 shares of Arbios Technologies common stock were deemed to be issued immediately prior to the Reorganization and were exchanged for 2,310,000 shares of Common Stock in the Reorganization, and the warrants to purchase 2,310,000 additional shares of Arbios Technologies common stock were assumed by the Registrant in the Reorganization and now represent warrants to purchase 2,310,000 shares of Common Stock at $2.50 per share.

(b) On October 28, 2003, Arbios Technologies accepted additional subscriptions from accredited investors to purchase an additional 1,690,000 Units at a price of $1.00 per Unit. The funds from these subscriptions were also held in escrow and were also released to Arbios Technologies immediately prior to the Reorganization. The 1,690,000 shares of Arbios Technologies common stock were also deemed to be issued immediately prior to the Reorganization and were exchanged for 1,690,000 shares of Common Stock in the Reorganization, and the warrants to purchase 1,690,000 additional shares of Arbios Technologies common stock were assumed by the Registrant in the Reorganization and now represent warrants to purchase 1,690,000 shares of Common Stock at $2.50 per share.

(c) Prior to the Reorganization, ten(10) person (including two of the directors of Arbios Technologies) held convertible, unsecured subordinated promissory notes issued by Arbios Technologies with an outstanding principal balance of $400,000. Immediately prior to the Reorganization, the holders of these promissory notes converted the full principal amounts of the notes into additional Units at an exchange rate of $1.00 per Unit. As part of the Reorganization, the 400,000 shares of Arbios Technologies common stock, and the warrants to

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purchase 400,000 additional shares of Arbios Technologies common stock, were exchanged in the Reorganization into 400,000 shares of Common Stock and warrants to purchase 400,000 shares of Common Stock at $2.50 per share.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The following financial statements of Arbios Technologies are attached hereto:

Report of Independent Public Accountants

Balance Sheet as of September 30, 2003 (unaudited) and December 31, 2002 (audited)

Statements of Operations for the years ended December 31, 2001 and 2002 (audited) and the nine months ended September 30, 2003 (unaudited)

Statement of Stockholders Equity for each of the years ended December 31, 2001 and 2002 (audited) and the nine months ended September 30, 2003 (unaudited)

Statements of Cash Flows for each of the years ended December 31, 2001 and 2002 (audited) and the nine months ended September 30, 2003 (unaudited)

Notes to Financial Statements

(b) Pro forma financial information.

The pro forma financial information required by Article 11 of Regulation S-X is attached hereto.

(c) The following exhibits are filed as part of this Current Report on Form 8-K:

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated October 20, 2003, between the Registrant, Arbios Technologies, Inc., HAUSA Acquisition, Inc., Cindy Swank and Raymond Kuh
3.1	Certificate of Amendment of Articles of Incorporation
4.1	Form of Warrant for the Purchase of Shares of Common Stock issued by Arbios Technologies to purchasers of Units, which Warrant has been assumed by the Registrant.

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SIGNATURES

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

Date: November 13, 2003	ARBIOS SYSTEMS, INC.	
	(Registrant)	
	By:	/s/ JACEK ROZGA
		Name: Jacek Rozga Title: President and Chief Financial Officer

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ARBIOS SYSTEMS, INC.

(Formerly Historical Autographs U.S.A., Inc.)

(A Nevada Corporation)

ARBIOS TECHNOLOGIES, INC.

(A Delaware Corporation)

PRO FORMA COMBINED BALANCE SHEET AND

STATEMENT OF OPERATIONS

(Unaudited)

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2002 AND 2001

AND

NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

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INDEPENDENT AUDITORS REPORT

Board of Directors

Arbios Technologies, Inc.

Beverly Hills, California

We have audited the accompanying balance sheet of Arbios Technologies, Inc. as of December 31, 2002 and the related statements of operations, stockholders equity and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Arbios Technologies, Inc. as of December 31, 2001 were audited by other auditors, whose report dated September 18, 2002 included an explanatory paragraph with respect to the company s ability to continue as a going concern at that time.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arbios Technologies, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Stonefild Josephson, INC..

CERTIFIED PUBLIC ACCOUNTANTS

Santa Monica, California

April 7, 2003, except for Note 13, as to which the date is November 12, 2003

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ARBIOS TECHNOLOGIES, INC.

(A Development Stage Company)

BALANCE SHEETS

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current assets:		
Cash	2,707,865	$ 27,849
Prepaid expenses	124,603	20,812
Total current assets	2,832,468	48,661
Property and equipment, net	44,038	32,804
Patent rights, net	331,545	353,747
Deposits	7,434	7,434
	$ 3,215,485	$ 442,646
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Advanced payments for stock subscriptions	$ 2,310,000	$
Accounts payable and accrued expenses	40,591	69,820
Current maturities of capital lease obligation	8,368	7,962
Convertible promissory note, net of discount	175,605	
Total current liabilities	2,534,564	77,782
Long-term liabilities:		
Capital lease obligation, less current maturities	9,017	14,665
Deferred fees	30,000	
Other liabilities	5,556	5,556
Total long-term liabilities	44,573	20,221
Stockholders equity		
Preferred stock, $0.0001 par value; 5,000,000 shares authorized; 681,818 shares designated as junior; 681,818 shares issued and outstanding	7	7
Common stock, $0.0001 par value; 15,000,000 shares authorized; 6,848,780 and 6,431,780 shares issued and outstanding	68	64
Additional paid-in capital	1,667,304	1,175,269
Deferred compensation costs		(88,889)
Deficit accumulated during the development stage	(1,031,031)	(741,808)

Total Stockholders equity	636,348	344,643
	$ 3,215,485	$ 442,646

The accompanying notes form an integral part of these financial statements.

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ARBIOS TECHNOLOGIES, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Nine months Ended September 30, 2003 (Unaudited)	Year Ended December 31, 2002	Year Ended December 31, 2001	Period from August 23, 2000 (Inception) to Period Ended September 30, 2003
Revenues	$ 121,828	$ 111,108	$	$ 232,936
Operating expenses:				
General and administrative	81,369	172,737	105,547	359,653
Research and development	307,158	431,199	131,060	878,871
Total operating expenses	388,527	603,936	236,607	1,238,524
Loss before other income (expense)	(266,699)	(492,828)	(236,607)	(1,005,588)
Interest income (expense)	(21,402)	(830)	903	(21,329)
Loss before provision for income taxes	(288,101)	(493,658)	(235,704)	(1,026,917)
Provision for income taxes	1,122	1,122	1,870	4,114
Net loss	$ (289,223)	$ (494,780)	$ (237,574)	$ (1,031,031)
Basic and diluted loss per share	$ (0.04)	$ (0.08)	$ (0.05)	$ (0.18)
Basic and diluted weighted average common shares outstanding	6,802,447	5,897,225	5,004,968	5,598,150

The accompanying notes form an integral part of these financial statements.

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ARBIOS TECHNOLOGIES, INC.

(A Development Stage Company)

STATEMENT OF STOCKHOLDERS EQUITY

PERIOD FROM AUGUST 23, 2000 (INCEPTION) TO SEPTEMBER 30, 2003

	Preferred Stock		Common Stock		Additional		Deficit Accumulated During the	
	Shares	Amount	Shares	Amount	Paid-In Capital	Deferred Costs	Development Stage	Total
Balance, August 23, 2000 (inception)				$	$			$
Stock Issuance in exchange for cash			5,000,000	50	4,950			5,000
Net loss							(9,454)	(9,454)
Balance, December 31, 2000			5,000,000	50	4,950		(9,454)	(4,454)
Issuance of junior preferred stock for cash of $250,000 and in exchange for patent rights, research and development costs, and employee loan-out costs less issuance expenses of $11,268, June 29, 2001	681,818	7			958,278	(343,553)		614,732
Issuance of common stock in exchange for patent rights and deferred research and development costs less issuance expenses of $2,712, December 29, 2001			362,669	4	547,284	(550,000)		(2,712)
Deferred employee loan-out costs receivable earned						82,888		82,888
Net loss							(237,574)	(237,574)
Balance, December 31, 2001	681,818	7	5,362,669	54	1,510,512	(810,665)	(247,028)	452,880
Amendment of December 31, 2001 agreement for the issuance of common stock agreement in exchange for research and development services; September 29, 2002					(495,599)	550,000		54,401
Deferred employee loan-out costs receivable earned						171,776		171,776
Issuance of common stock for compensation			70,000	1	10,499			10,500
Issuance of common stock for cash			999,111	9	149,857			149,866
Net loss							(494,780)	(494,780)

Balance, December 31, 2002	681,818	$ 7	6,431,780	$ 64	$ 1,175,269	$ (88,889)	$ (741,808)	$ 344,643
Issuance of common stock for cash less issuance expense of $2,956 (unaudited)			417,000	4	247,240			247,244
Deferred employee loan-out costs receivable earned (unaudited)						88,889		88,889
Value of warrants and beneficial conversion feature of bridge loan					244,795			244,795
Net loss (unaudited)							(289,223)	(289,223)
Balance, September 30, 2003 (unaudited)	681,818	$ 7	6,848,780	$ 68	$ 1,667,304	$	$ (1,031,031)	$ 636,348

The accompanying notes form an integral part of these financial statements.

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ARBIOS TECHNOLOGIES, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

	Nine months Ended September 30, 2003 (Unaudited)	Year Ended December 31, 2002	Year Ended December 31, 2001	Period from August 23, 2000 (Inception) to Nine Months Ended September 30, 2003
Cash flows used for operating activities:				
Net loss	$ (289,223)	$ (494,780)	$ (237,574)	$ (1,031,031)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities				
Amortization of debt discount	20,400			20,400
Depreciation and amortization	29,686	33,774	18,320	81,780
Issuance of common stock for compensation		10,500		10,500
Settlement of accrued expense		54,401		54,401
Deferred compensation costs	88,889	171,776	58,888	319,553
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Prepaid expenses	(103,791)	8,798	(29,609)	(124,602)
Increase (decrease) in liabilities:				
Accrued liabilities	(29,227)	53,817	16,002	40,592
Deferred fees	30,000	0	0	30,000
Other		5,556	(11,888)	(1,878)
Total adjustments	35,957	338,622	51,713	430,746
Net cash used for operating activities	(253,266)	(156,158)	(185,861)	(600,285)
Cash flows provided by (used for) investing activities:				
Purchase of property and equipment	(18,715)	(6,340)	(7,305)	(32,360)
Net cash used for investing activities	(18,715)	(6,340)	(7,305)	(32,360)
Cash flows provided by (used for) financing activities:				
Advanced payments for stock subscription	2,310,000			2,310,000
Convertible promissory note	400,000			400,000
			250,000	250,000

Proceeds from issuance of preferred stock				
Proceeds from issuance of common stock	250,200	149,866		405,066
Payments on capital lease obligations, net	(5,242)	(2,373)		(7,615)
Cost of issuance of preferred stock			(11,268)	(11,268)
Cost of issuance of common stock	(2,961)		(2,712)	(5,673)
Net cash provided by financing activities	2,951,997	147,493	236,020	3,340,510
Net increase (decrease) in cash	2,680,016	(15,005)	42,854	2,707,865
Cash, beginning of period	27,849	42,854		
Cash, end of period	$ 2,707,865	$ 27,849	$ 42,854	$ 2,707,865
Supplemental disclosures of cash flow information				
Interest paid	$	$	$	
Income taxes paid	$ 800	$	$	

The accompanying notes form an integral part of these financial statements.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies:

Nature of Operations:

Arbios Technologies, Inc. (the Company) was incorporated on August 23, 2000. The Company is developing and plans to market liver-assist devices to meet the urgent need for therapy that facilitates recovery from liver failure. The Company s products in development are called SEPET, which is a blood purification therapy device for patients with liver failure, and LIVERAID, which is a bioartificial liver.

Development Stage Enterprise

The Company is a development stage company as defined in Statement of Financial Accounting Standards (SFAS) No. 7, Accounting and Reporting by Development Stage Enterprises. The Company is devoting substantially all of its present efforts to establish a new business. Its planned principal operations have not yet commenced, with the exception of research and development, which were initiated in 2000 and are being vigorously pursued. All losses accumulated since inception has been considered as part of the Company s development stage activities. All revenues are recognition of grant payments received. The Company does not consider this revenue arising out of business operations.

Interim Financial Statements:

The accompanying financial statements include all adjustments (consisting of only normal recurring accruals), which are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Interim results are not necessarily indicative of the results to be expected for a full year.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies, Continued:

Federal Government Grants:

The Company is partially funded by certain governmental grants. Grant payments are recorded as revenue as expenses are incurred. Reimbursements recorded under these grants are subject to governmental audit. Management believes that material adjustments will not result from subsequent audits, if any, of costs reflected in the accompanying financial statements.

Comprehensive Income:

The Company utilizes SFAS No. 130, Reporting Comprehensive Income. This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive income is not presented in the Company s financial statements since the Company did not have any of the items of comprehensive income in the period presented.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives of the assets of five years.

Patent Rights:

The Company purchased the exclusive right to certain patents (see Note 3). These patents are recorded at fair market value as of the date of purchase. They are amortized over the estimated useful life or remaining legal life at the date of purchase, whichever is shorter.

Deferred Employee Loan-Out Costs Receivable:

The Company purchased the loan-out of certain employees in exchange for junior preferred stock (see Note 4). These loan-out costs are expensed as the employee services are performed.

Fair Value of Financial Instruments:

The Company s financial instruments, none of which are held for trading, including cash and accounts payable and accrued expenses, have carrying amounts which approximate fair value due to their short maturities.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies, Continued:

Income Taxes:

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period, if any, and the change during the period in deferred tax assets and liabilities.

Stock-Based Compensation:

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and complies with the disclosure provisions of SFAS 123, Accounting for Stock-Based Compensation . Under APB 25, employee compensation cost is recognized over the vesting period based on the excess, if any, on the date of grant of the deemed fair value of the Company s shares over the employee s exercise price. When the exercise price of the employee share options is less than the fair value price of the underlying shares on the grant date, deferred stock compensation is recognized and amortized to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options. Accordingly, because the exercise price of the Company s employee options equals or exceeds the market price of the underlying shares on the date of grant, no compensation expense is recognized. Options or shares awards issued to non-employees are valued using the fair value method and expensed over the period services are provided.

Loss Per Share:

The Company utilizes SFAS No. 128, Earning per Share. Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. 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. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. Ninety thousand (90,000) options have been excluded from dilutive loss per share as their effect would be anti-dilutive.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies, Continued:

Recent Accounting Pronouncements:

In October 2001, the FASB recently issued SFAS No. 143, Accounting for Asset Retirement Obligations, which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company s legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company does not expect the adoption to have a material impact to the Company s financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The adoption did not have a material impact on the Company s financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt , and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements and FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers . This Statement amends FASB Statement No. 13, Accounting for Leases , to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company s financial position or results of operations.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies, Continued:

Recent Accounting Pronouncements, Continued:

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption to have a material impact to the Company s financial position or results of operations.

In October 2002, the FASB issued Statement No. 147, Acquisitions of Certain Financial Institutions an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 , which removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. In addition, this Statement amends SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The requirements relating to acquisitions of financial institutions are effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets are effective on October 1, 2002. The adoption of this Statement did not have a material impact to the Company s financial position or results of operations as the Company has not engaged in either of these activities.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , which amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of this statement did not have a material impact on the Company s financial position or results of operations as the Company has not elected to change to the fair value based method of accounting for stock-based employee compensation.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(1) Summary of Significant Accounting Policies, Continued:

Recent Accounting Pronouncements, Continued:

During April 2003, the FASB issued SFAS 149 - Amendment of Statement 133 on Derivative Instruments and Hedging Activities , effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 within the prescribed time.

During May 2003, the FASB issued SFAS 150 - Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The Company is evaluating the effect of this new pronouncement and will adopt FASB 150 within the prescribed time.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation 46 changes the criteria by which one company includes another entity in its consolidated financial statements. Previously, the criteria were based on control through voting interest. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not expect the adoption to have a material impact to the Company s financial position or results of operations.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(2) Property and Equipment:

Property and equipment consisted of the following:

	September 30, 2003 (Unaudited)	December 31, 2002
Office equipment	$ 649	$ 649
Computer equipment	18,742	12,995
Medical equipment	37,971	25,000
	57,362	38,644
Less accumulated depreciation	13,324	5,840
	$ 44,038	$ 32,804

Depreciation expense was $4,171, $1,539, and $5,840 for the year ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, respectively.

(3) Patent Rights:

In June 2001, the Company received exclusive rights to four existing patents and one pending patent. At the date of exchange, the aggregate value of these rights was $400,000. At December 31, 2002, the accumulated amortization of these rights was $46,253, and the estimated remaining life was 9 years. Amortization expense was $29,602, $16,651, and $46,253 for the years ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, respectively.

Future estimated amortization expense at December 31, 2002 is as follows:

12 Months Ending December 31,	
2003	$ 29,602
2004	29,602
2005	29,602
2006	29,602
Thereafter	235,339
Total	$ 353,747

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(3) Patent Rights (Continued):

In conjunction with the patents rights described above, the Company committed to the licensor to spend a total of $1,760,000 in research and development expenses toward the development and promotion of products, commencing from the acquisition date until June 30, 2008.

Future remaining minimum payments under this agreement at December 31, 2002, were as follows:

12 Months Ending December 31,	
2003	$ 120,000
2004	150,000
2005	200,000
2006	300,000
Thereafter	900,000
Total	$ 1,670,000

In the event the Company expends more than the minimum annual amount in any year, the excess may be carried over to the subsequent year. For the years ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, the research and development costs incurred were $431,199, $140,514, and $571,713, respectively. As of December 31, 2002, the Company has $391,713 as carryforward to apply to future years.

The Company is subject to paying royalty fees to the licensor equal to 1.5% of the gross sales price of royalty bearing products. From year three to the tenth year of the license the royalty fee percent will phase out evenly to 0%. As of September 30, 2003, December 31, 2002 and 2001 the Company had not paid any royalty fees since it did not have any sales of royalty bearing products.

(4) Deferred Employee Loan-Out Costs:

In June 2001, the Company received a commitment for the loan-out of certain employees over a two-year period in exchange for junior preferred stock (see Note 9). The Company has deferred the estimated loan-out costs over the two-year period. The loan-out costs are expensed as the services are performed. At the date of the exchange, the cost of the employee loan-out over the two-year period was $319,553.

In December 2001, the Company paid $24,000 to purchase additional employee loan-out costs. For the years ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, the amortized employee loan-out costs were $171,766, $82,888, and $254,654, respectively. The remaining unamortized deferred employee loan-out costs as of December 31, 2002, was $88,889.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(5) Advanced Payments for Stock Subscriptions:

During September 2003, the Company received $2,310,000 in subscription payments for units of the Company s common stock and warrants, the sale of which is expected to close in October 2003. Inasmuch as the sale is contingent upon a number of factors, including a merger transaction, these amounts have been presented as a current liability in the accompanying financial statements.

(6) Convertible Promissory Note:

In September 2003, the Company issued units of convertible subordinated notes and warrants, consisting of convertible promissory notes (the Notes) for an aggregate of $400,000 and 300,000 warrants for the purchase of the Company s common stock at $1 per share. The Notes bear interest at 7% per annum and are due on the earlier of March 31, 2004 or upon the occurrence of various other events or conditions set forth in the Note. Under the terms of the Note, the holders retain the right, subject to certain exceptions, to convert all or any part of the principal outstanding under the Notes into (i) shares of the Company s Common Stock at a conversion price per share equal to $1 and (ii) warrants for the purchase of Company s common stock at $2.50 per share. The conversion price is subject to adjustment in the event we affect a stock split, combination or like transaction. The warrant price is subject to adjustment in the event of a stock split, combination or like transaction.

The Company recorded the Note net of a discount equal to the fair value allocated to the warrants issued of approximately $122,390. The Note also contained a beneficial conversion feature, which resulted in additional debt discount of $122,390. The beneficial conversion amount was measured using the accounting intrinsic value, i.e. the excess of the aggregate fair value of the common stock into which the debt is convertible over the proceeds allocated to the security. The Company is accreting the beneficial conversion feature as interest expense over the life of the note. For the nine months ended September 30, 2003, the Company recorded $20,400 as interest expense from the amortization of the discount related to fair value of the warrants and from the accretion of the beneficial conversion feature.

(7) Deferred fees:

On June 1, 2003, the Company entered into a Collaboration Agreement (the Agreement) with CeMines Biologics, LLC. (CeMines). In consideration for the services provided by the Company, CeMines paid 30,000 in advance and agreed to pay $170,000 according to a schedule of payments. Revenue from this Agreement will be recognized as fees are collected and earned over the contractual period, which is three (3) years.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(8) Commitments and Contingencies:

Commitments

The Company leases office facilities and equipment under non-cancelable operating leases, which require monthly payments of $6,441 and expire through June 2004. The Company is required to pay for taxes, insurance, and maintenance. The Company is subleasing lab space.

The following is a schedule of future minimum lease payments under these non-cancelable operating leases as of December 31, 2002:

	Commitments	Sublease income
Twelve Months Ending December 31,		
2003	$ 77,292	$ 33,333
2004	38,646	16,667
Total	$ 115,938	$ 50,000

Rent expense was $71,736, $38,052, and $109,788 for the years ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, respectively.

Agreements

On December 26, 2001, the Company received the exclusive worldwide rights and license to use certain proprietary rights from Spectrum Laboratories, Inc. (Spectrum) partially in exchange for 362,669 shares of common stock (see Note 9). The license grants the Company the right to use Spectrum s technology and to exploit such rights to develop and distribute products solely for use in the Company s liver-assist devices.

In addition, the Company was granted a manufacturing and supply agreement with Spectrum. The agreement stipulates that the Company must contract with Spectrum for the manufacture and supply of certain products used in the liver-assist devices.

(9) Stockholders Equity:

Undesignated Preferred Stock

The Company is authorized to issue undesignated preferred stock from time to time in one or more series. The Board of Directors is authorized to fix the number of shares for any series of preferred shares and to determine the designation of any such series. The Board of Directors is also authorized to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of preferred shares and, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares consisting any series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(9) Stockholders Equity (Continued):

Junior Preferred Stock

Holders of shares of junior preferred stock are entitled to receive non-cumulative dividends of $0.04 per share. Such dividends will be cumulative in the limited events of liquidation, dissolution, or winding up of the Company occurring after three years from the issuance date. Holders of junior preferred stock are also entitled to liquidation rights, which entitle the holder to be paid out of available funds and assets, prior to paying common shareholders, at an amount equal to the original issue price plus declared but unpaid dividends.

Junior preferred shareholders have equivalent voting rights to that of common shareholders. At the option of the junior preferred shareholder, or automatically after the effective date of a Registration Statement with respect to common stock, the junior preferred stock is convertible into common stock at a conversion price equal to the original issue price as such price may be adjusted by certain events to prevent dilution. The junior preferred stock is not redeemable. As of September 30, 2003, December 31, 2002 and 2001, the Company had 681,818 junior preferred shares issued and outstanding.

In June 2001, the Company issued 681,818 shares of junior preferred stock at $0.0001 par value in exchange for $250,000 in cash, exclusive rights to certain patents and one pending patent valued at $400,000 (see Note 3), and future services of certain employees valued at $319,553 (see Note 4).

Common Stock and Services Receivable

In August 2000, the Company issued 5,000,000 shares of common stock at $0.001 (before change to $0.0001 par value) par value to the Company s two officers in exchange for $5,000 in cash.

In December 2001, the Company issued 362,669 shares of common stock at $0.0001 par value in exchange for future research costs valued at $550,000, an exclusive license (see Note 7), a manufacturing and supply agreement (see Note 7), and exclusive rights to one patent and one pending patent (see Note 3). As of December 31, 2002, research services had not been performed.

In June 2002, the Company issued 70,000 shares of common stock to a Board member as compensation for services rendered valued at $10,500.

In July 2002, the Company issued 999,111 shares of common stock to investors in exchange for $149,866 in cash, or $.15 per share.

In July 2002, the Company issued options to purchase 18,000 shares of common stock to each of its five Board members for services rendered. The options are exercisable at $0.15 per share. The options vest 50% in six months and 50% in 12 months from the beginning date of service provided by the respective Board members.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(9) Stockholders Equity (Continued):

In July 2002, the Company issued a warrant to purchase 100,000 shares of common stock to a Board member for services rendered to the Company. The warrant is exercisable at $0.15 per share and has a 10-year life. The warrant also has conversion rights in lieu of payment of the exercise price and is not transferable.

In January 2003 (unaudited), the Company issued 417,000 shares of common stock to investors in exchange for $250,200 in cash, or $.60 per share. Company recognized $2,956 in issuance expense.

Stock Option Plan

In July 2002, the Company s Board of Directors adopted the Stock Option Plan (the Plan). The Plan allows the Company to grant common stock and options to purchase common stock to employees, directors, and consultants. The Company may grant a maximum of 790,498 shares of common stock under the Plan. The Plan administrator has the discretion to set the exercise price, vesting terms, and other relevant terms of the options at the time of the grant.

Stock Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation , and applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock based compensation plans.

If the Company had elected to recognize compensation cost for its stock options and warrants based on the fair value at the grant dates, in accordance with SFAS 123, net earnings and earnings per share would have been as follows:

	September 30, 2003 (Unaudited)	December 31, 2002
Net Loss:	$ (289,223)	$ (494,780)
As reported		
Pro forma	$ (307,276)	$ (512,823)
Basic and diluted loss per common share:		
As reported	$ (0.04)	$ (0.08)
Pro forma	$ (0.05)	$ (0.09)

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(9) Stockholders Equity (Continued):

Stock Compensation (Continued)

The fair value of each option is estimated on the date of grant using the Black Scholes option- pricing model. The following weighted-average assumptions were used in the Black Scholes option-pricing model; dividend yield nil, expected volatility 100%, risk free interest rate 5.0% and expected life of 4 years.

(10) Research Costs:

On December 26, 2001, the Company received a commitment for research costs in the amount of $550,000 from Spectrum Laboratories, Inc. (Spectrum) partially in exchange for 362,669 shares of common stock (See Note 8). Spectrum was required to expend at least $137,500 per year toward the development of the Company s liver-assist system. The agreement was to expire on November 30, 2005 and stipulated the following yearly minimum research costs expenditures by Spectrum:

Twelve Months Ending December 31,	
2002	$ 148,958
2003	137,500
2004	137,500
2005	126,042
Total	$ 550,000

In the event Spectrum expended more than the minimum annual amount in any year, the excess was carried over to the subsequent year. For the years ended December 31, 2002 and 2001, and the period from August 23, 2000 (inception) to December 31, 2002, the research and development costs incurred by Spectrum was $0, respectively. The Company may repurchase a portion of the foregoing shares for nominal consideration if less than the specified amounts are expended by Spectrum.

In July 2002, the Company and Spectrum agreed that, since the prototype system had been delivered early, all 362,669 shares issued to Spectrum on December 26, 2001, were deemed fully vested and any future obligations of $550,000 research cost commitment was deemed fulfilled. In addition, any additional research and development work requested from Spectrum by the Company and the cost of such work will be negotiated in good faith before the work is initiated and that the Company will pay for such work in 36 monthly cash installments. Furthermore, the Company agreed that billings of $109,360, through September 29, 2002, were due for research costs already provided, in lieu of the original $550,000 obligation. This amount will be reduced by $54,400 in payment for the 362,669 shares already received, and the Company shall pay the balance of $54,960 to Spectrum in cash in monthly payments over an 18-month period starting November 1, 2002.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(11) Income Taxes:

The actual tax benefit differs from the expected tax benefit computed by applying the United States federal corporate tax rate of 34% to loss before income taxes as follows for the year ended December 31, 2002, December 31, 2001, and the period from August 23, 2000 (inception) to December 31, 2002:

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001	From the Period from August 23, 2000 (inception) to September 30, 2003
Expected tax benefit	$ (168,226)	$ (81,000)	$ (252,426)
State income taxes, net of federal benefit	(28,867)	2,349	(26,424)
Other	(20,979)		(20,979)
Changes in valuation allowance	218,072	78,651	299,829
Total	$	$	$

The following table summaries the significant components of the Company s deferred tax asset at December 31, 2002.

	December 31, 2002
Deferred tax asset operating loss	$ 296,723

Less valuation allowance	296,723
Net deferred tax asset	$

The Company recorded a valuation allowance of 100% for its net operating loss carryforward due to the uncertainty of its realization.

For the year ended December 31, 2002, the Company had an operating loss carryforward of approximately $739,000, which begins expiring in 2016.

(11) Related Party Transactions:

During 2001, the Company entered into a research agreement with an investor company, which was amended in 2002. See Note 10 regarding research costs.

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ARBIOS TECHNOLOGIES, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

AND NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

(13) Subsequent event:

On October 30, 2003, the Company completed a merger with a newly-formed subsidiary of a public company. Immediately prior to the merger, all of the conditions to the release of the subscription funds were met, and the subscription funds were released to the Company, thereby extinguishing the Company s potential obligation to return the subscription proceeds to the subscribers. In addition, in connection with the merger, all of the convertible promissory notes were converted into shares of the Company s common stock, thereby extinguishing the Company s obligation to repay those promissory notes. Finally, prior to the merger, the Company raised an additional $1,690,000 from the private sale of 1,690,000 units, each unit consisting of one share of common stock and a warrant to purchase an additional share of common stock at a price of $2.50 per share.

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ARBIOS SYSTEMS, INC. AND SUBSIDIARY

PRO FORMA COMBINED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined balance sheet aggregates the balance sheet of Arbios Systems, Inc. (a Nevada corporations formerly Historical Autographs U.S.A., Inc.) (Parent) as of September 30, 2003, and the balance sheet of Arbios Technologies, Inc. (Subsidiary) (a Delaware corporation) as of September 30, 2003. The following unaudited pro forma condensed combined statement of operations aggregates the statement of operations of Parent for the nine months ended September 30, 2003 and year ended December 31, 2002, and the statement of operations of Subsidiary for the nine months ended September 30, 2003 and year ended December 31, 2002. The following unaudited pro forma condensed combined balance sheet and statement of operations were prepared giving effect to a transaction completed on October 30, 2003, wherein Parent acquired Subsidiary as a wholly-owned subsidiary (the Reorganization). This business combination is treated as a reverse acquisition and as a recapitalization of Subsidiary. Parent issued common stock in exchange for all of the issued and outstanding shares of Subsidiary. The following pro forma condensed balance sheet and statement of operations uses the assumptions as described in the notes and the historical financial information available at September 30, 2003 and December 31, 2002, respectively. The financial statements of both Parent and Subsidiary at December 31, 2002 are audited. The financial statements of both Parent and Subsidiary at September 30, 2003 are unaudited.

The unaudited pro forma condensed combined balance sheet and statement of income should be read in conjunction with the separate financial statements and related notes thereto of Parent and Subsidiary. The unaudited pro forma condensed combined balance sheet and statement of income are not necessarily indicative of the condensed combined balance sheet and statement of income which might have existed for the periods indicated or the results of operations as they may appear now or in the future.

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ARBIOS SYSTEMS, INC. AND SUBSIDIARY

PRO FORMA CONDENSED COMBINED BALANCE SHEET

SEPTEMBER 30, 2003 (UNAUDITED)

	Arbios Technologies, Inc. (Subsidiary)	Arbios Systems, Inc. (Parent)	Adjustments		Pro Forma	
ASSETS						
Current assets:						
Cash	$ 2,707,865	$ 237			$ 2,708,102	
Inventory		74,860	(74,860)	1		
Prepaid expenses	124,603				124,603	
Total current assets	2,832,468	75,097			2,832,705	
Property and equipment, net	44,038				44,038	
Patent rights, net	331,545				331,545	
Deposits	7,434				7,434	
	$ 3,215,485	$ 75,097	$ (74,860)		$ 3,215,722	
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Advanced payments for stock subscriptions	$ 2,310,000	$	(2,310,000)	2	$	
Accounts payable and accrued expenses	40,591	7,339			47,930	
Loans		550			550	
Current maturities of capital lease obligation	8,368				8,368	
Convertible promissory note, net of discount	175,605		(175,605)	3		
Total current liabilities	2,534,564	7,889			56,848	
Long-term liabilities:						
Capital lease obligation, less current maturities	9,017				9,017	
Deferred fees	30,000				30,000	
Other liabilities	5,556				5,556	
Total long-term liabilities	44,573				44,573	
Stockholders equity						
Preferred stock	7		(7)	4		
Common Stock	68	610	2,300	2		
			6,742	5		
			400	3		
			731	4	10,851	a
Additional Paid in Capital	1,667,304	114,390	(74,860)	1		
			175,205	3		

			2,307,700	2		
			(734)	4		
			(6,732)	5	4,182,273	a
Accumualted deficit during the development stage	(1,031,031)	(47,792)			(1,078,823)	
Total stockholders equity	636,348	67,208			3,114,301	
	$ 3,215,485	$ 75,097	$ (74,860)		$ 3,215,722	

See Notes to Pro Forma Combined Financial Statements (Unaudited)

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ARBIOS SYSTEMS, INC. AND SUBSIDIARY

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2003 (UNAUDITED)

	Arbios Technologies, Inc. (Subsidiary)		Arbios Systems, Inc. (Parent)	Adjustments		Pro Forma
Revenues	$ 121,828		$ 6,000			$ 127,828
Cost of Revenue			3,500			3,500
Gross profit	121,828		2,500			124,328
Operating expenses:						
General and administrative	81,369		11,850			93,219
Research and development	307,158					307,158
Total operating expenses	388,527		11,850			400,377
Loss before other income (expense)	(266,699)		(9,350)			(276,049)
Interest expense	(21,402)		(72)			(21,474)
Loss before provision for income taxes	(288,101)		(9,422)			(297,523)
Provision for income taxes	1,122					1,122
Net loss	$ (289,223)		$ (9,422)			$ (298,645)
Basic and diluted loss per share	$ (0.04)		$ (0.02)			$ (0.04)
Basic and diluted weighted average common shares outstanding	6,431,780	a	610,000	610,000	6	7,651,780

See Notes to Pro Forma Combined Financial Statements (Unaudited)

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ARBIOS SYSTEMS, INC. AND SUBSIDIARY

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002

	Arbios Technologies, Inc. (Subsidiary)		Arbios Systems, Inc. (Parent)	Adjustments		Pro Forma
Revenues	$ 111,108		$ 14,500			$ 125,608
Cost of revenue			9,761			9,761
Gross profit	111,108		4,739			115,847
Operating expenses:						
General and administrative	172,737		24,993			197,730
Research and development	431,199					431,199
Total operating expenses	603,936		24,993			628,929
Loss before other income (expense)	(492,828)		(20,254)			(513,082)
Interest expense	(830)					(830)
Loss before provision for income taxes	(493,658)		(20,254)			(513,912)
Provision for income taxes	1,122					1,122
Net loss	$ (494,780)		$ (20,254)			$ (515,034)
Basic and diluted loss per share	$ (0.08)		$ (0.03)			$ (0.07)
Basic and diluted weighted average common shares outstanding	5,897,225	a	599,658	599,658	6	7,096,541

See Notes to Pro Forma Combined Financial Statements (Unaudited)

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ARBIOS SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

PRO FORMA ADJUSTMENTS:

(1) The inventory that Parent owned will not be used by the combined companies after the Reorganization and will be sold for minimal consideration.

(2) Irrevocable subscriptions for the purchase of 2,310,000 shares of Subsidiary for $2,310,000 were held in a segregated account pending the Reorganization and were released to Subsidiary immediately prior to the closing of the Reorganization. Accordingly, at the time of the Reorganization, the subscriptions were released and the 2,310,000 shares of common stock represented thereby were issued.

(3) The convertible promissory notes were converted into additional shares of common stock immediately prior to the Reorganization.

(4) All of the Subsidiary s issued and outstanding shares of preferred stock were exchanged for, and converted into shares of common stock prior to the Reorganization.

(5) All of the Subsidiary s issued and outstanding shares of common stock were converted into shares of common stock of Parent.

(6) The increase in the number of shares reflects a 100% stock dividend issued by the Parent in connection with the Reorganization.

SUBSEQUENT EVENT:

a) The outstanding shares of the Subsidiary as of September 30, 2003, do not include 1,690,000 shares issued after that date but prior to Reorganization.

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated October 20, 2003, between the Registrant, Arbios Technologies, Inc., HAUSA Acquisition, Inc., Cindy Swank and Raymond Kuh
3.1	Certificate of Amendment of Articles of Incorporation
4.1	Form of Warrant for the Purchase of Shares of Common Stock issued by Arbios Technologies to purchasers of Units, which Warrant has been assumed by the Registrant.