As filed with the Securities and Exchange Commission on August 31, 2006

Registration No.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

NEOSTEM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**8071**	**22-2343568**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

420 Lexington Avenue
Suite 450
New York, New York 10170
(212) 584-4184
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Catherine M. Vaczy, Esq.
Vice President and General Counsel
NeoStem, Inc.
420 Lexington Avenue, Suite 450, New York, New York 10170
(212) 584-4184
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $.001 per share	13,271,776(1)	$ .60(2)	$ 7,963,066(2)	$ 852(3)
Common Stock, par value $.001 per share	5,908,918(4)	N/A	$ 5,102,166(5)	$ 546(3)
Common Stock, par value $.001 per share	625,004(6)	$ .60(7)	$ 373,003(7)	$ 40(3)
Total	19,805,698	N/A	N/A	$ 1,438

(1) Amount of shares of Common Stock to be registered.

(2) Estimated solely for the purpose of computing the amount of the registration fee for the shares of Common Stock to be registered in accordance with Rule 457(c) under the Securities Act, based on the closing sales price for the Common Stock, $.001 par value per share, as reported by the OTC Bulletin Board on August 29, 2006, which date was within five business days of the date of this filing.

(3) This amount is included in the aggregate filing fee for this registration statement of $1,438.00.

(4) Amount of shares of Common Stock issuable upon exercise of warrants to be registered. To be offered and sold by the selling stockholders upon the exercise of outstanding warrants.

(5) Estimated solely for the purpose of computing the amount of the registration fee for the shares of Common Stock issuable upon exercise of warrants to be registered in accordance with Rule 457(g) under the Securities Act, based upon the price at which the warrants may be exercised.

(6) Amount of shares of Common Stock issuable upon conversion of convertible promissory notes to be registered. To be offered and sold by the selling stockholders upon the conversion of convertible promissory notes.

(7) Estimated solely for the purpose of computing the amount of the registration fee for the shares of Common Stock issuable upon conversion of convertible promissory notes to be registered in accordance with Rule 457(c) under the Securities Act, based on the closing sales price for the Common Stock, $.001 par value per share, as reported by the OTC Bulletin Board on August 29, 2006, which date was within five business days of the date of this filing.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED August ____, 2006

The information contained in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

NEOSTEM, INC.

19,805,698 Shares

Common Stock

Our securityholders named on page 44 of this prospectus are offering an aggregate of 19,805,698 shares of our Common Stock. 5,908,918 of such shares are issuable upon the exercise of currently outstanding warrants. 625,004 of such shares are issuable upon the conversion of currently outstanding convertible promissory notes. We will not receive any proceeds upon the sale of shares by the Selling Stockholders. We will receive the exercise price of the outstanding warrants that are exercised. See "Use of Proceeds."

Our Common Stock is traded on the OTC Bulletin Board under the symbol "NEOI" and until August 30, 2006 was traded under the symbol "PHSM" On August 29, 2006, the reported last sale price of our Common Stock on the OTC Bulletin Board was $.60 per share.

Investing in our Common Stock is speculative and involves a high degree of risk. See "Risk Factors" beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

August ____, 2006

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the notes thereto, before making an investment decision.

Our Company

We are in the business of operating a commercial autologous (donor and recipient are the same) adult stem cell bank and are pioneering the pre-disease collection, processing and long-term storage of adult stem cells that donors can access for their own present and future medical treatment. On January 19, 2006 we consummated the acquisition of the assets of NS California, Inc., a California corporation ("NS California") relating to NS California's business of collecting and storing adult stem cells. Effective with the acquisition, the business of NS California became our principal business, rather than our historic business of providing capital and business guidance to companies in the healthcare and life science industries. We now provide adult stem cell processing, collection and banking services with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs. We also hope to become the leading provider of adult stem cells for therapeutic use in the burgeoning field of regenerative medicine for potentially addressing heart disease, types of cancer and other critical health problems.

We have engaged in various capital raising activities to pursue new business opportunities, raising approximately $1,325,000 in 2005 and $3,577,600 in 2006 (through August 31, 2006) through the sale of our Common Stock, warrants and convertible promissory notes. Such capital raising activities are enabling us to pursue our business plan and grow our adult stem cell collection and storage business, including expanding marketing and sales activities. However, in order to fully develop our business, we will need to raise additional funds.

On August 29, 2006, our stockholders approved an amendment to our Certificate of Incorporation to effect a reverse stock split of our Common Stock at a ratio of one-for-ten shares and to change our name from Phase III Medical, Inc. to NeoStem, Inc. All numbers in this prospectus have been adjusted to reflect the reverse stock split which was effective as of August 31, 2006.

NeoStem, Inc. was incorporated under the laws of the State of Delaware in September 1980 under the name Fidelity Medical Services, Inc. Our corporate headquarters is located at 420 Lexington Avenue, Suite 450, New York, NY 10170, our telephone number is (212) 584-4184 and our website address is www.neostem.com. The information contained on our website is not a part of this prospectus.

The Offering

Our securityholders named on page 44 of this prospectus are offering an aggregate of 19,805,698 shares of our Common Stock. 5,908,918 of such shares are issuable upon the exercise of currently outstanding warrants. 625,004 of such shares are issuable upon the conversion of currently outstanding convertible promissory notes. We will not receive any proceeds upon the sale of shares of Common Stock by the Selling Stockholders. We will receive the exercise price of the outstanding warrants that are exercised for cash. See "Use of Proceeds."

Summary Historical Financial Data

The following table sets forth our summary historical consolidated financial data as of the dates and for the periods shown. The summary consolidated financial data for the years ended December 31, 2003, 2004 and 2005 presented below are derived from the audited consolidated financial statements of the Company included elsewhere in this prospectus. The summary consolidated financial data for the six-month periods ended June 30, 2005 and 2006 are derived from the unaudited consolidated financial statements included elsewhere in this prospectus. Our results of operations for the six months ended June 30, 2006 are not necessarily indicative of our results of operations for 2006 or any other future period. You should read the following information in conjunction with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited and unaudited financial statements and notes included elsewhere in this prospectus.

Statement of Operations: ($000 except net loss per share which is stated in $ and weighted average number of shares)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Six Months Ended June 30, 2006 (unaudited)	Six Months Ended June 30, 2005 (unaudited)
Earned revenues	$ 35	$ 49	$ 65	$ 13	$ 20
Direct costs	25	34	44	9	14
Gross profit	10	15	21	4	6
Operating (loss)	(1,601)	(1,474)	(894)	(1,975)	(568)
Loss before discontinued operations and preferred dividends	(1,745)	(1,748)	(1,044)	(2,375)	(619)
Net loss attributable to common stockholders	(1,745)	(1,748)	(1,068)	(2,384)	(643)
Basic and diluted earnings per share:					
Loss from continuing operations	(0.35)	(0.54)	(0.45)	(0.26)	(0.15)
Net loss attributable to common stockholders	(0.35)	(0.54)	(0.45)	(0.26)	(0.15)
Weighted average number of shares outstanding	4,977,575	3,254,185	2,350,934	9,040,366	4,372,612

Balance Sheet Data: $(000)	As of December 31, 2005	As of December 31, 2004	As of December 31, 2003	As of June 30, 2006 (unaudited)	As of June 30, 2005 (unaudited)
Working Capital (Deficiency)	$ (1,245)	$ (1,239)	$ (794)	$ (1,631)	$ (1,606)
Total Assets	643	99	312	1,694	56

Current Liabilities	1,752	1,288	1,023	2,663	1,628
Long Term Debt	—	—	—	150	—
(Accumulated Deficit)	(14,255)	(12,510)	(10,762)	(16,640)	(13,153)
Total Stockholders' (Deficit)/Equity	(1,818)	(1,932)	(1,503)	(1,119)	(2,295)

RISK FACTORS

An investment in our Common Stock is speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this prospectus before deciding whether to purchase shares of our Common Stock. The risks described below are not the only ones facing our Company. Additional risks not presently known to us or that we currently believe to be immaterial may also adversely affect our business and impair our business operations. If any of the following risks actually occur, our business strategy, financial condition or operating results could be harmed. This could cause the trading price of our Common Stock to decline, and you may lose all or part of your investment.

RISKS RELATED TO THE COMPANY'S FINANCIAL CONDITION

We have a history of operating losses and we will continue to incur losses.

Since our inception in 1980, we have generated only limited revenues from sales and have incurred substantial net losses of $1,745,039, $1,748,372 and $1,044,145 for the years ended December 31, 2005, 2004 and 2003, respectively, and $2,384,526 for the six months ended June 30, 2006. We expect to incur additional operating losses as well as negative cash flow from our new business operations until we successfully commercialize the collection, processing and storage of adult stem cells, if ever.

We have liquidity problems and our ability to continue as a going concern is uncertain, which may affect our ability to raise capital.

At June 30, 2006, we had a cash balance of $912,250, a working capital deficit of $1,631,050 and a stockholders' deficit of $1,118,871. Our auditors, Holtz Rubenstein Reminick LLP, have expressed substantial doubt about our ability to continue as a going concern based on our lack of liquidity combined with our history of losses, and it will be more difficult for us to raise capital on favorable terms as a result. Our financial statements do not reflect any adjustments relating to the doubt of our ability to continue as a going concern. We have from time to time raised capital for our activities through the sale of our equity securities and promissory notes. Such capital raising activities are enabling us to pursue our business plan and grow our adult stem cell collection and storage business, including expanding marketing and sales activities as well as pay certain of our outstanding liabilities. Our financial condition still raises substantial doubt about our ability to operate as a going concern. Substantial additional financing is needed.

We will need substantial additional financing to continue operations.

We will require substantial capital to fund our current operating plan for our new business. In addition, our cash requirements may vary materially from those now planned because of expenses relating to marketing, advertising, sales, distribution, research and development and regulatory affairs, as well as the costs of maintaining, expanding and protecting our intellectual property portfolio, including potential litigation costs and liabilities.

Our inability to obtain future capital funding on acceptable terms will negatively affect our business operations and current investors.

We expect that in the future we will seek additional funding through public or private financings. Additional financing may not be available on acceptable terms, or at all. If additional capital is raised through the sale of equity, or securities convertible into equity, further dilution to then existing stockholders will result. If additional capital is raised through the incurrence of debt, our business could be affected by the amount of leverage incurred. For instance, such borrowings could subject us to covenants restricting our business activities, paying interest would divert funds that would otherwise be available to support commercialization and other important activities, and holders of debt instruments would have rights and privileges senior to those of equity investors. If we are unable to obtain adequate financing on a timely basis, we may be required to delay, reduce the scope of or eliminate some of our planned activities, any of which could have a material adverse effect on the business.

We will continue to experience cash outflows.

We continue to incur expenses, including the salary of our executive officers, rent, legal and accounting fees, insurance and general administrative expenses, and are in arrears for certain of these expenses. Our new business activities are in the early stages of development and will therefore result in additional cash outflows in the coming period. It is not possible at this time to state whether we will be able to finance these cash outflows or when we will achieve a positive cash position, if at all. Our ability to become profitable will depend on many factors, including our ability to successfully commercialize the business. We cannot assure that we will ever become profitable and we expect to continue to incur losses. NS California itself had nominal operations and nominal assets at the time of our acquisition of its adult stem cell business. From its inception in 2002 through September 30, 2005, NS California had aggregate revenues of $25,500, and aggregate losses of $2,357,940.

RISKS RELATING TO THIS OFFERING

Stocks traded on the OTC Bulletin Board are subject to greater market risks than those of exchange-traded and Nasdaq stocks.

Our Common Stock currently trades on the OTC Bulletin Board, an electronic, screen-based trading system operated by the National Association of Securities Dealers, Inc. Securities traded on the OTC Bulletin Board are, for the most part, thinly traded and generally are not subject to the level of regulation imposed on securities listed or traded on the Nasdaq Stock Market or on a national securities exchange. As a result, an investor may find it difficult to dispose of our Common Stock or to obtain accurate quotations as to its price.

Our stock price could be volatile.

The price of our Common Stock has fluctuated in the past and may be more volatile in the future. Factors such as the announcements of government regulation, new products or services introduced by us or by our competition, healthcare legislation, trends in health insurance, litigation, fluctuations in operating results and market conditions for healthcare stocks in general could have a significant impact on the future price of our Common Stock. The generally low volume of trading in our Common Stock makes it more vulnerable to rapid changes in price in response to market conditions.

Sales of substantial amounts of our Common Stock in the open market, or the availability of such shares for sale, could adversely affect the price of our Common Stock.

We had 19,187,936 shares of Common Stock outstanding as of August 30**,** 2006. The following securities that may be exercised for, or are convertible into, shares of our Common Stock were issued and outstanding as of August 30, 2006:

- Options. Stock options to purchase 2,911,000 shares of our Common Stock at a weighted average exercise price of approximately $.76 per share.

- Warrants. Warrants to purchase 5,908,918 shares of our Common Stock at a weighted average exercise price of approximately $.86 per share.

- Convertible Promissory Notes. Notes which will convert into 625,004 shares of our Common Stock.

All the shares of our Common Stock that may be issued under the options are currently registered with the SEC. All the shares of our Common Stock that may be issued under the outstanding warrants are being registered in this offering. All the shares of our Common Stock that may be issued upon conversion of the notes are being registered in this offering. Upon the effectiveness of the registration statement of which this prospectus is a part, substantially all of the outstanding shares of our Common Stock will be registered or otherwise not restricted from trading.

Because we are seeking a limited offering qualification in California, sales of our Common Stock will be limited in California.

We are seeking a limited offering qualification of the Common Stock in California. The offering will be approved in California on the basis of such limited offering qualification where offers/sales can only be made to proposed California issuees based on their meeting certain suitability standards. The California Department of Corporations refers to and specified this standard as a "super suitability" standard of not less than (i) $250,000 liquid net worth (a net worth exclusive of home, home furnishings and automobile) plus $65,000 gross annual income, (ii) $500,000 liquid net worth, (iii) $1,000,000 net worth (inclusive), or (iv) $200,000 gross annual income. Because the offering will be approved in California on the basis of a limited offering qualification, we did not have to demonstrate compliance with some of the merit regulations of the California Department of Corporations as found in Title 10, California Code of Regulations, Rule 260.140 et seq. In addition, the exemptions for secondary trading in California available under California Corporations Code Section 25104(h) will be withheld, although there may be other exemptions to cover private sales in California of a bona fide owner for his own account without advertising and without being effected by or through a broker dealer in a public offering.

RISKS RELATING TO THE COMPANY'S NEW BUSINESS

If the potential of stem cell therapy to treat serious diseases is not realized, the value of our stem cell collection, processing and storage and our development programs could be significantly reduced.

The potential of stem cell therapy to treat serious diseases is currently being explored. Stem cell therapy is not a commonly used procedure and it has not been proven in clinical trials that stem cell therapy will be an effective treatment for diseases other than those currently addressed by hematopoietic stem cell transplants. No stem cell products have been successfully developed and commercialized to date, and none have received regulatory approval in the United States or internationally. Stem cell therapy may be susceptible to various risks, including undesirable and unintended side effects, unintended immune system responses, inadequate therapeutic efficacy or other characteristics that may prevent or limit their approval or commercial use. The value of our stem cell collection, processing and storage and our development programs could be significantly reduced if the use of stem cell therapy to treat serious diseases is not proven effective in the near future.

Because the stem cell industry is subject to rapid technological and therapeutic changes, our future success will materially depend on the viability of the commercial use of stem cells for the treatment of disease.

Our success materially depends on the development of therapeutic treatments and cures for disease using stem cells. The broader medical and research environment for such treatments and cures critically affects the utility of stem cells, the services we offer to the public, and our future success. The value of stem cells in the treatment of disease is subject to potentially revolutionary technological, medical and therapeutic changes. Future technological and medical developments or improvements in conventional therapies could render the use of stem cells and our services and equipment obsolete and unmarketable. As a result, there can be no assurance that our services will provide competitive advantages over other technologies. If technological or medical developments arise that materially alter the commercial viability of our technology or services, we may be forced to incur significant costs in replacing or modifying equipment in which we have already made a substantial investment prior to the end of its anticipated useful life. Alternatively, significant advances may be made in other treatment methods or in disease prevention techniques which could significantly reduce or entirely eliminate the need for the services we provide. The materialization of any of these risks could have a material adverse effect on our business, financial condition, the results of operations or our ability to operate at all.

We may be forced to undertake lengthy and costly efforts to build market acceptance of our stem cell storage services, the success of which is critical to our profitability. There can be no assurance that these services will gain market acceptance.

We anticipate that service fees from the processing and storage of stem cells will comprise a substantial majority of our revenue in the future and, therefore, our future success depends on the successful and continued market acceptance of this service. Broad use and acceptance of our service requires marketing expenditures and education and awareness of consumers and medical practitioners who, under present law, must order stem cell

collection on behalf of a potential customer. The time and expense required to educate and build awareness of our services and its potential benefits could significantly delay market acceptance and our ultimate profitability. The successful commercialization of our services will also require that we satisfactorily address the concerns of medical practitioners in order to avoid potential resistance to recommendations for our services and ultimately reach our potential consumers. No assurances can be given that our business plan and marketing efforts will be successful, that we will be able to commercialize our services, or that there will be market acceptance of our services or clinical acceptance of our services by physicians sufficient to generate any material revenues for us.

Ethical and other concerns surrounding the use of stem cell therapy may increase the regulation of or negatively impact the public perception of our stem cell banking services, thereby reducing demand for our services.

The use of embryonic stem cells for research and stem cell therapy has been the subject of debate regarding related ethical, legal and social issues. Although our business only utilizes adult stem cells and does not involve the more controversial use of embryonic stem cells, the use of other types of human stem cells for therapy could give rise to similar ethical, legal and social issues as those associated with embryonic stem cells. Additionally, it is possible that our business could be negatively impacted by any stigma associated with the use of embryonic stem cells if the public fails to appreciate the distinction between the use of adult versus embryonic stem cells. The commercial success of our business will depend in part on public acceptance of the use of stem cell therapy, in general, for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that stem cell therapy is unsafe or unnecessary, and stem cell therapy may not gain the acceptance of the public or the medical community. Public pressure or adverse events in the field of stem cell therapy that may occur in the future also may result in greater governmental regulation of our business creating increased expenses and potential regulatory delays relating to the approval or licensing of any or all of the processes and facilities involved in our stem cell banking services. In the event that the use of stem cell therapy becomes the subject of adverse commentary or publicity, our business could be adversely affected and the market price for our common stock could be significantly harmed.

We operate in a highly regulated environment, and our failure to comply with applicable regulations, registrations and approvals would materially and adversely affect our business.

Historically, the FDA has not regulated banks that collect and store stem cells. Recent changes, however, require establishments engaged in the recovery, processing, storage, labeling, packaging or distribution of any Human Cells, Tissues, and Cellular and Tissue-Based Products (HCT/Ps) or the screening or testing of a cell tissue donor to register with the FDA under the Public Health Service Act as of January 2004. The FDA also adopted rules in May 2005 that regulate current Good Tissues Practices (cGTP). We may be or become subject to such registration requirements and regulations, and there can be no assurance that we will be able, or will have the resources, to comply. Future FDA regulations could also adversely impact or limit our ability to market or perform our services. In order to collect and store blood stem cells we must conduct (or arrange for the conduct of) a variety of laboratory tests which are regulated under the federal Clinical Laboratory Improvements Amendments (CLIA). Any facility conducting regulated tests must obtain a CLIA certificate of compliance and submit to regular inspection. Some states require additional regulation and oversight of clinical laboratories operating within their borders and some impose obligations on out-of-state laboratories providing services to their residents. The states in which we initially plan to engage in processing and storage activities all currently have licensing requirements with which we believe we will need to comply. Additionally, there may be state regulations impacting the storage and use of blood products that would impact our business. We obtained our biologics license from the State of California in May 2006 but there can be no assurance that we will be able to obtain the necessary licensing required to conduct our business in other states, or maintain licenses that we do obtain in such states, including California. If we identify other states with licensing requirements or if other states adopt such other requirements, or if we plan to conduct business in a new state with such licensing requirements, we would also have to obtain such licenses and/or comply with such other requirements. We may also be subject to state and federal privacy laws related to the protection of our customers' personal health information to which we would have access through the provision of our services. We may be required to spend substantial amounts of time and money to comply with any regulations and licensing requirements, as well as any future legislative and regulatory initiatives. Failure to comply with applicable regulatory requirements or delay in compliance may result in, among other things, injunctions, operating restrictions, and civil fines and criminal prosecution which would have a material adverse effect on the marketing and sales of our services and impair our ability to operate profitably or preclude our ability to operate at all in the future.

Our failure to comply with laws related to hazardous materials could materially harm us.

We are subject to state and federal laws regulating the proper disposal of biohazardous material. Although we believe we are currently in compliance with all such applicable laws, a violation of such laws, or the future enactment of more stringent laws or regulations, could subject us to liability for noncompliance and may require us to incur costs and/or otherwise have a material adverse effect on our ability to do business.

Side effects of the stem cell collection process or a failure in the performance of our cryopreservation storage facility or systems could harm our business and reputation.

To the extent a customer experiences adverse side effects from the stem cell collection process, or our cryopreservation storage service is disrupted, discontinued or our ability to provide banked stem cells is impaired for any reason, our business and operations could be adversely affected. Any equipment failure that causes a material interruption or discontinuance in our cryopreservation storage of stem cell specimens could result in stored specimens being damaged and unable to be utilized. Adverse side effects of the collection process or specimen damage (including contamination or loss in transit to us), could

result in litigation against us and reduced future revenue, as well as harm to our reputation. Our insurance may not adequately compensate us for any losses that may occur due to any such adverse side effects or failures in our system or interruptions in our ability to maintain proper, continued, cryopreservation storage services. Our systems and operations are vulnerable to damage or interruption from fire, flood, equipment failure, break-ins, tornadoes and similar events for which we do not have redundant systems or a formal disaster recovery plan and may not carry sufficient business interruption insurance to compensate us for losses that may occur. Any claim of adverse side effects or material disruption in our ability to maintain continued uninterrupted storage systems could have a material adverse effect on our business, operating results and financial condition.

We are dependent on existing relationships with third parties to conduct our business.

Our process of collecting stem cells involves the injection of a "mobilizing agent" which causes the stem cells to leave the bone marrow and enter into the blood stream. The injection of this mobilizing agent is an integral part of the collection process. There is currently only one supplier of this mobilizing agent, and we are currently dependent upon our relationship with such supplier to maintain an adequate supply. Although we continue to explore alternative methods of stem cell collection, there can be no assurance that any such methods will prove to be successful. In the event that our supplier is unable or unwilling to continue to supply a mobilizing agent to us on commercially reasonable terms, and we are unable to identify alternative methods or find substitute suppliers on commercially reasonable terms, we may not be able to successfully commercialize our business. We are also using only one outside "collection" service. Although we have the ability to perform the collection services ourselves or through other third parties, any disruption in the relationship with this collection service would cause a delay in the delivery of our services. In order to successfully commercialize our business, we will continue to depend upon our relationship with such companies.

Our success will depend in part on establishing and maintaining effective strategic partnerships and collaborations.

A key aspect of our business strategy is to establish strategic relationships in order to gain access to critical supplies, to expand or complement our development or commercialization capabilities, or to reduce the cost of developing or commercializing services on our own**.** There can be no assurance that we will enter into such relationships or that the arrangements will be on favorable terms. Relationships with licensed professionals such as physicians may be subject to state and federal fraud and abuse regulations restricting the referral of business, prohibiting certain payments to physicians, or otherwise limiting our options for structuring a relationship. If our services become reimbursable by government or private insurers in the future, we could be subject to additional regulation and perhaps additional limitations on our ability to structure relationships with physicians. Failure to comply with applicable fraud and abuse regulations could result in civil fines and/or criminal prosecution. Even if we do enter into these arrangements, we may not be able to maintain these relationships or establish new ones in the future on acceptable terms. Furthermore, these arrangements may require us to grant certain rights to third parties, including exclusive rights or may have other terms that are burdensome to us. If any of our partners terminate their relationship with us or fail to perform their obligations in a timely manner, the development or commercialization of our services may be substantially delayed. If we fail to structure our relationships with physicians in accordance with applicable fraud and abuse laws it could have a material adverse effect on our business.

We are dependent upon our management, scientific and medical personnel and we may face difficulties in attracting qualified employees or managing the growth of our business.

Our future performance and success are dependent upon the efforts and abilities of our management, medical and scientific personnel. Furthermore, our future growth will require hiring a significant number of qualified technical, medical, scientific, commercial and administrative personnel. Accordingly, recruiting and retaining such personnel in the future will be critical to our success. If we are not able to continue to attract and retain, on acceptable terms, the qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or achieve our business objectives. Our failure to manage growth effectively could limit our ability to achieve our commercialization and other goals relating to, and we may fail in developing, our new business.

RISKS RELATED TO COMPETITION

The stem cell preservation market has and continues to become increasingly competitive.

We may face competition from companies with far greater financial, marketing, technical and research resources, name recognition, distribution channels and market presence than us who are marketing or developing new services that are similar to the services that are now being or may in the future be developed by us. There can be no assurance that we will be able to compete successfully.

For example, in the established market for cord blood stem cell banking, the growth in the number of families banking their newborn's cord blood stem cells has been accompanied by an increasing landscape of competitors. Our business, which has been more recently developed, already faces competition from other established operators of stem cell preservation businesses and providers of stem cell storage services. We understand that certain of our competitors, such as StemSource, a division of Cytori Therapeutics and Bio-Matrix Scientific Group Inc. each have established a stem cell banking service to process and store stem cells collected from adipose tissue (fat tissue). This type of stem cell banking will require partnering with cosmetic surgeons who perform liposuction procedures. In addition, we believe the use of adult stem cells from adipose tissue will require extensive clinical trials to prove the safety and efficacy of such cells and the enzymatic process required to extract adult stem cells from fat. From a technology perspective this ability to expand a small number of stem cells could present a competitive alternative to stem cell banking. The ability to create a therapeutic quantity of stem cells from a small number of cells is essential to using embryonic stem cells and would be desirable to treat patients who can only supply a small number of their own stem cells. There are many biotechnology laboratories attempting to develop stem cell expansion technology, but to date, stem cell expansion techniques are very inefficient and typically the target cells stop dividing naturally, keeping the yield low. However, stem cell expansion could also complement adult stem cell banking by allowing individuals to extend the banking of an initial collection of cells for many applications.

In the event that we are not able to compete successfully with our current or potential competitors, it may be difficult for us to grow our revenue and maintain our existing business without incurring significant additional expenses to try and refine our technology, services or approach to our business to better compete, and even then there would be no guarantee of success.

We may face competition in the future from established cord blood banks and some hospitals.

Cord blood banks such as ViaCord (a division of ViaCell International) or Cryo-Cell International may be drawn to the field of stem cell collection because their processing labs and storage facilities can be used for processing adult stem cells from peripheral blood and their customer lists may provide them with an easy access to the market. We estimate that there are approximately 43 cord blood banks in the United States, approximately 25 of which are autologous (donor and recipient are the same) and approximately 18 of which are allogeneic (donor and recipient are not the same). Hospitals that have transplant centers to serve cancer patients may elect to enter some phases of new stem cell therapies. We estimate that there are approximately 123 hospitals in the United States with stem cell transplant centers. All of these competitors may have access to greater financial resources. In addition, other established companies with greater access to financial resources may enter our markets and compete with us. There can be no assurance that we will be able to compete successfully.

RISKS RELATED TO INTELLECTUAL PROPERTY

There is significant uncertainty about the validity and permissible scope of patents in the biotechnological industry. We may not be able to obtain patent protection.

There can be no assurance that the patent applications to which we hold rights will result in the issuance of patents, or that any patents issued or licensed to our company will not be challenged and held to be invalid or of a scope of coverage that is different from what we believe the patent's scope to be. Further, there can be no assurance that any future patents related to these technologies will ultimately provide adequate patent coverage for or protection of our present or future technologies, products or processes. Our success will depend, in part, on whether we can obtain patents to protect our own technologies; obtain licenses to use the technologies of third parties if necessary, which may be protected by patents; protect our trade secrets and know-how; and operate without infringing the intellectual property and proprietary rights of others.

We may be unable to protect our intellectual property from infringement by third parties

Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our intellectual property or may develop intellectual property competitive to ours. Our competitors may independently develop similar technology, duplicate our processes or services or design around our intellectual property rights. As a result, we may have to litigate to enforce and protect our intellectual property rights to determine their scope, validity or enforceability. Intellectual property litigation is costly, time-consuming, diverts the attention of management and technical personnel and could result in substantial uncertainty regarding our future viability. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection would limit our ability to develop and/or market our services in the future. This would also likely have an adverse affect on the revenues generated by any sale or license of such intellectual property. Furthermore, any public announcements related to such litigation or regulatory proceedings could adversely affect the price of our common stock.

Third parties may claim that we infringe on their intellectual property.

We also may be subject to costly litigation in the event our technology infringes upon another party's proprietary rights. Third parties may have, or may eventually be issued, patents that would be infringed by our technology. Any of these third parties could make a claim of infringement against us with respect to our technology. We may also be subject to claims by third parties for breach of copyright, trademark or license usage rights. An adverse determination in any litigation of this type could require us to design around a third party's patent, license alternative technology from another party or otherwise result in limitations in our ability to use the intellectual property subject to such claims. Litigation and patent interference proceedings could result in substantial expense to us and significant diversion of efforts by our technical and management personnel. An adverse determination in any such interference proceedings or in patent litigation to which we may become a party could subject us to significant liabilities to third parties or, as noted above, require us to seek licenses from third parties. If required, the necessary licenses may not be available on acceptable financial or other terms or at all. Adverse determinations in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us, in whole or in part, from commercializing our products, which could have a material adverse effect on our business, financial condition and results of operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. All statements, other than statements of historical fact, regarding our financial position, potential, business strategy, plans and objectives for future operations are "forward looking statements." These statements are commonly identified by the use of such terms and phrases as "intends," "expects," "anticipates," "estimates," "seeks" and "believes." You should read carefully the description of our plans and objectives for future operations, assumptions underlying these plans and objectives and other forward-looking statements included in "Prospectus Summary," "Use of Proceeds," "Management's Discussion And Analysis" and "Business" in this prospectus, but should not place undue reliance on these statements of expectations about our future performance. These descriptions and statements are based on management's current expectations. Our actual results may differ significantly from the results discussed in these forward-looking statements as a result of certain factors, including those set forth in the "Risk Factors" section and elsewhere in this prospectus.

When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other condition, results of operations, prospects and ability to service our debt.

USE OF PROCEEDS

We will not receive any proceeds from the sale of our Common Stock covered hereby, by any of the selling stockholders. Some of the shares of Common Stock to be sold in this offering have not yet been issued and will only be issued upon the exercise of warrants or conversion of promissory notes. We will receive estimated net proceeds of approximately $5,102,166 if all such warrants are exercised for cash, however, many of our outstanding warrants have a cashless exercise feature. We intend to use any proceeds received from the exercise of the warrants for general corporate purposes, including the funding of development activities. We expect to incur expenses of approximately $77,500 in connection with this offering.

PRICE RANGE OF COMMON STOCK

Our Common Stock trades on the OTC Bulletin Board under the symbol “NEOI” and from July 24, 2003 to August 30, 2006 traded under the symbol “PHSM.” The following table sets forth the high and low bid prices of our Common Stock for each quarterly period within the two most recent fiscal years, as reported by Nasdaq Trading and Market Services. On August 30, 2006, the closing bid price for our Common Stock was $.65. Information set forth in the table below reflects inter-dealer prices without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

2006	High	Low
First Quarter	$ 1.00	$ 0.50
Second Quarter	0.80	0.50

2005	High	Low
First Quarter	$ 0.70	$ 0.30
Second Quarter	0.50	0.20
Third Quarter	1.00	0.30
Fourth Quarter	0.90	0.30

2004	High	Low
First Quarter	$ 1.80	$ 1.30
Second Quarter	2.20	0.60
Third Quarter	1.00	0.70
Fourth Quarter	1.00	0.50

As of August 30, 2006, there were approximately 697 holders of record of our Common Stock.

DIVIDEND POLICY

Holders of Common Stock are entitled to dividends when, as, and if declared by the Board of Directors out of funds legally available therefor. We have not paid any cash dividends on our Common Stock and, for the foreseeable future, intend to retain future earnings, if any, to finance the operations, development and expansion of our business. Future dividend policy is subject to the discretion of the Board of Directors.

SELECTED FINANCIAL DATA

You should read the information set forth below in conjunction with the Company’s audited financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus. The selected statements of operations and balance sheet data set forth below for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 are derived from audited financial statements of the Company. The selected statements of operations and balance sheet data set forth below for the six months ended June 30, 2006 and 2005 are derived from unaudited financial information and are not necessarily indicative of results that may be expected for the fiscal year ending December 31, 2006 or any other period. The requirement to provide geographical information for the operations of the Company is not practical.

Statement of Operations: ($’000 except netloss per share which is stated in $ and weighted average number of shares)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Six Months Ended June 30, 2006 (unaudited)	Six Months Ended June 30, 2005 (unaudited)
Earned revenues	$ 35	$ 49	$ 65	$ 81	$ 107	$ 13	$ 20
Direct costs	25	34	44	60	70	9	14
Gross profit	10	15	21	21	37	4	6
Operating (loss)	(1,601)	(1,474)	(894)	(1,149)	(1,606)	(1,975)	(568)
Loss before discontinued operations and preferred dividends	(1,745)	(1,748)	(1,044)	(1,160)	(1,792)	(2,375)	(619)
Net loss attributable to common stockholders	(1,745)	(1,748)	(1,068)	(1,208)	(2,081)	(2,384)	(643)
Basic and diluted earnings per share:							
Loss from continuing operations	(0.35)	(0.54)	(0.45)	(0.50)	(0.80	(0.26)	(0.15)
Income(loss) from discontinuedoperations	—	—	—	—	(0.10)	—	—

Net loss attributable to common stockholders	(0.35)	(0.54)	(0.45)	(0.50)	(0.90)	(0.26)	(0.15)
Weighted average number of shares outstanding	4,977,575	3,254,185	2,350,934	2,234,477	2,228,442	9,040,366	4,372,612

Balance Sheet Data: $'000	As of December 31, 2005	As of December 31, 2004	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001	As of June 30, 2006 (unaudited)	As of June 30, 2005 (unaudited)
Working Capital (Deficiency)	$ (1,245)	$ (1,239)	$ (794)	$ (82)	$ 1,085	$ (1,631)	$ (1,606)
Total Assets	643	99	312	1,183	1,836	1,694	56
Current Liabilities	1,752	1,288	1,023	1,141	489	2,663	1,628
Long Term Debt	—	—	—	9	32	150	—
(Accumulated Deficit)	(14,255)	(12,510)	(10,762)	(9,694)	(8,486)	(16,640)	(13,153)
Total Stockholders' (Deficit)/ Equity	(1,818)	(1,932)	(1,503)	(824)	373	(1,119)	(2,295)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and related notes included elsewhere in this prospectus, and is qualified in its entirety by reference thereto. This discussion contains forward-looking statements. Please see "Special Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.

GENERAL

NeoStem, Inc. ("NeoStem" or the "Company") engages in the business of operating a commercial autologous (donor and recipient are the same) adult stem cell bank and the pre-disease collection, processing and long-term storage of adult stem cells that donors can access for their own present and future medical treatment. On January 19, 2006 the Company consummated the acquisition of the assets of NS California, Inc. ("NS California") relating to its business of processing, collecting and storing adult stem cells. Effective with the acquisition, the business of NS California became the principal business of the Company, rather than its historic business of providing capital and business guidance to companies in the healthcare and life science industries. The Company now provides adult stem cell processing, collection and banking services with the goal of making stem cell collection and long-term storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs. Effective as of August 29, 2006, the Company changed its name from "Phase III Medical, Inc." to "NeoStem, Inc." in order to better describe its new business.

The Company is developing NS California's business in the adult stem cell field and seeking to capitalize on the increasing importance the Company believes adult stem cells will play in the future of regenerative medicine. The Company also plans to become a provider of adult stem cells for therapeutic use in the field of regenerative medicine for heart disease, types of cancer and other critical health problems. The adult stem cell industry is a field independent of embryonic stem cell research which the Company believes is more likely to be burdened by governmental, legal, ethical and technical issues than adult stem cell research. Medical researchers, scientists, medical institutions, physicians, pharmaceutical companies and biotechnology companies are currently developing therapies for the treatment of disease using adult stem cells. The Company intends to provide a service to collect, process and bank adult stem cells to be used in adult stem cell therapies.

Until the NS California acquisition, the business of the Company was providing capital and business guidance to companies in the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Additionally, through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. The Company is still engaged in the "run-off" of such extended warranties and service contracts and expects this "run-off" will continue for approximately seven months. In June 2002 management determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company. As a result, on January 7, 2002 the Company entered into a stock contribution exchange agreement with Strandtek International, Inc. Consummation of the StrandTek transaction was conditioned upon certain closing conditions, and the arrangement was formally terminated by written agreement between the Company and StrandTek in June 2002. The Company had loaned a total of $1,250,000 to StrandTek (which defaulted) and in 2003, the Company received a total of approximately $987,000 from a settlement with StrandTek guarantors.

Management had been exploring new business opportunities for the Company and on February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. Mr. Weinreb was appointed to finalize and execute the Company's new business plan. Under his direction, the Company entered a new line of business where it provided capital and guidance to companies, in multiple sectors of the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. The Company continued to recruit management, business development and technical personnel, and develop its business model, in furtherance of its business plan.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provided for PSI to pay the Company a percentage of the revenue received for the sale of certain specified products or licensing activity. The Company provided capital and guidance to PSI to conduct a Proof of Concept Study relating thereto. As a result of the Proof of Concept Study, PSI advised the Company that it had no definitive plans to move forward with the program. Since the inception of the PSI agreement, the Company paid a total of $720,000 to PSI and paid $85,324 of expenses. The Company does not anticipate any further activity pursuant to the PSI agreement.

The Company engaged in various capital raising activities to pursue its new business opportunities, raising approximately $495,000 in 2003, $1,289,000 in 2004, $1,325,000 in 2005 and $3,557,600 in 2006 (through August 31, 2006) through the sale of its Common Stock, warrants and convertible promissory notes. These amounts include an aggregate of $2,079,000 raised from the June 2006 private placement of shares of Common Stock and warrants to purchase shares of Common Stock (the "June 2006 private placement") and an aggregate of $1,750,000 raised from the additional private placement of shares of Common Stock and warrants to purchase shares of Common Stock in rolling closings in the summer of 2006 (the "Summer 2006 private placement"). In connection with the June 2006 private placement, we appointed Dr. Robin L. Smith as our new Chief Executive Officer and Chairman of our Board of Directors. These capital raising activities enabled us to pursue the Company's prior business and acquire the business of NS California, and pursue our business plan and grow our adult stem cell collection and storage business, including expanding marketing and sales activities. However, in order to fully develop our business, we will need to raise additional funds. There can be no assurance that the Company will be able to raise the necessary capital.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition: The reinsurance premiums collected by Stamford Insurance Company, Ltd., the Company's former wholly-owned subsidiary, are recognized on a pro rata basis over the policy term. The deferred policy acquisition costs are the net cost of acquiring new and renewal insurance contracts. These costs are charged to expense in proportion to net premium revenue recognized. The provisions for losses and loss-adjustment expenses include an amount determined from loss reports on individual cases and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

Income Taxes and Valuation Reserves: We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of preparing our financial statements. This involves estimating the actual current tax in addition to assessing temporary differences resulting from differing treatments for tax and financial accounting purposes. These differences, together with net operating loss carryforwards and tax credits, are recorded as deferred tax assets or liabilities on our balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be realized from future taxable income. A valuation allowance may be required to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event we determine that we may not be able to realize all or part of our deferred tax asset in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to net income in the period of such determination.

RESULTS OF CONTINUING OPERATIONS

The Company's "Critical Accounting Policies" are described in Note 2 to the audited financial statements and notes thereto, included in this prospectus. The Company recognizes revenue from its warranty service contracts ratably over the length of the contracts executed. Additionally, the Company purchased insurance to fully cover any losses under the service contracts from a domestic carrier. The insurance premium expense and other costs related to the sale are amortized ratably over the life of the contracts.

Six Months Ended June 30, 2006 Compared To Six Months Ended June 30, 2005

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of $12,524 for the six months ended June 30, 2006, as compared to $19,983 for the six months ended June 30, 2005. The revenues generated in the six month period for 2006 and 2005 were derived entirely from revenues deferred over the life of contracts sold in prior periods. Warranty revenue will continue to decline as policy periods expire since the Company is no longer selling extended warranty contracts. It is expected that the recognition of Warranty revenue will end in approximately seven months. As of June 30, 2006, the Company has not realized any revenues from the NS California acquisition. It is anticipated that revenues will begin in 2006. Similarly, direct costs incurred, in connection with the extended warranty contracts were $8,934 for the six months ended June 30, 2006 as compared $14,020 for six months ended June 30, 2005,.

Selling, general and administration expenses increased approximately $1,404,000 for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. The increase in selling, general and administrative expenses for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, is primarily due to increases in payroll and related expenses of $215,800, for increase in staff as the result of acquiring NS California, legal expense of $100,700, and the compensatory element of stock options issued to staff members and common stock issued as a signing bonus paid to Dr. Robin Smith upon being appointed Chairman of the Board and Chief Executive Officer in the amount of $386,500, the settlement with Robert Aholt of $250,000, investment banking consulting of $145,500, insurance primarily related to NS California of $90,000, marketing relating to NS California of $41,700, laboratory related expenses of $37,000, printing of $16,000, stock transfer fees of $11,000, and travel and entertainment of $28,000.

Interest expenses increased approximately $338,000 for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. Such increase was primarily as a result of sale of convertible notes in December 2005 and January 2006 including increases resulting from amortization of debt discount associated with the convertible notes of $136,700 for the six months ended June 30, 2006, and the increases as a result of the value of warrants associated with these convertible notes of $255,990 for the six months ended June 30, 2006 charged to interest expense. These increases in interest expense were offset by reductions in interest expense related to the repayment of other debt and the conversion of Series A Preferred Shares to Common Stock.

For the reasons cited above the net loss for the six months ended June 30, 2006 of $2,384,526 increased over the net loss of $642,736 for the six months ended June 30, 2005.

Six Months Ended June 30, 2006 Compared To the Year Ended December 31, 2005

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of $12,524 for the six months ended June 30, 2006, as compared to $35,262 for the year ended December 31, 2005. The revenues generated in the six month period for 2006 and the year ended December 31, 2005 were derived entirely from revenues deferred over the life of contracts sold in prior periods. Warranty revenue for the six months ended June 30 2006 is not keeping pace with Warranty revenue recognized in 2005 and is in fact declining. Warranty revenue will continue to decline as policy periods expire since the Company is no longer selling extended warranty contracts. It is expected that the recognition of Warranty revenue will end in approximately seven months. Similarly, direct costs incurred in connection with the extended warranty contracts were $8,934 for the six months ended June 30, 2006, as compared to $24,776 for the year ended December 31, 2005.

Selling, general and administration expenses for the six months ended June 30, 2006 has exceeded selling, general and administration expenses for the year ended December 31, 2005 by $366,836, or 23%. In 2006 the Company changed its primary business model and is now engaged in the collection and banking of adult stem cells. In addition, the implementation in 2006 of accounting for the compensatory value of employee stock options has had dramatic increase in our operating expenses. As the result of entering into the business of adult stem cell banking the Company has increased its staffing levels and payroll expense to the extent that payroll expenses for the six months ended June 30, 2006 is approximately 60% of payroll expense for the year ended December 31, 2005. The new business of the company has resulted in incurred expenses such as marketing expenses, product liability insurance, laboratory expense and increased facilities, increasing operating expenses for the six months ended June 30, 2006 by approximately $180,000. In addition, the compensatory value of employee stock options and common stock issued as a signing bonus paid to Dr. Robin Smith upon being appointed Chairman of the

Board and Chief Executive Officer increased operating expenses by approximately $386,500. It is expected that the collection and banking of adult stem cells and the accounting for the compensatory value of employee stock options will continue to increase the operating expenses of the Company in comparison to 2005.

Interest expenses for the six months ended June 30, 2006 exceeded interest expense for the year ended December 31, 2005 by $268,200, or 186%. This increase was primarily as a result of sale of convertible notes in December 2005 and January 2006, including increases resulting from amortization of debt discount associated with the convertible notes of $136,700 for the six months ended June 30, 2006, and increases as a result of the value of warrants associated with these convertible notes of $255,990 for the six months ended June 30, 2006 charged to interest expense. These increases in interest expense were offset by reductions in interest expense related to the repayment of other debt; and the conversion of Series A Preferred Stock to Common Stock. It is expected that interest expense for the twelve months ended December 31, 2006 will significantly exceed interest for 2005; however, since June 30, 2006 the company has approached the convertible debtholders with proposals to convert these promissory notes to common stock of the Company. To that end the Company has converted approximately $237,500 of these promissory notes to common stock. The immediate impact of these conversions will be to increase interest expense due to the cost related to additional common shares and warrants to purchase common stock granted to accomplish such conversions. However, these increased costs are non-cash related and the company will realize a reduction in its cash interest payments and cash required to pay back such promissory notes.

FISCAL 2005 COMPARED TO FISCAL 2004

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of $35,000 in fiscal 2005 compared to $49,000 in fiscal 2004. The revenues generated in the year were derived entirely from revenues deferred over the life of the contracts sold in prior years. Similarly, direct costs incurred were $25,000 and $34,000 for fiscal years 2005 and 2004 respectively, which relate to costs previously deferred over the life of such contracts.

General and administrative expenses totaled $1,611,000 during the year ended December 31, 2005 as compared to $764,000 for fiscal 2004, an increase of $847,000 or 211%. The increase was primarily attributable to increases in salaries and related expenses ($495,000), consultants ($50,000), legal and accounting ($196,000), investment banking fees ($61,000) and investor relations ($19,000).

In accordance with the PSI agreement, the Company paid PSI $0 in fiscal 2005 as compared to $725,000 in fiscal 2004.

Interest expense decreased in fiscal 2005 to $144,000 from $274,000 in fiscal 2004 due to the lower level of debt and certain loans from officers and directors at an interest rate of 8% compared with much higher rates from non-affiliated noteholders in the previous year.

For the reasons cited above, the net loss decreased to $1,745,000 in fiscal 2005 from the comparable loss of $1,748,000 for fiscal 2004.

FISCAL 2004 COMPARED TO FISCAL 2003

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of $49,000 in fiscal 2004 compared to $65,000 in fiscal 2003. The revenues generated in the year were derived entirely from revenues deferred over the life of the contracts sold in prior years. Similarly, direct costs incurred were $34,000 and $44,000 for fiscal years 2004 and 2003 respectively, which relate to costs previously deferred over the life of such contracts.

General and administrative expenses totaled $764,000 during the year ended December 31, 2004 as compared to $685,000 for fiscal 2003, an increase of $79,000 or 11.5%. The increase was primarily attributable to increases in salaries and related expenses ($189,000), directors and officer's liability insurance ($31,000), rent ($12,000) and investor relations ($29,000) partially offset by decreases in legal ($59,000), consultants ($63,000), director's fees ($13,000) travel and entertainment ($17,000), stockholder's meetings ($12,000), transfer agent fees ($5,000) and miscellaneous items ($13,000).

In accordance with the PSI agreement, the Company paid PSI $725,324 in fiscal 2004 as compared to $80,000 in fiscal 2003.

Interest income decreased from $89,000 in fiscal 2003 to less than $1,000 in fiscal 2004 due to the lack of funds. Interest expense increased in fiscal 2004 to $274,000 from $215,000 in fiscal 2003 due to the higher level of debt and certain debt being in default and therefore subject to a higher interest rate. In addition, the Company recorded interest expense in fiscal 2004 relating to the Series A $0.07 Convertible Preferred Stock ("the "Series A Preferred") in the amount of approximately $48,000 as compared to approximately $24,000 in 2003 due to a recent accounting pronouncement.

For the reasons cited above, the net loss before preferred stock dividend increased to $1,748,000 in fiscal 2004 from the comparable loss of $1,044,000 for fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

Six months ended June 30, 2006 and June 30, 2005

The following chart represents the net funds provided by or used in operating, financing and investment activities for each period indicated:

	Six Months Ended	
	June 30, 2006	June 30, 2005
Cash used in		
Operating Activities	$ (1,783,626)	$ (332,608)
Cash (used) provided by		
Investing Activities	$ —	$ —
Cash provided by		
Financing Activities	$ 2,207,004	$ 305,000

The Company incurred a net loss of $2,384,526 for the six months ended June 30, 2006. Such loss adjusted for non-cash items including common stock, options and warrants issued for services and interest of $675,473, amortization and depreciation of $148,737 and interest related to the Series A Preferred of $9,934 resulted in cash used in operations totaling $1,783,626 for the six months ended June 30, 2006. This use of cash included additions to prepaid expenses and other current assets of $103,591 and decreases in accounts payable and accrued expenses of $126,063.

To meet its cash requirement for the six months ended June 30, 2006, the Company relied on proceeds from the sale of $250,000 of convertible notes and the sale of shares of Common Stock resulting in net proceeds of $1,928,100.

In May 2006, the Company entered into an advisory agreement with Duncan Capital Group LLC (“Duncan”). Pursuant to the advisory agreement, Duncan is providing to the Company on a non-exclusive “best efforts” basis, services as a financial consultant in connection with any equity or debt financing, merger, acquisition as well as with other financial matters. In return for these services, the Company is paying to Duncan a monthly retainer fee of $7,500, 50% of which may be paid by the Company in shares of its Common Stock valued at fair market value and reimbursing it for its reasonable out-of-pocket expenses in an amount not to exceed $12,000. Pursuant to the advisory agreement, Duncan also agreed, subject to certain conditions, that it or an affiliate would act as lead investor in a proposed private placement of shares of Common Stock and warrants to purchase shares of Common Stock in an amount that was not less than $2,000,000 or greater than $3,000,000. If the financing closed, Duncan was to receive a fee of $200,000 in cash and 240,000 shares of restricted Common Stock.

On June 2, 2006, the Company entered into a securities purchase agreement pursuant to which the Company issued to each of 17 investors shares of its Common Stock, at a per-share price of $0.44, along with a five-year warrant to purchase a number of shares of Common Stock equal to 50% of the number of shares of Common Stock purchased by each investor (together with the Common Stock issued, the “June 2006 securities”). The gross proceeds from the sale were $2,079,000. Duncan received its fee as described above. The officers of the Company, as a condition of the initial closing under the securities purchase agreement, entered into letter agreements with the Company pursuant to which they converted an aggregate of $278,654 of accrued and unpaid salary that dated back to 2005 into shares of Common Stock at a per share price of $0.44. After adjustments for applicable payroll and withholding taxes which were paid by the Company, the Company issued to such officers an aggregate of 379,983 shares of Common Stock. The Company also adopted an Executive Officer Compensation Plan, effective as of the date of closing of the securities purchase agreement and pursuant to the letter agreements each officer agreed to be bound by the Executive Compensation Plan. In addition to the conversion of accrued salary, the letter agreements provide for a reduction by 25% in base salary for each officer, the granting of options to purchase shares of Common Stock under the Company’s 2003 Equity Participation Plan which become exercisable upon the Company achieving certain revenue milestones and the acceleration of the vesting of certain options and restricted shares held by the officers.

In connection with the securities purchase agreement, on June 2, 2006 the Company entered into a registration rights agreement with each of the investors, pursuant to which the Company agreed to prepare and file no later than June 30, 2006 a registration statement with the SEC to register the shares of Common Stock issued to investors and the shares of Common Stock underlying the warrants. The Company and the investors agreed to amend the registration rights agreement and extend the due date of the registration statement to August 31, 2006. In the event that the Registration Statement is not declared effective by the SEC within 180 days of the closing date of the securities purchase agreement, the Company shall pay to each investor an amount equal to 1% of the purchase price of the June 2006 securities purchased by the investor, and shall pay such amount for each month or partial month that the registration statement is not declared effective by the SEC.

Pursuant to the terms of the WestPark private placement (through which the Company raised $500,000 through the sale of convertible promissory notes and warrants in December 2005 and January 2006, in which Westpark Capital, Inc. acted as placement agent), the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark Private Placement. In the event the Company does not do so, (i) the conversion price of the convertible promissory notes is reduced by 5% each month, subject to a floor of $.40; (ii) the exercise price of the warrants is reduced by 5% each month, subject to a floor of $1.00; and (iii) the warrants may be exercised pursuant to a cashless exercise provision. The Company did not have the registration statement effective by July 31, 2006 and has requested that the investors in the WestPark Private Placement extend the date by which the registration statement is required to be effective until February 28, 2007. The Company has also offered to the investors the option of (A) extending the term of the convertible note for an additional four months from the maturity date in consideration for which (i) the Company shall issue to the investor for each $25,000 in principal amount of the convertible note 5,682 shares of unregistered Common Stock; and (ii) the exercise price per warrant shall be reduced from $1.20 to $.80, or (B) converting the convertible note into shares of the Company’s Common Stock in consideration for which (i) the conversion price per

conversion share shall be reduced to $.44; (ii) the Company shall issue to the investor for each $25,000 in principal amount of the Note, 11,364 shares of Common Stock; (iii) the exercise price per warrant shall be reduced from $1.20 to $.80; and (iv) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each $25,000 in principal amount of the convertible note at an exercise price of $.80 per share. Pursuant to this, the investor is also being asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement. As of August 30, 2006, investors holding $237,500 of the $500,000 of convertible promissory notes had agreed to convert them into shares of Common Stock and $137,500 had agreed to extend the term of the convertible promissory notes on the terms set forth above.

Subsequent to June 30, 2006 and through August 30, 2006, the Company has sold 3,977,273 shares of its Common Stock at $.44 per share along with warrants to purchase 1,988,637 shares of its Common Stock at $.80 per share in the Summer 2006 Private Placement, resulting in proceeds to the Company of $1,750,000, and issued 83,405 shares of its Common Stock as partial or complete payment of certain accounts payable and 41,667 shares of its Common Stock as partial payment of certain services rendered.

The Company's financial statements have been prepared assuming the Company will continue as a going concern. The Company currently has no operations and limited financial resources to pay its current expenses and liabilities. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Year Ended December 31, 2005 and December 31, 2004

The following chart represents the net funds provided by or used in operating, financing and investment activities for each period as indicated:

	Twelve Months Ended	
	December 31, 2005	December 31, 2004
Cash used in Operating activities	$ (833,996)	$ (1,459,653)
Cash used in investing activities	$ 0	(3,288)
Cash provided by financing activities	$ 1,295,000	1,279,862

At December 31, 2005, the Company had a cash balance of $488,872, deficit working capital of $1,245,084 and a stockholders' deficit of $1,817,638. In addition, the Company sustained losses of $1,745,039, $1,748,372 and $1,044,145 for the three fiscal years ended December 31, 2005, 2004 and 2003, respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. No assurance can be given as to the Company's ability to raise additional financing to cure its liquidity issues.

On December 30, 2005 the Company commenced the Westpark Private Placement to sell 9% six month convertible notes in $25,000 units. Each unit consisted of the 9% note convertible into shares of the Company's Common Stock at $0.60 per share and 41,667 warrants to purchase the Company's Common Stock at an exercise price of $1.20 per share. On December 30, 2005, the Company sold $250,000 of these notes and through January 31, 2006 an additional $250,000 of these notes for a total of $500,000. The net proceeds from the sales of these notes to the Company were $443,880.

The following table reflects a summary of the Company's contractual cash obligations as of December 31, 2005:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable	$ 433,000	$ 433,000	$ 0	$ 0	$ 0
Operating leases	74,744	69,044	5,700	0	0
Employment agreements	2,332,867	986,083	1,346,783	0	0
Series A mandatorily redeemable convertible preferred stock	572,208	47,684	143,052	143,052	238,420
Total	$ 2,840,611	$ 1,535,811	$ 1,495,535	$ 143,052	$ 238,420

The table above includes the contractual obligations acquired in the purchase of substantially all the assets of NS California on January 19, 2006.

Material changes to the contractual obligations above include (i) the conversion or extension of convertible notes in the aggregate amount of $375,000 issued in the Westpark Private Placement (as described above in Liquidity and Capital Resources), (ii) amendments to the employment agreements of certain officers and employees, pursuant to which such persons agreed to a 25% reduction in base salary, and the entry into an employment agreement with the Company's new chief executive officer, and (iii) the exchange of the outstanding Series A convertible preferred stock into common stock.

INFLATION

The Company does not believe that its operations have been materially influenced by inflation in the fiscal year ended December 31, 2005, a situation which is expected to continue for the foreseeable future.

SEASONALITY

The Company does not believe that its operations are seasonal in nature.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported, on January 6, 2004, upon recommendation and approval of the Company's Board of Directors, the Company dismissed Travis, Wolff & Company, LLP and engaged Holtz Rubenstein Reminick LLP as the Company's independent auditors for the fiscal year ended December 31, 2003. There were no "disagreements" or "reportable events" that were required to be disclosed.

BUSINESS

NeoStem, Inc. (the "Company") is in the business of operating a commercial autologous (donor and recipient are the same) adult stem cell bank and the pre-disease collection, processing and long-term storage of adult stem cells that donors can access for their own present and future medical treatment. On January 19, 2006 the Company consummated the acquisition of the assets of NS California, Inc., a California corporation ("NS California") relating to NS California's business of collecting and storing adult stem cells. Prior to the acquisition of NS California, the Company's business had been providing capital and business guidance to companies in the healthcare and life science industries, including NS California. The Company now is providing adult stem cell processing, collection and banking services with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs. The Company also hopes to become the leading provider of adult stem cells for therapeutic use in the burgeoning field of regenerative medicine for potentially addressing heart disease, certain types of cancer and other critical health problems. The Company is utilizing the combined NeoStem, Inc. and NS California management teams to develop and expand this business. See "- Current Business Operations."

The Company's prior business was providing capital and business guidance to companies in the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Additionally, through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. The Company is still engaged in the "run off" of such extended warranties and service contracts. For a discussion of the Company's involvement in such other activities and Company history, see "- Former Business Operations." In 2004, the Company launched its website www.phase3med.com and in 2006, it launched another website www.neostem.com to support the Company's new business in adult stem cells. The Company's information as filed with the Securities and Exchange Commission is available via a link on its websites as well as at www.sec.gov.

Current Business Operations

On January 19, 2006, the Company through a wholly-owned subsidiary consummated its acquisition of the assets of NS California relating to NS California's business of collecting and storing adult stem cells, pursuant to an Asset Purchase Agreement dated December 6, 2005. The purchase price consisted of 500,000 shares of the Company's Common Stock, plus the assumption of certain enumerated liabilities of NS California and liabilities under assumed contracts. The Company also entered into employment agreements with NS California's chief executive officer and one of its founders as part of the transaction. NS California was incorporated in California in July 2002 and from its inception through the acquisition by the Company, was engaged in the sale of adult stem cell banking services. In October 2003 NS California leased laboratory space in a research facility at Cedars Sinai Hospital in California and entered into an agreement with a third party to provide adult stem cell collection services. By December 2003 NS California had outfitted its laboratory with equipment for processing, cryopreservation and storage of adult stem cells. In May 2004, after a validation process and inspection and approval by the State of California, NS California received a biologics license and commenced commercial operations. In January 2005 NS California moved its adult stem cell processing and storage facility to Good Samaritan Hospital in California. NS California was compelled to cease operations because it did not have sufficient assets to complete the revalidation of the new laboratory and NS California's biologics license was suspended. In October, 2005 NS California restarted the validation of the laboratory at Good Samaritan Hospital, and on May 29, 2006 the Company was issued a new biologics license from the State of California. Pursuant to the Asset Purchase Agreement, NS California was obligated to return to the Company (out of the 500,000 shares of Common Stock issued) 1,666 shares per day for each day after February 15, 2006 that such biologics license had not been issued up to a total of 100,000. NS California has returned 100,000 shares to the Company.

The Company will attempt to develop NS California's business in the adult stem cell field and to capitalize on the increasing importance the Company believes adult stem cells will play in the future of regenerative medicine. The use of adult stem cells as a treatment option for those who develop heart disease, certain types of cancer and other critical health problems is a burgeoning area of clinical research today. The adult stem cell industry is a field independent of embryonic stem cell research. The Company believes that adult stem cell therapies are more likely to be developed before embryonic stem cell therapies due to significant political, legal, ethical and technical issues surrounding embryonic stem cell use. Medical researchers, scientists, medical institutions, physicians, pharmaceutical companies and biotechnology companies are currently developing therapies for the treatment of disease using adult stem cells. As these adult stem cell therapies become licensed or become the standard of care, patients will need a service to collect, process and bank their stem cells. The Company intends to provide this service.

Stem Cells

Stem cells are very primitive and undifferentiated cells that have the unique ability to transform into many different cells, such as white blood cells, nerve cells or heart muscle cells. Stem cells can be found in the bone marrow or peripheral blood of adults. Certain processes can cause the stem cells to leave the bone marrow and enter the blood where they can be collected. The Company only works with adult stem cells collected from peripheral blood.

Plan of Operations

The Company is engaging in the business of autologous adult stem cell collection and banking. It is developing a service model to create a source of stem cells that potentially enables physicians to treat a variety of diseases and engage in research to progress in therapeutic development using adult stem cells as opposed to embryonic stem cells. The Company anticipates fees being derived from Company-owned collection centers as well as collection centers that it partners with qualified operators. It may also seek to obtain government grants and catalogue and store adult stem cells in a biorepository. As this biorepository grows, it is anticipated there will be revenues derived from relationships with pharmaceutical companies and other companies developing stem cell therapies. Additionally, the Company plans to expand its patent portfolio.

Marketing and Customers

The Company intends to embark on a significant marketing, advertising and sales campaign individually and through partnerships for the purpose of educating physicians and potential clients on the benefits of adult stem cell collection and storage. The essence of the Company's strategy is to reach the end-customers as quickly as possible and to accelerate the adoption curve of our service. In addition, the Company plans to utilize marketing resources to develop and expand a stem cell collection partner program.

Several consumer segments may recognize and experience the long-term benefits from banking their own stem cells. These include:

- Individuals with a family history of serious diseases, i.e., diabetes, heart disease, or cancer.
- Wellness and regenerative medicine communities.
- Families who have already banked the umbilical cord blood from their newborns.
- Patients diagnosed with cancer, cardiovascular disease, or diabetes.

The Company expects its marketing efforts to be designed to educate physicians on the benefits both of referring their adult patients to the Company for stem cell banking and participating in our partner collection program.

The Company expects to hire an experienced medical service marketing executive and a premier marketing and public relations company specializing in medical service related businesses.

Intellectual Property

We are seeking patent protection for our proprietary technology. The Company acquired two U.S. patent applications which had been submitted by NS California and are pending. The first patent application addresses the process by which we prepare and store stem cells derived from adult peripheral blood by apheresis following mobilization of the stem cells from the bone marrow. The second patent application contains a number of claims relating to, among other things, the use of stored stem cells to form the basis for medical information that will provide statistics on the etiology of disease, and the use of stem cells in the treatment of infectious diseases and breast cancer. There can be no assurance that either of these patent applications will issue as patents. The patent position of biotechnology companies generally is highly uncertain and involves complex legal, scientific and factual questions.

Competition

For a description of matters relating to competition, please see "Risk Factors — Risks Related to Competition."

Industry and Geographical Segmental Information

As a result of the Company's acquisition of substantially all the assets and operations of NS California on January 19, 2006, the Company will have operations in two segments when its adult stem cell collection and storage business commences operations. One segment will be the collection and banking of adult stem cells and the other segment remains the "run off" of its sale of extended warranties and service contracts via the Internet. This "run-off" of warranty and service contracts will continue for approximately seven months. For further financial information regarding segments, please see the financial statements and notes thereto included elsewhere in this prospectus. The Company's operations are conducted entirely in the United States.

Prior Relationship with NS California

On March 31, 2004, the Company entered into a joint venture agreement to assist NS California in finding uses of and customers for NS California's services and technology. The Company's initial efforts concentrated on developing programs utilizing NS California's services and technology through government agencies. That agreement was terminated as a result of the NS California acquisition. On September 9, 2005, the Company signed a revenue sharing agreement with NS California pursuant to which the Company had agreed to fund NS California certain amounts to pay pre-approved expenses and other amounts based on a formula relating to the Company's ability to raise capital. Once funded, NS California would pay the Company monthly based on the revenue generated in the previous month with a minimum payment due each month. That agreement was also terminated as a result of the NS California acquisition.

Recent Developments

On August 29, 2006, our stockholders approved an amendment to our Certificate of Incorporation to effect a reverse stock split of our Common Stock at a ratio of one-for-ten shares. The primary purposes of effecting the reverse stock split was (i) to raise the per share market price of the Company's Common Stock to facilitate future financing or to be able to use our capital stock in acquisitions, (ii) to raise the per share price to be able to possibly consider a Nasdaq or other listing for our shares in the future and (iii) to save administrative expenses by reducing the number of our stockholders. All numbers in this prospectus have been adjusted to reflect the reverse stock split which was effective as of August 31, 2006.

Also on August 29, 2006, our stockholders approved an amendment to our Certificate of Incorporation to change our name from Phase III Medical, Inc. to NeoStem, Inc. As the Company's business efforts are now focused on developing NS California's (previously known as NeoStem, Inc.) business of

adult stem cell collection and storage, it was appropriate to change the corporate name to NeoStem, Inc. to better reflect our current business operations.

In May 2006, the Company entered into an advisory agreement with Duncan Capital Group LLC ("Duncan"). Pursuant to the advisory agreement, Duncan is providing to the Company on a non-exclusive best efforts basis, services as a financial consultant in connection with any equity or debt financing, merger, acquisition as well as with other financial matters. In return for these services, the Company is paying to Duncan a monthly retainer fee of $7,500 (50% of which may be paid by the Company in shares of its Common Stock valued at fair market value) and reimbursing it for its reasonable out-of-pocket expenses up to $12,000. Pursuant to the advisory agreement, Duncan also agreed that it or an affiliate would act as lead investor in a proposed private placement of securities, for a fee of $200,000 in cash and 240,000 shares of restricted Common Stock. On June 2, 2006 (the "June 2006 private placement"), the Company entered into a securities purchase agreement with 17 accredited investors (the "June 2006 investors"). DCI Master LDC, an affiliate of Duncan, acted as lead investor. Duncan received its fee as described above. The Company issued to each June 2006 investor shares of its Common Stock at a per-share price of $0.44 along with a five-year warrant to purchase a number of shares of Common Stock equal to 50% of the number of shares of Common Stock purchased by the June 2006 investor (together with the Common Stock issued, the "June 2006 securities"). The gross proceeds from this sale were $2,079,000.

Pursuant to the terms of the terms of the securities purchase agreement, the Company expanded the size of its Board to four directors, and appointed Dr. Robin L. Smith as Chairman of the Board and Chief Executive Officer of the Company. See "Executive Compensation — Employment Agreements." Dr. Smith, who was previously Chairman of the Advisory Board of the Company, purchased 50,000 shares of Common Stock and warrants to purchase 24,000 shares of Common Stock pursuant to the terms of the securities purchase agreement. See "Certain Relationships and Related Transactions." The Company also agreed to expand the size of the Board upon the initial closing under the securities purchase agreement to permit DCI Master LDC to appoint one additional independent member to the Company's Board of Directors should they choose to do so. The securities purchase agreement also prohibits the Company from taking certain action without the approval of a majority of the Board of Directors for so long as DCI Master LDC owns at least 20% of the Common Stock, including making loans, guarantying indebtedness, incurring indebtedness that is not already included in a Board approved budget on the date of the securities purchase agreement that exceeds $100,000, encumbering the Company's technology and intellectual property or entering into new or amending employment agreements with executive officers. DCI Master LDC is also granted access to Company facilities and personnel and given other information rights. Pursuant to the securities purchase agreement, all current and future officers and directors of the Company may not, without the prior written consent of DCI Master LDC, dispose of any shares of capital stock of the Company, or any securities convertible into, or exchangeable for or containing rights to purchase, shares of capital stock of the Company until three months after the effective date of the registration statement of which this prospectus is a part.

The officers of the Company, as a condition of the initial closing under the securities purchase agreement for the June 2006 private placement, entered into letter agreements with the Company pursuant to which they converted an aggregate of $278,654 of accrued salary into shares of Common Stock at a per share price of $0.44. After adjustments for applicable payroll and withholding taxes which were paid by the Company, the Company issued to such officers an aggregate of 379,983 shares of Common Stock. The Company also adopted an Executive Officer Compensation Plan, effective as of the date of closing of the securities purchase agreement and pursuant to the letter agreements each officer agreed to be bound by the Executive Officer Compensation Plan. In addition to the conversion of accrued salary, the letter agreements provide for a reduction by 25% in base salary for each officer until the Company achieves certain milestones, the granting of options to purchase shares of Common Stock under the Company's 2003 Equity Participation Plan which become exercisable upon the Company achieving certain revenue milestones and the acceleration of the vesting of certain options and restricted shares held by the officers. See "Executive Compensation — Employment Agreements."

In connection with the securities purchase agreement, on June 2, 2006 the Company entered into a registration rights agreement with each of the June 2006 investors (the "June 2006 registration rights agreement"). Pursuant to the June 2006 registration rights agreement, the Company was obligated to prepare and file no later than June 30, 2006 a registration statement with the SEC to register the shares of Common Stock and the warrants issued in the June 2006 private placement. The Company and the June 2006 investors agreed to amend the registration rights agreement and extend the due date of the registration statement to August 31, 2006. The registration statement, of which this prospectus is a part, was filed pursuant thereto. In the event that the registration statement is not declared effective by the SEC within 180 days of the closing date of the securities purchase agreement, the Company will be required to pay to each June 2006 investor an amount equal to 1% of the purchase price of the June 2006 securities purchased by such investor, and shall pay such amount for each month or partial month that the registration statement is not declared effective by the SEC.

Pursuant to the terms of the WestPark private placement (through which the Company raised $500,000 through the sale of convertible promissory notes and warrants in December 2005 and January 2006, in which Westpark Capital, Inc. acted as placement agent), the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark private placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark private placement. In the event the Company does not do so, (i) the conversion price of the convertible promissory notes is reduced by 5% each month, subject to a floor of $.40; (ii) the exercise price of the warrants is reduced by 5% each month, subject to a floor of $1.00; and (iii) the warrants may be exercised pursuant to a cashless exercise provision. The Company did not have the registration statement effective by July 31, 2006 and has requested that the investors in the WestPark private placement extend the date by which the registration statement is required to be effective until February 28, 2007. The Company has also offered to the investors the option of (A) extending the term of the convertible note for an additional four months from the maturity date in consideration for which (i) the Company shall issue to the investor for each $25,000 in principal amount of the convertible note 5,682 shares of unregistered Common Stock; and (ii) the exercise price per warrant shall be reduced from $1.20 to $.80, or (B)

converting the convertible note into shares of the Company's Common Stock in consideration for which (i) the conversion price per conversion share shall be reduced to $.44; (ii) the Company shall issue to the investor for each $25,000 in principal amount of the Note, 11,364 shares of Common Stock; (iii) the exercise price per warrant shall be reduced from $1.20 to $.80; and (iv) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each $25,000 in principal amount of the convertible note at an exercise price of $.80 per share. Pursuant to this, the investor is also being asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement. As of

August 30, 2006, investors holding $237,500 of the $500,000 of convertible promissory notes had agreed to convert them into shares of Common Stock and $137,500 had agreed to extend the term of the convertible promissory notes on the terms set forth above.

During July and August 2006, the Company raised an aggregate of $1,750,000 through the private placement of 3,977,273 shares of its Common Stock at $.44 per share and warrants to purchase 1,988,637 shares of Common Stock at $.80 per share (the "Summer 2006 private placement"). The terms of the Summer 2006 Private Placement were substantially similar to the terms of the June 2006 Private Placement.

FORMER BUSINESS OPERATIONS

History

The Company was incorporated under the laws of the State of Delaware in September 1980 under the name Fidelity Medical Services, Inc. On July 28, 1983 the Company changed its name to Fidelity Medical, Inc. From its inception through March 1995, the Company was engaged in the development and sale of medical imaging products through a wholly owned subsidiary. As a result of a reverse merger on March 2, 1995 with Corniche Distribution Limited and its subsidiaries, the Company was engaged in the retail sale and wholesale distribution of stationery and related office products in the United Kingdom. Effective March 25, 1995 the Company sold its medical imaging products subsidiary. On September 28, 1995 the Company changed its name to Corniche Group Incorporated. In February 1996, the Company's United Kingdom operations were placed in receivership by creditors. Thereafter through March 1998 the Company was inactive. On March 4, 1998, the Company entered into a stock purchase agreement with certain individuals (the "initial purchasers") whereby the initial purchasers acquired in aggregate 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock. Thereafter the initial purchasers endeavored to establish for the Company new business operations in the property and casualty specialty insurance and warranty/service contracts markets. On September 30, 1998 the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") and commenced operation of a property and casualty insurance business. Stamford provided reinsurance coverage for one domestic insurance company until the fourth quarter of 2000 when the relationship with the carrier was terminated. On April 30, 2001 the Company sold Stamford and was no longer involved in property and casualty specialty insurance.

In January 2002, the Company entered into a Stock Contribution Exchange Agreement, as amended, with StrandTek International, Inc., a Delaware corporation ("StrandTek"), certain of StrandTek's principal shareholders and certain non-shareholder loan holders of StrandTek (the "StrandTek transaction"). Certain conditions to closing were not met, and the agreement was formally terminated by the Company and StrandTek in June 2002. In January 2002, the Company advanced to StrandTek a loan of $1,000,000 on an unsecured basis, which was personally guaranteed by certain of the principal shareholders of StrandTek, and a further loan of $250,000 in February 2002, on an unsecured basis. StrandTek defaulted on the payment of $1,250,000, plus accrued interest due to the Company, in July 2002. As a result, the Company commenced legal proceedings against StrandTek and the guarantors to recover the principal, accrued interest and costs of recovery and in May 2003 was granted a final judgment in the amount of $1,415,622 from each corporate defendant, in the amount of $291,405 against each individual defendant and dismissing defendants' counterclaims. The legal action concluded with the Company receiving payments from the guarantors totaling approximately $987,000 in 2003.

WarrantySuperstore.com Internet Business

The Company's primary business focus through June 2002 was the sale of extended warranties and service contracts over the Internet covering automotive, home, office, personal electronics, home appliances, computers and garden equipment. While the Company managed most functions relating to its extended warranty

and service contracts, it did not bear the economic risk to repair or replace products nor did it administer the claims function, all of which obligations rested with the Company's appointed insurance carriers. The Company was responsible for marketing, recording sales, collecting payment and reporting contract details and paying premiums to the insurance carriers. The Company commenced operations initially by marketing its extended warranty products directly to the consumer through its web site, and as a result of the development of proprietary software by January 2001 had four distinct distribution channels: (i) direct sales to consumers, (ii) co-branded distribution, (iii) private label distribution and (iv) manufacturer/retailer partnerships. During the first half of fiscal 2001, management became concerned by the slow progress being made by its warrantysuperstore.com business and began to evaluate other opportunities. In June 2002, management determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company (see the Strandtek transaction, above, and Medical Biotech/Business, below). In addition to such activities, the Company has continued to "run off" the sale of its warranties and service contracts.

Medical/Biotech Business

On February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. Under his direction, the Company entered a new line of business where it provided capital and guidance to companies, in multiple sectors of the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. The Company continued to recruit management, business development and technical personnel, and developed its business model, in furtherance of its business plan. The Company engaged in various capital raising activities to pursue this business, raising $489,781 in 2003 and $1,289,375 in 2004 through the sale of Common Stock and notes. Additionally, in 2003, it received a total of approximately $987,000 from the settlement with the StrandTek guarantors (a significant portion of which was used to pay outstanding liabilities for legal expenses, employment terminations, travel and entertainment expenses and consultants and the balance of which was used for operating expenses and the retirement of certain debt). In 2005 and through March 2006, the Company raised $1,600,000. Such capital raising activities since 2003 enabled the Company to pursue the arrangements with PSI (below) and NS California.

On July 24, 2003, the Company changed its name to Phase III Medical, Inc., which better described the Company's then current business plan. In connection with the change of name, the Company changed its trading symbol to "PHSM" from "CNGI".

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provided for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company provided capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. The

Company paid a total of $720,000 since the inception of the agreement. The agreement also called for the Company to pay on behalf of PSI $280,000 of certain expenses relating to testing of the bioshielding concept, and since inception through December 31, 2005, the Company paid $85,324 of such expenses. In August 2005, the Company received from PSI a letter stating that the proof of concept study under the royalty agreement had been completed and that despite interesting preliminary *in vitro* results, the study did not meet the success standards set forth in the royalty agreement and that PSI had no definitive plans to move forward with the program. The Company requested pursuant to the royalty agreement that additional in vitro studies be performed with other molecules; however PSI was under no obligation to perform any additional studies. If no additional studies were performed under the royalty agreement the likelihood of PSI generating revenues in which the Company would share would have been substantially reduced. At this time the Company does not anticipate any further activity pursuant to the PSI agreement.

In March 2003 and September, 2004, the Company entered into a revenue sharing agreement and joint venture agreement, respectively, with NS California. As described above, such agreements were terminated in connection with the NS California acquisition.

Employees

As of August 30, 2006, the Company had ten employees.

Properties

Effective as of July 1, 2006, the Company entered into an agreement for the use of space at 420 Lexington Avenue, New York, New York. Pursuant to the terms of the Agreement, the Company will pay $7,500 monthly for the space, including the use of various office services and utilities. The agreement is on a month to month basis, subject to a thirty day prior written notice requirement to terminate. The space serves as the Company's principal executive offices. This space will be sufficient for our needs until the business plan of the Company has been successfully implemented. Effective October 1, 2006 the Company terminated the lease for its Melville, New York facility. In January 2005, NS California began leasing space at Good Samaritan Hospital in Los Angeles, California at an annual rental of approximately $26,000 for use as its stem cell processing and storage facility. The lease expired on December 31, 2005, but we continue to occupy the space on a month-to-month basis. This space will be sufficient for the Company's needs in the short term and we are in the process of negotiating a new lease for the facility with the landlord. If such negotiations are unsuccessful, we believe that we will be able to find a suitable alternative location. NS California also leased office space in Agoura Hills, California on a month-to-month basis from Symbion Research International at a monthly rental of $1,687, and we plan to continue this arrangement to fill our need for office space in California.

Legal Proceedings

The Company is not aware of any material pending legal proceedings or claims against the Company.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the directors and executive officers of the Company as of August 30, 2006:

Name	Age	Position
Robin L. Smith	41	Chief Executive Officer & Chairman of the Board
Mark Weinreb	53	Director and President
Larry A. May	56	Chief Financial Officer
Catherine M. Vaczy	45	Vice President and General Counsel
Wayne Marasco	53	Director and Senior Scientific Advisor
Joseph Zuckerman	54	Director

Robin L. Smith
Chief Executive Officer and Chairman of the Board

Dr. Robin L. Smith joined the Company as Chairman of its Advisory Board in September 2005 and, effective June 2, 2006, is the Chief Executive Officer and Chairman of the Board. Dr. Smith, who received a medical degree from Yale University in 1992 and a master's degree in business administration from the Wharton School in 1997, brings to the Company extensive experience in medical enterprises and business development. During the past two years, she has acted as a senior advisor and consultant to both publicly traded and privately held companies in the healthcare and other fields where she assists in capital raising efforts, strategic development initiatives and marketing and sales as well as evaluating companies in healthcare, media and emerging technologies on behalf of investment banking concerns and funds. From 2000 to 2003, Dr. Smith served as President and CEO of IP2M, selected as one of the 10 fastest growing technology companies in Houston. Previously, from 1998 to 2000, she was Executive Vice President and Chief Medical Officer for HealthHelp, Inc., a National Radiology Management company that managed 14 percent of the healthcare dollars spent by large insurance companies.

Dr. Smith sits on numerous Boards of Directors including the New York University Hospital for Joint Disease (Co-Chairman), Talon Air, Biomega, the Chemotherapy Foundation and has been asked to join a think tank group for Yale University School of Medicine's Department of Neurosurgery to assist in analyzing resources and future initiatives. Dr. Smith also serves as Chairman of the advisory board of China Biopharmaceuticals Holdings and the business advisory board of Enhanced Care Initiatives and Navistar Media Holdings. Dr. Smith also serves as Managing Director and Partner of the Madelin Fund which seeks to achieve investment returns primarily in the form of capital gains by making privately negotiated venture capital investments in companies operating in the oncology and oncology related healthcare sectors.

Mark Weinreb
President and Director

Mr. Weinreb joined the Company on February 6, 2003 as a Director, Chief Executive Officer and President and effective June 2, 2006, continues as a Director and President. In 1976, Mr. Weinreb joined Bio Health Laboratories, Inc., a state-of-the-art medical diagnostic laboratory providing clinical testing services for physicians, hospitals, and other medical laboratories. He progressed to become the laboratory administrator in 1978 and then an owner and the laboratory's Chief Operating Officer in 1982. Here he oversaw all technical and business facets, including finance, laboratory science technology and all the additional support departments. He left Bio Health Labs in 1989 when he sold the business to a biotechnology company listed on the New York Stock Exchange. In 1992, Mr. Weinreb founded Big City Bagels, Inc., a national chain of franchised upscale bagel bakeries and became Chairman and Chief Executive Officer of such entity. The company went public in 1995 and in 1999 he redirected the company and completed a merger with an Internet service provider. In 2000, Mr. Weinreb became the Chief Executive Officer of Jestertek, Inc., a 12-year old software development company pioneering gesture recognition and control using advanced inter-active proprietary video technology. In 2002, he

left Jestertek after arranging additional financing. Mr. Weinreb received a Bachelor of Arts degree in 1975 from Northwestern University and a Master of Science degree in 1982 in Medical Biology, from C.W. Post, Long Island University.

Larry A. May
Chief Financial Officer

Mr. May, the former Treasurer of Amgen (one of the world's largest biotechnology companies), initially joined the Company to assist with licensing activities in September 2003. He became an officer of the Company upon the Company's acquisition of the business of NS California. For the last 20 years, Mr. May has worked in the areas of life science and biotechnology. From 1983 to 1998, Mr. May worked for Amgen as Corporate Controller (1983 to 1988), Vice President/Corporate Controller/Chief Accounting Officer (1988 to 1997), and Vice President/Treasurer (1997 to 1998). At Amgen, Mr. May helped build Amgen's accounting, finance and IT organizations. From 1998 to 2000, Mr. May served as the Senior Vice President, Finance & Chief Financial Officer of Biosource International, Inc., a provider of biologic research reagents and assays. From 2000 to May 2003, Mr. May served as the Chief Financial Officer of Saronyx, Inc., a company focused on developing productivity tools and secure communication systems for research scientists. From August 2003 to January 2005, Mr. May served as the Chief Financial Officer of NS California. In March 2005, Mr. May was appointed CEO of NS California and in May 2005 he was elected to the Board of Directors of NS California. He received a Bachelor of Science degree in Business Administration & Accounting in 1971 from the University of Missouri.

Catherine M. Vaczy
Vice President and General Counsel

Ms. Vaczy joined the Company in April 2005 as Executive Vice President and General Counsel. Ms. Vaczy is responsible for overseeing the Company's legal affairs. From 1997 through 2003, Ms. Vaczy held various senior positions at ImClone Systems Incorporated, a publicly traded company developing a portfolio of targeted biologic treatments to address the medical needs of patients with a variety of cancers, most recently as its Vice President, Legal and Associate General Counsel, While at ImClone, Ms. Vaczy served as a key advisor in the day-to-day operation of the company and helped forge a number of important strategic alliances, including a $1 billion co-development agreement for Erbitux®, the company's targeted therapy approved for the treatment of metastatic colorectal and head and neck cancers. From 1988 through 1996, Ms. Vaczy served as a corporate attorney advising clients in the life science industry at the New York City law firm of Ross & Hardies. Ms. Vaczy received a Bachelor of Arts degree in 1983 from Boston College and a Juris Doctor from St. John's University School of Law in 1988.

Wayne Marasco, M.D., Ph.D.
Director and Senior Scientific Advisor

Dr. Marasco joined the Board of Directors of the Company in June 2003. In August 2004 he was appointed the Company's Senior Scientific Advisor. Dr. Marasco has been an Associate Professor in the Department of Cancer Immunology & AIDS at the Dana-Farber Cancer Institute and Associate Professor of Medicine in the Department of Medicine, Harvard Medical School for over five years. Dr. Marasco is a licensed physician-scientist with training in Internal Medicine and specialty training in infectious diseases. His clinical practice sub-specialty is in the treatment of immunocompromised (cancer, bone marrow and solid organ transplant) patients.

Dr. Marasco's research laboratory is primarily focused on the areas of antibody engineering and gene therapy. New immuno- and genetic- therapies for HIV-1 infection / AIDS, HTLV-1, the etiologic agent in Adult T-cell Leukemia, and other emerging infectious diseases such as SARS and Avian Influenza are being studied. Dr. Marasco's laboratory is recognized internationally for its pioneering development of intracellular antibodies (sFv) or "intrabodies" as a new class of molecules for research and gene therapy applications. He is the author of more than 70 peer reviewed research publications, numerous chapters, books and monographs and has been an invited speaker at many national and international conferences in the areas of antibody engineering, gene therapy and AIDS. Dr. Marasco is also the Scientific Director of the National Foundation for Cancer Research Center for Therapeutic Antibody Engineering (the "Center"). The Center is located at the Dana-Faber Cancer Institute and will work with investigators globally to develop new human monoclonal antibody drugs for the treatment of human cancers.

In 1995, Dr. Marasco founded IntraImmune Therapies, Inc., a gene therapy and antibody engineering company. He served as the Chairman of the Scientific Advisory Board until the company was acquired by Abgenix in 2000. He has also served as a scientific advisor to several biotechnology companies working in the field of antibody engineering, gene discovery and gene therapy. He is an inventor on numerous issued and pending patent applications.

Joseph Zuckerman, M.D.
Director

Joseph D. Zuckerman joined the Board of Directors of the Company in January 2004. Since 1997, Dr. Zuckerman has been Chairman of the NYU-Hospital for Joint Diseases Department of Orthopaedic Surgery and the Walter A. L. Thompson Professor of Orthopaedic Surgery at the New York University School of Medicine. He is responsible for one of the largest departments of orthopaedic surgery in the country, providing orthopaedic care at five different hospitals including Tisch Hospital, the Hospital for Joint Diseases, Bellevue Hospital Center, the Manhattan Veteran's Administration Medical Center and Jamaica Hospital. He is also the Director of the Orthopaedic Surgery Residency Program, which trains more than 60 residents in a five year program.

Dr. Zuckerman has held leadership positions in national organizations and was President of the American Shoulder and Elbow Surgeons and Chair of the Council on Education for the American Academy of Orthopaedic Surgeons. He recently developed and successfully implemented a sponsorship program between the hospital and the New York Mets. His clinical practice is focused on shoulder surgery and hip and knee replacement and he is the author or editor of ten textbooks, 60 chapters and more than 200 articles in the orthopaedic and scientific literature.

Significant Employees

Denis Rodgerson, Ph.D.
Director of Stem Cell Science

Denis Rodgerson, Ph.D., the Company's Director of Stem Cell Science, joined the Company in connection with the NS California acquisition. Dr. Rodgerson, one of the original founders of NS California, has over 36 years experience managing large tertiary care and reference clinical laboratories with many patents and articles to his credit. Prior to joining NS California, he co-founded StemCyte, and oversaw the company to the world's second largest allogeneic umbilical cord stem cell bank with multinational collection centers. His career has included being the Vice-Chairman and Professor of the Department of Pathology and Laboratory Medicine at the University of California Los Angeles ("UCLA") and Director of Pediatric Laboratories and Analytical Toxicology Service at the University of Colorado. At UCLA, where he was the Head of Clinical Chemistry and Toxicology and Clinical Laboratory Computing, he was in charge of a laboratory and administrative staff of more than 300 with an annual operating budget of $12 million and revenues of $60 million. Prior to UCLA, he held the positions of Director of Pediatric Laboratories and Analytical Toxicology Service at the University of Colorado for 12 years. He is a Fellow of the Association of Clinical Scientists and Institute of Medical Laboratory Science. As a long-standing member of the American Association for Clinical Chemistry, he served on its Board of Directors and was the Chairman of the 1969 National Meeting and many other committees. The committees that he has served on at UCLA and the University of California system-wide, include serving as the Director of the Office of Industry Relations, Chairman of the System-wide Library Committee, member of the System-wide Committee on Information Transfer and Technology Policy and the President's Task-Force on the California Digital Library. Dr. Rodgerson has published more than 150 articles in the medical and scientific literature. He has held consulting positions for many institutions and corporations, including NASA, National Bureau of Standards, Hewlett Packard, Beckman Instruments, Hybridtech, Boehringer-Mannheim Corporation, 3M Company, Warren-Teed Pharmaceuticals, Micromedic Systems, Ortho Diagnostics, National Health Laboratories, Consolidated Biomedical Laboratories, Bio-Dynamics, Inc., Fisher Scientific, E. I. DuPont de Nemours, Ciba Pharmaceuticals, DNA Technology, and Diagnostic Products Corporation. Dr. Rodgerson received his M.S. and Ph.D. from the University of Colorado.

COMMITTEES OF THE BOARD OF DIRECTORS

Because of the Company's recent reorganization and implementation of its new business plan, and its ongoing efforts to engage qualified board members under its new business plan, the Company does not have a separately designated audit committee, nominating committee or compensation committee at this time and the entire Board of Directors acts in such capacities. Accordingly, the Company's Board of Directors also has determined that the Company does not have an audit committee financial expert. The Company continues to seek new board members in order to implement its reorganization and new business plan, and appoint a separately designated audit committee.

DIRECTOR COMPENSATION

Directors who are employees of the Company do not receive additional compensation for serving as directors. Independent (non-employee) directors of the Company are reimbursed for out-of-pocket travel expenses incurred in their capacity as directors of the Company. Pursuant to the Company's 2003 Equity Participation Plan, independent directors also receive upon joining the Board an option to purchase 20,000 shares that will vest and become exercisable as to 5,000 shares on each of the date of grant and the first, second and third anniversaries of the date of grant at an exercise price equal to the fair market value of the Common Stock on the date of grant. This arrangement was approved by the Company's stockholders in August 2006, and prior thereto the Company's only current independent director, Joseph Zuckerman, received options to purchase 35,000 shares of the Company's Common Stock pursuant to the standard arrangement existing prior to such amendment. In addition, in July 2005 the shareholders approved a one-time grant to Dr. Zuckerman of an option to purchase 150,000 shares of the Company's Common Stock at $0.60 per share (which was greater than the market price on the date the Board approved the grant), with respect to which the option to purchase 100,000 shares vested immediately upon the date of grant and 25,000 shares were scheduled to vest on each of the first and second anniversaries of the date of grant. In connection with the June 2006 financing, the vesting of this option was accelerated such that it became vested in its entirety on June 2, 2006. Pursuant to letter agreements with Dr. Zuckerman and Dr. Marasco, the Company has agreed to grant to each such director options to purchase 10,000 shares of the Company's Common Stock upon achieving certain target increases in stock price for a defined period of time during their respective tenures as directors. Thus far, no such options have been granted.

EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation paid during the three years ended December 31, 2005 to the Company's Chief Executive Officer and all other executive officers of the Company who earned in excess of $100,000 for services rendered during fiscal 2005 (the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary	Bonus	All Other Compensation	Restricted Stock Awards	Securities Underlying Options/SAR's
Mark Weinreb (1)	2005	$ 245,741(2)	$ 20,000	$ 18,500(3)	$ 150,000	655,000
Chief Executive Officer	2004	$ 203,192	$ 20,000	$ 18,500(3)	—	255,000
	2003	$ 157,154	—	$ 18,500(3)	—	250,000
Robert Aholt, Jr. (4)	2005	$ 173,079(5)	—	$ 9,000(6)	—	150,000
Chief Operating Officer	2004	—	—	—	—	
	2003	—	—	—	—	
Catherine Vaczy (7)	2005	$ 97,062(8)	—	$ 6,000(6)	—	110,000
Vice President and General Counsel	2004	—	—	—	—	
	2003	—	—	—	—	

(1) Mr. Weinreb joined the Company as of February 6, 2003. In June 2006, he resigned as Chief Executive Officer and Chairman of the Board but continued as President.

(2) $121,532 of this amount was paid to Mr. Weinreb through the issuance of Common Stock with a per share price equal to $.44 per share pursuant to Mr. Weinreb's letter agreement with the Company entered into in connection with the June 2006 private placement.

(3) Consists of (i) a car allowance of $12,000 and (ii) approximately $6,500 paid by the Company on behalf of Mr. Weinreb for disability insurance.

(4) Mr. Aholt joined the Company as of September 13, 2004.

(5) Payment of $57,940 of this amount was deferred. Mr. Aholt has resigned from his position with the Company. On March 31, 2006 the Company and Mr. Aholt entered into a Settlement Agreement and General Release relating to the satisfaction of this and certain severance obligations. See "Employment Agreements" for a full description of the Settlement Agreement and General Release. In addition, $64,200 of the $173,079 was paid to Mr. Aholt in the form of shares of Common Stock with a per share price equal to the fair market value of the Common Stock on the date such amount was converted into shares of Common Stock.

(6) Consists of a car allowance per the Named Executive Officer's employment agreement with the Company.

(7) Ms. Vaczy joined the Company as of April 20, 2005.

(8) $48,138 of this amount was paid to Ms. Vaczy through the issuance of shares of Common Stock with a per share price equal to the fair market value of the Common Stock on the date such amount was converted ($.60) and $11,923 was paid through the issuance of shares of Common Stock with a per share price equal to $.44 per share pursuant to Ms. Vaczy's letter agreement with the Company in connection with the June 2006 private placement.

OPTION GRANTS

The following table provides certain information with respect to options granted to the Company's Named Executive Officers during the fiscal year ended December 31, 2005:

Option Grants in Last Fiscal Year

		Percent of				At Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
Name	Number of Securities Underlying Options Granted	Total Options Granted to Employees in Fiscal Year	Exercise Price per Share ($)	Price on Market Date of Grant ($)	Expiration Date	5%	10%
Mark Weinreb	250,000(2)	100%	$ .30	$ .30	2-14-13	$ 53,275	$ 129,257
	5,000(2)	6%	$ 1.00	$ 1.00	9-13-14	$ 8,552	$ 13,617
	400,000(3)	45%	$ .60	$ .50	7-19-15	$ 325,779	$ 518,748
Robert Aholt, Jr.	150,000(4)	16%	$ .60	$ .50	7-19-15	$ 122,167	$ 194,531
Catherine Vaczy	15,000(5)	2%	$ 1.00	$ .50	4-19-15	$ 12,217	$ 19,453
	75,000(6)	8%	$ .60	$ .50	7-19-15	$ 61,084	$ 97,265
	20,000(2)	2%	$ .60	$ .60	12-21-15	$ 16,289	$ 25,937

(1) The Securities and Exchange Commission (the "SEC") requires disclosure of the potential realizable value or present value of each grant. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the SEC and do not represent the Company's estimate or

projection of the Company's future Common Stock prices. The disclosure assumes the options will be held for the full ten-year term prior to exercise. Such options may be exercised prior to the end of such ten-year term. The actual value, if any, an executive officer may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised. There can be no assurance that the stock price will appreciate at the rates shown in the table.

(2) These options vested in their entirety on the date of grant.

(3) These options vested as to 200,000 shares on the date of grant and were scheduled to vest as to an additional 100,000 shares on each of the first and second anniversaries of the date of grant. In connection with the June 2006 private placement, the vesting of such options was accelerated such that such options vested in their entirety as of 6/2/2006.

(4) These options vested as to 100,000 shares on the date of grant and were scheduled to vest as to an additional 25,000 shares on each of the first and second anniversaries of the date of grant. However, due to Mr. Aholt's resignation from the Company prior to the first anniversary of the date of grant, the option shall not vest as to any additional shares as provided in the Company's 2003 Equity Participation Plan.

(5) These options were scheduled to vest as to 5,000 shares on each of the first, second and third anniversaries of the date of grant. In connection with the June 2006 private placement, the vesting of such options was accelerated such that such options vested in their entirety as of 6/2/2006.

(6) These options were scheduled to vest as to 37,500 shares on each of the first and second anniversaries of the date of grant. In connection with the June 2006 private placement, the vesting of such options was accelerated such that such options vested in their entirety as of 6/2/2006.

OPTION EXERCISES AND HOLDINGS

The following table provides information concerning options exercised during 2005 and the value of unexercised options held by each of the Named Executive Officers at December 31, 2005.

	Shares Acquired On Exercise (#shares)	Value Realized	Option Values at December 31, 2005			
			Number of Securities Underlying Unexercised Options at December 31, 2005 (# of shares)		Value of In-the-Money Options at December 31, 2005 ($)[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mark Weinreb	—	—	455,000	200,000	$ 165,000	$ 40,000
Robert Aholt, Jr.	—	—	100,000	50,000	$ 20,000	$ 10,000
Catherine Vaczy	—	—	20,000	90,000	$ 4,000	$ 15,000

(1) Based on $0.80 per share, the closing price of the Company's Common Stock, as reported by the OTC Bulletin Board, on December 30, 2005.

EMPLOYMENT AGREEMENTS

The officers of the Company, as a condition of the initial closing under the securities purchase agreement in the June 2006 private placement, entered into letter agreements with the Company pursuant to which they converted an aggregate of $278,654 of accrued salary into shares of Common Stock at a per share price of $.44**.** After adjustments for applicable payroll and withholding taxes which were paid by the Company, the Company issued to such officers an aggregate of 379,983 shares of Common Stock. The Company also adopted an Executive Officer Compensation Plan, effective as of the date of closing of the securities purchase agreement and pursuant to the letter agreements each officer agreed to be bound by the Executive Officer Compensation Plan. In addition to the conversion of accrued salary, the letter agreements provide for a reduction by 25% in base salary for each officer until the Company achieves certain milestones, the granting of options to purchase shares of Common Stock under the Company's 2003 Equity Participation Plan which become exercisable upon the Company achieving certain revenue milestones and the acceleration of the vesting of certain options and restricted shares held by the officers.

On May 26, 2006, the Company entered into an employment agreement with Dr. Robin L. Smith, pursuant to which Dr. Smith will serve as the Chief Executive Officer of the Company for a period of two years, which term shall be renewed for successive one-year terms unless otherwise terminated by Dr. Smith or the Company. The effective date of Dr. Smith's employment agreement was June 2, 2006, the date of the initial closing under the securities purchase agreement for the June 2006 private placement. Dr. Smith shall receive a base salary of $180,000 per year, which shall be increased to $236,000 after the first year anniversary of the effective date of her employment agreement. If the Company raises an aggregate of $5,000,000 through equity or debt financing (with the exception of the financing under the securities purchase agreement), Dr. Smith's base salary shall be raised to $275,000. Dr. Smith shall also be eligible for an annual bonus determined by the Board, a car allowance of $1,000 per month and variable life insurance with payments not to exceed $1,200 per month. Pursuant to the employment agreement, Dr. Smith's advisory agreement with the Company, as supplemented (see "Certain Relationships and Related Transactions"), was terminated, except that (i) the vesting of the warrant to purchase 24,000 shares of Common Stock granted thereunder was accelerated so that the warrant became fully vested as of the effective date of the employment agreement, (ii) Dr. Smith received $100,000 in cash and 100,000 shares upon the initial closing under the June 2006 private placement, (iii) if an aggregate of at least $3,000,000 is raised and/or other debt or equity financings prior to August 15, 2006 (as amended, August 31, 2006), Dr. Smith shall receive an additional payment of $50,000, (iv) a final payment of $3,000 relating to services rendered in connection with Dr. Smith's advisory agreement, paid at the closing of the June 2006 private placement and (v) all registration rights provided in the advisory agreement shall continue in effect.

As of August 30, 2006, in excess of $3,000,000 had been raised and accordingly, Dr. Smith is entitled to a payment of $50,000. Upon the effective date of the Employment Agreement, Dr. Smith was awarded under the Company's 2003 Equity Participation Plan 200,000 shares of Common Stock of the Company, and options to purchase 540,000 shares of Common Stock, which options expire ten years from the date of grant.

On February 6, 2003, Mr. Weinreb was appointed President and Chief Executive Officer of the Company and the Company entered into an employment agreement with Mr. Weinreb. On June 2, 2006, Mr. Weinreb resigned as Chief Executive Officer and Chairman of the Board, but will continue as President and a director of the Company. Mr. Weinreb's original employment agreement had an initial term of three years, with automatic annual extensions unless terminated by the Company or Mr. Weinreb at least 90 days prior to an applicable anniversary date. The Company had agreed to pay Mr. Weinreb an annual salary of $180,000 for the initial year of the term, $198,000 for the second year of the term, and $217,800 for the third year of the term. In addition, he was entitled to an annual bonus in the amount of $20,000 for the initial year in the event, and concurrently on the date, that the Company received debt and/or equity financing in the aggregate amount of at least $1,000,000 since the beginning of his service, and $20,000 for each subsequent year of the term, without condition.

In addition, the Company, pursuant to its 2003 Equity Participation Plan, entered into a stock option agreement with Mr. Weinreb. Under the option agreement, the Company granted Mr. Weinreb the right and option, exercisable for 10 years, to purchase up to 250,000 shares of the Company's common stock at an exercise price of $0.30 per share and otherwise upon the terms set forth in the option agreement. In addition, in the event that the closing price of the Company's common stock equals or exceeds $5.00 per share for any five consecutive trading days during the term of the employment agreement (whether during the initial term or an annual extension), the Company agreed to grant to Mr. Weinreb, on the day immediately following the end of the five day period, an option for the purchase of an additional 250,000 shares of the Company's common stock for an exercise price of $5.00 per share, pursuant to the 2003 Equity Participation Plan and a stock option agreement to be entered into between the Company and Mr. Weinreb containing substantially the same terms as the first option agreement, except for the exercise price and that the option would be treated as an "incentive stock option" for tax purposes only to the maximum extent permitted by law. The Company agreed to promptly file with the Securities and Exchange Commission a Registration Statement on Form S-8 (the "registration statement") pursuant to which the issuance of the shares covered by the 2003 Equity Participation Plan, as well as the resale of the common stock issuable upon exercise of the option agreement, are registered, which has been filed. Additionally, the Company agreed, following any grant under the second option agreement, to promptly file a post-effective amendment to the registration statement pursuant to which the common stock issuable upon exercise thereof would be registered for resale. Mr. Weinreb agreed that he would not resell publicly any shares of the Company's common stock obtained upon exercise of options granted under either option agreement prior to the first anniversary of the date of the employment agreement.

On May 4, 2005, the Board voted to approve an amendment to Mr. Weinreb's employment agreement, subject to approval of the stockholders which was obtained on July 20, 2005, pursuant to which Mr. Weinreb's employment agreement was amended to (a) extend the expiration date thereof from February 2006 to December 2008; (b) change Mr. Weinreb's annual base salary of $217,800 (with an increase of 10% per annum) to an annual base salary of $250,000 (with no increase per annum); (c) grant Mr. Weinreb 300,000 shares of common stock, 100,000 shares of which shall vest on each of the date of grant and the first and second anniversaries of the date of grant; (d) amend the severance provision of the existing employment agreement to provide that in the event of termination without cause (subject to certain exceptions), Mr. Weinreb will be entitled to receive a lump sum payment equal to his then base salary and automobile allowance for a period of one year; (e) commencing in August 2006, increase Mr. Weinreb's annual bonus from $20,000 to $25,000; (f) in August 2005, pay Mr. Weinreb $15,000 to cover costs incurred by him on behalf of the Company; and (g) in 2006, provide for the reimbursement of all premiums in an annual aggregate amount of up to $18,000 payable by Mr. Weinreb for life and long term care insurance covering each year during the remainder of the term of his employment. Pursuant to the securities purchase agreement in the June 2006 private placement, Mr. Weinreb was issued 165,726 shares of Common Stock in payment of $121,532 of accrued salary after giving effect to employment taxes which were paid by the Company. The price per share was equal to $.44 per share of Common Stock, the purchase price per share to the investors in the securities purchase agreement.

On August 12, 2004 the Company and Dr. Wayne A. Marasco, a Company Director, entered into a letter agreement appointing Dr. Marasco as the Company's Senior Scientific Advisor. Pursuant thereto, Dr. Marasco was responsible for assisting the Company in reviewing and evaluating business, scientific and medical opportunities, and for other discussions and meetings that arise during the normal course of the Company conducting business.

For his services, during a three year period, Dr. Marasco was entitled to annual cash compensation with increases each year of the term and additional cash compensation based on a percentage of collected revenues derived from the Company's royalty or revenue sharing agreements. Although the annual cash compensation and additional cash compensation stated above began to accrue as of the date of the letter agreement, Dr. Marasco was not entitled to receive any such amounts until the Company raised $1,500,000 in additional equity financing after the date of the letter agreement. In addition, Dr. Marasco was granted an option, fully vested, to purchase 67,500 shares of the Company's common stock at an exercise price of $1.00 per share. The shares will be subject to a one year lockup as of the date of grant. The exercise period will be ten years, and the grant will otherwise be in accordance with the Company's 2003 Equity Participation Plan and the Company's Non-Qualified Stock Option Grant Agreement.

On May 4, 2005, the Board voted to approve an amendment to Dr. Marasco's letter agreement, subject to approval of the stockholders which was obtained on July 20, 2005, pursuant to which Dr. Marasco's letter agreement with the Company was amended to (a) extend the term of the letter agreement from August 2007 to August 2008; (b) provide for an annual salary of $110,000, $125,000 and $150,000 for the years ended August 2006, 2007 and 2008, payable in each such year during the term; (c) provide for a minimum annual bonus of $12,000, payable in January of each year during the term, commencing in January 2006; (d) eliminate Dr. Marasco's right under his existing letter agreement to receive 5% of all collected revenues derived from the Company's royalty or other revenue sharing agreements (which right is subject to the limitation that the amount of such additional cash compensation and Dr. Marasco's annual salary do not exceed, in the aggregate, $200,000 per year); and (e) permit Dr. Marasco to begin receiving all accrued but unpaid cash compensation under his letter agreement upon the Company's consummation of any financing, whether equity or otherwise, pursuant to which the Company raises $1,500,000. Pursuant to the securities purchase agreement in the June 2006 private placement, Dr. Marasco was issued 118,672 shares of Common Stock in payment of $87,026 of accrued salary after giving effect to employment taxes which were paid by the Company. The price per share was equal to $.44 per share of Common Stock, the purchase price per share to the investors in the securities purchase agreement.

On April 20, 2005, the Company entered into a letter agreement with Catherine M. Vaczy pursuant to which Ms. Vaczy serves as the Company's Vice President and General Counsel. Subject to the terms and conditions of the letter agreement, the term of Ms. Vaczy's employment in such capacity will be for a period of three (3) years from the date thereof. In consideration for Ms. Vaczy's services under the letter agreement, Ms. Vaczy will be entitled to receive an annual salary of $155,000 during the first year of the term, a minimum annual salary of $170,500 during the second year of the term, and a minimum annual salary of $187,550 during the third year of the term. Ms. Vaczy and the Company agreed that from the Commencement Date until the 90th day thereafter, Ms. Vaczy's salary would be paid to her at a rate of 50% of the annual rate and accrue as to the remainder. At the end of such initial 90-day period, and at the

end of each additional 90 day period thereafter, whether to continue to accrue salary at this rate and provision for payment of accrued amounts will be discussed in good faith. Payment of accrued salary may be made in cash, or, upon mutual agreement, shares of Common Stock. Any shares of Common Stock issued in payment of accrued salary shall have a per share price equal to the average closing price of one share of Common Stock on the OTC Bulletin Board (or other similar exchange or association on which the Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of issue of such shares; provided, however, that if the Common Stock is not then quoted on the OTC Bulletin Board or otherwise listed or quoted on an exchange or association, the price shall be the fair market value of one share of Common Stock as of the date of issue as determined in good faith by the Board of Directors of the Company. The number of shares of Common Stock for any issuance in payment of accrued salary shall be equal to the quotient of the amount of the accrued salary divided by the price. The shares issued will be subject to a one-year lock of up as of the date of each grant and shall be registered with the Securities and Exchange Commission on a registration statement on Form S-8.

Pursuant to Ms. Vaczy's letter agreement with the Company, on the date of the agreement she was granted an option to purchase 15,000 shares of Common Stock pursuant to the Company's 2003 Equity Participation Plan, with an exercise price equal to $1.00 per share. The option vests and becomes exercisable as to 5,000 shares on each of the first, second and third year anniversaries of the date of the agreement and remains exercisable as to any vested portion thereof in accordance with the terms of the Company's 2003 Equity Participation Plan and the Company's Incentive Stock Option Agreement.

In the event Ms. Vaczy's employment is terminated prior to the end of the term of her letter agreement, for any reason, earned but unpaid cash compensation and unreimbursed expenses due as of the date of such termination will be payable in full. In addition, in the event Ms. Vaczy's employment is terminated prior to the end of the term for any reason other than by the Company with cause or Ms. Vaczy without good reason, Ms. Vaczy or her executor of her last will or the duly authorized administrator of her estate, as applicable, will be entitled to receive severance payments equal to Ms. Vaczy's then one year's salary, paid in accordance with the Company's standard payroll practices for executives of the Company. In addition, in the event Ms. Vaczy's employment is terminated prior to the end of the Term by the Company without cause or by Ms. Vaczy for good reason, the option granted to Ms. Vaczy (described above), shall vest and become immediately exercisable in its entirety and remain exercisable in accordance with its terms. No other payments shall be made, nor benefits provided, by the Company in connection with the termination of employment prior to the end of the term, except as otherwise required by law. In January 2006, Ms. Vaczy's letter agreement was amended to provide that (i) regardless of her employment termination date, severance payments payable to her would equal her then one year's salary and (ii) no severance payments would be payable without Ms. Vaczy first providing the Company with a release in customary form.

In August 2005, Ms. Vaczy's letter agreement was amended to provide that (i) as of October 1, 2005 she would cease to accrue salary and would as of that date begin to receive payment of salary solely in cash in accordance with the Company's standard payroll practices, and (ii) would be issued in payment of salary accruing during the period that commenced on April 20, 2005 and ended on September 30, 2005, shares of Common Stock. With respect to the portion of salary that accrued from April 20, 2005 through August 12, 2005, the price per share was $.60, the closing price of the Common Stock on August 12, 2005. For the portion of salary that accrued from August 13, 2005 through September 30, 2005, the price per share was the closing price of the Common Stock on September 30, 2005. Pursuant to the foregoing, on August 12, 2005, Ms. Vaczy was issued 41,234 shares of Common Stock in payment of $24,740 in accrued salary and on October 3, 2005, Ms. Vaczy was issued 26,082 shares in payment of $10,433 in accrued salary. On December 22, 2005, the Company and Ms. Vaczy entered into a letter agreement pursuant to which Ms. Vaczy agreed to accept 41,667 shares of Common Stock in payment of $25,000 of additional accrued salary. The price per share was equal to $.60, the closing price of a share of Common Stock on the date of the agreement. Pursuant to the securities purchase agreement in the June 2006 private placement, Ms. Vaczy was issued 60,971 shares of Common Stock in payment of $44,711 of additional accrued salary after giving effect to employment taxes which were paid by the Company. The price per share was equal to $.44 per share of Common Stock, the purchase price per share to the investors in the securities purchase agreement.

In connection with the Company's acquisition of the assets of NS California on January 19, 2006, the Company entered into an employment agreement with Larry A. May. Mr. May is the former Chief Executive Officer of NS California. Pursuant to Mr. May's employment agreement, he is to serve as an officer of the Company reporting to the CEO for a term of three years, subject to earlier termination as provided in the agreement. In return, Mr. May will be paid an annual salary of $165,000, payable in accordance with the Company's standard payroll practices, will be entitled to participate in the Company's benefit plans generally available to other executives, including a car allowance equal to $750 per month and was granted on his commencement date an employee stock option under the Company's 2003 Equity Participation Plan to purchase 15,000 shares of the Company's Common Stock at a per share purchase price equal to $.50, the closing price of the Common Stock on the commencement date, which vests as to 5,000 shares of Common Stock on the first, second and third anniversaries of the commencement date. Under certain circumstances, Mr. May is also entitled to a severance payment equal to one year's salary in the event of the early termination of his employment. Pursuant to the securities purchase agreement in the June 2006 private placement, Mr. May was issued 17,308 shares of Common Stock in payment of $12,692 of accrued salary after giving effect to employment taxes which were paid by the Company, and 28,974 shares of Common Stock in payment of certain expenses incurred on behalf of the Company. The price per share was equal to $.44 per share of Common Stock, the purchase price per share to the investors in the securities purchase agreement.

In connection with the Company's acquisition of the assets of NS California on January 19, 2006, the Company entered into an employment agreement with Denis O. Rodgerson. Dr. Rodgerson is one of the founders of NS California. Dr. Rodgerson's employment agreement is identical to Mr. May's employment agreement, except that (i) its term is one year; (ii) he was granted an option to purchase 5,000 shares of Common Stock under the 2003 Equity Participation Plan vesting in its entirety after one year; and (iii) his agreement does not contain a provision for severance. Pursuant to the securities purchase agreement in the June 2006 private placement, Dr. Rodgerson was issued 17,308 shares of Common Stock in payment of $12,692 of accrued salary after giving effect

to employment taxes which were paid by the Company. The price per share was equal to $.44 per share of Common Stock, the purchase price per share to the investors in the securities purchase agreement.

On January 20, 2006, Mr. Robert Aholt, Jr. tendered his resignation as Chief Operating Officer of the Company. In connection therewith, on March 31, 2006, the Company and Mr. Aholt entered into a Settlement Agreement and General Release. Pursuant to the settlement agreement, the Company agreed to pay to Mr. Aholt the aggregate sum of $250,000 (less applicable Federal and California state and local withholdings and payroll deductions), payable over a period of two years in biweekly installments of $4,808 commencing on April 7, 2006, except that the first payment was in the amount of $9,615. In the event the Company breaches its payment obligations under the Settlement Agreement and such breach remains uncured, the full balance owed shall become due. The Company and Mr. Aholt each provided certain general releases. Mr. Aholt also agrees to continue to be bound by his obligations not to compete with the Company and to maintain the confidentiality of Company proprietary information. Following is a summary of Mr. Aholt's previous employment arrangements.

On September 13, 2004, the Company entered into a letter agreement with Mr. Aholt pursuant to which the Company appointed Mr. Aholt as its Chief Operating Officer. Subject to the terms and conditions of the letter agreement, the term of Mr. Aholt's employment in such capacity was for a term of three (3) years.

In consideration for Mr. Aholt's services under the letter agreement, Mr. Aholt was entitled to receive a monthly salary of $4,000 during the first year of the term, $5,000 during the second year of the term, and $6,000 during the third year of the term. In further consideration for Mr. Aholt's services under the letter agreement, on January 1, 2005 and on the first day of each calendar quarter thereafter during the term, Mr. Aholt was entitled to receive shares of Common Stock with a dollar value of $26,750, $27,625 and $28,888, respectively, during the first, second and third years of the term. The per share price of each share granted to determine the dollar value was to be the average closing price of one share of Common Stock on the Bulletin Board (or other similar exchange or association on which the Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of grant of such shares; provided, however, that if the Common Stock was not then listed or quoted on an exchange or association, the price would be the fair market value of one share of Common Stock as of the date of grant as determined in good faith by the Board of Directors of the Company. The number of shares of Common Stock for each quarterly grant was to be equal to the quotient of the dollar value divided by the price. The shares granted were subject to a one year lockup as of the date of each grant. Mr. Aholt received 47,768 shares of the Company's Common Stock on January 1, 2005, 80,090 shares on April 1, 2005, 66,875 shares on July 1, 2005 and 46,120 shares on October 1, 2005.

In the event Mr. Aholt's employment was terminated prior to the end of the term for any reason, earned but unpaid cash compensation and unreimbursed expenses due as of the date of such termination was to be payable in full. In addition, in the event Mr. Aholt's employment was terminated prior to the end of the Term for any reason other than by the Company with cause, Mr. Aholt or his executor of his last will or the duly authorized administrator of his estate, as applicable, was to be entitled (i) to receive severance payments equal to one year's salary, paid at the same level and timing of salary as Mr. Aholt was then receiving and (ii) to receive, during the one (1) year period following the date of such termination, the stock grants that Mr. Aholt would have been entitled to receive had his employment not been terminated prior to the end of the Term; provided, however, that in the event such termination was by the Company without cause or was upon Mr. Aholt's resignation for good reason, such severance payment and grant was to be subject to Mr. Aholt's execution and delivery to the Company of a release of all claims against the Company.

On May 4, 2005, the Board voted to approve an amendment to Mr. Aholt's letter agreement, subject to approval of the stockholders which was obtained on July 20, 2005, to (a) replace the provision of Mr. Aholt's existing employment agreement pursuant to which he would be compensated in shares of Common Stock with a provision pursuant to which he would be compensated solely in cash, effective as of September 30, 2005; (b) replace the provision of Mr. Aholt's existing employment agreement pursuant to which his compensation accrued on a monthly and/or quarterly basis with a provision pursuant to which his compensation would be paid in accordance with the Company's normal payroll practices, effective as of September 30, 2005; and (c) provide for a minimum annual bonus of $12,000, payable in January of each year during the term of his employment, commencing in January 2006.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as to the number of shares of the Company's Common Stock beneficially owned, as of August 30, 2006 by (i) each beneficial owner of more than five percent of the outstanding Common Stock, (ii) each current executive officer and director and (iii) all current executive officers and directors of the Company as a group. All shares are owned both beneficially and of record unless otherwise indicated. Unless otherwise indicated, the address of each beneficial owner is c/o NeoStem, Inc., 420 Lexington Avenue, Suite 450, New York, New York 10170.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes any shares over which a person possesses sole or shared voting or investment power. Except as otherwise indicated by footnote, to our knowledge, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. In calculating the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options, warrants or convertible notes held by that person that are exercisable as of August 30, 2006, or will become exercisable within 60 days thereafter, are deemed outstanding, while such shares are not deemed outstanding for purposes of calculating percentage ownership of any other person. As of August 30, 2006, there were 19,187,936 shares of Common Stock outstanding.

Number and Percentage of Shares of Common Stock Owned

Name and Address of Beneficial Holder	Number of Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned
Dr. Robin L. Smith Chief Executive Officer and Chairman of the Board	852,551(1)	4.35%
Mark Weinreb President and Director	1,184,226(2)	5.97%
Dr. Wayne Marasco Senior Scientific Advisor and Director	621,172(3)	3.18%

Dr. Joseph Zuckerman Director	323,425(4)	1.67%
Catherine M. Vaczy Vice President and General Counsel	798,572(5)	4.13%
Michael Crow Alex Clug DCI Master LDC Duncan Capital Group LLC 420 Lexington Avenue Suite 450 New York, New York 10107	2,813,865(6)	14.04%
Robert Aholt, Jr 20128 Cavern Court Saugus, Los Angeles, CA 91390	1,235,223(7)	6.40%
All Directors and Officers as a group (six persons)	3,939,607(8)	18.80%

(1) Includes currently exercisable options to purchase 300,000 shares of Common Stock and currently exercisable warrants to purchase an aggregate of 99,932 shares of Common Stock.

(2) Includes currently exercisable options to purchase 655,000 shares of Common Stock.

(3) Includes currently exercisable options to purchase 352,500 shares of Common Stock and 125,000 shares of Common Stock held by Wayne A. Marasco, Trustee of the Wayne A. Marasco Revocable Trust.

(4) Includes currently exercisable options to purchase 190,000 shares of Common Stock and currently exercisable warrants to purchase 20,834 shares of Common Stock.

(5) Includes currently exercisable options to purchase 110,000 shares of Common Stock and currently exercisable warrants to purchase 20,834 shares of Common Stock..

(6) Includes 1,704,546 shares of Common Stock held by DCI Master LDC; 257,046 shares of Common Stock held by Duncan Capital Group LLC; and currently exercisable warrants held by DCI Master LDC to purchase 852,273 shares of Common Stock. Mr. Crow and Mr. Clug are Directors of each of DCI Master LDC and Duncan Capital Group LLC. In the Schedule 13G dated June 29, 2006 and filed with the Securities and Exchange Commission, the reporting persons state that they may be deemed to be a group and filed jointly.

(7) Includes 698,291 shares of Common Stock owned by the Robert J. Aholt, Jr. Family Trust dated 2/17/97 of which Mr. Aholt is Trustee and currently exercisable options to purchase 100,000 shares of Common Stock. The information regarding Mr. Aholt's stock ownership was obtained from a Form 4 filed on June 6, 2006 with the Securities and Exchange Commission by the Robert J. Aholt Family Trust as well as the Company's records.

(8) Includes currently exercisable options to purchase 1,622,500 shares of Common Stock and warrants to purchase 141,600 shares of Common Stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 13, 2004, the Company and the Robert Aholt, Jr. Family Trust dated 2/17/97 (the "Aholt trust"), the trustee of which is Robert Aholt, Jr., the Company's former Chief Operating Officer, entered into a subscription agreement, pursuant to which the Company sold to the Aholt trust 728,292 shares of common stock of the Company in exchange for $650,000. Pursuant to the subscription agreement, the Company and Mr. Aholt agreed that upon maturity of a promissory note made by the Company in favor of Mr. Aholt on or about August 30, 2004, the Company would repay the note in shares of common stock, at a per share conversion price equal to 85% of the average of the closing price of one share of common stock on the National Association of Securities Dealers, Inc. Over-the-Counter Bulletin Board (the "OTC Bulletin Board") for the five (5) days immediately preceding the maturity date of the note, or, if the common stock is not then traded on the OTC Bulletin Board, at 85% of fair market value as determined by the Board. The note, which was made in the principal amount of $100,000, bore interest at a rate of 20% per annum and matured on February 28, 2005. On February 20, 2005, Mr. Aholt converted the principal amount of the note and all accrued interest into 196,079 shares of common stock.

Mark Weinreb, the Company's President and former Chief Executive Officer, has from time to time loaned money to the Company to help fund its operations. In 2004 and 2005, Mr. Weinreb loaned the Company a total of $35,000 and $48,000, respectively. All such loans were represented by promissory

notes of the Company which bore interest at the rate of 8%. To date, an aggregate of $48,000 in principal has been repaid and $35,000 has been converted into 59,500 shares of Common Stock pursuant to an exchange offer which the Company extended to the holders of outstanding promissory notes in November 2005 to convert such outstanding indebtedness into shares of the Company's common stock (the "2005 exchange offer").

Joseph D. Zuckerman, a member of the Company's Board of Directors, loaned to the Company $25,000 in December 2004 to help fund its operations. Such loan was represented by a promissory note of the Company which bore interest at the rate of 8%. In November 2005, Dr. Zuckerman converted the principal amount of the promissory note into 42,500 shares of Common Stock pursuant to the 2005 exchange offer.

On April 20, 2005, the Company and Catherine M. Vaczy, the Company's Vice President and General Counsel, entered into a stock purchase agreement, pursuant to which the Company sold to Ms. Vaczy 166,667 shares of Common Stock in exchange for $100,000. Pursuant to the stock purchase agreement, for a period of 90 days, Ms. Vaczy had the right to purchase up to an additional $200,000 of Common Stock at a per share price equal to 85% of the average closing price of one share of Common Stock on the OTC Bulletin Board for the five (5) consecutive trading days immediately preceding the date of Ms. Vaczy's notice exercising the option; provided, however, that in no event would the price be less than $.60**.** Pursuant to the exercise of this option, on July 18, 2005, Ms. Vaczy purchased 125,000 shares of Common Stock at a per share purchase price of $.60 per share for aggregate consideration of $75,000.

Also on April 20, 2005, Ms. Vaczy loaned to the Company the sum of $100,000 and accepted from the Company a promissory note. The note bore interest at a rate of 15% and matured on April 20, 2006. Ms. Vaczy had the option to convert it into shares of Common Stock at any time up until the 90th day after the date of the note at a per share price equal to 85% of the average closing price of one share of Common Stock on the OTC Bulletin Board (or other similar exchange or association on which the Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of Ms. Vaczy's notice; provided, however, that if the Common Stock was not then quoted on the OTC Bulletin Board or otherwise listed or quoted on an exchange or association, the price shall be the fair market value of one share of Common Stock as of the date of issue as determined in good faith by the Board of Directors of the Company; and further provided, that in no event shall the price be less than $.60. Following the 90th day after the date of the note, Ms. Vaczy was obligated, at any time prior to the date of maturity of the note, to convert it into shares of Common Stock unless Ms. Vaczy shall have provided to the Company a notice terminating her employment with the Company pursuant to her letter agreement with the Company. Effective November 30, 2005, the note was converted into 170,000 shares of Common Stock pursuant to the 2005 exchange offer.

On January 19, 2006, the Company consummated the acquisition of the assets of NS California. Larry May, the Company's Chief Financial Officer, was the Chief Executive Officer of NS California at the time of the transaction. The purchase price for NS California's assets, in addition to the assumption of certain liabilities, included 500,000 shares of the Company's Common Stock, of which Mr. May received a pro rata distribution of 14,383 shares in exchange for his shares of NS California preferred stock, and 9,615 shares of Company Common

Stock as consideration for existing debt owed by NS California to Mr. May. Of the stock consideration paid to NS California, 60% (or 300,000 shares) has been retained in escrow for a period of one (1) year from the date of the agreement, subject to certain indemnification claims and setoffs. Provided that no claims are made against the escrowed shares, Mr. May will be entitled to receive up to 35,057 shares of Company Common Stock in escrow in exchange for his shares of NS California common stock. Due to the delay in obtaining the biologics license for the California facility, pursuant to the acquisition agreement, in May 2006 the Company demanded the return of 100,000 shares of the Company's Common Stock from NS California. Accordingly, Mr. May's proportionate interest in the shares of Common Stock to be distributed to him has been reduced. In addition, upon the acquisition, Mr. May entered into a three year employment agreement with the Company. See "Executive Compensation - Employment Agreements."

Pursuant to the securities purchase agreement in the June 2006 private placement, on June 2, 2006, Dr. Robin L. Smith was appointed Chief Executive Officer and Chairman of the Board of the Company. See "Executive Compensation — Employment Agreements." In September 2005, Dr. Smith had entered into an advisory agreement with the Company pursuant to which Dr. Smith agreed to become Chairman of the Company's advisory board. Under the terms of the advisory agreement, Dr. Smith was required to provide various business and scientific advice to the Company for a period of one year in consideration for which she received 50,000 shares of Common Stock and warrants to purchase 24,000 shares of Common Stock. The warrants are exercisable at $.80 per share, the closing price of the Common Stock on the date of grant, and were scheduled to vest as to 2,000 shares per month during the term of the agreement. Dr. Smith received registration rights for such shares of Common Stock and Common Stock underlying warrants. In January 2006, the Company and Dr. Smith entered into a supplement to the advisory agreement to set forth certain supplemental understandings with respect to a potential financing transaction. Under the supplement to the advisory agreement, Dr. Smith agreed that through April 30, 2006 (as such date was later extended) Dr. Smith would provide additional business and financial advisory services beyond those set forth in the original agreement. In return, Dr. Smith would receive upon the closing of a financing (i) 20,000 shares of Common Stock and a cash payment in the amount of $25,000 if the gross proceeds of the financing are at least $500,000; (ii) 40,000 shares of Common Stock and a cash payment in the amount of $50,000 if the gross proceeds of the financing are at least $1,000,000; (iii) 80,000 shares of Common Stock and a cash payment in the amount of $100,000 if the gross proceeds of the financing are at least $2,000,000; (iv) 100,000 shares of Common Stock and a cash payment in the amount of $150,000 if the gross proceeds of the financing are at least $3,000,000; (v) 120,000 shares of Common Stock and a cash payment of $175,000 if the gross proceeds of the financing are at least $3,500,000; and (vi) 160,000 shares of Common Stock and a cash payment in the amount of $200,000 if the gross proceeds of the financing are at least $4,000,000. Dr. Smith was also entitled to receive a cash payment of $3,000 for each of January, February and March 2006. The advisory agreement was terminated in connection with Dr. Smith's employment as Chief Executive Officer and Chairman of the Board in June 2006.

In the June 2006 private placement, Dr. Smith also purchased for aggregate consideration of $22,000, units consisting of 50,000 shares of Common Stock and five-year warrants to purchase 25,000 shares of Common Stock at a per share purchase price of $.80. In December 2005, Dr. Smith purchased from the Company in the Westpark private placement, units consisting of a 9% convertible promissory note in the principal amount of $12,500 and three year Warrants to purchase 20,834 shares of Common Stock at a per share purchase price of $1.20**.** WestPark Capital, Inc. ("WestPark"), the placement agent for this private placement, was issued as compensation for this private placement (i) 50,000 shares of Common Stock (25,000 shares on December 30, 2005 and 25,000 shares in January 2006); and (ii) Warrants to purchase an aggregate of 83,334 shares of Common Stock (41,667 on December 30, 2005 and 41,667 in January 2006). WestPark assigned its rights to 14,584 of these warrants to Starobin Partners, Inc., an entity in which Dr. Smith has a 7% interest. Dr. Smith waived her rights to any interest in these warrants.

On August 11, 2006, Dr. Smith accepted the offer from the Company which the Company extended to all holders of promissory notes acquired in the Westpark private placement, pursuant to which (i) the $12,500 promissory note was converted into 28,409 shares of Common Stock, (ii) the Company issued

to her 5,682 shares of Common Stock, (iii) the exercise price of the warrants was reduced from $1.20 to $.80 and (iv) a new warrant was issued to purchase 20,833 shares of Common Stock at $.80.

On August 29, 2006, Ms. Vaczy and Dr. Zuckerman each purchased from the then holder a $12,500 promissory note after which Ms. Vaczy and Dr. Zuckerman accepted the offer from the Company which the Company extended to all holders of promissory notes acquired in the Westpark private placement, pursuant to which (i) each of the $12,500 promissory notes was converted into 28,409 shares of Common Stock, (ii) the Company issued to each of Ms. Vaczy and Dr. Zuckerman 5,682 shares of Common Stock, and (iii) a new warrant was issued to each to purchase 20,833 shares of Common Stock at $.80.

SELLING SECURITYHOLDERS

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, of which this prospectus is a part, to register for resale (i) 13,271,776 shares of outstanding Common Stock; (ii) 5,908,918 shares of Common Stock issuable upon conversion of outstanding warrants; and (iii) 625,004 shares of Common Stock issuable upon conversion of outstanding convertible promissory notes, for an aggregate of 19,805,698 shares of Common Stock, all of which have not previously been registered. All of the shares, warrants and convertible promissory notes are owned by the selling securityholders.

Selling securityholders who acquired Company securities in the June 2006 private placement acquired registration rights with respect to (i) 4,725,000 shares of Common Stock and (ii) 2,362,500 shares of Common Stock issuable upon conversion of warrants, for an aggregate of 7,087,500 shares of Common Stock. All of such shares are being registered for resale.

Selling securityholders who acquired Company securities in the Summer 2006 private placement acquired registration rights with respect to (i) 3,977,273 shares of Common Stock and (ii) 1,988,637 shares of Common Stock issuable upon conversion of warrants, for an aggregate of 5,965,910 shares of Common Stock. All of such shares are being registered for resale.

Selling securityholders who acquired Company securities in the Westpark private placement or who acquired Company securities as a result of a special offer by the Company to convert or extend the promissory notes issued in the Westpark private placement, acquired registration rights with respect to: (i) 678,980 shares of Common Stock, (ii) 1,229,169 shares of Common Stock issuable upon conversion of warrants; and (iii) a maximum of 625,004 shares of Common Stock issuable upon conversion of convertible promissory notes, for an aggregate of 2,533,153 shares of Common Stock.

The other selling securityholders acquired their shares of Common Stock and/or warrants in connection with: (i) private financings; (ii) provision of services to the Company; or (iii) conversion of outstanding indebtedness to the Company including in the 2005 exchange offer; and (iv) the NS California acquisition.

Stock Ownership

The table below sets forth the number of shares of Common Stock that are:

- owned beneficially by each of the selling stockholders;
- offered by each selling stockholder pursuant to this prospectus;
- to be owned beneficially by each selling stockholder after completion of the offering, assuming that all of the warrants and notes held by the selling stockholder are exercised or converted and all of the shares offered in this prospectus are sold and that none of the other shares held by the selling stockholders if any, are sold; and
- the percentage to be owned by each selling stockholder after completion of the offering, assuming that all of the warrants and notes held by the selling stockholder are exercised or converted and all of the shares offered in this prospectus are sold and that none of the other shares held by the selling stockholder, if any, are sold**.**

For purposes of this table each selling stockholder is deemed to beneficially own:

- the issued and outstanding shares of Common Stock owned by the selling stockholder as of August 30, 2006;

- the shares of Common Stock underlying all warrants and convertible promissory notes being registered hereunder owned by the selling stockholders;
- the shares of Common Stock underlying any other options or warrants owned by the selling stockholder which are exercisable as of August 30, 2006 or which were exercisable within 60 days after August 30, 2006.

Because the selling stockholders may offer all or some portion of the above-referenced securities under this prospectus or otherwise, no estimate can be given as to the amount or percentage that will be held by the selling stockholders upon termination of any sale. In addition, the selling stockholders identified below may have sold, transferred or otherwise disposed of all or a portion of such securities since the date on which information in this table is provided, in transactions exempt from the registration requirements of the Securities Act. Information about the selling stockholders may change from time to time. Any changed information will be set forth in prospectus supplements, if required.

Except as otherwise noted, none of such persons or entities has had any material relationship with us during the past three years.

In connection with the registration of the shares of Common Stock offered in this prospectus, we will supply prospectuses to the selling stockholders.

Name	Number of Shares beneficially owned before Offering	Number of Shares being offered hereby	Number of Shares beneficially owned after the Offering(1)	Percentage of Shares beneficially owned after the Offering
Aron Abecassis(2)	170,456	170,456	0	Less than 1%
Byung Koo Ahn	2,803	2,803	0	Less than 1%
The Altman Group	19,991	19,991	0	Less than 1%
Joseph D. Ament Revocable Trust(3)	170,456	170,456	0	Less than 1%
David Azus	12,046	12,046	0	Less than 1%
Christopher P. Baker(4)	340,910	340,910	0	Less than 1%
Michael Barrasso(5)	10,238	4,238	6,000	Less than 1%
Beacon Trust Co., TTEE FBO F. Chandler Coddington Jr. IRA(6)	1,022,729	1,022,729	0	Less than 1%
Richard Berman(7)	340,910	340,910	0	Less than 1%
Carmen Berman Revocable Trust	6,023	6,023	0	Less than 1%
Robert Berman Revocable Trust	6,023	6,023	0	Less than 1%
Michele E. Beuerlein, Trustee of the Epstein/Beuerlein Living Trust UTA dated August 7, 2002	48,000	48,000	0	Less than 1%

(1) The percentage of stock outstanding for each stockholder after the offering is calculated by dividing (i) (A) the number of shares of Common Stock deemed to be beneficially held by such stockholder as of August 30, 2006, minus (B) the number of shares being offered in this offering by such stockholder (including shares underlying warrants and convertible promissory notes) by (i) the sum of (A) the number of shares of Common Stock outstanding as of August 30, 2006 plus (B) the number of shares of Common Stock issuable upon the exercise of options, warrants and convertible promissory notes held by such stockholder which were exercisable as of August 30, 2006 or which will be exercisable within 60 days after August 30, 2006.

(2) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(3) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(4) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(5) Beneficial ownership includes 4,238 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(6) Beneficial ownership includes 340,910 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(7) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

BlausenLisi, L.P.	41,667	41,667	0	Less than 1%
Kurt J. Boyce and Sara Boyce(8)	19,011	19,011	0	Less than 1%
Dov B. Braun(9)	170,456	170,456	0	Less than 1%
Glenn S. Bromley(10)	170,456	170,456	0	Less than 1%
Caribbean Stem Cell Group Inc.	625,000	625,000	0	Less than 1%
S.J. Choi	22,421	22,421	0	Less than 1%
Richard Cohen	20,000	20,000	0	Less than 1%
Robert M. Cohen(11)	24,029	24,013	16	Less than 1%
Patricia Coleine(12)	17,129	17,129	0	Less than 1%
Evan Collins(13)	109,850	109,850	0	Less than 1%
Michelle Cona(14)	2,500	2,500	0	Less than 1%
Consulting for Strategic Growth 1 Ltd.(15)	66,629	66,629	0	Less than 1%
Davidoff Malito & Hutcher LLP	21,000	21,000	0	Less than 1%
DCI Master LDC(16)	2,556,819	2,556,819	0	Less than 1%
Duncan Capital Group LLC(17)	257,046	257,046	0	Less than 1%
Robert Edinger(18)	15,529	15,529	0	Less than 1%
Arthur D. Emil(19)	85,228	85,228	0	Less than 1%
Elizabeth M. Englett(20)	51,137	51,137	0	Less than 1%
Martin Euler(21)	104,168	104,168	0	Less than 1%

David and Marion Fass(22)	156,251	156,251	0	Less than 1%
Sandy Fein(23)	85,228	85,228	0	Less than 1%
Dennis Fenton	8,634	8,634	0	Less than 1%
Paul Fruchthandler(24)	85,228	85,228	0	Less than 1%
Michael Gardner(25)	340,910	340,910	0	Less than 1%

(8) Beneficial ownership includes 3,200 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(9) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(10) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(11) Beneficial ownership includes 24,013 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(12) Beneficial ownership includes 1,600 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(13) Beneficial ownership includes 22,728 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(14) Michelle Cona is an affiliate of WestPark Capital, Inc.

(15) Consulting for Strategic Growth 1 Ltd. serves as a consultant to the Company. Beneficial ownership includes 15,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(16) DCI Master LDC, an affiliate of Duncan Capital Group LLC, was the lead investor in the Company's June 2006 Private Placement. Beneficial ownership includes 852,273 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(17) Duncan Capital Group LLC, an affiliate of DCI Master LDC, has been a party to an Advisory Agreement with the Company since May 2006.

(18) Beneficial ownership includes 1,600 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(19) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(20) Beneficial ownership includes 17,046 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(21) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 56,819 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(22) Beneficial ownership includes 62,500 of Common Stock underlying warrants and 85,228 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(23) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(24) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

Ed Garnett(26)	54,324	54,324	0	Less than 1%
Garnett, Shiffer & Associates, Inc.	43,147	43,147	0	Less than 1%
The Garnett Trust dated 4/25/2001	11,506	11,506	0	Less than 1%
Dr. Steven Glickman	17,000	17,000	0	Less than 1%
Yanky Greenberg(27)	170,456	170,456	0	Less than 1%
Felicia Grossman(28)	104,168	104,168	0	Less than 1%
Matthew Hadden(29)	15,000	15,000	0	Less than 1%
Joshua Halberstam & Janet Heetner(30)	85,228	85,228	0	Less than 1%
Mark Harris	14,474	14,474	0	Less than 1%
Dwight L. Hershman(31)	85,228	85,228	0	Less than 1%
Hershman Holdings LLC(32)	511,364	511,364	0	Less than 1%
Hospital for Joint Diseases(33)	5,000	5,000	0	Less than 1%
Koby Huberman(34)	85,136	85,136	0	Less than 1%
Paula Kadison	90,910	90,910	0	Less than 1%
Custodian for Jacob Michael Klein	13,447	13,447	0	Less than 1%
Mark T. Klein, M.D.	13,447	13,447	0	Less than 1%
Klein Intervivos Trust	13,447	13,447	0	Less than 1%
Kaare Kolstad(35)	175,076	175,076	0	Less than 1%
Cathy Kruchko	24,091	24,091	0	Less than 1%
Isaac Lamm(36)	85,228	85,228	0	Less than 1%
Martin Lamm(37)	85,228	85,228	0	Less than 1%

Adrienne Landau(38)	151,517	151,517	0	Less than 1%
Mark Lev(39)	34,188	34,188	0	Less than 1%
Jeffrey and Sheryl Levine(40)	85,228	85,228	0	Less than 1%
Hanka Lew(41)	104,168	104,168	0	Less than 1%
Arthur Luxenberg(42)	303,033	303,033	0	Less than 1%

(25) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(26) Ed Garnett is a director of NS California, Inc. See “Business.”

(27) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(28) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 56,819 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(29) Beneficial ownership includes 5,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(30) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(31) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(32) Beneficial ownership includes 170,455 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(33) Dr. Robin Smith, the Chief Executive Officer and Chairman of the Board of the Company, and Dr. Joseph Zuckerman, a director of the Company, are each directors of the Hospital for Joint Diseases.

(34) Beneficial ownership includes 28,379 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(35) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(36) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(37) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(38) Beneficial ownership includes 83,334 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(39) Mark Lev is a principal of West Park Capital, Inc., the placement agent for the Company’s private offering of warrants and convertible promissory notes from December 2005 to January 2006.

(40) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(41) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 56,819 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

Jeffrey Malkus(43)	170,456	170,456	0	Less than 1%
Wayne A. Marasco(44)	496,172	143,672	352,500	1.80%
Wayne A. Marasco, TTEE, Wayne A. Maraso Revocable Trust(45)	125,000	125,000	0	Less than 1%
Raymond Markman(46)	151,517	151,517	0	Less than 1%
Larry May(47)	159,661	94,369	65,292	Less than 1%
J. Gregory Mears(48)	170,456	170,456	0	Less than 1%
Bernard Mermelstein(49)	208,334	208,334	0	Less than 1%
Meyer Ventures Investments, LLC(50)	852,273	852,273	0	Less than 1%
Isaac Michalovsky(51)	85,228	85,228	0	Less than 1%
Migosa Enterprises Inc.(52)	85,228	85,228	0	Less than 1%
Donald O. Miller, IRA(53)	170,456	170,456	0	Less than 1%
Kenji Mizuguchi	11,369	11,369	0	Less than 1%
Ken D. Mroczek	13,744	13,744	0	Less than 1%
Armando Munoz(54)	41,667	41,667	0	Less than 1%
Steven S. Myers Revocable Trust(55)	681,819	681,819	0	Less than 1%
Michael Nimaroff(56)	75,759	75,759	0	Less than 1%
NS California, Inc.(57)	200,000	200,000	0	Less than 1%
Fred Ophus	14,383	14,383	0	Less than 1%
Samuel Ottensoser(58)	32,500	32,500	0	Less than 1%
Marc Palker Rollover IRA(59)	51,000	6,000	45,000	Less than 1%

John Pappajohn(60)	852,273	852,273	0	Less than 1%

(42) Beneficial ownership includes 166,668 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(43) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(44) Wayne A. Marasco is the Senior Scientific Advisor and a director of the Company. Beneficial ownership includes 352,500 shares issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(45) Wayne A. Marasco is the Senior Scientific Advisor and a director of the Company.

(46) Beneficial ownership includes 83,334 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(47) Larry May is the Chief Financial Officer of the Company and the former Chief Executive Officer of NS California, Inc. See “Business,” “Management – Employment Agreements” and “Certain Relationships and Related Transactions.” Beneficial ownership includes 55,000 shares of Common Stock issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(48) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(49) Beneficial ownership includes 83,334 shares of Common Stock underlying warrants and 125,000 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(50) Beneficial ownership includes 284,091 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(51) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(52) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(53) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(54) Armando Munoz is also the beneficial owner of an additional 625,000 shares of Common Stock which are held in the name of Caribbean Stem Cell Group, Inc., of which Dr. Munoz is President.

(55) Beneficial ownership includes 227,273 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(56) Beneficial ownership includes 41,668 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(57) NS California, Inc. sold its adult stem cell business to the Company on January 19, 2006. See “Business.”

(58) Beneficial ownership includes 7,500 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(59) Mark Palker is a consultant to the Company. Beneficial ownership includes 45,000 shares issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(60) Beneficial ownership includes 284,091 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

Marilyn Pike(61)	42,046	12,046	30,000	Less than 1%
Anthony Pintsopoulos(62)	106,230	106,230	0	Less than 1%
Anthony Pitti	39,286	39,286	0	Less than 1%
Colin Poole(63)	104,168	104,168	0	Less than 1%
Mark A. Raifman(64)	42,614	42,614	0	Less than 1%
Gilbert Raker(65)	41,667	41,667	0	Less than 1%
Denis Rodgerson(66)	89,831	84,831	5,000	Less than 1%
Andrew Rosenberg	40,200	40,200	0	Less than 1%
Phillip Rosenberg(67)	85,228	85,228	0	Less than 1%
Albert Ruback(68)	681,819	681,819	0	Less than 1%
Joseph Rubin(69)	85,228	85,228	0	Less than 1%
Richard Rubenstein(70)	75,759	75,759	0	Less than 1%
Michael Sacofsky(71)	85,143	85,143	0	Less than 1%
William Sarnoff(72)	340,910	340,910	0	Less than 1%
Jutta Sayles	9,091	9,091	0	Less than 1%
Jeffery Schnapper(73)	104,167	104,167	0	Less than 1%
Neal Scott(74)	2,500	2,500	0	Less than 1%
Thomas Scott	60,228	60,228	0	Less than 1%
Shanala JAP Investment Services Limited Partnership, LLP(75)	170,456	170,456	0	Less than 1%

William Sheppard(76)	151,517	151,517	0	Less than 1%
Elly Slomowitz(77)	85,228	85,228	0	Less than 1%
Gordon and Norma Smith(78)	50,000	50,000	0	Less than 1%
Robin L. Smith(79)	852,551	352,551	500,000	2.57%

(61) Marilyn Pike has been a consultant to the Company. Beneficial ownership includes 20,000 shares issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(62) Anthony Pintsopoulos is an affiliate of WestPark Capital, Inc. Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 62,500 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(63) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 56,819 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(64) Beneficial ownership includes 14,205 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(65) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(66) Denis Rodgerson is an employee of the Company and a founder of NS California Inc. See “Business” and “Management – Employment Agreements.” Beneficial ownership includes 5,000 shares issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(67) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(68) Beneficial ownership includes 227,273 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(69) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(70) Beneficial ownership includes 41,668 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(71) Beneficial ownership includes 28,381 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(72) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(73) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 62,500 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

(74) Neal Scott is an affiliate of WestPark Capital, Inc.

(75) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(76) Beneficial ownership includes 83,334 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(77) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(78) Gordan and Norma Smith are the parents of Robin Smith, the Chief Executive Officer and Chairman of the Board of the Company.

Leon Sokal(80)	27,500	27,500	0	Less than 1%
Starobin Partners, Inc.(81)	14,584	14,584	0	Less than 1%
Harry Steinmetz(82)	151,517	151,517	0	Less than 1%
Joseph F. Steliga(83)	15,529	15,529	0	Less than 1%
Baruch Sterman(84)	85,228	85,228	0	Less than 1%
Yvette Stoker	6,819	6,819	0	Less than 1%
Nancy Talian	6,819	6,819	0	Less than 1%
TCMP3 Partners LP(85)	340,910	340,910	0	Less than 1%
Alan Trugman	42,500	42,500	0	Less than 1%
Cynthia Tsai(86)	10,000	10,000	0	Less than 1%
Tsunami Trading Corp.(87)	170,456	170,456	0	Less than 1%
Catherine Vaczy(88)	798,572	688,572	110,000	Less than 1%
Richard Vaczy(89)	151,517	151,517		Less than 1%
Bennett J. Wasserman and Bonnie Wasserman, JTWROS(90)	85,228	85,228	0	Less than 1%
Emmanuel Wasserman, DDS; MSD, APC – Employees’ Profit Sharing Plan and Trust(91)	85,228	85,228	0	Less than 1%
Schmuel Wasserman(92)	125,000	125,000	0	Less than 1%

Dan K. Wassong(93)	340,910	340,910	0	Less than 1%
David Weinberg(94)	104,167	104,167	0	Less than 1%

(79) Robin L. Smith is the Chief Executive Officer and Chairman of the Board of the Company effective June 2, 2006. Prior thereto, Dr. Smith served as Chairman of the Advisory Board of the Company since September 2005. See "Management – Employment Agreements" and "Certain Relationships and Related Transactions." Beneficial ownership includes: 99,932 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement; and 300,000 shares of Common Stock issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(80) Beneficial ownership includes 27,500 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(81) Beneficial ownership includes 14,584 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Robin L. Smith, the Chief Executive Officer and Chairman of the Board of the Company, is the owner of a 7% interest in Starobin Partners, Inc.; however, she has waived all interest in such warrants.

(82) Beneficial ownership includes 83,334 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(83) Beneficial ownership includes 1,600 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(84) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(85) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(86) Beneficial ownership includes 10,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(87) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(88) Catherine M. Vaczy is the Vice President and General Counsel of the Company. See "Management – Employment Agreements" and "Certain Relationships and Related Transactions." Beneficial ownership includes: 20,834 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement; and 110,000 shares of Common Stock issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(89) Richard Vaczy is the brother of Catherine Vaczy, the Vice President and General Counsel of the Company. Beneficial ownership includes 83,334 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(90) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(91) Beneficial ownership includes 28,409 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(92) Beneficial ownership includes 125,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(93) Beneficial ownership includes 113,637 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(94) Beneficial ownership includes 41,667 shares of Common Stock underlying warrants and 62,500 shares of Common Stock underlying a convertible promissory note, all of which are being offered pursuant to this Registration Statement.

Mark Weinreb(95)	1,184,226	229,226	955,000	4.81%
Stanley Weinreb(96)	103,000	68,000	35,000	Less than 1%
Andrew P. Weiss(97)	75,000	75,000	0	Less than 1%
WestPark Capital, Inc.(98)	77,500	77,500	0	Less than 1%
John Yerkes	42,500	42,500	0	Less than 1%
Mia Beth Yoo	2,803	2,803	0	Less than 1%
Elan Zivotofsky(99)	170,456	170,456	0	Less than 1%
Joseph Zuckerman(100)	323,425	108,425	215,000	1.11%

(95) Mark Weinreb is the President and a director of the Company. From February 6, 2003, until June 2, 2006, he also served as the Chief Executive Officer and Chairman of the Board of the Company. See "Management – Employment Agreements" and "Certain Relationships and Related Transactions." Beneficial ownership includes 655,000 shares issuable upon exercise of options, none of which are being offered pursuant to this Registration Statement.

(96) Stanley Weinreb is the father of Mark Weinreb, the President and a director of the Company. Beneficial ownership includes 20,000 shares issuable upon the exercise of options, none of which are being offered pursuant to this Registration Statement.

(97) Beneficial ownership includes 25,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(98) WestPark Capital, Inc. was the placement agent in the Company's private placement of convertible promissory notes and warrants from December 2005 to January 2006. Beneficial ownership includes 68,750 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(99) Beneficial ownership includes 56,819 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

(100) Joseph Zuckerman is a director of the Company. Beneficial ownership includes: 20,834 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement; and 190,000 shares issuable upon the exercise of options, none of which are being offered pursuant to this Registration Statement.

DESCRIPTION OF SECURITIES

Common Stock

Our Certificate of Incorporation authorizes us to issue 500,000,000 shares of Common Stock, par value $0.001 per share. As of August 30, 2006 we had 19,187,936 shares of Common Stock issued and outstanding, after giving effect to the one-for-ten reverse stock split effective August 31, 2006. Holders of our Common Stock are entitled to one vote per share in the election of directors and on all other matters on which stockholders are entitled or permitted to vote. Holders of our Common Stock are not entitled to cumulative voting rights. Therefore, holders of a majority of the shares voting for the election of directors can elect all of the directors. Subject to the terms of any outstanding series of preferred stock, the holders of Common Stock are entitled to dividends in amounts and at times as may be declared by the Board of Directors out of funds legally available. Upon liquidation or dissolution, holders of our Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payment of any liquidation preferences to holders of our preferred stock. Holders of our Common Stock have no redemption, conversion or preemptive rights.

Preferred Stock

We are currently authorized to issue 5,000,000 shares of preferred stock, $0.01 par value per share (the "preferred stock"). The Certificate of Incorporation, as amended, authorizes our Board of Directors to provide by resolution, without any approval of the stockholders, for the issuance of shares of preferred stock and to determine the terms of such preferred stock. Currently, 825,000 shares of our Series B Convertible Redeemable Preferred Stock, $0.01 par value per share, are authorized, and 10,000 shares are outstanding.

On March 17, 2006, the stockholders of the Company voted to approve an amendment to the Certificate of Incorporation which permitted the Company to issue in exchange for all 681,171 shares of Series A Preferred Stock outstanding and its obligation to pay $538,498 (or $.79 per share) in accrued dividends thereon, a total of 544,937 shares of Common Stock (.80 of a share of Common Stock per share of Series A Preferred Stock). Pursuant thereto, all outstanding shares of Series A Preferred Stock were cancelled and converted into Common Stock. There are no shares of Series A Preferred Stock currently outstanding.

Warrants

As of August 30, 2006 we had outstanding warrants to purchase an aggregate of 5,908,918 shares of Common Stock at a weighted average exercise price of $.86 per share. All of such shares underlying the warrants are being registered for sale under this prospectus.

Options

As of August 30, 2006, we had outstanding options to purchase an aggregate of 2,911,000 shares of Common Stock at a weighted average exercise price of $.76 per share. The shares of Common Stock underlying all such options are currently registered for sale under another registration statement.

Convertible Promissory Notes

As of August 30, 2006, we had outstanding $262,500 in convertible promissory notes convertible into a maximum of 625,004 shares of Common Stock at conversion prices which may range from $.40 to $.54 per share. The shares of Common Stock underlying all such convertible promissory notes, are being registered for sale under this prospectus.

PLAN OF DISTRIBUTION

We are registering for resale by the selling stockholders a total of 19,805,698 shares of Common Stock, of which 13,271,776 are issued and outstanding, 5,908,918 are issuable upon exercise of warrants and a maximum of 625,004 shares are issuable upon conversion of outstanding convertible promissory notes.

The Selling Stockholders and any of their pledgees, donees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders will act independently of NeoStem, Inc. in making decisions with respect to the timing, manner and size of each sale.

The Selling Stockholders may use any one or more of the following methods when selling shares:

· ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-

dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders may from time to time pledge or grant a security interest in some or all of the shares of Common Stock, shares underlying warrants or shares underlying convertible promissory notes owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of Common Stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

Upon the Company being notified in writing by a Selling Stockholder that any material arrangement has been entered into with a broker-dealer for the sale of Common Stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such Selling Stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of Common Stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon the Company being notified in writing by a Selling Stockholder that a donee or pledge intends to sell more than 500 shares of Common Stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The Selling Stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each Selling Stockholders has represented and warranted to the Company that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is paying all fees and expenses incident to the registration of the shares. The Company has agreed to indemnify certain of the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the shares to be offered by this prospectus will be passed upon for us by Lowenstein Sandler PC, Roseland, New Jersey.

EXPERTS

Our financial statements as of December 31, 2005 and for the three year period then ended included in this prospectus, have been so included in reliance on the report of Holtz Rubenstein Reminick LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. The report of Holtz Rubenstein Reminick LLP contains an explanatory paragraph that states that our recurring losses from operations raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act to register the shares of common stock offered hereby. The term registration statement means the original registration statement and any and all amendments thereto, including the schedules and exhibits to the original registration statement and any amendments. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information with respect to NeoStem, Inc. and the common stock offered hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement.

We are subject to the informational requirements of the Exchange Act and, accordingly, file reports, proxy statements and other information with the SEC. These reports, proxy statements, a copy of the registration statement discussed above, and other information filed with the SEC are available for inspection and copying at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a site on the World Wide Web at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

NeoStem, Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
NeoStem, Inc.

We have audited the accompanying balance sheets of NeoStem, Inc. (formerly Phase III Medical, Inc.) as of December 31, 2005 and 2004 and the related statements of operations, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 2005. 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 audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide 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 NeoStem, Inc. as of December 31, 2005 and 2004 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HOLTZ RUBENSTEIN REMINICK LLP

Melville, New York
February 23, 2006, except for Note 12,
as to which the date is March 27, 2006
and Note 13, as to which the date is August 29, 2006

NEOSTEM, INC.

Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 488,872	$ 27,868
Prepaid expenses and other current assets	18,447	21,233
Total current assets	507,319	49,101
Property and equipment, net	1,488	3,446
Deferred acquisition costs	19,121	43,897
Other assets	114,753	3,000
	$ 642,681	$ 99,444
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Interest and dividends payable – preferred stock	$ 528,564	$ 480,880
Accounts payable	256,976	149,169
Accrued liabilities	617,196	88,883
Notes payable	135,000	475,000
Note payable – related party	48,000	—
Convertible debentures, related party – net of debt discount of $5,882	—	94,118
Convertible debentures – net of debt discount of $83,333	166,667	—
Total current liabilities	1,752,403	1,288,050
Unearned revenues	26,745	62,007
Series A mandatorily redeemable convertible preferred stock	681,171	681,171
COMMITMENTS AND CONTINGENCIES		
Stockholders' deficit:		
Preferred stock; authorized, 5,000,000 shares Series B convertible redeemable preferred stock, liquidation value, 10 shares of common stock per share, $.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares at December 31, 2005 and at December 31, 2004	100	100
Common stock, $.001 par value; authorized, 500,000,000 shares; issued and outstanding, 7,054,386 at December 31, 2005 and 4,102,955 shares at December 31, 2004	7,056	4,104
Additional paid-in capital	12,430,571	10,574,338
Accumulated deficit	(14,255,365)	(12,510,326)
Total stockholders' deficit	(1,817,638)	(1,931,790)

	$ 642,681	$ 99,444

The accompanying notes are an integral part of these financial statements

NEOSTEM, INC.

Statements of Operations

	Years ended December 31, 2005	2004	2003
Earned revenues	$ 35,262	$ 48,561	$ 64,632
Direct Costs	(24,776)	(33,885)	(43,608)
Gross Profit	10,486	14,676	21,024
Selling, general and administrative	(1,611,398)	(763,640)	(685,353)
Purchase of medical royalty stream	—	(725,324)	(80,000)
Realized loss on note receivable	—		(150,000)
Operating loss	(1,600,912)	(1,474,288)	(894,329)
Other income (expense):			
Interest income	137	199	88,923
Interest expense – Series A mandatorily redeemable convertible preferred stock	(47,684)	(47,684)	(23,842)
Interest expense	(96,580)	(226,599)	(214,897)
	(144,127)	(274,084)	(149,816)
Provision for income taxes	—	—	—
Loss before preferred dividend	(1,745,039)	(1,748,372)	(1,044,145)
Preferred dividend	—	—	(23,842)
Net Loss attributable to common stockholders	$ (1,745,039)	$ (1,748,372)	$ (1,067,987)
Basic earnings per share			
Net loss attributable to common stockholders	$ (.35)	$ (0.54)	$ (0.45)
Weighted average common shares outstanding	4,977,575	3,254,185	2,350,934

The accompanying notes are an integral part of these financial statements

NEOSTEM, INC.

Statements of Stockholders' Deficit

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2002	10,000	$ 100	2,239,871	$ 2,240	$ 8,867,735	$ (9,693,967)	$ (823,892)
Issuance of common stock for cash, net of offering costs	—	—	282,500	283	214,498	—	214,781
Issuance of common stock upon exercise of common stock options	—	—	100,000	100	4,900	—	5,000
Issuance of common stock for services	—	—	10,000	10	2,990	—	3,000
Issuance of common stock to directors	—	—	275	—	303	—	303
Series A convertible stock dividends	—	—	—	—	—	(23,842)	(23,842)
Stock options granted with debt	—	—	—	—	166,024	—	166,024
Net loss	—	—	—	—	—	(1,044,145)	(1,044,145)
Balance at December 31, 2003	10,000	100	2,632,646	2,633	9,256,450	(10,761,954)	(1,502,771)
Issuance of common stock for cash, net of offering costs			1,213,291	1,213	1,103,787		1,105,000

Issuance of common stock upon exercise of common stock options			187,500	188	9,187		9,375
Issuance of common stock options for services					15,000		15,000
Issuance of common stock for services			18,750	19	14,231		14,250
Interest expense on loans in default					127,137		127,137
Debt discount on loan from officer					17,647		17,647
Issuance of common stock for interest			3,000	3	4,197		4,200
Issuance of common stock to officer for services			47,768	48	26,702		26,750
Net loss						(1,748,372)	(1,748,372)
Balance at December 31, 2004	10,000	100	4,102,955	4,104	10,574,338	(12,510,326)	(1,931,784)
Issuance of common stock for cash, net of offering costs			1,259,285	1,259	870,741		872,000
Issuance of common stock for conversion of debt			986,578	987	564,013		565,000
Issuance of common stock to officers and directors			602,068	602	236,684		237,286
Issuance of common stock for services			103,500	104	76,004		76,108
Equity component of issuance of convertible debt					83,333		83,333
Issuance of common stock purchase warrants for services					25,458		25,458
Net loss						(1,745,039)	(1,745,039)
Balance at December 31, 2005	10,000	$ 100	7,054,386	$ 7,056	$ 12,430,571	$ (14,255,365)	$ (1,817,638)

The accompanying notes are an integral part of these financial statements

NEOSTEM, INC.

Statements of Cash Flows

	Years ended December 31,		
	2005	2004	2003
Cash flows from operating activities:	$ (1,745,039)	$ (1,748,372)	$ (1,044,145)
Net loss			
Adjustments to reconcile net loss to net cash used in operating activities:			
Common shares issued and stock options granted as payment for interest expense and for services rendered	338,852	187,337	169,327
Depreciation	1,958	1,777	646
Amortization of debt discount	5,882	11,765	—
Series A mandatorily redeemable convertible preferred stock dividends	47,684	47,684	23,842
Unearned revenues	(35,262)	(48,561)	(64,632)
Deferred acquisition costs	24,776	33,885	46,053
Realized loss on note receivable	—	—	150,000
Changes in operating assets and liabilities :			
Prepaid expenses and other current assets	2,786	(3,209)	22,070
Other assets	(111,753)		(3,000)
Accounts payable, accrued expenses and other current liabilities	636,120	58,041	(322,074)
Net cash used in operating activities	(833,996)	(1,459,653)	(1,021,913)
Cash flows from investing activities:			
Acquisition of property and equipment	—	(3,288)	(2,581)
Notes receivable	—	—	850,000
Net cash (used in) provided by investing activities	—	(3,288)	847,419
Cash flows from financing activities:			
Net proceeds from issuance of capital stock	872,000	1,114,375	219,781
Stockholder advances		—	(106,000)
Proceeds from notes payable	203,000	75,000	275,000
Repayment of notes payable	(30,000)		
Proceeds from notes payable – related party		100,000	—
Proceeds from sale of convertible debentures	250,000		
Repayment of long-term debt		(9,513)	(22,595)
Net cash provided by financing activities	1,295,000	1,279,862	366,186
Net increase (decrease) in cash and cash equivalents	461,004	(183,079)	191,692
Cash and cash equivalents at beginning of year	27,868	210,947	19,255
Cash and cash equivalents at end of year	$ 488,872	$ 27,868	$ 210,947

The accompanying notes are an integral part of these financial statements

	Years ended December 31,		
	2005	2004	2003
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 92,010	$ 106,574	$ 26,483
Supplemental schedule of non-cash investing and financing activities			
Issuance of common stock for services rendered	$ 313,394	$ 32,027	$ 3,303
Compensatory element of stock options	$ 25,458	$ 127,137	$ 166,024
Net accrual of dividends on Series A preferred stock	$ —	$ —	$ 23,842
Conversion of convertible debentures	$ 565,000	$ —	$ —

The accompanying notes are an integral part of these financial statements

Note 1 - The Company

NeoStem, Inc. (hereinafter referred to as the "Company") was known as Phase III Medical, Inc. until it changed its name on August 29, 2006. Prior thereto until July 24, 2003, it was known as Corniche Group Incorporated. The Company was incorporated in Delaware on September 18, 1980 under the name Fidelity Medical Services, Inc. From its inception through March 1995, the Company was engaged in the development, design, assembly, marketing, and sale of medical imaging products. As a result of a reverse merger with Corniche Distribution Limited and its Subsidiaries ("Corniche") the Company was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. Effective March 25, 1995, the Company sold its wholly-owned medical imaging products subsidiary. On September 28, 1995 the Company changed its name to Corniche Group Incorporated. In February 1996, the Company's United Kingdom operations were placed in receivership by their creditors. Thereafter, through May 1998, the Company had no activity. On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 76,500 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value $0.10 per share. Thereafter the Initial Purchasers endeavored to establish for the Company new business operations in the property and casualty specialty insurance and the service contract markets. On September 30, 1998, the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") from Warrantech Corporation ("Warrantech") for $37,000 in cash in a transaction accounted for as a purchase. On April 30, 2001, the Company sold Stamford for a consideration of $372,000. During 2001, the Company recorded a loss of approximately $479,000 on the sale of Stamford. The closing was effective May 1, 2001 and transfer of funds was completed on July 6, 2001.

On January 7, 2002, the Company entered into a Stock Contribution Exchange Agreement (the "Exchange Agreement") and a Supplemental Disclosure Agreement (together with the Exchange Agreement, the "Agreements") with Strandtek International, Inc., a Delaware corporation ("Strandtek"), certain of Strandtek's principal shareholders and certain non-shareholder loan holders of Strandtek (the "StrandTek Transaction"). The Exchange Agreement was amended on February 11, 2002. Had the transactions contemplated by the Agreements closed, StrandTek would have become a majority owned subsidiary of the Company and the former shareholders of StrandTek would have controlled the Company. Consummation of the StrandTek Transaction was conditioned upon a number of closing conditions, including the Company obtaining financing via an equity private placement, which ultimately could not be met and, as a result, the Agreements were formally terminated by the Company and StrandTek in June 2002.

The Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com through June 30, 2002. In June 2002, management determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company. On February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. The Company provides capital and guidance to companies, in multiple sectors of the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Mr. Weinreb was appointed to finalize and execute the Company's new business plan.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. "(PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The company provided capital and guidance to PSI to conduct a Proof of Concept Study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology.

The Company continues to recruit management, business development and technical personnel, and develop its business model. Accordingly, it will be necessary for the Company to raise new capital. There can be no assurance that any such business plan developed by the Company will be successful, that the

Company will be able to acquire such new business or rights or raise new capital, or that the terms of any transaction will be favorable to the Company.

The business of the Company today comprises the "run off" of its sale of extended warranties and service contracts via the Internet and the new business opportunity it is pursuing in the medical/bio-tech sector.

On January 19, 2006, the Company acquired all the assets of NS California, Inc. (then known as NeoStem, Inc.), a California corporation ("NS California"), a company that specializes in the collection and storage of adult stem cells. NS California is a commercial autologous (donor and recipient are the same) adult stem cell bank pioneering the pre-disease collection, processing and storage of stem cells that donors can access for their own present and future medical treatment. The Company's new objective is to be the leading provider of adult stem cells for therapeutic use in the burgeoning field of regenerative medicine, including treatment for heart disease, certain types of cancer and other critical health problems.

At December 31, 2005, the Company had a cash balance of $488,872, deficit working capital of $1,245,084 and a stockholders' deficit of $1,817,638. In addition, the Company sustained losses of $1,745,039, $1,748,372 and $1,067,987 for the three fiscal years ended December 31, 2005, 2004 and 2003 respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. The financial statements of the Company do not reflect any adjustments relating to the doubt of its ability to continue as a going concern. There can be no assurance that the Company will be able to sell securities and may have to rely on its ability to borrow funds from new and or existing investors.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents: Short-term cash investments, which have a maturity of ninety days or less when purchased, are considered cash equivalents in the consolidated statement of cash flows.

Concentrations of Credit-Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company places its cash accounts with high credit quality financial institutions, which at times may be in excess of the FDIC insurance limit.

Property and Equipment: The cost of property and equipment is depreciated over the estimated useful lives of the related assets of 3 to 5 years. The cost of computer software programs are amortized over their estimated useful lives of five years. Depreciation is computed on the straight-line method. Repairs and maintenance expenditures that do not extend original asset lives are charged to expense as incurred.

Income Taxes: The Company, in accordance with SFAS 109, "Accounting for Income Taxes", recognizes (a) the amount of taxes payable or refundable for the current year and, (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statement or tax returns. Comprehensive income (loss)

Comprehensive income (loss): Refers to revenue, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. At December 31, 2005, 2004 and 2003 there were no such adjustments required.

Pro Forma Effect of Stock Options: Financial Accounting Standards Board Interpretation No. 44 is an interpretation of APB Opinion No. 25 and SFAS No. 123 which requires that effective July 1, 2000, all options issued to non-employees after January 12, 2000 be accounted for under the rules of SFAS No. 123.

Note 2 - Summary of Significant Accounting Policies

Assuming the fair market value of the stock at the date of grant to be $.30 in February 2003, $.50 in May, June and July 2003, $1.80 in September 2003, $1.50 in January 2004, $1.40 in March 2004, $1.11 in May 2004, $1.00 in September and November 2004, $.60 in February 2005, $.50 in April and July 2005, $.80 in September 2005 and $.60 in December 2005, the life of the options to be from three to ten years, the expected volatility at between 15% and 200%, expected dividends are none, and the risk-free interest rate of approximately 3%, the Company would have recorded compensation expense of $116,146, $218,597 and $205,760, respectively, for the years ended December 31, 2005, 2004 and 2003 as calculated by the Black-Scholes option pricing model. The weighted average fair value per option of options granted during 2005, 2004 and 2003 was $0.60, $1.10 and $0.60, respectively.

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 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 its stock options.

As such, proforma net loss and net loss per share would be as follows:

	2005	2004	2003
Net loss as reported	$ (1,745,039)	$ (1,748,372)	$ (1,067,987)
Additional compensation	(116,146)	(218,597)	(205,760)
Adjusted net loss	$ (1,861,185)	$ (1,966,969)	$ (1,273,747)
Net loss per share as reported	$ (.35)	$ (.54)	$ (.45)

Adjusted net loss per share	$ (.37)	$ (.60)	$ (.54)

Recently Issued Accounting Pronouncements – In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement are effective for the first interim or annual reporting period that begins after June 15, 2005.

In June 2005, FASB issued SFAS No. 154 – Accounting Changes and Error Corrections, which replaces APB Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This pronouncement is effective for fiscal years beginning after December 15, 2005. The Company does not believe that this statement will have a material effect on its financial statements.

In March 2005, the FASB issued FASB Interpretation ("FIN") 47, *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143.* FIN 47 clarifies that conditional asset retirement obligations meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonably estimated. The Company adopted the provisions of FIN 47 effective

December 31, 2005. The adoption of FIN 47 had no impact on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments.* This Statement amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, " Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not yet determined the impact of the adoption of FAS 155 on its financial statements, if any.

Earnings Per Share: Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods presented.

Advertising Policy: All expenditures for advertising is charged against operations as incurred.

Revenue Recognition: Stamford's reinsurance premiums are recognized on a pro rata basis over the policy term. The deferred policy acquisition costs are the net cost of acquiring new and renewal insurance contracts. These costs are charged to expense in proportion to net premium revenue recognized. The provisions for losses and loss-adjustment expenses include an amount determined from loss reports on individual cases and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The Company had sold, via the Internet, through partnerships and directly to consumers, extended warranty service contracts for seven major consumer products. The Company recognizes revenue ratably over the length of the contract. The Company purchased insurance to fully cover any losses under the service contracts from a domestic carrier. The insurance premium and other costs related to the sale are amortized over the life of the contract.

Purchase of Royalty Interests: The Company charges payments for the purchase of future potential royalty interests to expense as paid and will record revenues when royalty payments are received.

Note 3 - Notes Receivable

In January 2002, the Company advanced to StrandTek a loan of $1 million on an unsecured basis, which **was** personally guaranteed by certain of the principal shareholders of StrandTek and a further loan of $250,000 on February 19, 2002 on an unsecured basis. Such loans bore interest at 7% per annum and were due on July 31, 2002 following termination of the Agreements (as discussed in Note 1) in June 2002.

StrandTek failed to pay the notes on the due date and the Company commenced legal proceedings against StrandTek and the guarantors to recover the principal, accrued interest and costs of recovery. The Company ceased accruing interest on July 31, 2002. Subsequent to July 31, 2002, the notes accrue interest at the default rate of 12% per annum. The Company provided an allowance for the $250,000 unsecured loan and interest of $8,103 at December 31, 2002. On July 24, 2003 the Company entered into a Forbearance Agreement with personal guarantors Veltmen and Buckles pursuant to which they made payments totaling $590,640, including interest of $90,640. A similar Forbearance Agreement was reached with personal guarantor Arnett as of July 28, 2003

pursuant to which he paid $287,673, including interest of $37,673. A Settlement Agreement was reached with personal guarantor Bauman as of December 23, 2003 pursuant to which he paid $100,000 in full settlement of the judgment against him in the amount of $291,406. The payment was received on December 30, 2003 as stated in the agreement. These payments, totaling approximately $987,000 were paid as full satisfaction for the outstanding amounts owed to the Company. Accordingly, the Company recorded a realized loss on these notes of $150,000 in 2003.

Note 4 - Accrued Liabilities

Accrued liabilities are as follows:

	December 31, 2005	December 31, 2004
Professional fees	$ 173,649	$ 31,760
Interest on notes payable	4,268	11,530
Salaries and related taxes	424,950	45,368
Other	14,329	225
	$ 617,196	$ 88,883

Note 5 - Notes Payable

In September 2002, the Company sold to accredited investors five 60-day promissory notes in the principal sum of $25,000 each, resulting in net proceeds to the Company of $117,500, net of offering costs. The notes bear interest at 15% per annum payable at maturity. The notes include a default penalty pursuant to which, if the notes are not paid on the due date, the holder shall have the option to purchase 2,500 shares of the Company's common stock for an aggregate purchase price of $125. If the non payment continues for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note is paid in full, the holder shall have the option to purchase an additional 2,500 shares of the Company's common stock for an aggregate purchase price of $125. During the year ended December 31, 2004, 187,500 options granted pursuant to the default penalty were exercised resulting in net proceeds of $9,375. Interest expense on these notes approximated $127,000 and $166,000 for the years ended December 31, 2004 and 2003, respectively (See Note 7). In September and October, 2004, these notes were repaid.

On March 17, 2003, the Company commenced a private placement offering to raise up to $250,000 in 6-month promissory notes in increments of $5,000 bearing interest at 15% per annum. Only selected

investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these promissory notes. The Company raised the full $250,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $225,000, net of offering costs. The notes contain a default provision which raises the interest rate to 20% if the notes are not paid when due. The Company issued $250,000 of these notes. As of December 31, 2005, $70,000 has been converted into 119,000 shares of the Company's Common Stock and $80,000 of which $15,000 has been repaid in January 2006 and the remainder bears interest at 20% and the due date has been extended to September 30, 2006.

On August 26, 2003, the Company borrowed $25,000 from a then consultant to the Company. In October 2004, this note was combined with a note of $50,000 previously held by an unrelated third party. This new note accrues interest at 8% and was due on August 31, 2005 together with the accrued interest. In November 30, 2005, this note was converted into 127,500 shares of the Company's Common Stock. All interest payments have been accrued.

In February 2004, the Company commenced a sale of 30 day 20% notes in the amount of $125,000 to three accredited investors to fund current operations. It was anticipated that these notes would be repaid from the proceeds of the January 2004 amended equity private placement. Two of these notes have a default provision that if they are not paid within 30 days, there is an additional interest payment of $250 per $25,000 of principal outstanding for each 30 day period or part thereof. As of December 31, 2005, these notes have been repaid. All interest payments have been paid timely. In May 2004, the Company sold an additional 30 day 20% note in the amount of $40,000 to an accredited investor to fund current operations. This note plus interest has been repaid. In July 2004, the Company sold a five month 20% note in the amount of $25,000 and two six month 20% notes totaling $80,000 to three accredited investors to fund current operations. As of December 31, 2005, $25,000 has been repaid and the balance has been converted into 136,000 shares of the Company's Common Stock. All interest payments have been paid timely. In August 2004, the Company sold additional 30 day 20% notes in the amount of $55,000 to two accredited investors to fund current operations. As of December 31, 2005, $25,000 of these notes remains unpaid. All interest payments have been paid timely. In December 2004, the Company sold four notes to four accredited investors totaling $100,000 with interest rates that range from 8% to 20%. As of December 31, 2005, $5,000 has been repaid, $85,000 converted into 144,500 shares of the Company's Common Stock and $10,000 of these notes remain unpaid. The $10,000 note was repaid in January 2006. All interest payments have been made timely.

In August 2004, the Company sold a six month 20% convertible note in the amount of $100,000 to its Chief Operating Officer ("COO"). Upon maturity, the Company and the COO have agreed to convert the principal amount of the new note into shares of the Company's common stock at 85% of the average price as quoted on the NASD Over-the-Counter Bulletin Board for the five days prior to the maturity date of the note. Approximately $18,000 of the total debt was attributed to the intrinsic value of the beneficial conversion feature. This amount was recorded as an equity component. The remaining balance of approximately $82,000 was recorded as debt. For the year ended December 31, 2004 the amortization of debt discount approximated $12,000. All interest is paid monthly in arrears. In February 2005, this note was converted into 196,078 shares of the Company's Common Stock. All interest payments have been paid timely. For the year ended December 31, 2005 the amortization of debt discount approximated $6,000.

In January 2005, the Company sold a six month 20% note in the amount of $25,000 to an accredited investor to fund current operations. This note was converted into 42,500 shares of the Company's Common Stock. All interest payments have been made. In February 2005, the Company sold a six month 20% note in the amount of $10,000 to an accredited investor to fund current operations. This note was converted into 17,000 shares of the Company's Common Stock. All interest payments have been made. In March 2005, the Company sold a 30 day 8% note in the amount of $17,000 to the President and CEO of the Company. Additionally, the Company sold a one year 15% note in the amount of $20,000, which was subsequently converted into 34,000 shares of the Company's Common Stock, to an accredited investor. All interest payments on these notes are current. The note in the amount of $17,000 was unpaid as of December 31, 2005, however, it was repaid in January 2006.

In April 2005, the Company sold a one year 15% note in the amount of $100,000 to its Executive Vice President and General Counsel. The note contains certain rights and obligations regarding its conversion into shares of the Company's Common Stock. In November 2005, this note was converted into 170,000 shares of the Company's Common Stock. All interest payments on this note have been made.

In August 2005, the Company sold an 8% note in the amount of $10,000 to its President and CEO, an accredited investor which is due on demand. As of December 31, 2005, this note remains unpaid, however it was repaid in January 2006.

In September 2005, Company sold two 8% notes in the amounts of $6,000 and $15,000 to its President and CEO, an accredited investor which are due on demand. As of December 31, 2005, these notes remain unpaid, however, it was repaid in January 2006.

On December 30, 2005, the Company sold $250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of $220,000. In addition, these Promissory Notes have 41,667 detachable warrants for each $25,000 of debt, which entitle the holder to purchase one share of the Company's Common Stock at a price of $1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. The Promissory Notes convert to the Company's Common Stock at $.60 per share. The Promissory Notes are convertible at anytime into shares of Common Stock at the option of the Company subsequent to the shares underlying the Promissory Notes and the shares underlying the warrants registration if the closing price of the Common Stock has been at least $1.80 for a period of at least 10 consecutive days prior to the date on which notice of conversion is sent by the Company to the holders of the Promissory Notes. The Company recorded a debt discount associated with the conversion feature in the amount of $83,333. The Company recorded an expense of $2,573 associated with the warrants as their fair value using the Black-Scholes method.

A summary of notes payable and convertible debentures is as follows:

	January 1, 2005	Proceeds	Repayments /Conversions	Less: Debt Discounts	December 31, 2005
March 2003 Notes	$ 170,000	$ —	$ (90,000)	$ —	$ 80,000
Consultant Note	75,000		(75,000)		—
2004 Notes	230,000		(175,000)		55,000
2005 Notes	—	203,000	(155,000)		48,000
Related Party Note	94,118		(94,118)		—
Convertible Debentures		250,000		(83,333)	166,667
Total	$ 569,118	$ 453,000	$ (589,118)	$ (83,333)	$ 349,667

Note 6 - Series A Mandatorily Redeemable Convertible Preferred Stock

In connection with the settlement of securities class action litigation in 1994, the Company issued 1,000,000 shares of Series A $0.07 Convertible Preferred Stock (the "Series A Preferred Stock") with an aggregate value of $1,000,000. The following summarizes the terms of Series A Preferred Stock as more fully set forth in the Certificate of Designation. The Series A Preferred Stock has a liquidation value of $1 per share, is non-voting and convertible into common stock of the Company at a price of $5.20 per share. Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends of $0.07 per share, per year, payable semi-annually. The Series A Preferred Stock is callable by the Company at a price of $1.05 per share, plus accrued and unpaid dividends. In addition, if the closing price of the Company's common stock exceeds $13.80 per share for a period of 20 consecutive trade days, the Series A Preferred Stock is callable by the Company at a price equal to $0.01 per share, plus accrued and unpaid dividends.

The Certificate of Designation for the Series A Preferred Stock also states that at any time after December 1, 1999 the holders of the Series A Preferred Stocks may require the Company to redeem their shares of

Series A Preferred Stock (if there are funds with which the Company may do so) at a price of $1.00 per share.

Notwithstanding any of the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed.

At December 31, 2005, 2004 and 2003, 681,174 shares of Series A Preferred Stock were outstanding, and accrued dividends on these outstanding shares were $528,564, $480,880, and $433,196, respectively.

On January 29, 2002, notice was given that, pursuant to the Company's Restated Certificate of Incorporation, as amended, the Company called for redemption on the date of closing the StrandTek Transaction, all shares of Series A Preferred Stock outstanding on that date at a redemption price of $1.05, plus accrued and unpaid dividends of approximately $0.47 per share. The redemption, among other financial, legal and business conditions, was a condition of closing the StrandTek Transaction. Similarly, the redemption was subject to closing the StrandTek Transaction. Upon termination of the StrandTek Transaction, the Company rescinded the notice of redemption.

Note 7 - Stockholders' Equity

(a) Series B Convertible Redeemable Preferred Stock:

The total authorized shares of Series B Convertible Redeemable Preferred Stock is 825,000. The following summarizes the terms of the Series B Stock whose terms are more fully set forth in the Certificate of Designation. The Series B Stock carries a zero coupon and each share of the Series B

Stock is convertible into ten shares of the Company's common stock. The holder of a share of the Series B Stock is entitled to ten times any dividends paid on the common stock and such stock has ten votes per share and votes as one class with the common stock.

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of common stock (the "Conversion Rate"). The Conversion Rate is subject to adjustment as stipulated in the Agreement. Upon liquidation, the Series B Stock would be junior to the Company's Series A Preferred Stock and would share ratably with the common stock with respect to liquidating distributions.

During the year ended December 31, 2000, holders of 805,000 shares of the Series B Preferred Stock converted their shares into 805,000 shares of the Company's common stock. During the year ended December 31, 2002, the holders of 10,000 shares of the Series B Preferred Stock converted their shares into 10,000 shares of the Company's common stock.

At December 31, 2005 and 2004, 10,000 Series B Preferred Shares were issued and outstanding. The Company's right to repurchase or redeem shares of Series B Stock was eliminated in fiscal 1999 pursuant to the terms of the Agreement and the Certificate of Designation.

(b) Common Stock:

At the July 2005 annual meeting, the stockholders approved an amendment increasing the authorized common stock to 500,000,000 shares from 250,000,000 shares.

In 2003, the Company issued 100,000 shares of its common stock, resulting in net proceeds to the Company of $5,000 and 1,875,000 shares of its common stock in 2004, resulting in net proceeds to the Company of $9,375 as a result of the exercise of stock options granted pursuant to the default provisions of the 60 day promissory notes discussed in Note 5.

On February 6, 2003, the Company entered into a deferment agreement with three major creditors pursuant to which liabilities of approximately $523,887 in the aggregate, were deferred, subject to the success of the Company's debt and equity financing efforts. In addition, in consideration for the deferral, the Company agreed to issue 10,000 restricted shares of the Company's common stock, whose fair value was $3,000. The deferred creditors were paid in full, during 2003 from the recoveries against the StrandTek (see Note 3) personal guarantors.

On September 22, 2003 the Company commenced an equity private placement to raise up to $4,000,000 through the sale of up to 4,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these shares. The placement closed on December 31, 2003 upon the sale of 282,500 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719. The Company retained Robert M. Cohen & Company as placement agent, on a best efforts basis, for the offering. The Company agreed to pay the placement agent an amount equal to 10% of the proceeds of the offering as commissions for the placement agents' services in addition to reimbursement of the placement agents' expenses (by way of a 3% non-accountable expense allowance) and indemnification against customary liabilities.

In January 2004, the Company amended its equity private placement. During the year ended December 31, 2004, the Company sold 1,213,291 common shares resulting in net proceeds to the Company of $1,105,000. Of these shares, 728,291 were purchased by Robert Aholt, Jr., Chief Operating Officer of the Company in exchange for $650,000. Such shares have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption of registration requirements.

In March 2004, the Company issued 3,000 shares of its common stock whose fair value was $4,200 to two note holders as additional interest.

In each of the months of August through December 2004, the Company issued 3,750 shares for a total of 18,750 shares of its common stock to its investor relations firms for services. The fair value of these shares was $14,250 which was charged to operations.

In December 2004, the Company issued 47,768 shares of its common stock to its Chief Operating Officer as compensation as stated in his employment contract. The fair value of these shares was $26,750 which was charged to operations.

In February 2005, the $100,000 convertible note sold to the Company's former COO was converted into 196,078 shares of the Company's Common Stock.

For the twelve months ended December 31, 2005, the Company issued 17,500 shares of its common stock to its investor relations firms for services. The fair value of these shares was $10,208 which was charged to operations.

For the twelve months ended December 31, 2005, the Company issued 308,068 shares of its common stock to its officers, directors and employees for services in lieu of salary. The fair value of these shares was $119,686 which was charged to operations.

In 2005, the Company issued 1,259,285 shares of its Common Stock to accredited investors resulting in net proceeds to the Company of $872,000.

In July 2005, the Company granted 300,000 shares of its Common Stock to its President and CEO. These shares vest 100,000 immediately and 100,000 on each of the next two anniversary dates. The fair value of these shares was $120,000 which was charged to expense.

In September 2005, the Company granted 50,000 shares of its Common Stock to an Advisory

Board member. The fair value of these shares was $40,000 which was charged to expense.

In October 2005, the Company issued 5,000 shares to the Hospital for Joint Diseases in exchange for advertising in an event journal. The fair value of these shares was $3,500 which was charged to expense.

On November 30, 2005, $445,000 of debt was converted into the Company's Common Stock at 1.7 shares for each one dollar of debt resulting in 756,500 shares being issued. On December 30, 2005, an additional $20,000 of debt was converted into 34,000 shares of the Company's Common Stock.

On December 30, 2005, the Company issued 25,000 shares of its Common Stock to Westpark Capital, Inc. as additional compensation for the sale of the convertible debentures. The fair value of these shares was $20,000 which was charged to expense.

(c) Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company.

In connection with the September 2003 equity private placement, the Company issued a 5 year warrant to purchase 28,250 shares of its Common Stock at an exercise price of $1.20 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains "piggyback registration rights. The fair value of these warrants was $13,500 at December 31, 2003.

In each of the months of August 2004 through January 2005, the Company issued 2,500 warrants for a total of 15,000 warrants which entitles the holder to purchase one share of common stock at a price of $.50. These warrants expire in three years from date of issue and were issued the Company's investor relations firm. The fair value of these warrants was $874 in 2005 and $3,250 in 2004.

Warrants to purchase 24,000 shares of the Company's Common Stock were issued in September 2005, to Dr. Robin Smith for her position as Chairperson of the Advisory Board. The warrants vest 2,000 per month for twelve months. Each warrant entitles Dr. Smith to purchase one share of common stock at a price of $.80. These warrants expire three years from the date of issue. The fair value of these warrants was $3,196 in 2005 and $6,392 will be charged to operations in 2006.

In December 2005, the Company issued 416,660 warrants to the holders of the 9% convertible debt and 41,667 warrants to the placement agent as additional compensation. These warrants entitle the holder to purchase one share of common stock at a price of $1.20 and expire three years from the date of issue. The Company recorded an expense of $2,573 associated with the warrants as their fair value using the Black-Scholes method.

A total of 525,583 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 2005 at prices ranging from $.50 to $1.60 and expiring through December 2008. No warrants were exercised during any of the periods presented.

(d) Stock Option Plans:

(i) The 1998 Employee Incentive Stock Option Plan provides for the granting of options to purchase shares of the Company's common stock to employees. Under the 1998 Plan, the maximum aggregate number of shares that may be issued under options is 30,000 shares of common stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are

exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed $100,000. Options are exercisable at the fair market value of the common stock on the date of grant and have five-year terms. The exercise price of each option is 100% of the fair market value of the underlying stock on the date the options are granted and are exercisable for a period of ten years, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary unless (a) at the time the options are granted, the option exercise price is at least 110% of the fair market value of the shares of common stock subject to the options and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted. The Board of Directors' Compensation Committee administers the 1998 Plan. The 1998 Employee Incentive Stock Option Plan was superceded by the 2003 Equity Participation Plan in February 2003 (see below).

Under the 1998 plan outstanding options expire 90 days after termination of the holder's status as employee or director. All options were granted at an exercise price equal to the fair value of the common stock at the grant date. Therefore, in accordance with the provisions of APB Opinion No. 25 related to fixed stock options, no compensation expense is recognized with respect to options granted or exercised. Under the alternative fair-value based method defined in SFAS No. 123, the fair value of all fixed stock options on the grant date would be recognized as expense over the vesting period.

(ii) At the 2003 annual meeting, the stockholders approved the 2003 Equity Participation Plan. The Company has reserved 5,000,000 shares of common stock for the grant of incentive stock options and non-statutory stock options to employees and non-employee directors, consultants and advisors. Pursuant to such plan the Company entered into a Stock Option Agreement with Mr. Weinreb (the "Initial Option Agreement"). Under the Initial Option Agreement, the Company granted Mr. Weinreb the right and option, exercisable for 10 years, to purchase up to 250,000 shares of the Company's common stock at an exercise price of $0.30 per share.

Additionally, in the event that the closing price of the Company's common stock equals or exceeds $0.50 per share for any five consecutive trading days during the term of the employment agreement (whether during the initial term or an annual extension), the Company has agreed to grant Mr. Weinreb, on the day immediately following the end of the five day period, an option to purchase an additional 250,000 shares of the Company's common stock at an exercise price of $0.50 per share, pursuant to the 2003 Equity Participation Plan.

Mr. Weinreb has agreed that he will not sell any shares of the Company's common stock obtained upon exercise of the Initial Option Agreement or Additional Option Agreement prior to the first anniversary of the date of the employment agreement.

In April 2005, the Company granted an option to purchase 15,000 shares of its Common Stock at an exercise price of $1.00 to Catherine Vaczy, its Executive Vice President and General Counsel. These options vest 5,000 per year on each anniversary of the grant date.

In July 2005, the Company granted an option to purchase 75,000 shares of its Common Stock at an exercise price of $.60 to Catherine Vaczy, its Executive Vice President and General Counsel. These options vest 37,500 per year on each anniversary of the grant date.

In July 2005, the Company granted an option to purchase 400,000 shares of its Common Stock at an exercise price of $.60 to Mark Weinreb, its President and CEO. These options vest 200,000 immediately and 100,000 per year on each anniversary of the grant date.

In July 2005, the Company granted an option to purchase 150,000 shares of its Common Stock at an exercise price of $.60 to Robert Aholt, its former COO. These options vest 100,000 immediately and 25,000 per year on each anniversary of the grant date.

Additionally, the Company has granted options to purchase 1,200,000 shares in 2005, 298,500 shares in 2004 and 370,000 shares in 2003 of Common Stock at exercise prices ranging from $.30 to $1.80 to members of its board of directors, employees, consultants and its advisory board. All options were granted at an exercise price more than or equal to the fair value of the common stock at the date of grant.

Stock option activity under the 2003 Equity Participation Plan is as follows:

	Number of Shares (1)	Range of Exercise Price	Weighted Average Exercise Price
Balance at December 31, 2002	—	—	—
Granted	370,000	$.30 - $1.80	$ .50
Exercised	—	—	—
Expired	—	—	—
Cancelled	—	—	—
Balance at December 31, 2003	370,000	$.30 - $1.80	$ .50
Granted	298,500	$1.00- $1.50	$ 1.30
Exercised	—	—	—
Expired	—	—	—
Cancelled	—	—	—
Balance at December 31, 2004	668,500	$.30 - $1.80	$ .80
Granted	1,112,000	$.50 - $1.10	$ .60
Exercised	—	—	—
Expired	—	—	—
Cancelled	—	—	—
Balance at December 31, 2005	1,788,500	$.30 - $1.80	$ .70

(1) All options are exercisable for a period of ten years.

Options exercisable at December 31, 2003 - 370,000 at a weighted average exercise price of $.50

Options exercisable at December 31, 2004 - 618,500 at a weighted average exercise price of $.70

Options exercisable at December 31, 2005 - 1,208,500 at a weighted average exercise price of $.70

Exercise Price	Number Outstanding December 31, 2005	Weighted Average Remaining Contractual Life (years)	Number Exercisable December 31, 2005
$.30	250,000	7.10	250,000
$.50	95,000	7.55	95,000
$.60	1,075,000	9.57	530,000
$.70	20,000	9.09	—
$1.00	157,500	8.81	142,500
$1.10	20,000	8.42	20,000
$1.40	30,000	8.17	30,000
$1.50	111,000	8.01	111,000
$1.80	30,000	7.70	30,000
	1,788,500		1,208,500

Note 8 - Income Taxes

Deferred tax assets consisted of the following as of December 31:

	2005	2004

Net operating loss carryforwards	$ 3,807,000	$ 3,247,000
Depreciation and amortization	—	1,000
Capital loss carryforward	—	149,000
Deferred revenue	9,000	21,000
Deferred legal and other fees	87,000	51,000
Net deferred tax assets	3,903,000	3,469,000
Deferred tax asset valuation allowance	(3,903,000)	(3,469,000)
	$ —	$ —

The provision for income taxes is different than the amount computed using the applicable statutory federal income tax rate with the difference for each year summarized below:

	2005	2004	2003
Federal tax benefit at statutory rate	(34.0)%	(34.0)%	(34.0)%
Change in valuation allowance	34.0%	34.0%	34.0%
Provision for income taxes	0.00%	0.00%	0.00%

The Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards to offset future taxable income following a corporate ownership change. The Company's ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points during any three-year period.

Upon receipt of the proceeds from the last foreign purchasers of the Company's common stock in January 2000, common stock ownership changed in excess of 50% during the three-year period then ended. At December 31, 2005, the Company had net operating loss carryforwards of approximately $11,196,000. Included in the net operating loss carryforward is approximately $2,121,000 that has been limited by the ownership change. The tax loss carryforwards expire at various dates through 2025. The Company has

recorded a full valuation allowance against its net deferred tax asset because of the uncertainty that the utilization of the net operating loss and deferred revenue and fees will be realized.

Note 9 - Segment Information

Until April 30, 2001, the Company operated in two segments; as a reinsuror and as a seller of extended warranty service contracts through the Internet. The reinsurance segment has been discontinued with the sale of Stamford (see Note 1), and the Company's remaining revenues are derived from the run-off of its sale of extended warranties and service contracts via the Internet. Additionally, the Company is currently establishing a new business in the medical, bio-tech sector. The Company's operations are conducted entirely in the U.S. Although the Company has not realized any revenue from its purchase of royalty revenue interests, the Company will be operating in two segments until the "run-off" is completed.

Note 10 - Related Party Transactions

On September 13, 2004, ("Commencement Date") the Company entered into a letter agreement (the "Letter Agreement") with Mr. Robert Aholt Jr. pursuant to which the Company appointed Mr. Aholt as its Chief Operating Officer. Subject to the terms and conditions of the Letter Agreement, the term of Mr. Aholt's employment in such capacity will be for a period of three (3) years from the Commencement Date (the "Term").

In consideration for Mr. Aholt's services under the Letter Agreement, Mr. Aholt will be entitled to receive a monthly salary of $4,000 during the first year of the Term, $5,000 during the second year of the Term, and $6,000 during the third year of the Term. In further consideration for Mr. Aholt's services under the Letter Agreement, on January 1, 2005 and on the first day of each calendar quarter thereafter during the Term, Mr. Aholt will be entitled to receive shares of Common Stock with a "Dollar Value" of $26,750, $27,625 and $28,888, respectively, during the first, second and third years of the Term. The per share price (the "Price") of each share granted to determine the Dollar Value will be the average closing price of one share of Common Stock on the Bulletin Board (or other similar exchange or association on which the Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of grant of such shares; provided, however, that if the Common Stock is not then listed or quoted on an exchange or association, the Price will be the fair market value of one share of Common Stock as of the date of grant as determined in good faith by the Board of Directors of the Company. The number of shares of Common Stock for each quarterly grant will be equal to the quotient of the Dollar Value divided by the Price. The shares granted will be subject to a one year lockup as of the date of each grant. On each of January 1, 2005, April 1, 2005, July 1, 2005 and October 1, 2005, Mr. Aholt was issued 47,768, 80,090, 66,875 and 46,120, respectively, for a total of 240,853 shares pursuant to the terms of his agreement.

In the event Mr. Aholt's employment is terminated prior to the end of the Term for any reason, earned but unpaid cash compensation and unreimbursed expenses due as of the date of such termination will be payable in full. In addition, in the event Mr. Aholt's employment is terminated prior to the end of the Term for any reason other than by the Company with cause, Mr. Aholt or his executor of his last will or the duly authorized administrator of his estate, as applicable, will be entitled (i) to receive severance payments equal to one year's salary, paid at the same level and timing of salary as Mr. Aholt is then receiving and (ii) to receive, during the one (1) year period following the date of such termination, the stock grants that Mr. Aholt would have been entitled to receive had his employment not been terminated prior to the end of the Term; provided, however, that in the event such termination is by the Company without cause or is upon Mr. Aholt's resignation for good reason, such severance payment and grant shall be subject to Mr. Aholt's execution and delivery to the Company of a release of all claims against the Company.

On August 12, 2004 ("Commencement Date") the Company and Dr. Wayne A. Marasco, a Company Director, entered into a Letter Agreement appointing Dr. Marasco as the Company's Senior Scientific Advisor. Dr. Marasco will be responsible for assisting the Company in reviewing and evaluating business, scientific and medical opportunities, and for other discussions and meetings that may arise during the normal course of the Company conducting business. For his services, during a three year period ("Term"), Dr. Marasco shall be entitled to annual cash compensation of $84,000 with increases each year of the Term

and an additional cash compensation based on a percentage of collected revenues derived from the Company's royalty or revenue sharing agreements. Although the annual cash compensation and additional cash compensation stated above shall begin to accrue as of the Commencement Date, Dr. Marasco will not be entitled to receive any such amounts until the Company raises $1,500,000 in additional equity financing after the Commencement Date. In addition, Dr. Marasco was granted an option, fully vested, to purchase 67,500 shares of the Company's common stock at an exercise price of $1.00 per share. The shares will be subject to a one year lockup as of the date of grant. The exercise period will be ten years, and the grant will otherwise be in accordance with the Company's 2003 Equity Participation Plan and Non-Qualified Stock Option Grant Agreement.

Note 11 – Commitments and Contingencies

On February 6, 2003, Mr. Weinreb was appointed President and Chief Executive Officer of the Company and has entered into an employment agreement with Mr. Weinreb. The employment agreement has an initial term of three years, with automatic annual extensions unless terminated by the Company or Mr. Weinreb at least 90 days prior to an applicable anniversary date. The Company has agreed to pay Mr. Weinreb an annual salary of $180,000 for the initial year of the term, $198,000 for the second year of the term, and $217,800 for the third year of the term. In addition, he is entitled to an annual bonus in the amount of $20,000 for the initial year in the event, and concurrently on the date, that the Company has received debt and/or equity financing in the aggregate amount of at least $1,000,000 since the beginning of his service, and $20,000 for each subsequent year of the term, without condition.

In addition, the Company, pursuant to its 2003 EPP, entered into a Stock Option Agreement with Mr. Weinreb (the "Initial Option Agreement"). Under the Initial Option Agreement, the Company granted Mr. Weinreb the right and option, exercisable for 10 years, to purchase up to 250,000 shares of the Company's common stock at an exercise price of $0.30 per share and otherwise upon the terms set forth in the Initial Option Agreement. In addition, in the event that the closing price of the Company's common stock equals or exceeds $5.00 per share for any five consecutive trading days during the term of the employment agreement (whether during the initial term or an annual extension), the Company has agreed to grant to Mr. Weinreb, on the day immediately following the end of the five day period, an option for the purchase of an additional 250,000 shares of the Company's common stock for an exercise price of $5.00 per share, pursuant to the 2003 Equity Participation Plan and a Stock Option Agreement to be entered into between the Company and Mr. Weinreb containing substantially the same terms as the Initial Option Agreement, except for the exercise price and that the option would be treated as an "incentive stock option" for tax purposes only to the maximum extent permitted by law (the "Additional Option Agreement"). The Company agreed to promptly file with the Securities and Exchange Commission a Registration Statement on Form S-8 (the "Registration Statement") pursuant to which the issuance of the shares covered by the 2003 Equity Participation Plan, as well as the resale of the common stock issuable upon exercise of the Initial Option Agreement, are registered, which has been filed. Additionally, the Company has agreed, following any grant under the Additional Option Agreement, to promptly file a post-effective amendment to the Registration Statement pursuant to which the common stock issuable upon exercise thereof shall be registered for resale. Mr. Weinreb has agreed that he will not resell publicly any shares of the Company's common stock obtained upon exercise of any Initial Agreement or the Additional Option Agreement prior to the first anniversary of the date of the employment agreement.

On April 25, 2005, the Company appointed Catherine M. Vaczy as its Executive Vice President and General Counsel, effective as of April 20, 2005 (the "Commencement Date"). On the Commencement Date, the Company entered into a letter agreement (the "Letter Agreement") with Ms. Vaczy, pursuant to which the Company appointed Ms. Vaczy as its Executive Vice President and General Counsel. Subject to the terms and conditions of the Letter Agreement, the term of Ms. Vaczy's employment in such capacity will be for a period of three (3) years from the Commencement Date (the "Term").

In consideration for Ms. Vaczy's services under the Letter Agreement, Ms. Vaczy will be entitled to receive an annual salary of $155,000 during the first year of the Term, a minimum annual salary of $170,500 during the second year of the Term, and a minimum annual salary of $187,550 during the third year of the Term. Ms. Vaczy and the Company have agreed that from the Commencement Date until the

90th day thereafter (the "Initial 90 Day Period"), Ms. Vaczy's salary will be paid to her at a rate of 50% of the annual rate and accrue as to the remainder. At the end of the Initial 90 Day Period, and at the end of each additional 90 day period thereafter, whether to continue to accrue salary at this rate and provision for payment of accrued amounts will be discussed in good faith. Payment of accrued salary may be made in cash, or, upon mutual agreement, shares of common stock. Any shares of common stock issued in payment of accrued salary shall have a per share price equal to the average closing price of one share of common stock on the Bulletin Board (or other similar exchange or association on which the common stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of issue of such shares; provided, however, that if the common stock is not then quoted on the Bulletin Board or otherwise listed or quoted on an exchange or association, the price shall be the fair market value of one share of common stock as of the date of issue as determined in good faith by the Board of Directors of the Company. The number of shares of common stock for any issuance in payment of accrued salary shall be equal to the quotient of the amount of the accrued salary divided by the price. The shares issued will be subject to a one-year lock up as of the date of each grant and shall be registered with the Securities and Exchange Commission on a Registration Statement on Form S-8.

In the event Ms. Vaczy's employment is terminated prior to the end of the Term for any reason, earned but unpaid cash compensation and unreimbursed expenses due as of the date of such termination will be payable in full. In addition, in the event Ms. Vaczy's employment is terminated prior to the end of the Term for any reason other than by the Company with cause or Ms. Vaczy without good reason, Ms. Vaczy or her executor of her last will or the duly authorized administrator of her estate, as applicable, will be entitled in the event the employment termination date is after April 20, 2006, to receive severance payments equal to Ms. Vaczy's then one year's salary, paid in accordance with the Company's standard payroll practices for executives of the Company and (ii) in the event the employment termination date is before April 20, 2006 but after October 20, 2005, to receive severance payments equal to one-sixth of Ms. Vaczy's then one year's salary, paid in accordance with the Company's standard payroll practices for executives of the Company. In addition, in the event Ms. Vaczy's employment is terminated prior to the end of the Term by the Company without Cause or by Ms. Vaczy for good reason, the Option (as defined below) shall vest and become immediately exercisable in its entirety and remain exercisable in accordance with its terms. No other payments shall be made, nor benefits provided, by the Company in connection with the termination of employment prior to the end of the Term, except as otherwise required by law.

On May 4, 2005, the Board voted to amend the Company's agreements with each of Mr. Weinreb, Mr. Aholt and Dr. Marasco, as described below, subject to approval of the Stockholders. On July 12, 2005, the Stockholders approved these amendments.

Mr. Weinreb's employment agreement was amended to (a) extend the expiration date thereof from February 2006 to December 2008; (b) change Mr. Weinreb's annual base salary of $217,800 (with an increase of 10% per annum) to an annual base salary of $250,000 (with no increase per annum); (c) grant Mr. Weinreb 300,000 shares of Common stock, 100,000 shares of which shall vest on each of the date of grant and the first and second anniversaries of the date of grant; (d) amend the severance provision of the existing employment agreement to provide that in the event of termination without cause (subject to certain exceptions), Mr. Weinreb will be entitled to receive a lump sum payment equal to his then base salary and automobile allowance for a period of one year; (e) commencing in August 2006, increase Mr. Weinreb's annual bonus from $20,000 to $25,000; (f) in August 2005, pay Mr. Weinreb $15,000 to cover costs incurred by him on behalf of the Company; and (g) in 2006, provide for the reimbursement of all premiums in an annual aggregate amount of up to $18,000 payable by Mr. Weinreb for life and long term care insurance covering each year during the remainder of the term of his employment.

Mr. Aholt's employment agreement with the Company was amended to (a) replace the provision of Mr. Aholt's existing employment agreement pursuant to which he is compensated in shares of common stock with a provision pursuant to which he will be compensated solely in cash, effective as of September 30, 2005; (b) replace the provision of Mr. Aholt's existing employment agreement pursuant to which his compensation accrues on a monthly and/or quarterly basis with a provision pursuant to which his compensation will be paid in accordance with the Company's normal payroll practices, effective as of September 30, 2005; and (c) provide for a minimum annual bonus of $12,000, payable in January of each

year during the term of his employment, commencing in January 2006. As of May 9, 2005, Mr. Aholt beneficially owned approximately 23.1% of the then outstanding shares of common stock (excluding the Options to purchase 150,000 shares of Common stock granted to Mr. Aholt by the Board of Directors, subject to approval of the Stockholders, as discussed above).

Dr. Marasco's letter agreement with the Company was amended to (a) extend the term of the letter agreement from August 2007 to August 2008; (b) provide for an annual salary of $110,000, $125,000 and $150,000 for the years ended August 2006, 2007 and 2008, payable in each such year during the term; (c) provide for a minimum annual bonus of $12,000, payable in January of each year during the term, commencing in January 2006; (d) eliminate Dr. Marasco's right under his existing letter agreement to receive 5% of all collected revenues derived from the Company's royalty or other revenue sharing agreements (which right is subject to the limitation that the amount of such additional cash compensation and Dr. Marasco's annual salary do not exceed, in the aggregate, $200,000 per year); and (e) permit Dr. Marasco to begin receiving all accrued but unpaid cash compensation under his letter agreement upon the Company's consummation of any financing, whether equity or otherwise, pursuant to which the Company raises $1,500,000.

On February 21, 2003 the Company began leasing office space in Melville, New York at an original annual rental of $18,000. The lease has been renewed through March 2007 with an annual rental of approximately $22,800. Rent expense approximated $28,900, $24,900 and $13,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

On April 22, 2004, the Company entered into an agreement with an advisor in connection with its amended private placement to provide assistance in finding qualified investors. The agreement calls for the payment of 10% of the funds raised by the Company as a direct result of introductions made by the advisor. In addition, the Company is obligated to pay a 2% non-accountable expense allowance on all funds received that are subject to the 10% payment. For the years ended December 31, 2005 and 2004, the Company paid a total of $0 and $21,000 respectively under this agreement.

On March 20, 2004, the Company entered into a consulting agreement which will provide the Company with advice as to business development possibilities for the services and technology of NS California Inc. The agreement provides for the issuance of options to purchase 30,000 shares of the Company's common stock at an exercise price of $1.00 per share. This option is immediately vested and expires ten years from the date of issue. The agreement also provides for the payment of $2,500 per month for each month after the Company has received capital contributions of $1,000,000 from the date of the agreement. If certain performance levels are met, the Company is obligated to issue an additional option to purchase 50,000 shares of the Company's common stock for an exercise price of $1.00 per share.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company is providing capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. During the year ended December 31, 2004, the Company paid $640,000 as specified in the agreement which brought the total paid since the inception of the agreement to $720,000. The agreement also calls for the Company to pay on behalf of PSI $280,000 of certain expenses relating to testing of the bioshielding concept. During the years ended December 31, 2005 and 2004, the Company paid $0 and $85,324, respectively, of such expenses.

Note 12 - Subsequent Events

In January 2006, the Company sold $250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of $223,880. In addition, these Promissory Notes have 41,667 detachable warrants for each $25,000 of debt, resulting in 416,666 warrants being issued, which entitle the holder to purchase one share of the Company's Common Stock at a price of $1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. These notes contain the same convertible provision as described in Note 5. As compensation, the Company issued 25,000 shares of its common stock and 41,667 warrants to the underwriter. The warrants have the same terms and conditions as the warrants issued in connection with the debt.

In January 2006, two holders of promissory notes converted their debt in the amount of $45,000 into 76,500 shares of the Company's Common Stock.

In January 2006, the Company repaid $73,000 of promissory notes, of which, $48,000 was to its President and CEO.

On January 19, 2006, the Company consummated its acquisition of the assets of NS California, Inc. (then known as NeoStem, Inc.), a California corporation ("NS California"). The purchased assets were those relating to NS California's business of collecting and storing adult stem cells. The purchase price for NS California's assets consisted of 500,000 shares of the Company's common stock, plus the assumption of certain liabilities of NS California and liabilities under assumed contracts. Of the stock consideration, 60% (or 300,000 shares) will be retained in escrow for a period of one (1) year subject to certain indemnification claims. The assumed liabilities of NS California as of the Closing Date, including accounts payable and accrued liabilities, professional fees incurred in the acquisition and capitalized lease obligations, were approximately $465,000, of which holders agreed to the satisfaction of approximately $82,000 of such liabilities by the issuance of an additional 201,223 shares of the Company's Common Stock. The amount of the consideration paid pursuant to the Agreement was determined based on arms length negotiations between the parties. The shares issued to NS California are subject to certain piggyback registration rights. A copy of the Asset Purchase Agreement dated December 6, 2005 among the Company, its wholly-owned subsidiary, Phase III Medical Holding Company and NS California was annexed to the Company's Current Report on Form 8-K filed on December 12, 2005. Effective with the acquisition, the business of the Company has changed, so that the business of NS California now will be the principal business of the Company. The Company will attempt to utilize the combined NeoStem and NS California management teams to develop and expand NS California's adult stem cell processing and storage business, instead of its historic business of providing capital and business guidance to companies in the healthcare and life science industries.

In January 2006, the Company granted options to Larry May, the Company's Chief Financial Officer, to purchase 15,000 shares of the Company's Common Stock at an exercise price of $.50. These options vest 5,000 per year for each of the next three years. These options expire 10 years from the date of grant. The Company also granted options to Denis Rodgerson, the Company's Director of Stem Cell Science, to purchase 5,000 shares of the Company's Common Stock at an exercise price of $.50. These options vest one year from the date of grant. These options expire 10 years from the date of grant.

On January 20, 2006, Robert Aholt tendered his resignation as Chief Operating Officer of the Company. On March 31, 2006, the Company and Mr. Aholt entered into a Settlement Agreement and General Release pursuant to which the Company agrees to pay Mr. Aholt the aggregate sum of $250,000 (less applicable withholdings and deductions), payable over a period of two years in biweekly installments of $4,808 commencing on April 7, 2006, except that the first payment will be $9,616. In the event of an uncured breach by the Company of its payment obligations, the entire amount becomes due.

In March 2006, the Company granted options to a consultant to purchase 2,500 shares of the Company's Common Stock at an exercise price of $.80 which vest immediately. These options expire ten years from the date of grant.

In March 2006, the Company issued warrants to purchase 12,000 shares of its Common Stock at a price of $1.00 per share to its marketing consultant. These warrants vest 2,000 per month for six months. The warrants expire three years from the date of issue.

On March 17, 2006, the stockholders of the Company voted to approve an amendment to the Certificate of Incorporation which permits the Company to issue in exchange for all 681,171 shares of Series A Preferred Stock outstanding and its obligation to pay $528,564 (or $.78 per share) in accrued dividends thereon, a total of 544,937 shares of Common Stock (eight-tenths (.8) shares of Common Stock per share of Series A Preferred Stock). Pursuant thereto, all outstanding shares of Series A Preferred Stock will be cancelled and converted into Common Stock.

On March 27, 2006, the Company sold 10,000 shares of its Common Stock to an Advisory Board member at a price of $.53 per share resulting in net proceeds to the Company of $5,300.

Note 13 – Reverse Stock Split and Change of Name

On August 29, 2006, the stockholders of the Company approved an amendment to the Certificate of Incorporation to effect a reverse stock split of the Common Stock of the Company at a ratio of one-for-ten shares. All amounts included in the financial statements have been adjusted to reflect the reverse stock split as if it occurred as of the earliest date of the financial statement. Additionally, the stockholders of the company approved an amendment to the Certificate of Incorporation to change the name of the Company from Phase III Medical, Inc. to NeoStem, Inc.

NEOSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 912,250	$ 488,872
Prepaid expenses and other current assets	119,233	18,447
Total current assets	1,031,483	507,319
Property and equipment, net	68,591	1,488
Deferred acquisition costs	10,187	19,121
Goodwill	580,866	—
Other assets	3,000	114,753
	$ 1,694,127	$ 642,681
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Interest and dividends payable - preferred stock	$ —	$ 528,564

Accounts payable	401,164	256,976
Accrued liabilities	117,657	617,196
Other current liabilities	1,379,519	—
Due to related party – current portion	125,000	—
Notes payable	189,542	135,000
Notes payable – related parties	—	48,000
Convertible promissory notes - net of debt discount of $75,804 and $83,333	424,196	166,667
Capitalized lease obligations – current portion	25,455	—
Total current liabilities	2,662,533	1,752,403
Unearned revenues	14,221	26,745
Due to related party – long-term portion	81,731	—
Capitalized lease obligations	54,513	—
Series A mandatorily redeemable convertible preferred stock	—	681,171
Total Liabilities	2,812,998	2,460,329
Stockholders' Deficit:		
Preferred stock; authorized, 5,000,000 shares Series B convertible redeemable preferred stock, liquidation value 10 shares of common stock per share; $0.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares	100	100
Common stock, $.001 par value; authorized, 500,000,000 shares; issued and outstanding, 14,406,619 shares at June 30, 2006 and 7,054,386 shares at December 31, 2005	14,407	7,056
Additional paid-in capital	15,506,513	12,430,571
Accumulated deficit	(16,639,891)	(14,255,365)
Total stockholders' deficit	(1,118,8 71)	(1,817,638)
	$ 1,694,127	$ 642,681

See accompanying notes to consolidated financial statements

NEOSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Earned revenues	$ 6,262	$ 9,448	$ 12,524	$ 19,983
Direct costs	(4,467)	(6,603)	(8,934)	(14,020)
Gross profit	1,795	2,845	3,590	5,963
Selling, general and administrative	1,039,409	358,760	1,978,234	574,261
Operating loss	(1,037,614)	(355,915)	(1,974,644)	(568,298)
Other income (expense):				
Interest income	2,005	—	2,544	—
Interest expense	(209,473)	(25,230)	(402,492)	(50,596)
Interest expense – Series A mandatorily redeemable convertible preferred stock	—	(11,921)	(9,934)	(23,842)
Net loss attributable to common stockholders	$ (1,245,082)	$ (393,066)	$ (2,384,526)	$ (642,736)
Net loss per common share	$ (0.12)	$ (0.09)	$ (0.26)	$ (0.15)
Weighted average common shares outstanding	10,114,293	4,364,702	9,040,366	4,372,612

See accompanying notes to consolidated financial statements

NEOSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,

	2006	2005
Cash flows from operating activities:		
Net loss	$ (2,384,526)	$ (642,736)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common shares issued and stock options granted for services rendered and interest expense	675,473	27,149
Depreciation	12,041	979
Amortization of debt discount	136,696	5,882
Series A mandatorily redeemable convertible preferred stock dividends	9,934	23,842
Deferred acquisition costs	8,934	14,020
Changes in operating asset and liabilities:		
Prepaid expenses and other current assets	(103,591)	1,310
Unearned revenues	(12,524)	(19,983)
Accounts payable, accrued expenses, and other current liabilities	(126,063)	256,929
Net cash used in operating activities	(1,783,626)	(332,608)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	1,928,100	152,000
Proceeds from advances on notes payable	180,396	155,000
Payments of capitalized lease obligations	(9,631)	—
Net Proceeds from advances on notes payable - related party	—	23,000
Proceeds from sale of convertible debentures	250,000	—
Repayments of notes payable	(141,861)	(25,000)
Net cash provided by financing activities	2,207,004	305,000
Net increase (decrease) in cash and cash equivalents	423,378	(27,608)
Cash and cash equivalents at beginning of period	488,872	27,868
Cash and cash equivalents at end of period	$ 912,250	$ 260
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 38,698	$ 41,011
Supplemental Schedule of Non-cash Financing Activities:		
Issuance of shares for purchase of NS California	$ 200,000	$ —
Net accrual of dividends on Series A Preferred Stock	$ 9,934	$ 23,842
Issuance of common stock for services rendered	$ 301,483	$ 26,278
Compensatory element of stock options	$ 298,516	$ 874

See accompanying notes to consolidated financial statements.

NEOSTEM, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY

NeoStem, Inc. (formerly known as Phase III Medical, Inc.), a Delaware corporation ("NeoStem" or the "Company") is engaged in the business of operating a commercial autologous (donor and recipient are the same) adult stem cell bank and is pioneering the pre-disease collection, processing and storage of adult stem cells that donors can access for their own present and future medical treatment. The Company's previous business was to provide capital and business guidance to companies in the healthcare and life science industries. On January 19, 2006, the Company consummated the acquisition of the assets of NS California, Inc. (then known as NeoStem, Inc.), a California corporation ("NS California") relating to NS California's business of collecting and storing adult stem cells. NS California had been a company to which NeoStem had been providing business guidance. Effective with the acquisition, the business of NS California became the principal business of the Company. The Company now provides adult stem cell processing, collection and banking services with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs. The Company also plans to become the leading provider of adult stem cells for therapeutic use in the burgeoning field of regenerative medicine for potentially addressing heart disease, certain types of cancer and other critical health problems. The Company is utilizing the combined NeoStem and NS California management teams to develop and expand this business.

Prior to the NS California acquisition, the business of the Company was to provide capital and business guidance to companies in the healthcare and life science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Additionally, through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. The Company is still engaged in the "run off" of such extended warranties and service contracts.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2006 and December 31, 2005, the results of operations for the three months and six months ended June 30, 2006 and 2005 and the cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The Company's consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company currently has no cash generating revenues and limited financial resources to pay its current expenses and liabilities. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The December 31, 2005 balance sheet has been derived from the audited financial statements at that date included in the Company's Annual Report on Form 10-K/A. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A.

NOTE 3 –RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB No. 133 and 140. The purpose of SFAS statement No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of any entity's first fiscal year beginning after September 15, 2006. We believe that the adopti on of this standard on January 1, 2007 will not have a material effect on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140. SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. We believe that the adoption of this standard on January 1, 2007 will not have a material effect on our consolidated financial statements.

NOTE 4 –STOCK OPTIONS

The Company's Equity Participation Plan (the "Plan") permits the grant of share options and shares to its employees, Directors, consultants and advisors for up to 50,000,000 shares of common stock as stock compensation. All stock options under the Equity Participation Plan are generally granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a period determined at time of grant and generally expire 10 years from the grant date.

Effective January 1, 2006, the Company's Plan is accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to January 1, 2006, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to January 1, 2006.

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

As a result of the adoption of FAS 123(R), the Company's results for the three month and six month period ended June 30, 2006 include share-based compensation expense totaling approximately $245,619 and $298,516 respectively. Such amounts have been included in the consolidated statements of income within general and administrative expenses. Stock compensation expense recorded under APB No. 25 in the consolidated statements of operations for the three months and six months ended June 30, 2005 totaled $0.

Stock option compensation expense in 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for entire portion of the award.

The weighted average estimated fair value of stock options granted in the three months and six months ended June 30, 2006 was $.60 and $.60, respectively. The weighted average estimated fair value of stock options granted in the three months and six months ended June 30, 2005 was $.25 and $.28, respectively.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During 2006, the Company took into consideration the guidance under SFAS 123(R) and SAB No. 107 when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors. The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

The assumptions made in calculating the fair values of options are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Expected term (in years)	10	10	10	10
Expected volatility	199%	200%	197%	200%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.80%	2.80%	2.80%	2.80%

The following table addresses the additional disclosure requirements of FAS 123(R) in the period of adoption. The table illustrates the effect on net income and earnings per share as if the fair value recognition provisions of FAS No. 123 had been applied to all outstanding and unvested awards in the prior year comparable period.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss, as reported	$ (393,066)	$ (642,736)
Add: Stock based compensation included in reported net income	—	—
Deduct: Total stock based compensation expense determined under the fair value based method for all awards (no tax effect)	(17,726)	(35,452)
Pro forma net loss	$ (410,792)	$ (678,188)
Net loss per share:		
Basic, as reported	$ (0.09)	$ (0.15)
Basic, proforma	$ (0.09)	$ (0.16)

The Company granted 1,140,000 and 1,136,500 options under the Plan during the three months and six months ended June 30, 2006, respectively, at exercise prices ranging from $.44 per share to $2.50 per share.

The following table represents our stock options granted, exercised, and forfeited during the six months ended June 30, 2006.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Stock Options				
Outstanding at December 31, 2005	1,788,500	$ 0.68		
Granted	1,136,500	$ 0.88		
Exercised	—	—		
Forfeited/expired	(50,000)	$ 0.60		
Outstanding at June 30, 2006	2,875,000	$ 0.76	8.82	$ 83,000
Vested and Exercisable at June 30, 2006	1,527,500	$ 0.73	7.11	$ 50,000

As of June 30, 2006, there was $ 556,360 of total unrecognized compensation costs related to unvested stock option awards which are expected to vest over a weighted average life of 1.09 years.

Options	Weighted Average Grant Date Fair Value

Nonvested at December 31, 2005	580,000	$	0.34
Granted	1,136,500	$	0.60
Vested	(319,000)	$	0.56
Forfeited	(50,000)	$	0.44
Nonvested at June 30, 2006	1,347,500	$	0.49

The total fair value of shares vested during the six month period ended June 30, 2006 was $298,516.

.**NOTE 5 - NOTES PAYABLE**

On March 17, 2003, the Company commenced a private placement offering to raise up to $250,000 in six month promissory notes in increments of $5,000 bearing interest at 15% per annum. Only selected investors which qualify as “accredited investors” as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these promissory notes. The Company raised the full $250,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $225,000, net of offering costs. The notes contain a default provision which raises the interest rate to 20% if the notes are not paid when due. The Company issued $250,000 of these notes. As of June 30, 2006, $90,000 has been converted into 153,000 shares of the Company’s Common Stock and $95,000 has been repaid and the remaining balance of $65,000 bears interest at 20% and the due date has been extended to September 30, 2006. All interest payments have been made timely.

In August 2004, the Company sold 30 day 20% notes in the amount of $55,000 to two accredited investors to fund current operations. As of June 30, 2006, $30,000 of these notes has been paid and $25,000 converted into 42,500 shares of the Company’s Common Stock. All interest payments have been paid timely. In December 2004, the Company sold four notes to four accredited investors totaling $100,000 with interest rates that range from 8% to 20%. As of June 30, 2006, $15,000 has been repaid and $85,000 converted into 144,500 shares of the Company’s Common Stock, and as of June 30, 2006 there are no amounts due. All interest payments have been made timely.

In March 2005, the Company sold a 30 day 8% note in the amount of $17,000, in August 2005, an 8% note in the amount of $10,000 and in September 2005, two 8% notes in the amounts of $6,000 and $15,000 to its President and then CEO, totaling $48,000 and were all due on demand. In January 2006, all notes were repaid. The interest on these notes was made timely.

On December 30, 2005, the Company sold $250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of $220,000. These convertible notes were sold in connection with a subscription agreement between the Company and Westpark Capital, Inc. (“Westpark”). (The convertible notes and warrants sold in December, 2005 and January, 2006 in the transaction in which Westpark Capital, Inc. acted as the placement agent is sometimes referred to herein as the “Westpark Private Placement.”) As part of the Westpark Private Placement, these Promissory Notes have 41,667 detachable warrants for each $25,000 of debt, which entitle the holder to purchase one share of the Company’s Common Stock at a price of $1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. The Promissory Notes convert to the Company’s Common Stock at $.60 per share. The Promissory Notes are convertible at anytime into shares of Common Stock at the option of the Company subsequent to the shares underlying the Promissory Notes and the shares underlying the warrants registration if the closing price of the Common Stock has been at least $1.80 for a period of at least 10 consecutive days prior to the

date on which notice of conversion is sent by the Company to the holders of the Promissory Notes. Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible notes and the warrants sold in the WestPark Private Placement. This registration statement was made effective by July 31, 2006 and certain additional rights have accrued to the Convertible Promissory Noteholders (see Note 12 for a detailed description of these additional rights). In connection with this event the Company is approaching Convertible Promissory Noteholders with proposals to extend the term or convert their debt positions into Common Stock under terms that are more favorable than the subscription agreement calls for (see Note 12 for a detailed description of these proposals and the amount of debt that has been extended or converted into Common Stock). The Company recorded a debt discount associated with the conversion feature in the amount of $83,333. For the three months and six months ended June 30, 2006, the Company charged $27,776 and $55,758 of the debt discount to interest expense, respectively. The debt discount recorded of $83,333 does not change the amount of cash required to payoff the principal value of these Promissory Notes, at any time during the term, which is $250,000. In 2005, the Company recorded an expense of $2,573 associated with the warrants as their fair value using the Black-Scholes method.

In January 2006, the Company sold an additional $250,000 of convertible nine month Promissory Notes which bear 9% simple interest with net proceeds to the Company of $223,880 as part of the Westpark Private Placement. These Promissory Notes also have 41,667 detachable warrants for each $25,000 of debt, which entitle the holder to purchase one share of the Company’s Common Stock at a price of $1.20 per share. The warrants are exercisable for a period of three years from the date of the Promissory Note. The Promissory Notes convert to the Company’s Common Stock at $.60 per share. The Promissory Notes are convertible at anytime into shares of Common Stock at the option of the Company subsequent to the shares underlying the Promissory Notes and the shares underlying the warrants registration if the closing price of the Common Stock has been at least $1.80 for a period of at least 10 consecutive days prior to the date on which notice of conversion is sent by the Company to the holders of the Promissory Notes. Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible notes and the warrants sold in the WestPark Private Placement. This registration statement was not filed on July 31, 2006, and certain additional rights have accrued to the Convertible Promissory Noteholders (see Note 12 for a detailed description of these additional rights). In connection with this event the Company is approaching Convertible Promissory Noteholders with proposals to extend the term or convert their debt positions into Common Stock under terms that are more favorable than the subscription agreement calls for (see Note 12 for a detailed description of these proposals and the amount of debt that has been extended or converted into Common Stock). The Company recorded a debt discount associated with the conversion feature in the amount of $129,167. For the three months and six months ended June 30, 2006, the Company charged $43,056 and $80,938 of the debt discount to interest expense, respectively. For the three months and six months ended June 30, 2006, the Company recorded as interest expense $127,995 and $255,990, respectively, associated with the warrants as their fair value using the Black-Scholes method. The debt discount recorded of $129,167 does not change the amount of cash required to payoff the principal value of these Promissory Notes, at any time during the term, which is $250,000

In connection with the NS California acquisition, the Company assumed a 6% note due to Tom Hirose, a former employee of NS California in the amount of $15,812. As of June 30, 2006, $1,312 remains unpaid. Payments are made in the amount of $1,500 per month and will continue until all amounts due

including interest are paid.

On May 17, 2006, the Company sold an 8% promissory note in the amount of $20,000 due on demand to Robin Smith, the Company's then Chairman of the Advisory Board. This promissory note was paid off on June 2, 2006.

The Company has financed certain insurance polices and has notes payable balance due at June 30, 2006 of $123,230 related to these policies. These notes require monthly payments and mature in less than one year.

NOTE 6 - SERIES "A" MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Certificate of Designations for the Company's Series A $.07 Convertible Preferred Stock ("Series A Preferred Stock") provides that at any time after December 1, 1999 any holder of Series A Preferred Stock may require the Company to redeem his shares of Series A Preferred Stock (if there are funds with which the Company may legally do so) at a price of $1.00 per share. Notwithstanding the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. The holders of Series A Preferred Stock may convert their Series A Preferred Stock into shares of Common Stock of the Company at a price of $5.20 per share. On March 17, 2006, the stockholders of the Company voted to approve an amendment to the Certificate of Incorporation which permits the Company to issue in exchange for all 681,171 shares of Series A Preferred Stock outstanding and its obligation to pay $538,498 (or $.79 per share) in accrued dividends thereon, a total of 544,937 shares of Common Stock (eight tenths (.8) shares of Common Stock per share of Series A Preferred Stock). Pursuant thereto, at June 30, 2006, all outstanding shares of Series A Preferred Stock were cancelled and converted into Common Stock. Therefore, at June 30, 2006 and December 31, 2005, there were 0 and 68,117 shares of Series A Preferred Stock outstanding.

NOTE 7 - STOCKHOLDERS' EQUITY

(a) Common Stock:

In January 2006, the Company issued 76,500 shares of its Common Stock in exchange for $45,000 of notes payable. In addition, the Company issued 25,000 shares of its Common Stock to Westpark as additional compensation for its role as placement agent in the Westpark Private Placement. The fair value of these shares was $22,750 which was charged to expense. In connection with the acquisition of certain assets of NS California, the Company issued 200,000 shares of its Common Stock to NS California. An additional 200,000 shares of the Company's Common Stock are being held in escrow pending any potential claims that may be made in connection with the NS California transaction to be released one year from the closing less any shares reclaimed due to amounts paid in cash in lieu of stock. The Company issued 100,000 additional shares of its Common Stock in escrow pending the approval of the license for the laboratory used for the collection of stem cells. The agreement calls for 1,667 shares to be forfeited each day the license is not obtained past February 15, 2006, with a maximum of 100,000 shares of Common Stock subject to forfeiture. The license was obtained in May, 2006 and therefore the Company has notified NS California of the requirement that the 100,000 shares be forfeited to the Company. Subsequent to the closing of the NS California transaction, the Company issued 201,223 shares of its Common Stock in payment of obligations assumed by the Company. In certain cases, the Company issued shares with a fair market value on the date of issuance of $98,600 which was greater than the debt being paid and therefore recorded additional expense of $28,344.

In March 2006, the Company sold 60,227 shares of its Common Stock to five accredited investors at a per share price of $.44 resulting in net proceeds to the Company of $26,500.

In April and May 2006 the Company sold 351,319 of its Common Stock to eleven accredited investors at a per share price of $.44 resulting in net proceeds to the Company of $154,600

In May 2006, the Company entered into an advisory agreement with Duncan Capital Group LLC ("Duncan"). Pursuant to the advisory agreement, Duncan is providing to the Company on a non-exclusive "best efforts" basis, services as a financial consultant in connection with any equity or debt financing, merger, acquisition as well as with other financial matters. In return for these services, the Company is paying to Duncan a monthly retainer fee of $7,500, 50% of which may

be paid by the Company in shares of its Common Stock valued at fair market value and reimbursing it for its reasonable out-of-pocket expenses in an amount not to exceed $12,000. Pursuant to the advisory agreement, Duncan also agrees, subject to certain conditions, that it or one of its affiliated entities would act as lead investor in a proposed private placement (the "Duncan Private Placement") of shares of Common Stock and warrants to purchase shares of Common Stock in an amount that is not less than $2,000,000 or greater than $3,000,000. In consideration for such role, Duncan will receive a fee of $200,000 in cash and 240,000 shares of restricted Common Stock. On June 2, 2006, pursuant to the Duncan Private Placement, the Company sold 4,724,999 shares of its Common Stock to seventeen accredited investors at a per share price of $.44 resulting in gross proceeds of $2,079,000. In connection with this transaction, the Company issued 2,362,499 common stock purchase warrants to these seventeen investors. These Common Stock purchase warrants have a term of 5 years and exercise price of $.80 per share. From the proceeds of sale of Common Stock a fee of $200,000 was paid to Duncan and 240,000 Common Stock shares were issued to Duncan. In addition Dr. Robin Smith was paid a fee of $100,000 and 100,000 Common Stock shares were issued to her in connection with an Advisory Agreement dated September 14, 2005 as amended by the Supplement to Advisory Agreement dated January 18, 2006 and Dr. Smith's employment agreement with the Company dated June 2, 2006.

On June 2, 2006 certain employees and members of senior management agreed to take common stock as the net pay on $278,653 of unpaid salary that dated back to 2005. This resulted in the issuances of 379,982 shares of common stock, valued at $167,192, or $.44 per share, the balance of the unpaid salary was used to pay the withholding taxes which are associated with those earnings.

On June 2, 2006 Dr. Robin Smith was appointed Chairman and CEO of the Company. In connection with Dr. Smith's appointment 200,000 shares of common stock were issued to Dr. Smith valued at $88,000 which was reflected as compensation expense in the three months ended June 30, 2006. In addition, Dr. Smith was granted common stock options to purchase 540,000 shares of the Company's common stock, which 300,000 option shares vested immediately, 120,000 option shares vest on the first anniversary of the effective date and 120,000 option shares vest on the second anniversary of the effective date. The exercise price of the options are (i) $.53 as to the first 100,000 option shares, (ii) $.80 as to the second 100,000 option shares, (iii) $1.00 as to the third 100,000 option shares, (iv) $1.60 as to the next 120,000 option shares, and (v) $2.50 as to the balance.

In May and June, 2006 the Company issued 48,047 shares of its Common Stock, valued at $21,140 in payment of certain account payable obligations of the Company.

(b) Warrants:

The Company has issued Common Stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company. A total of 3,354,414 shares of Common Stock are reserved for issuance upon exercise of outstanding warrants as of June 30, 2006 at prices ranging from $0.44 to $1.20 and expiring through June 2011. In connection with the September 2003 equity private placement, the Company issued a 5 year warrant to purchase 28,250 shares of its Common Stock at an exercise price of $1.20 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains piggyback registration rights. From August 2004 through January 20, 2005, the Company issued three year warrants to purchase a total of 15,000 shares of its Common Stock at $.50 per share to Consulting For Strategic Growth, Ltd., the Company's investor relations firm. On September 14, 2005, the Company issued 24,000 Common Stock purchase warrants to its then Chairman of its Advisory Board, Dr. Robin Smith. These warrants were scheduled to vest at the rate of 2,000 per month beginning with September 14, 2005. The vesting of these warrants was accelerated so that they became immediately vested on June 2, 2006 pursuant to Dr. Smith's employment agreement. Each warrant entitles the holder to purchase one share of the Company's Common Stock at a price of $.80 per share. The warrant

expires three years from issuance. In December, 2005 and January, 2006, the Company issued an aggregate of 458,333 Common Stock purchase warrants, in each period, to the investors and placement agent. Each warrant entitles the holder to purchase one share of Common Stock at a price of $1.20 per share for a period of three years. In March 2006, the Company issued 12,000 Common Stock purchase warrants to Healthways Communications, Inc., the Company's marketing consultants. These warrants vest 2,000 per month beginning March 2006 and entitle the holder to purchase one share of Common Stock at a price of $1.00 per share for a period of three years. In June, 2006 the Healthways Communications, Inc. agreement was terminated and 4,000 Common Stock purchase warrants issued to Healthways Communications, Inc. were cancelled. On June 2, 2006, pursuant to the Duncan Private Placement, the Company sold 4,724,999 shares of its Common Stock to seventeen accredited investors at a per share price of $.44 resulting in gross proceeds of $2,079,000. In connection with this transaction the Company issued 2,362,499 common stock purchase warrants to these seventeen investors. These common stock purchase warrants have a term of 5 years and exercise price of $.80 per share. The Company's warrants provide for certain registration rights and certain penalties if such registration is not achieved within 150 days (as amended, 180 days) of the initial closing of the Duncan Private Placement. Accordingly, the value of the warrants, $1,379,519 has been classified as a current liability until such time as the registration of the securities becomes effective.

(c) Stock Option Plans:

In February 2003, the Company adopted the 2003 Equity Participation Plan, which was approved by stockholders at the Company's Annual Meeting on July 24, 2003 and amended by approval of stockholders at the Company's Annual Meeting on July 20, 2005. Under this plan, the Company has reserved 50,000,000 shares of common stock for the grant of incentive stock options and non-statutory stock options to employees and non-employee directors, consultants and advisors.

Information with respect to options under the 2003 Equity Participation Plan is summarized as follows:

	For the Three Months Ended June 30, 2006		For the Six Months Ended June 30, 2006	
	Shares	Prices	Shares	Prices
Outstanding at beginning of period	1,761,000	$0.30 to $1.80	1,788,500	$0.30 to $1.80
Granted	1,114,000	$0.44 to $2.50	1,136,500	$0.44 to $2.50
Expired	—	—	—	—
Cancelled	—		(50,000)	$0.60
Outstanding at end of period	2,875,000	$0.30 to $2.50	2,875,000	$0.30 to $2.50

Options are usually granted at an exercise price at least equal to the fair value of the common stock at the grant date and may be granted to employees, Directors, consultants and advisors of the Company. Options to purchase 1,114,000 and 1,136,500 shares of the Company's Common Stock at exercise prices ranging from $.44 and $2.50 were granted during the three and six months ended June 30, 2006, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

On January 20, 2006, Mr. Robert Aholt, Jr. tendered his resignation as Chief Operating Officer of the Company. In connection therewith, on March 31, 2006, the Company and Mr. Aholt entered into a

Settlement Agreement and General Release (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company agreed to pay to Mr. Aholt the aggregate sum of $250,000 (less applicable Federal and California state and local withholdings and payroll deductions), payable over a period of two years in biweekly installments of $4,808 commencing on April 7, 2006, except that the first payment was in the amount of $9,615. In the event the Company breaches its payment obligations under the Settlement Agreement and such breach remains uncured, the full balance owed shall become due. The Company and Mr. Aholt each provided certain general releases. Mr. Aholt also agreed to continue to be bound by his obligations not to compete with the Company and to maintain the confidentiality of Company proprietary information. At June 30, 2006 $206,731 was due Mr. Aholt pursuant to the terms of the Settlement Agreement.

In connection with the Company's acquisition of the assets of NS California on January 19, 2006, the Company entered into an employment agreement with Larry A. May. Mr. May is the former Chief Executive Officer of NS California. Pursuant to Mr. May's employment agreement, he is to serve as an officer of the Company reporting to the CEO for a term of three years, subject to earlier termination as provided in the agreement. In return, Mr. May will be paid an annual salary of $165,000, payable in accordance with the Company's standard payroll practices, will be entitled to participate in the Company's benefit plans generally available to other executives, including a car allowance equal to $750 per month and was granted on his commencement date an employee stock option under the Company's 2003 Equity Participation Plan to purchase 15,000 shares of the Company's Common Stock at a per share purchase price equal to $.50, the closing price of the Common Stock on the commencement date, which vests as to 5,000 shares of Common Stock on the first, second and third anniversaries of the commencement date. Under certain circumstances, Mr. May is also entitled to a severance payment equal to one year's salary in the event of the early termination of his employment.

In connection with the Company's acquisition of the assets of NS California on January 19, 2006, the Company entered into an employment agreement with Denis O. Rodgerson. Dr. Rodgerson is one of the founders of NS California. Dr. Rodgerson's employment agreement is identical to Mr. May's employment agreement, except that (i) its term is one year; (ii) he was granted an option to purchase 5,000 shares of Common Stock under the Equity Participation Plan vesting in its entirety after one year; and (iii) his agreement does not contain a provision for severance.

Certain employees and members of senior management of the Company, as a condition of the initial closing under the Securities Purchase Agreement in the Duncan Private Placement, entered into letter agreements with the Company pursuant to which they converted an aggregate of $278,653 of accrued salary into shares of Common Stock at a per share price of $0.44. After adjustments for applicable payroll and withholding taxes which were paid by the Company, the Company issued to such individuals an aggregate of 379,982 shares of Common Stock. The Company also adopted a Compensation Plan, effective as of the date of closing of the Securities Purchase Agreement and pursuant to the letter agreements each officer agreed to be bound by the Compensation Plan. In addition to the conversion of accrued salary, the letter agreements provide for a reduction by 25% in base salary for each officer until the Company achieves certain milestones, the granting of options to purchase shares of Common Stock under the Company's 2003 Equity Participation Plan (the "2003 EPP") which become exercisable upon the Company achieving certain revenue milestones and the acceleration of the vesting of certain options and restricted shares held by the officers.

On May 26, 2006, the Company entered into an employment agreement with Dr. Robin L. Smith (the "Employment Agreement"), pursuant to which Dr. Smith will serve as the Chief Executive Officer of the Company for a period of two years, which term shall be renewed for successive one-year terms unless otherwise terminated by Dr. Smith or the Company. The effective date of the Employment Agreement was June 2, 2006, the date of the initial closing under the Duncan Private Placement. Dr. Smith shall receive a base salary of $180,000 per year, which shall be increased to $236,000 after the first year anniversary of the effective date of the Employment Agreement. If the Company raises an aggregate of $5,000,000 through equity or debt financing (with the exception of the financing under the Duncan Private Placement), Dr. Smith's base salary shall be raised to $275,000. Dr. Smith shall also be eligible for an annual bonus determined by the Board, a car allowance of $1,000 per month and variable life insurance with payments

not to exceed $1,200 per month. Pursuant to the Employment Agreement, Dr. Smith's advisory agreement with the Company, as supplemented, was terminated, except that (i) the vesting of the warrant to purchase 24,000 shares of Common Stock granted thereunder was accelerated so that the warrant became fully vested as of the effective date of the employment agreement, (ii) Dr. Smith received $100,000 in cash and 100,000 shares upon the initial closing of the Duncan Private Placement, (iii) if an aggregate of at least $3,000,000 is raised and/or other debt or equity financings prior to August 15, 2006, Dr. Smith shall receive an additional payment of $50,000, (iv) a final payment of $3,000 relating to services rendered in connection with Dr. Smith's advisory agreement, paid at the closing of the Duncan Private Placement and (v) all registration rights provided in the advisory agreement shall continue in effect. Upon the effective date of the Employment Agreement, Dr. Smith was awarded under the Company's 2003 Equity Participation Plan 200,000 shares of Common Stock of the Company, and options to purchase 540,000 shares of Common Stock, which options expire ten years from the date of grant.

NOTE 9 – ACQUISITION OF NS CALIFORNIA

On January 19, 2006 the Company consummated the acquisition of the assets of NS California, Inc., relating to NS California's business of collecting and storing adult stem cells, issuing 400,000 shares of the Company's Common Stock with a value of $200,000. In addition, the Company assumed certain liabilities of NS California's which totaled $489,989. The underlying physical assets acquired from NS California were valued at $109,123 resulting in the recognition of goodwill in the amount of $580,866. Upon completion of the acquisition the operations of NS California were assumed by the Company and have been reflected in the Statement of Operations since January 19, 2006. Effective with the acquisition, the business of NS California became the principal business of the Company. The Company provides adult stem cell processing, collection and banking services with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs. Presented below is the proforma information for the three and six months ended June 30, 2006 and 2005 as if the acquisition had occurred on January 1, 2005. The net loss per share for the three and six months ended June 30, 2006 gives effect to the shares issued in connection with the acquisition.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue	$ 6,262	$ 9,448	$ 12,524	$ 20,433
Net loss	$ (1,245,082)	$ (671,615)	$ (2,384,526)	$ (1,653,722)
Net loss per share	$ (0.12)	$ (0.15)	$ (0.26)	$ (0.38)

NOTE 10 – RELATED PARTIES

In connection with the acquisition of NS California, an officer and an employee of the Company, who were then officers of NS California, received Common Stock in payment of liabilities assumed by the Company. Larry May, Chief Financial Officer and Denis Rodgerson, Director of Stem Cell Science, received shares of Common Stock in excess of the value of the liability assumed by the Company. In the case of Mr. May, he received 9,615 shares of Common Stock valued at $4,807 in settlement of a liability assumed by the Company of $2,884. The Company recorded an additional expense of $1,923. In the case of Dr. Rodgerson, he received 67,523 shares of Common Stock valued at $33,761 in settlement of a liability assumed by the Company of $20,257. The Company recorded an additional expense of $13,504.

NOTE 11 - INDUSTRY AND GEOGRAPHICAL SEGMENTAL INFORMATION

On January 19, 2006, the Company acquired substantially all the assets and operations of NS California, an adult stem cell collection and banking company. The Company, with this acquisition, will have operations in two segments when NS California commences operations. One segment will be the collection and banking of adult stem cells and the other segment remains the "run off" of its sale of extended warranties and service contracts via the Internet, this "run-off" of warranty and service contracts will continue for approximately seven months. As of June 30, 2006, the Company has not realized any revenues from the collecting or banking of adult stem cells. The Company's operations are conducted entirely in the United States. The Company has a "run off" of extended warranties and service contracts which generated a profit for the three months and six months ended June 30, 2006 of $1,795 and $3,590, respectively.

NOTE 12 – SUBSEQUENT EVENTS

Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark Private Placement. In the event the Company does not do so, (i) the conversion price of the convertible promissory notes is reduced by 5% each month, subject to a floor of $.40; (ii) the exercise price of the warrants is reduced by 5% each month, subject to a floor of $1.00 and (iii) the warrants may be exercised pursuant to a cashless exercise provision. The Company did not have the registration statement effective by July 31, 2006 and has requested that the investors in the WestPark Private Placement extend the date by which the registration statement is required to be effective until February 28, 2007. The Company has also offered to the investors the option of (A) extending the term of the convertible note for an additional four months from the maturity date in consideration for which (i) the Company shall issue to the investor for each $25,000 in principal amount of the convertible note 5,682 shares of unregistered Common Stock; and (ii) the exercise price per warrant shall be reduced from $1.20 to $.80, or (B) converting the convertible note into shares of the Company's Common Stock in consideration for which (i) the conversion price per conversion share shall be reduced to $.44; (ii) the Company shall issue to the investor for each $25,000 in principal amount of the Note, 11,364 shares of Common Stock; (iii) the exercise price per warrant shall be reduced from $1.20 to $.80; and (iv) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each $25,000 in principal amount of the convertible note at an exercise price of $.80 per share. Pursuant to this, the investor is also being asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement. As of August 14, 2006, investors holding $212,500 of the $500,000 of convertible promissory notes had agreed to convert them into shares of Common Stock and $50,000 had agreed to extend the term of the convertible promissory notes on the terms set forth above.

In July and August 2006, the Company sold an aggregate of 681,818 shares of Common Stock to four accredited investors at a per share price of $.44 resulting in gross proceeds to the Company of $300,000. In connection with this transaction, the Company issued 340,909 Common Stock purchase warrants with a term of five years and per share exercise price of $.80.

In July 2006, the Company issued an aggregate of 56,545 shares of Common Stock in conversion of an aggregate of $26,140 in accounts payable owed certain vendors. The per share conversion price ranged from $.44 to $.50.

In August 2006, the Company issued an aggregate of 53,698 shares of Common Stock in conversion of an aggregate of $23,537 in accounts payable owed certain vendors. The per share conversion price was $.44.

On August 1, 2006, the Board approved the issuance of an option to an employee to purchase 5,000 shares of Common Stock at a per share purchase price of $.50 vesting as to one-third of the shares on each of the first, second and third anniversaries of the date of grant and otherwise being subject to all of the terms and conditions of the EPP. On August 1, 2006, the Board approved the issuance of an option to a consultant to

purchase 6,000 shares of Common Stock at a per share purchase price of $.50. The option was fully vested on the date of grant and is otherwise subject to all of the terms and conditions of the EPP.

On July 17, 2006, the Board approved the Company's holding its Annual Meeting of Stockholders on August 29, 2006 to (i) elect a board of four directors, (ii) approve adoption of the Company's Amended and Restated Certificate of Incorporation, to effect a reverse stock split at a ratio of ten to one, and change the name of the Company to "NeoStem, Inc."; (iii) approve certain amendments to the Company's 2003 Equity Purchase Plan; and (iv) ratify the appointment of Holtz Rubenstein Reminick LLP as the Company's independent certified public accountant. All such proposals were approved by the stockholders.

Effective as of July 1, 2006, the Company entered into an agreement for the use of space at 420 Lexington Avenue, New York, New York. Pursuant to the terms of the Agreement, the Company will pay $7,500 monthly for the space, including the use of various office services and utilities. The agreement is on a month to month basis, subject to a thirty day prior written notice requirement to terminate. The space serves as the Company's principal executive offices. Effective October 1, 2006 the Company terminated the lease for its Melville, New York facility.

PART II

Item 13. Expenses of Issuance and Distribution

The following table sets forth an itemized estimate of fees and expenses payable by the Registrant in connection with the offering of the securities described in this registration statement:

SEC registration fee	$ 1,500
Blue Sky	$ 5,000
Legal fees and expenses	$ 50,000
Accounting fees and expenses	$ 15,000
Printing expenses	$ 5,000
Miscellaneous	$ 1,000
Total	$ 77,500

Item 14. Indemnification of Directors and Officers

We are incorporated under the laws of the State of Delaware. Under the General Corporation Law of Delaware, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he or she is or was our director, officer, employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

In addition, the Delaware GCL also provides that we also may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in our right to procure a judgment in our favor by reason of the fact that he or she is or was our director, officer, employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. However, in such an action by or on our behalf, no indemnification may be made in respect of any claim, issue or matter as to which the person is adjudged liable to us unless and only to the extent that the court determines that, despite the adjudication of liability but in view of all the circumstances, the person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Our certificate of incorporation is consistent with the Delaware GCL. Each of our directors, officers, employees and agents will be indemnified to the extent permitted by the Delaware GCL. We also maintain insurance on behalf of our directors and officers against liabilities asserted against such persons and incurred by such persons in such capacities, whether or not we would have the power to indemnify such persons under the Delaware GCL.

Item 15. Recent Sales of Unregistered Securities

In September 2002, the Company sold to accredited investors pursuant to Regulation D promulgated under the Securities Act of 1933, as amended, five 60-day promissory notes in the principal sum of $25,000 each, resulting in net proceeds to the Company of $117,500, net of offering costs. The notes bore interest at 15% per annum payable at maturity. The terms of the notes included a default penalty pursuant to which if the notes were not paid on the due date, the holder had the option to purchase 2,500 shares of the Company's Common Stock for an aggregate purchase price of $125. If the non payment continued for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note was paid in full, the holder had the option to purchase an additional 2,500 shares of the Company's Common Stock for an aggregate purchase price of $125. As of December 31, 2003, because the notes remained unpaid, a total of 100,000 of such shares were issued, resulting in net proceeds to the Company of $5,000. As of December 31, 2004, options to purchase an additional 187,500 shares of Common Stock at an aggregate purchase price of $9,375 were exercised pursuant to the default penalty. As of December 31, 2004 all but two of these notes and related interest had been repaid and there were no additional options to purchase Common Stock outstanding.

The two outstanding notes described above totaling $50,000, were sold to an unrelated third party who agreed to cancel the two notes and replace them with a new note which did not contain the default penalty. This new note also included a previous note of $25,000 which was issued on August 26, 2003 in exchange for a loan from a then consultant of the Company. On October 1, 2004 a new promissory note in the amount $75,000 bearing interest at 8% per annum was executed. This note, plus accrued interest, was due June 30, 2005 and extended to August 31, 2005. On November 30, 2005, this note was converted into 127,500 shares of Common Stock (as described later in this section).

In February 2003, the Company issued a total of 10,000 shares of Common Stock (with a value of $3,000) to three of its major creditors in consideration of the deferral of $523,887 in liabilities, subsequently paid in 2003.

On March 17, 2003, the Company commenced a private placement offering, pursuant to Regulation D, to raise up to $250,000 in 6-month promissory notes in increments of $5,000 bearing interest at 15% per annum. The Company raised the full $250,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $225,000. The notes contained a default provision which raised the interest rate to 20% if the notes were not paid when due. The due date of these notes had been extended to August 31, 2005. As of December 31, 2005, $70,000 of the principal amount of these notes had been converted into 119,000 shares of Common Stock and $80,000 of the principal amount of these notes remained outstanding bearing interest at 20% (of which $15,000 was paid in January 2006). The due date has been extended to September 30, 2006.

On September 22, 2003, the Company commenced an equity private placement pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 4,000,000 shares of its Common Stock in increments of $5,000 or 5,000 shares. The private placement closed on December 31, 2003 upon the sale of 282,500 shares, resulting in net proceeds to the Company of $214,781. The investment banker, Robert M. Cohen & Company, was issued a five year warrant to purchase 28,250 shares of Common Stock at an exercise price of $1.20 per share. The warrant contains piggyback registration rights. In January 2004, the Company amended the private placement and sold additional shares of Common Stock thereunder, which offering closed on July 31, 2004. As of July 31, 2004, 1,213,292 shares of Common Stock had been sold with net proceeds to the Company of $1,105,000. Of these shares, 728,292 shares were purchased by Robert Aholt, Jr., the Company's then Chief Operating Officer, for $650,000.

In March 2004, the Company sold a 30 day 20% note pursuant to Regulation D in the amount of $50,000 to a director who qualifies as an accredited investor to fund current operations. As of December 31, 2004, $25,000 had been repaid and as of December 31, 2005 the remaining $25,000 had been repaid.

In March 2004, the Company issued 3,000 shares of Common Stock to two noteholders who were accredited investors in payment of interest.

In July 2004, the Company sold a five month 20% note in the amount of $25,000 and two six month 20% notes totaling $80,000 to three accredited investors to fund current operations. As of December 31, 2004 the $25,000 note had been repaid together with accrued interest. The due date was extended to August 31, 2005 on the remaining two notes for $80,000, which were subsequently converted into 136,000 shares of Common Stock (as described later in this section). All interest has been paid.

In August 2004, the Company sold a 30 day 20% note in the amount of $30,000 and a six month 20% note in the amount of $25,000 to two accredited investors to fund current operations. As of December 31, 2004, $30,000 had been repaid. The due date was extended to August 31, 2005 as to the remaining $25,000, which subsequently converted into 42,500 shares of Common Stock (as described later in this section). All interest payments have been made.

In August 2004, the Company sold a six month 20% $100,000 convertible note to Robert J. Aholt, Jr. This note at maturity was to be converted into shares of the Company's Common Stock at 85% of the average price as quoted on the NASD Over-the-Counter Bulletin Board for the five days prior to the maturity date of the note. In February 2005, this note was converted into 196,079 shares of common stock. All interest payments were made on the note.

In each of the months August 2004 to December 2004, the Company issued 3,750 shares (for a total of 18,750 shares) of Common Stock to Consulting for Strategic Growth Ltd., the Company's investor relations firm for services rendered.

In each of the months August 2004 to January 2005, the Company issued warrants to purchase 2,500 shares of Common Stock (for a total of 15,000 shares) at $0.50 per share to Consulting for Strategic Growth Ltd, the Company's investor relations firm. Such warrants are each exercisable for three years from the date of issue.

In September 2004, 728,292 shares of common stock were purchased by Robert Aholt, Jr. for an aggregate purchase price of $650,000.

In December 2004 the Company sold a 60 day 8% note in the amount of $35,000 to its President and then Chief Executive Officer, a 180 day 15% note in the amount of $25,000 to a related party, a 180 day 20% note in the amount of $15,000, of which $5,000 has been repaid and a 90 day 8% note in the amount of $25,000 to a Director, all accredited investors, totaling $100,000. The due dates of the notes were extended to August 31, 2005 except for the $15,000 note which was extended to September 30, 2005. As of December 31, 2005, $85,000 converted into 144,500 shares of Common Stock (as later described in this section). The due date of the remaining $10,000 was extended to September 30, 2006 and was repaid in January 2006. All interest payments have been made.

On January 1, 2005, the Company issued to Robert J. Aholt, Jr. 47,768 shares of unregistered Common Stock in partial payment of salary as per his employment agreement dated September 13, 2004. Pursuant to this agreement, in partial consideration for Mr. Aholt's services thereunder, on January 1, 2005 and on the first day of each calendar quarter thereafter during the term thereof, Mr. Aholt was entitled to such number of shares of Common Stock, with a dollar value of $26,750, $27,625 and $28,888 during the first, second and third years of the term, respectively, at a per share price equal to the average closing price of one share of Common Stock on the OTC Bulletin Board for the five (5) consecutive trading days immediately preceding the date of grant of such shares. Mr. Aholt's employment agreement was subsequently amended pursuant to which effective as of September 30, 2005 he was compensated solely in cash.

On each of January and February 20, 2005, the Company issued 3,750 shares of its Common Stock, for a total of 7,500 shares, as compensation to Consulting for Strategic Growth Ltd, its public relations firm.

In January 2005, the Company sold a six month 20% note in the amount of $25,000 to an accredited investor to fund current operations. This note was subsequently converted into 42,500 shares of Common Stock as described later in this section. In February 2005, the Company sold a six month 20% note in the amount of $10,000 to an accredited investor to fund current operations (for which the due date was extended until September 30, 2005). This

note was subsequently converted into 17,000 shares of Common Stock as described later in this section. All interest payments have been made.

On February 20, 2005, the Company issued 196,079 shares of its Common Stock in exchange for the conversion of a promissory note held by its then Chief Operating Officer.

In March 2005, the Company sold a 30 day 8% note in the amount of $17,000 to its President and then Chief Executive Officer (for which the due date was extended until August 31, 2005) and a one year 15% note in the amount of $20,000 (which was subsequently converted into 34,000 shares of Common Stock as described later in this section) to two accredited investors to fund current operations. All interest payments on these notes were current. The due date on the note in the amount of $17,000 was extended to September 30, 2006, and it was paid in full in January 2006.

On April 1, 2005, the Company issued 80,090 shares of its Common Stock to Robert J. Aholt, Jr., in partial payment of salary as per Mr. Aholt's Employment Agreement.

On April 20, 2005, the Company and Catherine M. Vaczy, the Company's Vice President and General Counsel, entered into a stock purchase agreement pursuant to which the Company sold to Ms. Vaczy 166,667 shares of Common Stock in exchange for $100,000. This agreement also gave her the right to purchase up to an additional $200,000 of Common Stock at a per share price equal to 85% of the average closing price of one share of Common Stock on the OTC Bulletin Board for the five (5) consecutive trading days immediately preceding the date of Ms. Vaczy's notice exercising the option; provided, that in no event would the price be less than $.60.

In April, 2005, the Company sold a one year 15% note in the amount of $100,000 to its Vice President and General Counsel. Ms. Vaczy had the option to convert the note into shares of Common Stock at any time up until the 90th day after the date of the note at a per share price equal to 85% of the average closing price of one share of Common Stock on the Bulletin Board, provided, that in no event would the price be less than $.60. Following the 90th day after the date of the note, Ms. Vaczy was obligated, at any time prior to the date of maturity of the note, to convert the note into shares of Common Stock unless Ms. Vaczy shall have provided to the Company a notice terminating her employment with the Company pursuant to her employment agreement. Effective as of November 30, 2005, the note was converted into 170,000 shares of Common Stock in the exchange offer described later in this section.

On May 4, 2005, the Company sold 10,000 shares of its Common Stock to an unrelated third party at a price of $.60 per share resulting in net proceeds to the Company of $6,000.

On May 19, 2005, the Company, and Joseph D. Zuckerman, a Director of the Company, entered into a subscription agreement pursuant to which the Company sold to Dr. Zuckerman 10,000 shares of unregistered Common Stock in exchange for $6,000.

On May 26, 2005, the Company and Wayne A. Marasco, the Company's Senior Scientific Advisor and a Director of the Company, entered into a subscription agreement pursuant to which the Company sold to Dr. Marasco 25,000 shares of unregistered Common Stock in exchange for $15,000.

On June 8, 2005, the Company entered into a subscription agreement pursuant to which the Company sold to an investor 41,667 shares of Common Stock in exchange for $25,000.

On July 1, 2005, the Company issued 66,875 shares of unregistered Common Stock to Mr. Aholt in partial payment of salary based on the formula in his employment agreement.

On July 1, 2005, the Company issued to Consulting for Strategic Growth Ltd., its investor relations and public relations consultant, 1,667 shares of unregistered Common Stock pursuant to the terms of its consulting agreement in partial consideration for services thereunder.

On July 18, 2005, the Company sold 125,000 shares of its Common Stock to Catherine M. Vaczy, its Vice President and General Counsel, at a per share purchase price of $0.60 for aggregate consideration of $75,000. This purchase was as a result of Ms. Vaczy's exercise of the option contained in her April 20, 2005 stock purchase agreement.

On each of August 1, 2005 and September 1, 2005, the Company issued to Consulting for Strategic Growth Ltd, its investor relations and public relations consultant, 1,667 shares of its unregistered Common Stock pursuant to the terms of its consulting agreement in partial consideration for services thereunder.

On August 16, 2005, the Company entered into a subscription agreement with Wayne A. Marasco pursuant to which the Company sold to Dr. Marasco 83,334 shares of unregistered Common Stock in exchange for $50,000.

Pursuant to the terms of a letter agreement dated as of August 12, 2005 and entered into between the Company and Catherine M. Vaczy on August 12, 2005 the Company issued to Ms. Vaczy 41,234 shares of unregistered Common Stock in payment of $24,740 in salary accrued during the period April 20, 2005 through August 12, 2005 at a per share price of $.60, the closing price of one share of Common Stock on the Bulletin Board on August 12, 2005. On October 3, 2005, the Company issued to Ms. Vaczy pursuant to the letter agreement, 26,082 shares of unregistered Common Stock in payment of $10,433 in salary accrued during the period August 15, 2005 through September 30, 2005 at a per share price of $.40, the closing price of one share of Common Stock on the Bulletin Board on September 30, 2005.

In August 2005, the Company sold an 8% note in the amount of $10,000 to its President and then Chief Executive Officer, which was due on demand. The due date was extended to September 30, 2006, and the note was paid in full in January 2006.

In September 2005, the Company sold two 8% notes in the amounts of $6,000 and $15,000 to its President and then Chief Executive Officer, an accredited investor, which were due on demand. The due dates were extended to September 30, 2006, and they were paid in full in January 2006.

On September 14, 2005, the Company issued to Dr. Robin Smith (now Chief Executive Officer and Chairman of the Board) 50,000 shares of the Company's unregistered Common Stock pursuant to the terms of a consulting agreement with Dr. Smith pursuant to which she served as the Chairman of the Company's Advisory Board. Dr. Smith was also issued three year warrants to purchase 24,000 shares of Common Stock at $0.80 per share. Such warrants were scheduled to vest at the rate of 2,000 per month; however, in connection with the June 2006 private placement the vesting of such warrants was accelerated such that they vested in their entirety as of June 2, 2006.

On September 29, 2005, the Company entered into a subscription agreement pursuant to which the Company sold to an investor 14,286 shares of unregistered Common Stock in exchange for $10,000.

Pursuant to the terms of Mr. Aholt's employment agreement dated September 13, 2004, as amended by a letter agreement dated July 20, 2005, on October 3, 2005, the Company issued to Mr. Aholt, 46,121 shares of unregistered Common Stock in payment of accrued salary. The shares issued had an aggregate dollar value of $26,750, and the price per share was equal to the average closing price of one share of Common Stock on the Bulletin Board for the five (5) consecutive trading days immediately preceding the date of grant of such shares.

On each of October 1, 2005 and November 1, 2005, 1,667 shares of the Company's Common Stock were issued to Consulting for Strategic Growth Ltd., the Company's investor relations and public relations firm; as compensation for work to be performed in October and November 2005.

On October 6, 2005, the Company sold 25,000 shares of its Common Stock to an accredited investor at a price of $.40 per share resulting in gross proceeds to the Company of $10,000.

On October 6, 2005, the Company sold 50,000 shares of its Common Stock to a member of its Advisory Board, an accredited investor, at a price of $.50 per share resulting in gross proceeds to the Company of $25,000.

On October 28, 2005, the Company issued 5,000 shares of Common Stock to a hospital in exchange for advertising in an event journal. Such shares were valued at $3,500.

On November 10, 2005, the Company sold a total of 83,334 shares of its Common Stock to two accredited investors at a price of $.60 per share resulting in gross proceeds to the Company of $50,000.

On November 28, 2005, the Company entered into a subscription agreement pursuant to which the Company sold to an investor 625,000 shares of unregistered Common Stock and short term warrants in exchange for $500,000.

Effective as of November 30, 2005, the Company effected the exchange of an aggregate of $445,000 in outstanding indebtedness of the Company represented by certain promissory notes for an aggregate of 756,500 shares of Common Stock of the Company. The rate at which the notes were exchanged for shares of Common Stock was 1,700 shares of Common Stock for every $1,000 of indebtedness represented by the notes. Of the notes, an aggregate of $160,000 was held by certain officers and directors of the Company and exchanged into 272,000 shares of Common Stock. The offer and sale by the Company of the securities described above were made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act for exchange offers. The offer and sale of such securities were made without general solicitation or advertising and no commissions were paid.

On November 20, 2005, the Company issued to an employee an aggregate of 6,000 shares of its restricted Common Stock in payment of an aggregate of $3,000 in accrued salary.

On January 19, 2006, the Company effected the issuance of 500,000 shares of unregistered Common Stock to NS California (of which 100,000 shares were subsequently returned to the Company) in connection with the purchase of the NS California assets (see "Business"). In addition, the Company issued an aggregate of 201,223 shares of Common Stock to various parties in satisfaction of $82,000 of $465,000 in assumed liabilities of NS California in connection with the acquisition, of which 67,523 shares were issued to Denis Rodgerson (subsequently the Company's Director of Stem Cell Science) and 9,615 shares were issued to Larry A. May (subsequently the Company's Chief Financial Officer).

On December 1, 2005, the Company issued to its investor relations consultant 1,667 shares of unregistered Common Stock pursuant to the terms of its consulting agreement in partial consideration for services thereunder.

On December 22, 2005, the Company issued to its Vice President and General Counsel an aggregate of 41,667 shares of its restricted Common Stock in payment of an aggregate of $25,000 in accrued salary.

On December 30, 2005, the Company effected the exchange of $20,000 in outstanding indebtedness of the Company represented by a promissory note, for 34,000 shares of its Common Stock.

Effective as of each of January 10, 2006 and January 11, 2006, respectively, the Company effected the exchange of an aggregate of $45,000 in outstanding indebtedness of the Company represented by certain promissory notes for an aggregate of 76,500 shares of restricted Common Stock of the Company. The rate at which the notes were exchanged for shares of Common Stock was 1,700 shares of Common Stock for every $1,000 of indebtedness represented by the notes.

The offer and sale by the Company of the securities described in the two immediately preceding paragraphs were made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act for exchange offers. The offer and sale of such securities were made without general solicitation or advertising and no commissions were paid.

On December 30, 2005, and in January 2006, the Company entered into Subscription Agreements with certain accredited investors and consummated the sale of Units consisting of convertible promissory notes and detachable warrants under Regulation D under the Securities Act ("the Westpark Private Placement"). Gross proceeds raised were $250,000 on December 30, 2005 and $250,000 in January 2006, totaling an aggregate of $500,000 in gross proceeds. Each unit was comprised of: (a) a nine month note in the principal amount of $25,000 bearing 9% simple interest, payable semi-annually, with the 2nd payment paid upon maturity, convertible into shares of the

Company's Common Stock at a conversion price of $.60 per share; and (b) 41,667 detachable three year warrants, each for the purchase of one share of Common Stock at an exercise price of $1.20 per share. The notes are subject to mandatory conversion by the Company if the closing price of the Common Stock has been at least $1.80 for a period of at least 10 consecutive trading days prior to the date on which notice of conversion is sent by the Company to the holders of the promissory notes, and if the underlying shares are then registered for resale with the SEC. Holders of the units are entitled to certain registration rights (see below). The Company issued to WestPark Capital, Inc., the placement agent for the Westpark Private Placement, (i) 50,000 shares of Common Stock (25,000 shares on December 30, 2005 and 25,000 shares in January 2006); and (ii) warrants to purchase an aggregate of 83,334 shares of the Company's Common Stock (41,667 on December 30, 2005 and 41,667 in January 2006).

Pursuant to the terms of the WestPark Private Placement, the Company agreed to file with the SEC and have effective by July 31, 2006, a registration statement registering the resale by the investors in the WestPark Private Placement of the shares of Common Stock underlying the convertible promissory notes and the warrants sold in the WestPark Private Placement. In the event the Company does not do so, (i) the conversion price of the convertible promissory notes is reduced by 5% each month, subject to a floor of $.40; (ii) the exercise price of the warrants is reduced by 5% each month, subject to a floor of $1.00; and (iii) the warrants may be exercised pursuant to a cashless exercise provision. The Company did not have the registration statement effective by July 31, 2006 and has requested that the investors in the WestPark Private Placement extend the date by which the registration statement is required to be effective until February 28, 2007. The Company has also offered to the investors the option of (A) extending the term of the convertible note for an additional four months from the maturity date in consideration for which (i) the Company shall issue to the investor for each $25,000 in principal amount of the convertible note 5,682 shares of unregistered Common Stock; and (ii) the exercise price per warrant shall be reduced from $1.20 to $.80, or (B) converting the convertible note into shares of the Company's Common Stock in consideration for which (i) the conversion price per conversion share shall be reduced to $.44; (ii) the Company shall issue to the investor for each $25,000 in principal amount of the Note, 11,364 shares of Common Stock; (iii) the exercise price per warrant shall be reduced from $1.20 to $.80; and (iv) a new warrant shall be issued substantially on the same terms as the original Warrant to purchase an additional 41,667 shares of Common Stock for each $25,000 in principal amount of the convertible note at an exercise price of $.80 per share. Pursuant to this, the investor is also being asked to waive any and all penalties and liquidated damages accumulated as of the date of the agreement. As of August 30, 2006, investors holding $237,500 of the $500,000 of convertible promissory notes had agreed to convert their notes, and accordingly, the following securities were issued: 539,773 shares of Common Stock in conversion of the notes, an additional 107,958 shares of Common Stock, and warrants to purchase an additional 395,837 shares of Common Stock at $.80 per share. Also as of August 30, 2006, investors holding $137,500 of convertible promissory notes had agreed to extend the term of the convertible promissory notes on the terms set forth above, and an additional 31,251 shares of Common Stock were therefore issued to such investors.

In March 2006, the Company issued warrants to purchase 12,000 shares of Common Stock at a price of $1.00 per share to its marketing consultant. These warrants were scheduled to vest at 2,000 per month for six months and to expire three years from date of issue. In June 2006, the agreement with the marketing consultant was terminated and warrants to purchase 4,000 shares of Common Stock were cancelled.

In March 2006, the Company sold 60,227 shares of its Common Stock to five accredited investors at a per share price of $.44 resulting in gross proceeds to the Company of $26,500.

On March 17, 2006, the stockholders of the Company voted to approve an amendment to the Certificate of Incorporation which permitted the Company to issue in exchange for all 681,171 shares of Series A Preferred Stock outstanding and its obligation to pay $538,498 (or $.79 per share) in accrued dividends thereon, a total of 544,937 shares of Common Stock (0.80 of a share of Common Stock per share of Series A Preferred Stock). Pursuant thereto, all outstanding shares of Series A Common Stock were cancelled and converted into 544,937 shares of Common Stock. The offer and sale by the Company of the securities described was made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act.

On March 27, 2006, the Company sold 10,000 shares of its Common Stock to an Advisory Board member at a price of $.53 per share resulting in net proceeds to the Company of $5,300.

In April and May 2006, the Company sold an aggregate of 351,319 shares of its Common Stock to eleven accredited investors at a price of $0.44 per share, resulting in gross proceeds to the Company of $154,581.

In May and June 2006, the Company issued an aggregate of 48,047 shares of Common Stock (valued at $21,140) in conversion of accounts payable and certain employee's reimbursable expenses.

On June 2, 2006, as part of the June 2006 private placement described in "Business — Recent Developments," the Company issued an aggregate of 4,725,000 shares of Common Stock to the June 2006 investors pursuant to the securities purchase agreement, at a price per share of $0.44, for an aggregate offering price of $2,079,000. The Company also issued to each June 2006 investor, in addition to the shares of Common Stock, five-year warrants to purchase up to an aggregate of 2,362,500 shares of Common Stock, at an exercise price of $0.80 per share. In connection with June 2006 private placement, on June 2, 2006 the Company also entered into a registration rights agreement with each of the June 2006 investors (the "June 2006 registration rights agreement"). Pursuant to the June 2006 registration rights agreement, the Company was obligated to prepare and file no later than June 30, 2006 a registration statement with the SEC to register the shares of Common Stock and the warrants issued in the June 2006 private placement. The Company and the June 2006 investors agreed to amend the registration rights agreement and extend the due date of the registration statement to August 31, 2006.

In connection with the June 2006 private placement and pursuant to the terms of the securities purchase agreement, the Company issued an aggregate of 379,983 shares of Common Stock to certain officers of the Company for conversion of an aggregate of $278,654 of accrued salary (less adjustments for applicable payroll and withholding taxes). The Company also issued to its Chief Financial Officer 28,974 shares of Common Stock in conversion of certain expenses that the Company was required to reimburse.

Also on June 2, 2006, the Company issued 100,000 shares of unregistered Common Stock to Dr. Robin L. Smith, the Company's Chief Executive Officer and Chairman of the Board, in connection with financial advisory services rendered to the Company under her advisory agreement in connection with

the initial closing under the June 2006 private placement. The advisory agreement was terminated upon Dr. Smith entering into her employment agreement.

Pursuant to the Company's financial advisory agreement with Duncan Capital Group LLC, the Company issued to Duncan 240,000 shares of Common Stock in connection with the initial closing under the June 2006 private placement.

In July and August 2006, the Company sold an aggregate of 3,977,273 shares of Common Stock to 34 accredited investors at a per share price of $.44 resulting in gross proceeds to the Company of $1,750,000. In connection with this transaction, the Company issued 1,988,637 Common Stock purchase warrants with a term of five years and per share exercise price of $.80.

In July and August 2006, the Company issued an aggregate of 83,405 shares of Common Stock in conversion of an aggregate of $40,657 in accounts payable owed to certain vendors. The per share conversion price ranged from $.44 to $.56. In addition, in August 2006, the Company issued 41,667 shares of Common Stock to a service provider in payment for services rendered equal to $25,000, at a per share price of $.60.

In August 2006, the Company issued warrants to purchase an aggregate of 170,000 shares of Common Stock at $0.80 per share to four persons under advisory agreements. Such warrants are each exercisable for five years from the date of issue.

Unless otherwise noted, the offer and sale by the Company of the securities described in this section were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act, for transactions by an issuer not involving a public offering. The offer and sale of such securities were made without general solicitation or advertising to "accredited investors," as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits:

Exhibit	Description	Reference
3(a)	Certificate of Incorporation filed September 18, 1980 (1)	3
(b)	Amendment to Certificate of Incorporation filed September 29, 1980 (1)	3
(c)	Amendment to Certificate of Incorporation filed July 28, 1983 (2)	3(b)
(d)	Amendment to Certificate of Incorporation filed February 10, 1984 (2)	3(d)
(e)	Amendment to Certificate of Incorporation filed March 31, 1986 (3)	3(e)
(f)	Amendment to Certificate of Incorporation filed March 23, 1987 (4)	3(g)
(g)	Amendment to Certificate of Incorporation filed June 12, 1990 (5)	3.8
(h)	Amendment to Certificate of Incorporation filed September 27, 1991 (6)	3.9
(i)	Certificate of Designation filed November 12, 1994 (7)	3.8
(j)	Amendment to Certificate of Incorporation filed September 28, 1995 (8)	3(j)
(k)	Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (9)	3(f)
(l)	Amendment to Certificate of Incorporation dated May 18, 1998 (9)	A
(m)	Amendment to Certificate of Incorporation filed July 24, 2003 (10)	3.1
(n)	Amendment dated July 20, 2005 to Certificate of Incorporation (11)	3.2
(o)	Amendment to Certificate of Incorporation filed March 24, 2006 (21)	3(o)
(p)	Amended and Restated Certificate of Incorporation dated August 29, 2006(26)	3.1
(q)	Amended and Restated By-laws (11)	3.1
(r)	First Amendment to Amended and Restated By-laws (25)	3.2
4(a)	Form of Underwriter's Warrant (6)	4.9.1
(b)	Form of Promissory Note - September 2002 Offering (13)	4.1
(c)	Form of Promissory Note - February 2003 Offering (13)	4.2
(d)	Form of Promissory Note - March 2003 Offering (13)	4.3
5(e)	Opinion re: legality	*
10(a)	Employment Agreement dated as of February 6, 2003 by and between Corniche Group Incorporated and Mark Weinreb (14)	99.2
(b)	Stock Option Agreement dated as of February 6, 2003 between Corniche Group Incorporated and Mark Weinreb(14)	99.3
(c)	Corniche Group Incorporated 2003 Equity Participation Plan (14)	99.4
(d)	Form of Stock Option Agreement (13)	10.2
(e)	Royalty Agreement, dated as of December 5, 2003, by and between Parallel Solutions, Inc. and Phase III Medical, Inc. (13)(14)	10.1
(f)	Employment Agreement dated as of September 13, 2004 between Phase III Medical, Inc. and Robert Aholt, Jr. (15)	10.3
(g)	Stock Purchase Agreement, dated as of September 13, 2004, between Phase III Medical, Inc. and the Aholt, Jr. Family Trust (15)	10.4
(h)	Form of Promissory Note — Robert Aholt, Jr. dated August 30, 2004 (15)	10.5
(i)	Letter Agreement dated as of August 12, 2004 by and between Phase III Medical, Inc. and Dr. Wayne A. Marasco (15)	10.6
(j)	Board of Directors Agreement by and between Phase III Medical, Inc. and Joseph Zuckerman (15)	10.8
(k)	Stock Purchase Agreement, dated April 20, 2005, between Phase III Medical, Inc. and Catherine M. Vaczy (16)	10.1
(l)	Promissory Note made by the Company in favor of Catherine M. Vaczy (16)	10.2
(m)	Letter Agreement, dated April 20, 2005, between Phase III Medical, Inc. and Catherine M. Vaczy (16)	10.3
(n)	Stock Option Agreement dated April 20, 2005, between Phase III Medical, Inc. and Catherine M. Vaczy (16)	10.4
(o)	Amendment dated July 18, 2005 to Stock Purchase Agreement with Catherine M. Vaczy dated April 20, 2005 (11)	10.1

(p)	Amendment dated July 20, 2005 to Employment Agreement with Mark Weinreb dated February 6, 2003 (11)	10.2

(q)	Amendment dated July 20, 2005 to Employment Agreement with Wayne A. Marasco dated August 12, 2004 (11)	10.3
(r)	Amendment dated July 20, 2005 to Employment Agreement with Robert Aholt dated September 13, 2004 (11)	10.4
(s)	2003 Equity Participation Plan, as amended (11)	99.1
(t)	Form of Option Agreement dated July 20, 2005 (11)	10.5
(u)	Form of Promissory Note Extension (11)	10.6
(v)	Letter Agreement dated August 12, 2005 with Catherine M. Vaczy (11)	10.7
(w)	Restricted Stock Agreement with Mark Weinreb (17)	10.8
(x)	Asset Purchase Agreement dated December 6, 2005 by and among Phase III Medical, Inc., Phase III Medical Holding Company, and NeoStem, Inc. (18)	99.1
(y)	Letter Agreement dated December 22, 2005 between Phase III Medical, Inc. and Catherine M. Vaczy (21)	10(y)
(z)	Form of Convertible Promissory Note (19)	10.1
(aa)	Employment Agreement between the Company and Larry A. May dated January 19, 2006 (20)	10.1
(bb)	Employment Agreement between the Company and Denis O. Rodgerson dated January 19, 2006 (20)	10.2
(cc)	Letter Agreement dated January 30, 2006 between Phase III Medical, Inc. and Catherine M. Vaczy (21)	10(cc)
(dd)	Settlement Agreement and General Release dated March 31, 2006 between Phase III Medical, Inc. and Robert Aholt, Jr.(21)	10(dd)
(ee)	Advisory Agreement dated May 2006 between Phase III Medical, Inc. and Duncan Capital Group LLC (22)	10(ee)
(ff)	Securities Purchase Agreement, dated June 2, 2006, between Phase III Medical, Inc. and certain investors listed therein (23)	10.1
(gg)	Registration Rights Agreement, dated June 2, 2006, between Phase III Medical, Inc. and certain investors listed therein (23)	10.2
(hh)	Form of Warrant to Purchase Shares of Common Stock of Phase III Medical, Inc (23)	10.3
(ii)	Employment Agreement between Phase III Medical, Inc. and Dr. Robin L. Smith, dated May 26, 2006 (23)	10.4
(jj)	Letter Agreement between Phase III Medical, Inc. and Mark Weinreb effective as of June 2, 2006 (23)	10.5
(kk)	Letter Agreement between Phase III Medical, Inc. and Catherine M. Vaczy effective as of June 2, 2006 (23)	10.6
(ll)	Letter Agreement between Phase III Medical, Inc. and Larry A. May effective as of June 2, 2006 (23)	10.7
(mm)	Letter Agreement between Phase III Medical, Inc. and Wayne A. Marasco effective as of June 2, 2006 (23)	10.8
(nn)	NeoStem, Inc. 2003 Equity Participation Plan (24)	B-1
(oo)	Form of Phase III Medical, Inc. Securities Purchase Agreement from July/August 2006 (26)	10.1
(pp)	Form of Phase III Medical, Inc. Registration Rights Agreement from July/August 2006 (26)	10.2
(qq)	Form of Phase III Medical, Inc. Warrant to Purchase Shares of Common Stock from July/August 2006 (26)	10.3
10 (rr)	Form of Amendment Relating to Purchase by Investors in Private Placement of Convertible Notes and Warrants December 2005 and January 2006 (26)	10.4
21(a)	Subsidiaries of the Registrant (12)	21.1
23(a)	Consent of Holtz Rubenstein Reminick LLP (26)	23.1
(b)	Consent of Lowenstein Sandler PC	*
24(a)	Power of Attorney (26)	24.1
99(a)	Form of Warrant (19)	99.1

Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-18, File No. 2-69627, which exhibit is incorporated here by reference.

(2) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-2, File No. 2-88712, which exhibit is incorporated here by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-2, File No. 33-4458, which exhibit is incorporated here by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended September 30, 1987, which exhibit is incorporated here by reference.

(5) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-3, File No. 33-42154, which exhibit is incorporated here by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit to the Company's registration statement on Form S-1, File No. 33-42154, which exhibit is incorporated here by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended September 30, 1994, which exhibit is incorporated here by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended March 31, 1996, which exhibit is incorporated here by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit, as indicated above, to the Company's proxy statement dated April 23, 1998, which exhibit is incorporated here by reference.

(10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated July 24, 2003, which exhibit is incorporated here by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the quarterly report of the Company on Form 10-Q for the quarter ended June 30, 2005, which exhibit is incorporated here by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Company on Form 10-K/A for the year ended December 31, 2005, which exhibit is incorporated here by reference.

(13) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Company on Form 10-K for the year ended December 31, 2003, which exhibit is incorporated here by reference. Certain portions of Exhibit 10(e) (10.1) were omitted based upon a request for confidential treatment, and the omitted portions were filed separately with the Securities and Exchange Commission on a confidential basis.

(14) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated February 6, 2003, which exhibit is incorporated here by reference.

(15) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended December 31, 2004, which exhibit is incorporated here by reference.

(16) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated April 20, 2005, which exhibit is incorporated here by reference.

(17) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the quarterly report of the Company on Form 10-Q for the quarter ended September 30, 2005, which exhibit is incorporated here by reference.

(18) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated December 6, 2005, which exhibit is incorporated here by reference.

(19) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated December 31, 2005, which exhibit is incorporated here by reference.

(20) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated January 19, 2006, which exhibit is incorporated here by reference.

(21) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended December 31, 2005, which exhibit is incorporated here by reference.

(22) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the quarterly report of the Company on Form 10-Q for the quarter ended March 31, 2006, which exhibit is incorporated herein by reference.

(23) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated June 2, 2006, which exhibit is incorporated here by reference.

(24) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Preliminary Proxy Statement on Schedule 14A, dated July 18, 2006, which exhibit is incorporated here by reference.

(25) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated August 1, 2006, which exhibit is incorporated here by reference.

(26) Filed herewith.

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* To be filed by Amendment.

(b) Financial Statement Schedule:

Reference is made to the Index to Financial Statements and Financial Statement Schedule on Page F-1.

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Financial Statements or Notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of New York, State of New York, on August 31, 2006.

NEOSTEM, INC.

By: /s/ Robin L. Smith
Name: Robin L. Smith
Title: Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robin L. Smith and Catherine M. Vaczy as his or her true and lawful attorneys-in-fact and agents, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his or her substitute or substitutes, may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in capacities and on the dates indicated.

Signature	Title	Date
/s/ Robin L. Smith Robin L. Smith	Director, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	August 31, 2006
/s/ Larry A. May Larry A. May	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 31, 2006
/s/ Mark Weinreb Mark Weinreb	Director and President	August 31, 2006
/s/ Wayne Marasco Wayne Marasco	Director	August 31, 2006
/s/ Joseph Zuckerman Joseph Zuckerman	Director	August 31, 2006

Exhibit 3.1

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

PHASE III MEDICAL INC.

Phase III Medical Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The name of the Corporation is Phase III Medical Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was September 18, 1980, under the name of Fidelity Medical Services, Inc. The name of the Corporation was changed to Phase III Medical Inc. by filing a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of Delaware on July 24, 2003. The name of the Corporation is being changed to NeoStem, Inc. in connection with the filing of this Amended and Restated Certificate of Incorporation.

2. This Amended and Restated Certificate of Incorporation of Phase III Medical Inc., in the form attached hereto as Exhibit A, has been duly adopted by the directors and the stockholders of the Corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

3. The Amended and Restated Certificate of Incorporation so adopted reads in its entirety as set forth in Exhibit A attached hereto and is incorporated herein by reference.

4. This Amended and Restated Certificate of Incorporation shall be effective on the date of filing with the Secretary of State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed by its CEO on this 30th day of August, 2006.

Phase III Medical Inc.

By: /s/Robin L. Smith
Robin L. Smith
Chief Executive Officer

EXHIBIT A

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

NEOSTEM, INC.

FIRST: The name of the corporation is NeoStem, Inc. (hereinafter sometimes referred to as the "Corporation").

SECOND: The registered office of the Corporation is located at 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware, 19808. The name of its registered agent at such address is The Prentice-Hall Corporation System, Inc.

THIRD: The nature of the business and the objects and purposes to be transacted, promoted and carried on are to do any or all of the things herein mentioned as fully and to the same extent as natural persons might or could do, and in any part of the world, viz:

To purchase, take, own, hold, deal in, mortgage or otherwise lien and to lease, sell, exchange, convey, transfer or in any manner whatever dispose of real property, within or without the State of Delaware.

To manufacture, purchase or otherwise acquire and to hold, own, mortgage or otherwise lien, pledge, lease, sell, assign, exchange, transfer or in any manner dispose of, and to invest, deal and trade in and with goods, wares, merchandise and personal property of any and every class and description, within or without the State of Delaware.

To acquire the good will, rights and property and to undertake the whole or any part of the assets and liabilities of any person, firm, association or corporation; to pay for the same in cash, the stock of this company, bonds or otherwise; to hold or in any manner to dispose of the whole or any part of the property so purchased; to conduct in any lawful manner the whole or any part of any business so acquired and to exercise all the powers necessary or convenient in and about the conduct and management of such business.

To guarantee, purchase or otherwise acquire, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of shares of the capital stock, bonds or other evidences of indebtedness created by other corporations and while the holder of such stock to exercise all the rights and privileges of ownership, including the right to vote thereon, to the same extend as a natural person might or could do.

To purchase or otherwise acquire, apply for, register, hold, use, sell or in any manner dispose of and to grant licenses or other rights in and in any manner deal with patents, inventions, improvements, processes, formulas, trademarks, trade names, rights and licenses secured under letters patent, copyrights or otherwise.

To enter into, make and perform contracts of every kind for any lawful purpose, with any person, firm, association or corporation, town, city, county, body politic, state, territory, government or colony or dependency thereof.

To borrow money for any of the purposes of the corporation and to draw, make, accept, endorse, discount, execute, issue, sell, pledge or otherwise dispose of promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable, transferable or non-transferable instruments and evidences of indebtedness and to secure the payment thereof and the interest thereon by mortgage or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation at the time owned or thereafter acquired.

To purchase, hold, sell and transfer the shares of its capital stock.

To have one or more offices and to conduct any or all of its operations and business and to promote its object, within or without the State of Delaware, without restriction as to place or amount.

To carry on any other business in connection therewith.

To do any or all of the things herein set forth as principal, agent, contractor, trustee or otherwise, alone or in company with others.

The objects and purposes specified herein shall be regarded as independent objects and purposes and, except where otherwise expressed, shall be in no way limited or restricted by reference to or inference from the terms of any other clause or paragraph of this certificate of incorporation.

FOURTH:

A. The total number of shares of stock which the Corporation shall have authority to issue is 505,000,000 shares, of which 500,000,000 shares are designated as common stock, having a par value of $.001 per share (“Common Stock”) and 5,000,000 shares are designated as preferred stock, $.01 par value per share (“Preferred Stock”).

B. Preferred Stock. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof of the Preferred Stock are as follows:

The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of the Preferred Stock in series and by filing a Certificate pursuant to the Delaware General Corporation Law to establish the number of shares to be included in each such series. The Preferred Stock may be issued either as a class without series, or as so determined from time to time by the Board of Directors, either in whole or in part in one or more series, each series to be appropriately designated by a distinguishing number, letter or title prior to the issue of any shares thereof. Whenever the term “Preferred Stock” is used in this Article FOURTH, it shall be deemed to mean and include Preferred Stock issued as a class without series, or one or more series thereof, or both, unless the context shall otherwise require. There is hereby expressly granted to the Board of Directors of the Corporation authority, subject to the limitations provided by law, to fix the voting power, the designations, and the relative preferences, powers, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the shares of each series of said

Preferred Stock and the variations in the relative powers, rights, preferences and limitations as between series, and to increase the number of shares constituting each series, and to decrease such number of shares (but not to less than the number of outstanding shares of the series), in the resolution or resolutions adopted by the Board of Directors providing for the issue of said Preferred stock.

The authority of the Board of Directors of the corporation with respect to each series shall include, but shall not be limited to, the authority to determine the following:

1. The designation of the series;

2. The number of shares initially constituting such series;

3. The increase, and the decrease to a number not less than the number of the outstanding shares of such series, of the number of shares constituting such series theretofore fixed;

4. The rate or rates and the times and conditions under which dividends on the shares of such series shall be paid, and, (i) if such dividends are payable in preference to, or in relation to, the dividends payable on any other class or classes of stock, the terms and conditions of such payment, and (ii) if such dividends shall be cumulative, the date or dates from and after which they shall accumulate;

5. Whether or not the shares of such series shall be redeemable, and, if such shares shall be redeemable, the terms and conditions of such redemption, including, but not limited to, the date or dates upon or after which such shares shall be redeemable and the amount per share which shall be payable upon such redemption, which amount may vary under conditions and at different redemption dates;

6. The amount payable on the shares of such series in the event of the dissolution of, or upon any distribution of the assets of, the Corporation;

7. Whether or not the shares of such series may be convertible into, or exchangeable for, shares of any other class or series and the price or prices and the rates of exchange and the terms of any adjustments to be made in connection with such conversion or exchange;

8. Whether or not the shares of such series shall have voting rights in addition to the voting rights provided by law, and, if such shares shall have such voting rights, the terms and conditions thereof, including but not limited to, the right of the holders of such shares to vote as a separate class either alone or with the holders of shares of one or more other series of Preferred Stock and the right to have more or less than one vote per share;

9. Whether or not a purchase fund shall be provided for the shares of such series, and, if such a purchase fund shall be provided, the terms and conditions thereof;

10. Whether or not a sinking fund shall be provided for the redemption of the shares of such series and if such a sinking fund shall be provided, the terms and conditions thereof; and

11. Any other powers, preferences and relative, participating, optional, or other special rights, and qualifications, limitations or restrictions thereof, as shall not be inconsistent with the provisions of this Article FOURTH or the limitations provided by law.

C. Common Stock. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof of the Common Stock are as follows:

1. Subject to the rights of the Preferred stockholders, the holders of the Common Stock shall be entitled to receive such dividends as may be declared thereon by the Board of Directors of the Corporation in its discretion, from time to time, out of any funds or assets of the Corporation lawfully available for the payment of such dividends.

2. In the event of any liquidation, dissolution or winding up of the Corporation, or any reduction of its capital, resulting in a distribution of its assets to its stockholders, whether voluntary or involuntary, then, after there shall have been paid or set apart for the holders of the Preferred Stock the full preferential amounts to which they are entitled, the holders of the Common Stock shall be entitled to receive as a class, pro rata, the remaining assets of the Corporation available for distribution to its stockholders.

3. For any and all purposes of this Certificate of Incorporation, neither the merger or consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or substantially all of the assets of the Corporation, or any other transaction or series of transactions having the effect of a reorganization shall be deemed to be a liquidation, dissolution or winding-up of the Corporation.

4. Except as otherwise expressly provided by, law or in a resolution of the Board of Directors providing voting rights to the holders of the Preferred Stock, the holders of the Common Stock shall possess exclusive voting power for the election of directors and for all other purposes and each holder thereof shall be entitled to one vote for each share thereof.

D. The Corporation is hereby reducing the number of shares of Common Stock issued and outstanding by means of a reverse stock split. Effective at 9:00 a.m. (the “Effective Time”) on August 31, 2006 (the “Effective Date”), each ten (10) shares of authorized Common Stock issued and outstanding or held in the treasury of the Corporation immediately prior to the Effective Time shall automatically be reclassified and changed into one (1) validly issued, fully paid and nonassessable share of Common Stock (a “New Share”). Each holder of record of shares of Common Stock so reclassified and changed shall at the Effective Time automatically become the record owner of the number of New Shares as shall result from such reclassification and change. Each such record holder shall be entitled to receive, upon the surrender of the

certificate or certificates representing the shares of Common Stock so reclassified and changed at the office of the transfer agent of the Corporation in such form and accompanied by such documents, if any, as may be prescribed by the transfer agent of the Corporation, a new certificate or certificates representing the number of New Shares of which he or she is the record owner after giving effect to the provisions of this Article FOURTH. The Corporation shall not

issue fractional New Shares. Stockholders entitled to receive fractional New Shares shall, in lieu thereof, be rounded up to the next whole share of Common Stock held by such holder immediately prior to the Effective Time which have not been classified into a whole New Share.

FIFTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any Court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such a manner as the Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if made, be binding upon all of the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

SIXTH: The corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his conduct was unlawful. The termination of any action, upon a plea of nolo contendere or equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was lawful.

SEVENTH: The Board of Directors shall have the power to make, alter or repeal the By-laws.

EIGHTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed

by law and all rights conferred on officers, directors and stockholders herein are granted subject to this reservation.

NINTH: The personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director is hereby eliminated, provided that this Article shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under section 174 of Title 8 of the Delaware Code, or (iv) for any transaction from which the director derived an improper personal benefit. This article shall not eliminate or limit the liability of a director for any act or omission occurring prior to the date this Article first became effective.

TENTH: The Series B Convertible Redeemable Preferred Stock, shall be designated the following relative rights, preferences and limitations as follows:

Section 1. Designation and Amount; Rank

There is hereby established a series of preferred stock which is designated "Series B Convertible Redeemable Preferred Stock" (referred to herein as "Series B Convertible Redeemable Preferred Stock"). The number of shares which will constitute such series shall be Eight Hundred Twenty-Five Thousand (825,000). The Series B Convertible Redeemable Preferred Stock shall rank pari passu with the Common Stock with respect to the payment of dividends and to the distribution of assets upon liquidation, dissolution or winding up.

Section 2. Dividends.

So long as any shares of the Series B Convertible Redeemable Preferred Stock are outstanding, no dividend shall be declared or paid or set aside for payment or other distribution declared or made upon the Common Stock or upon any other stock ranking junior to, or on a parity with, the Series B Convertible Redeemable Preferred Stock as to dividends or upon liquidation, dissolution or winding up, unless, in the case of Preferred Stock, the same dividend is declared, paid or set aside for payment on all outstanding shares of the Series B Convertible Redeemable Preferred Stock or in the case of Common Stock, ten times such dividend per share is declared, paid or set aside for payment on each outstanding share of the Series B Preferred Stock.

Section 3. General, Class and Series Voting Rights.

Except as otherwise provided by law, each share of the Series B Convertible Redeemable Preferred Stock shall have the same voting rights as ten (10) shares of Common Stock and the holders of the Series B Convertible Redeemable Preferred Stock and the Common Stock shall vote together as one class on all matters.

The foregoing voting provisions shall not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series B Convertible Redeemable Preferred Stock shall have been converted into

Common Stock or shall have been redeemed or sufficient funds shall have been deposited in trust to effect such redemption.

Section 4. Redemption.

(A) The shares of Series B Convertible Redeemable Preferred Stock are not redeemable prior to March 31, 2000. At any time on or after such date through June 30, 2000, the shares of Series B Convertible Redeemable Preferred Stock are redeemable, in whole or in part, at the option of the "Special Director" of the corporation, at the redemption price per share of $.10, if the "Trigger Conditions" have not been met.

(B) For purposes of this paragraph, the "Trigger Condition" shall mean that:

(a) the closing bid prices of the Common Stock of the corporation as reported by Nasdaq (or otherwise as set forth below) is greater than $2.00 per share during a period of any ten (10) consecutive trading days and

(b) either

(i) the corporation's net revenues for any fiscal quarter through the fiscal quarter ended March 31, 2000 are $1 million or more (as computed by the corporation's regular independent public accountants); or

(ii) the corporation has received net receipts of not less than $2.5 million from the sale of its Common Stock from the date hereof through March 31, 2000.

For the purpose of any computation under the foregoing paragraph, the closing price per share of Common Stock on any date shall be the reported last sale price, regular way, or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange at such time, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or, if not listed or admitted to trading on any national securities exchange, on the Nasdaq National Market or, if the Common Stock is not quoted on the Nasdaq National Market, the average of the closing bid prices on such day in the over-the-counter market as reported by Nasdaq or, if bid prices for the Common Stock on each such day shall not have been reported through Nasdaq, the average of the bid prices for such date as furnished by any New York Stock Exchange member firm regularly making a market in the Common Stock selected from time to time by the Board of Directors of the corporation for such purpose or, if no such quotations are available, the fair market value of the Common Stock as determined by a New York Stock

Exchange member firm regularly making a market in the Common Stock selected from time to time by the Board of Directors of the corporation for such purpose.

(C) For purposes of this paragraph, the "Special Director" mean James Fyfe or his successor as director of the corporation if such successor has been approved by Fyfe. So long as any shares of the Class B Preferred Stock are outstanding, through June 30, 2000, the corporation shall nominate to the Board of Directors Fyfe or, if Fyfe so determines, Fyfe's designee.

(D) In the event the corporation shall elect to redeem the shares of Series B Convertible Redeemable Preferred Stock following the Trigger Condition, the corporation shall give notice to the holders of record of shares of the Series B Convertible Redeemable Preferred Stock being so redeemed, not less than 30 nor more than 60 days prior to such redemption, by first class mail, postage prepaid, at their addresses as shown on the stock registry books of the corporation, that said shares are being redeemed, provided that without limiting the obligation of the corporation hereunder to give the notice provided in this Section 5(D), the failure of the corporation to give such notice shall not invalidate any corporate action by the corporation. Each such notice shall state: (i) the redemption date; (ii) that all of the shares of Series B Convertible Redeemable Preferred Stock are to be redeemed; (iii) that the redemption price is $.10 per share; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that such holder does not have the right to convert such shares into Common Stock.

(E) Notice having been mailed as aforesaid, from and after the applicable redemption date (unless default shall be made by the corporation in providing money for the payment of the redemption price), said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as stockholders of the corporation (except the right to receive from the corporation the redemption price) shall cease. Upon surrender of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of the corporation shall so require and the notice shall so state), such shares shall be redeemed by the corporation at the redemption price aforesaid.

(F) Any shares of Series B Convertible Redeemable Preferred Stock which shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued shares of Preferred Stock, without designation as to series, until such shares are once more designated as part of a particular series by the Board of Directors of the corporation.

Section 5. Conversion.

(A) The holder of any share of Series B Convertible Redeemable Preferred Stock shall have the right, at such holder's option (but not if such share is called for redemption), exercisable on or after September 30, 2000, to convert such share into ten

(10) fully paid and non-assessable shares of Common Stock (the "Conversion Rate"). The Conversion Rate shall be subject to adjustment as set forth below.

(B) In order to exercise the conversion privilege, the holder of shares of Series B Convertible Redeemable Preferred Stock shall surrender the certificates representing such shares, accompanied by transfer instruments satisfactory to the corporation and sufficient to transfer the Series B Convertible Redeemable Preferred Stock being converted to the corporation free of any adverse interest, at any of the offices or agencies maintained for such purpose by the corporation ("Conversion Agent") and shall give written notice to the corporation at such Conversion Agent that the holder elects to convert such shares. Such notice shall also state the names, together with addresses, in which the certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. As promptly as practicable after the surrender of such shares of Series B Convertible Redeemable Preferred Stock as aforesaid, the corporation shall issue and shall deliver at such Conversion Agent to such holder, or on his written order, a certificate for the number of full shares of Common Stock issuable upon the conversion of such shares in accordance with the provisions hereof. Balance certificates will be issued for the remaining shares of Series B Convertible Redeemable Preferred Stock in any case in which fewer than all of the shares of Series B Convertible Redeemable Preferred Stock represented by a certificate are converted. Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which shares of Series B Convertible Redeemable Preferred Stock shall have been so surrendered and such notice received by the corporation as aforesaid, and the persons in whose names any certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holders of record of the Common Stock represented thereby at such time, unless the stock transfer books of the corporation shall be closed on the date on which shares of Series B Convertible Redeemable Preferred Stock are so surrendered for conversion, in which event such conversion shall be deemed to have been effected immediately prior to the close of business on the next succeeding day on which such stock transfer books are open, and such persons shall be deemed to have become such holders of record of the Common Stock at the close of business on such later day. In either circumstance, such conversion shall be at the Conversion Rate in effect on the date upon which such share shall have been surrendered and such notice received by the corporation.

(C) In the case of any share of Series B Convertible Redeemable Preferred Stock which is converted after any record date with respect to the payment of a dividend on the Series B Convertible Redeemable Preferred Stock and on or prior to the Dividend Payment Date related to such record date, the dividend due on such Dividend Payment Date shall be payable on such Dividend Payment Date to the holder of record of such share as of such preceding record date notwithstanding such conversion.

(D) No fractional shares or scrip representing fractions of shares of Common Stock shall be issued upon conversion of any shares of Series B Preferred Stock. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of Series B Convertible Redeemable Preferred

Stock, the corporation shall pay to the holder of such share of Series B Convertible Redeemable Preferred Stock an amount in cash (computed to the nearest cent, with one-half cent being rounded upward) equal to such fraction multiplied by the reported closing price (as defined above) of the Common Stock at the close of business on the day on which such share or shares of Series B Convertible Redeemable Preferred Stock are surrendered for conversion in the manner set forth above, or if such date is not a trading date, on the next succeeding trading date. If more than one certificate representing shares of Series B Convertible Redeemable Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series B Convertible Redeemable Preferred Stock represented by such certificates, or the specified portions thereof to be converted, so surrendered.

(E) The Conversion Rate shall be adjusted from time to time as follows:

(i) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock and the Series B Convertible Redeemable Preferred Stock is not similarly subdivided, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock and the Series B Convertible Redeemable Preferred Stock is not similarly subdivided, the Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately decreased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(ii) Whenever the Conversion Rate is adjusted as herein provided, (x) the corporation shall promptly file with any Conversion Agent a certificate of a firm of independent public accountants setting forth the Conversion Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment, and the manner of computing the same, which certificate shall be conclusive evidence of the correctness of such adjustment, and (y) a notice stating that the Conversion Rate has been adjusted and setting forth the adjusted Conversion Rate shall forthwith be given by the corporation to any Conversion Agent and mailed by the corporation to each holder of shares of Series B Convertible Redeemable Preferred Stock at their last address as the same appears on the books of the corporation.

(F) In case of any consolidation of the corporation with, or merger of the corporation into, any other entity (other than a merger or consolidation in which the corporation is the continuing corporation) or any sale or conveyance to another corporation of the property of the

corporation as an entirety or substantially as an entirety, or in the case of a statutory exchange of securities with another corporation, or any reclassification of shares, the Conversion Rate shall not be adjusted but each holder of a share of Series B Convertible Redeemable Preferred Stock then outstanding shall

have the right thereafter to convert such share only into the kind and amount of securities, cash and other property which such holder would have owned or have been entitled to receive immediately after such consolidation, merger, sale, conveyance, exchange or reclassification had such share of Series B Convertible Redeemable Preferred Stock been converted immediately prior to such consolidation, merger, sale, conveyance, exchange or reclassification. Provision shall be made in any such consolidation, merger, sale, conveyance, exchange or reclassification for adjustments in the Conversion Rate which shall be as nearly equivalent as may be practicable to the adjustments provided for in Section (E). The above provisions shall similarly apply to successive consolidations, mergers, sales, conveyances, exchange or reclassification.

For purposes of this Section 5, "Common Stock" includes any stock of any class of the corporation which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation and which is not subject to redemption by the corporation. However, subject to the provisions of paragraph (F) above, shares issuable on conversion of shares of Series B Convertible Redeemable Preferred Stock shall include only shares of the class designated as Common Stock of the corporation on the date of the initial issuance of Series B Convertible Redeemable Preferred Stock by the corporation, or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation and which are not subject to redemption by the corporation.

In case:

(i) the corporation shall declare a stocks split, stock dividend (or any other distribution) on its Common Stock that would cause an adjustment to the Conversion Rate of the Series B Convertible Redeemable Preferred Stock pursuant to the terms of subparagraph (i) of Paragraph (E) above; or

(ii) of any reclassification of the Common Stock of the corporation (other than a subdivision or combination of its outstanding shares of Common Stock), or of any consolidation, merger or share exchange to which the corporation is a party and for which approval of any stockholders of the corporation is required, or of the sale or conveyance, of the property of the corporation as an entirety or substantially as an entirety; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding up of the corporation;

then the corporation shall cause to be filed with any Conversion Agent, and shall cause to be mailed to all holders of shares of Series B Convertible Redeemable Preferred Stock at each such holder's last address as the same appears on the books of the corporation, at least 20 days (or 10 days in any case specified in clause (i) above) prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights

or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined, or (y) the date on which such reclassification, consolidation, merger, share exchange, sale, conveyance, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, share exchange, sale, conveyance, dissolution, liquidation or winding up. Neither the failure to give such notice nor any defect therein shall affect the legality or validity of the proceedings described in clauses (i) through (iii) above.

The corporation will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on conversions of shares of Series B Convertible Redeemable Preferred Stock pursuant hereto; provided, however, that the corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the holder of the shares of Series B Convertible Redeemable Preferred Stock to be converted and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the corporation the amount of any such tax or has established, to the satisfaction of the corporation, that such tax has been paid.

The corporation covenants that all shares of Common Stock which may be delivered upon conversions of shares of Series B Convertible Redeemable Preferred Stock will upon delivery be duly and validly issued and fully paid and non-assessable, free of all liens and charges and not subject to any pre-emptive rights. The corporation further covenants that, if necessary, it shall reduce the par value of the Common Stock so that all shares of Common Stock delivered upon conversion of shares of Series B Convertible Redeemable Preferred Stock are fully paid and non-assessable.

The corporation covenants that it will at all times reserve and keep available, free from pre-emptive rights, out of its authorized but unissued shares of Common Stock or its issued shares of Common; Stock held in its treasury, or both, for the purpose of effecting conversions of shares of Series B Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series B Convertible Redeemable Preferred Stock not theretofore converted. For purposes of this reservation of Common Stock, the number of shares of Common Stock which shall be deliverable upon the conversion of all outstanding shares of Series B Convertible Redeemable Preferred Stock shall be computed as if at the time of computation all outstanding shares of Series B Convertible Redeemable Preferred Stock were held by a single holder. The issuance of shares of Common Stock upon conversion of shares of Series B Convertible Redeemable Preferred Stock is authorized in all respects.

Section 6. Liquidation.

In the event of any voluntary or involuntary dissolution, liquidation or winding up of the corporation (for the purposes of this Section 6, a "Liquidation"), after any distribution of assets is made to the holders of any other class or series of stock that ranks prior to the Series B Convertible Redeemable Preferred Stock in respect of distributions upon the Liquidation of the corporation, the holder of each share of Series B Convertible Redeemable Preferred Stock then

outstanding shall be entitled to be paid out of the assets of the corporation available for distribution to its stockholders, an amount on a pari passu basis equal to ten times the amount per share distributed to the holders of the Common Stock.

The voluntary sale, conveyance, lease, exchange or transfer of the property of the corporation as an entirety or substantially as an entirety, or the merger or consolidation of the corporation into or with any other corporation, or the merger of any other corporation into the corporation, or any purchase or redemption of some or all of the shares of any class or series of stock of the corporation, shall not be deemed to be a Liquidation of the corporation for the purposes of the Section 6 (unless in connection therewith the Liquidation of the corporation is specifically approved).

The holder of any shares of Series B Convertible Redeemable Preferred Stock shall not be entitled to receive any payment owed for such shares under this Section 6 until such holder shall cause to be delivered to the corporation (i) the certificate or certificates representing such shares of Series B Convertible Redeemable Preferred Stock and (ii) transfer instrument or instruments satisfactory to the corporation and sufficient to transfer such shares of Series B Convertible Redeemable Preferred Stock to the corporation free of any adverse interest. As in the case of the redemption price, no interest shall accrue on any payment upon Liquidation after the due date thereof.

After payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of the Series B Convertible Redeemable Preferred Stock will not be entitled to any further participation in any distribution of assets by the corporation.

Section 7. Payments.

The corporation may provide funds for any payment of the redemption price for any shares of Series B Convertible Redeemable Preferred Stock or any amount distributable with respect to any Series B Convertible Redeemable Preferred Stock under Section 6 hereof by depositing such funds with a bank or trust company selected by the corporation having a net worth of at least $50,000,000 and organized under the laws of the United States or any state thereof, in trust for the benefit of the holder of such shares of Series B Convertible Redeemable Preferred Stock under arrangements providing irrevocably for payment upon satisfaction of any conditions to such payment by the holder of such shares of Series B Convertible Redeemable Preferred Stock which shall reasonably be required by the corporation. The corporation shall be entitled to make any deposit of funds contemplated by this section 7 under arrangements designated to permit such funds to generate interest or other income for the corporation, and the corporation shall be entitled to receive all interest and other income earned by any funds while they shall be deposited as contemplated by this section 7, provided that the corporation shall maintain on deposit funds sufficient to satisfy all payments which the deposit arrangement shall have been established to satisfy if the conditions precedent to the disbursement of any funds deposited by the corporation pursuant to this Section 7 shall not have been satisfied within two years after the establishment of the trust for such funds, then (i) such funds shall be returned to the corporation upon its request; (ii) after such return, such funds shall be free of any trust which shall have been impressed upon them; (iii) the person entitled to the payment for which been

originally intended shall have the right to look only to the corporation for such payment, subject to applicable escheat laws; and (iv) the trustee which shall have held such funds shall be relieved of any responsibility for such of such funds to the corporation.

Any payment which may be owed for the payment of the redemption price for any shares of Series B Convertible Redeemable Preferred Stock pursuant to Section 4 or the payment of any amount distributable with respect to the shares of Series B Convertible Redeemable Preferred Stock under Section 6 shall be deemed to have been "paid or properly provided for" upon the earlier to occur of: (i) the date upon which funds sufficient to make such payment shall be deposited in a manner contemplated by the preceding paragraph or (ii) the date upon which a check payable to the person entitled to receive such payment shall be delivered to such person or mailed to such person at the address of such person then appearing on the books of the corporation.

Section 8. Status of Reacquired Shares.

Shares of Series B Convertible Redeemable Preferred Stock issued and reacquired by the corporation shall have the status of authorized and unissued shares of Preferred Stock, undesignated as to series, subject to later issuance.

Section 9. Preemptive Rights.

Holders of shares of Series B Convertible Redeemable Preferred Stock are not entitled to any preemptive or subscription rights in respect of any securities of the corporation.

Section 10. Legal Holidays.

In any case where any Dividend Payment Date, redemption date or the last date on which a holder of Series B Convertible Redeemable Preferred Stock has the right to convert such holder's shares of Series B Convertible Redeemable Preferred Stock shall not be a Business Day (as defined below), then

(notwithstanding any other provision of this Certificate of Designation of the Series B Preferred Stock) payment of a dividend due or a redemption price or conversion of the shares of Series B Convertible Redeemable Preferred Stock need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Dividend Payment Date or redemption date or the last day for conversion, provided that, for purposes of computing such payment, no interest shall accrue for the period from and after such Dividend Payment Date or redemption date, as the case may be. As used in this Section 10, "Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the City of New York or the State of New Jersey are authorized or obligated by law or executive order to close.

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (together with all amendments, supplements, changes, schedules and exhibits hereto, collectively, this "**Agreement**") is dated as of August __, 2006 by and among Phase III Medical, Inc., a Delaware corporation (the "**Company**"), and the purchaser identified on the signature page hereto (including its successors and assigns, a "**Purchaser**").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "**Securities Act**") and Rule 506 promulgated thereunder, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchaser agree as follows:

ARTICLE I.
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement the following terms have the meanings indicated in this Section 1.1:

"**Action**" shall have the meaning ascribed to such term in Section 3.1(j).

"**Affiliate**" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144 under the Securities Act. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

"**Board**" shall mean the Company's Board of Directors.

"**Business Day**" means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"**Closing**" means the closing of the purchase and sale of the Securities pursuant to Section 2.1.

"**Closing Date**" means the Business Day when all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchaser's obligations to pay the Purchase Price and (ii) the Company's obligations to deliver the Securities have been satisfied or waived.

"**Commission**" means the Securities and Exchange Commission.

"**Common Stock**" means the common stock of the Company, par value $.001 per share, and any

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other class of securities into which such securities may hereafter be reclassified or changed into.

"**Disclosure Schedules**" shall have the meaning ascribed to such term in Section 3.1.

"**Effective Date**" means the date that the Registration Statement filed by the Company pursuant to the Registration Rights Agreement is first declared effective by the Commission.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"**Exhibits**" shall mean the following exhibits attached hereto and made a part of this Agreement:

Exhibit A — Registration Rights Agreement

Exhibit B — The Warrants

"**GAAP**" shall have the meaning ascribed to such term in Section 3.1(i).

"**Intellectual Property Rights**" shall have the meaning ascribed to such term in Section 3.1(n).

"**Liens**" means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

"**Material Adverse Effect**" shall have the meaning assigned to such term in Section 3.1(b).

"**Material Permits**" shall have the meaning ascribed to such term in Section 3.1(l).

"**Person**" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"**Purchase Price**" means $.044 per share of Common Stock in United States dollars and in immediately available funds.

"**Registration Rights Agreement**" means the Registration Rights Agreement, dated the date hereof, among the Company and the Purchaser, in the form of Exhibit A attached hereto.

"**Registration Statement**" means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale of the Shares and Warrant Shares by the Purchaser as provided for in the Registration Rights Agreement.

"**Required Approvals**" shall have the meaning ascribed to such term in Section 3.1(e).

"**Rule 144**" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"**SEC Reports**" shall have the meaning ascribed to such term in Section 3.1(h).

"**Securities**" means the Common Stock, the Warrants and the Warrant Shares.

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations promulgated hereunder.

"**Shares**" means the shares of Common Stock which are being issued and sold by the Company to the Purchaser at the Closing.

"**Short Sales**" shall include all "short sales" as defined in Rule 200 of Regulation SHO under the Exchange Act (but shall not be deemed to include the location and/or reservation of borrowable shares of Common Stock).

"**Subsidiary**" means NeoStem, Inc., a Delaware corporation.

"**Termination Date**" shall mean the earlier of (i) mutual written termination of this Agreement by the Company and the Purchaser, and (iii) July 31**,** 2006 (subject to a the Company's right to extend through August 30, 2006).

"**Transaction Documents**" means this Agreement, the Warrants and the Registration Rights Agreement.

"**Warrants**" means the aggregate amount of Common Stock purchase warrants, in the form of Exhibit B to this Agreement.

"**Warrant Shares**" means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II.
PURCHASE AND SALE

2.1 Closing. At the Closing, upon the terms and subject to the conditions set forth herein, Purchaser shall purchase and the Company shall issue and sell to the Purchaser such number of shares of Common Stock and Warrants to purchase such number of shares of Common Stock as set forth opposite such Purchaser's name on the signature page hereto for the aggregate Purchase Price. The Company may hold a Closing at any time prior to July 31, 2006 (subject to the right for the Company to extend through August 30, 2006) provided that the conditions to Closing as specified herein have been satisfied, which shall occur at the offices of Company's counsel, Lowenstein Sandler PC, 1251 Avenue of the Americas, New York, New York 10020 at 12:00 p.m. or such other time and/or location as the parties shall mutually agree.

2.2 Deliveries.

(a) At the Closing, the Company shall deliver or cause to be delivered to the Purchaser the following:

(i) this Agreement duly executed by the Company;

(ii) a stock certificate for the Purchaser's purchased Shares, registered in the name of the Purchaser;

(iii) a Warrant registered in the name of the Purchaser to purchase up to a number of shares of Common Stock equal to 50% of the Shares purchased by the Purchaser; and

(iv) the Registration Rights Agreement duly executed by the Company.

(b) At the Closing, the Purchaser shall deliver or cause to be delivered to the Company the following:

(i) this Agreement duly executed by the Purchaser;

(ii) the aggregate Purchase Price allocable to the Shares being purchased by the Purchaser and set forth below the Purchaser's signature block on the signature page hereto, in United States dollars and in immediately available funds; and

(iii) the Registration Rights Agreement duly executed by the Purchaser.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects when made and on the Closing Date of the representations and warranties of the Purchaser contained herein;

(ii) all obligations, covenants and agreements of the Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

(iii) the delivery by the Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The obligations of the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on the Closing Date of the representations and warranties of the Company contained herein;

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement; and

(iv) there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. The Company hereby makes the representations and warranties set forth below to the Purchaser.

(a) Subsidiaries. The Company owns, directly or indirectly, all of the capital stock or other equity interests of the Subsidiary free and clear of any Liens, and all the issued and outstanding shares of capital stock of the Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. The Company has no other direct or indirect subsidiaries other than the Subsidiary.

(b) Organization and Qualification. Each of the Company and the Subsidiary is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Each of the Company and the Subsidiary is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not have a material adverse effect on the results of operations, assets, business or condition (financial or otherwise) of the Company and the Subsidiary (a "**Material Adverse Effect**").

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its Board or its stockholders in connection therewith. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company do not and will not: (i) conflict with or violate any provision of the Company's or the Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or the Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of any

agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or the Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or the Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as would not result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filing with the Commission of the Registration Statement, and (ii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "**Required Approvals**").

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents (including restrictions under federal and state securities laws). The Warrant Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents (including restrictions under federal and state securities laws).

(g) Capitalization. The capitalization (including warrants, options, exchangeable and/or convertible securities) of the Company **as of June 2, 2006** is as set forth on Schedule 3.1(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable.

(h) SEC Reports. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the one year preceding the date hereof (or such shorter period as the Company was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "**SEC Reports**"). As of their respective dates, the SEC Reports (including the financial statements, exhibits and schedules thereto) complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, as applicable and did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to made the statements therein, in light of the circumstances they were made, not misleading.

Each of the financial statements (including, in each case, any related notes thereto) contained in the SEC Reports (the "**Company Financials**"), including any SEC Reports filed after the date hereof until the Closing, as of their respective dates, (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (ii) was prepared in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q under the Exchange Act) and (iii) fairly presented the financial position of the Company at the respective dates thereof and the consolidated results of its operations and cash flows for the periods indicated, except that the unaudited interim financial statements were or are subject to normal and recurring year-end adjustments which were not, or are not expected to be, material in amount. The balance sheet of the Company as of December 31, 2005 is hereinafter referred to as the "**Company Balance Sheet**." Except as disclosed in the Company Financials, the Company does not have any liabilities (absolute, accrued, contingent or otherwise) of a nature required to be disclosed on a balance sheet or in the related notes to the consolidated financial statements prepared in accordance with GAAP which are, individually or in the aggregate, material to the business, results of operations or financial condition of the Company, except liabilities (i) provided for in the Company Balance Sheet, or (ii) incurred since the date of the Company Balance Sheet in the ordinary course of business consistent with past practices and which would not reasonably be expected to have a Material Adverse Effect.

(i) Material Changes. Since the date of the Company Balance Sheet, except as specifically disclosed in or contemplated by a subsequent SEC Report, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP United States generally accepted accounting principles applied on a consistent basis during the periods involved ("**GAAP**") or disclosed in filings made with the Commission, (iii) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not made any changes to its accounting principals, practices or methods, its disclosure controls and procedures or its internal control over financial reporting. The Company does not have pending before the Commission any request for confidential treatment of information.

(j) Litigation. Except as set forth on Schedule 3.1(j), there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, the Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "**Action**") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) would, if there were an unfavorable decision, result in a Material Adverse Effect.

(k) Compliance. Neither the Company nor the Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is in violation of any statute, rule or regulation of any governmental authority, except in each case as would not result in a Material Adverse Effect.

(l) Regulatory Permits. Except as set forth in Schedule 3.1(l), the Company and the Subsidiary possesses all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits would not result in a Material Adverse Effect ("**Material Permits**").

(m) Title to Assets. The Company and the Subsidiary have good and marketable title in fee simple to all real property (if any) owned by them that is material to the business of the Company and the Subsidiary and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiary, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiary and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties.

(n) Patents and Trademarks. The Company and the Subsidiary have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so would not result in a Material Adverse Effect (collectively, the "**Intellectual Property Rights**"). Neither the Company nor the Subsidiary has received a notice (written or otherwise) that the Intellectual Property Rights used by the Company or the Subsidiary violates or infringes upon the rights of any Person. To the best knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiary have used their respective best efforts using security measures to protect the secrecy, confidentiality and value of all of their Intellectual Property Rights and Intellectual Property, except where failure to do so would not have a Material Adverse Effect.

(o) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as it believes are prudent and customary in the businesses in which the Company and the Subsidiary are engaged, including, but not limited to, directors and officers insurance coverage. Neither the Company nor the Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(p) Private Placement. Assuming the accuracy of the Purchaser's representations and warranties

set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchaser as contemplated hereby.

(q) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

3.2 Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows:

(a) Organization; Authority. Such Purchaser if an entity is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities (this representation and warranty not limiting such Purchaser's right to sell the Securities pursuant to the Registration Statement or otherwise in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any Warrants it will be either: (i) an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Experience of Such Purchaser. Such Purchaser, either alone or together with its

representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Short Sales and Confidentiality Prior To The Date Hereof. Such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, executed any Short Sales or granted any option for the purchase of or entered into any hedging or similar transaction with the same economic effect as a Short Sale, in the securities of the Company since the time period beginning two weeks prior to the time that such Purchaser was first contacted regarding an investment in the Company through the date hereof. During such period, neither such Purchaser nor any Person acting on behalf of or pursuant to any understanding with such Purchaser, has taken, directly or indirectly, any actions to trade in the Company's Securities that might reasonably be expected to cause or result, under the Securities Act or Exchange Act, or otherwise, or that has constituted, stabilization or manipulation of the price of the Common Stock. Additionally, Purchaser agrees to comply with Regulation M under the Exchange Act.

ARTICLE IV.
OTHER AGREEMENTS AND ACKNOWLEDGEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an affiliate of the Purchaser, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company (the cost of which will be borne by the

Company), the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of the Purchaser under this Agreement and the Registration Rights Agreement.

(b) The Purchaser agrees to the imprinting, so long as is required by this Section 4.1, of a legend on any of the Securities in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION NOR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES

ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

(c) Certificates evidencing the Shares and the Warrant Shares shall not be required to bear any legend (including the legend set forth in Section 4.1(b) hereof): (i) while a registration statement (including the Registration Statement) covering the resale of such security is effective under the Securities Act, or (ii) following any sale of such Shares or Warrant Shares pursuant to Rule 144, or (iii) if such Shares or Warrant Shares are eligible for sale under Rule 144(k). If requested by a Person holding the Shares, the Warrants or the Warrant Shares, the Company shall take action reasonably requested by the Purchaser (including, but not limited to, causing Company counsel to issue a legal opinion to the Company's transfer agent) after the Effective Date if required by the Company's transfer agent to effect the removal of the legend hereunder provided that the Person requesting the removal of such legend shall have provided to such counsel such documents as it may reasonably request and are normally provided in accordance with industry standards.

(d) The Purchaser agrees that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Company's reliance that the Purchaser will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom, and that if Securities are sold pursuant to a Registration Statement, they will be sold in compliance with the plan of distribution set forth therein.

4.2 Reservation and Listing of Securities. The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may be required to fulfill its obligations in full under the Transaction Documents.

4.3 Form D; Blue Sky Filings. The Company agrees to timely file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof, promptly upon request of any Purchaser. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Purchasers at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Purchaser.

ARTICLE V.
MISCELLANEOUS

5.1 Termination. On the Termination Date, this Agreement shall be automatically terminated.

5.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents, each party to the Transaction Documents shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the transactions contemplated by the Transaction Documents. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers. In addition, the Company shall pay any placement agent in connection with the sale of the Securities sold a cash not to exceed 10% of the Purchase Price. The Company may also be required to pay a separate financial advisory fee. In addition, the Company may reimburse any placement agent for its reasonable expenses incurred as part of the financing.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission (accompanied by confirmation of receipt of transmission), if such notice or communication is delivered via facsimile at the facsimile number or via e-mail at the e-mail address respectively set forth on the signature pages attached hereto prior to 5:30 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of transmission (accompanied by confirmation of receipt of transmission), if such notice or communication is delivered via facsimile at the facsimile number or via e-mail at the e-mail address respectively set forth on the signature pages attached hereto on a day that is not a Business Day or later than 5:30 p.m. (New York City time) on any Business Day, (c) the 2nd Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement

or any rights or obligations hereunder without the prior written consent of the Purchaser (other than by merger). The Purchaser may assign any or all of its rights under this Agreement to any Person to whom the Purchaser assigns or transfers any Securities, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchaser".

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

5.9 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced exclusively in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. The parties hereby waive all rights to a trial by jury. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations, warranties, covenants and other agreements contained herein shall survive the Closing and the delivery, exercise and/or conversion of the Securities, as applicable for the applicable statue of limitations.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf

such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

PHASE III MEDICAL, INC.

By: _____

Name: Robin L. Smith
Title: CEO

Address for Notice:

420 Lexington Avenue
Suite 450
New York, New York 10107

Attention: CEO

With a copy to (which shall not constitute notice):

420 Lexington Avenue
Suite 450
New York, New York 10107

Attention: General Counsel

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned has caused this Securities Purchase Agreement to be duly executed by the authorized signatories as of the date first indicated above.

Name of Purchaser: _____

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Purchaser: _____

Facsimile Number of Purchaser: _____

Home Address of Purchaser: _____

_____

Business Address of Purchaser: _____

_____

_____

Address for Delivery of Securities of Purchaser (if not same as above):

_____

_____

Social Security Number or Tax ID Number of
Purchaser: _____

Aggregate Purchase Price: _____
Number of Shares: _____
Number of Warrants: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of August ___, 2006, among Phase III Medical, Inc., a Delaware corporation (the "Company"), and the purchaser signatory hereto (the "Purchaser").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof between the Company and the Purchaser (the "Purchase Agreement").

Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meaning given such terms in the Purchase Agreement.

The Company and each Purchaser hereby agrees as follows:

ARTICLE I

REGISTRATION STATEMENT

1.1 Filing of Registration Statement. (a) The Company will prepare and file (which may include the preparation and filing of one or more pre-effective amendments to any registration statements that relates to the Company's securities, which may be currently on file or may be subsequently filed with the Commission), at its own expense, a registration statement on Form S-1 or other appropriate form under the Securities Act (the "Registration Statement") with the Commission no later than December 31, 2006, sufficient to permit the non-underwritten public offering and resale of the Shares and the Warrant Shares (subject to adjustment as set forth in the Warrants) (the "Registrable Securities") through the facilities of all appropriate securities exchanges, if any, on which the Company's Common Stock is being sold or on the over-the-counter market if the Company's Common Stock is quoted thereon.

(b) Piggyback Registrations Rights. If, at any time for so long as the Company is required to maintain the effectiveness of a Registration Statement pursuant to Section 1.2(b) of this Agreement, there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall provide to the holder of the Registrable Securities the opportunity to have such Registrable Securities included in such Registration Statement; provided, that the Company shall only be required to provide such opportunity to holders of Registrable Securities until the earlier of (i) two years from the date of this Agreement; (ii) the date such Registrable Securities have been sold pursuant to a Registration Statement, (ii) the date such Registrable Securities have otherwise been transferred to Persons who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend, (iii) the date such Registrable Securities may

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be sold without volume or manner of sale limitations pursuant to Rule 144(k) or any similar provision then in effect under the Securities Act in the opinion of counsel to the Company.

1.2 Effectiveness of Registration Statement.

(a) The Company will use its reasonable best efforts to cause such Registration Statement to become effective as promptly as reasonably possible. The number of shares designated in the Registration Statement to be registered shall include all of the Registrable Securities and shall include appropriate language regarding reliance upon Rule 416 to the extent permitted by the Commission. The Company will notify each Purchaser of the date of effectiveness of the Registration Statement within two business days of such event.

(b) The Company will maintain the Registration Statement or post-effective amendment filed under the terms of this Agreement effective under the Securities Act until the earlier of (i) the date that all of the Registrable Securities have been sold pursuant to such Registration Statement, (ii) all Registrable Securities have been otherwise transferred to Persons who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend, (iii) all Registrable Securities may be sold at any time, without volume or manner of sale limitations pursuant to Rule 144(k) or any similar provision then in effect under the Securities Act in the opinion of counsel to the Company, or (iv) two years from the effective date of the Registration Statement (collectively, the "Effectiveness Period").

1.3 Fees. All fees, disbursements and out-of-pocket expenses and costs incurred by the Company in connection with the preparation and filing of the Registration Statement, in making filings with NASD or NASDR (including, without limitation, pursuant to NASD Rule 2710), and in complying with applicable federal securities and Blue Sky laws (including, without limitation, all attorneys' fees of the Company) shall be borne by the Company. The Purchaser shall bear any reasonable cost of underwriting and/or brokerage discounts, fees, and commissions, if any, applicable to the Registrable Securities being registered and sold by an underwriter for a Purchaser and the fees and expenses of their counsel. The Company shall use its reasonable best efforts to qualify any of the Securities for sale in such states as the Purchaser reasonably designates and shall furnish indemnification. However, the Company shall not be required to qualify in any state which will require an escrow or other restriction relating to the Company and/or the sellers, or which will require the Company to qualify to do business in such state or require the Company to file therein any general consent to service of process and the Company shall in no event be required to qualify in greater than five states. The Company at its expense will supply the Purchaser with copies of the applicable Registration Statement and any prospectus included therein and other related documents in such quantities as may be reasonably requested.

ARTICLE II

[Intentionally Omitted]

ARTICLE III

FURTHER AGREEMENTS

3.1 In the case of each registration effected by the Company pursuant to any section herein, the Company will:

(a) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to a disposition of all securities covered by such registration statement;

(b) Notify the Purchaser as promptly as reasonably possible: (i)(A) upon request by the Purchaser, when the Commission notifies the Company whether there will be a "review" of the Registration Statement and whenever the Commission comments in writing on the Registration Statement (the Company shall upon request provide true and complete copies thereof and all written responses thereto to each of the Holders, subject, if appropriate, to the execution of confidentiality agreements in form acceptable to the Company); and (B) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission or any other federal or state governmental authority of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading**;** *provided that*, for not more than 30 consecutive business days (or a total of not more than 120 calendar days in any 12-month period), the Company may delay the disclosure of material non-public information concerning the Company the public disclosure of which at the time is not, in the good faith opinion of the Company in the best interests of the Company and which may, based on the written advice of outside counsel, be delayed under applicable law or regulation (an "*Allowed Delay*"); *provided*, *further*, that the Company shall promptly (a) notify the Purchaser in writing of the existence of (but in no event, without the prior written consent of such Purchaser, shall the Company disclose to such Purchaser any of the facts or circumstances regarding) material non-public information giving rise to an Allowed Delay and (b) advise the Purchaser in writing to cease all sales under such registration statement until the termination of the Allowed Delay;

(d) use its commercially reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a registration statement, and, if such an order is issued, to obtain the withdrawal of such order at the earliest possible moment and to notify Purchaser (and, in the event of an underwritten offering, the managing underwriter) of the issuance of such order and the resolution thereof;

(e) If NASD Rule 2710 requires any broker-dealer to make a filing prior to executing a sale of Registrable Securities by the Purchaser, make an Issuer Filing with the NASD Corporate Financing Department pursuant to NASD Rule 2710 and respond within a reasonable period of time to any comments received from NASD in connection therewith.

(f) Otherwise use its commercially reasonable best efforts to comply with all applicable rules and regulations of the Commission.

(g) The Company shall either (a) cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (b) secure designation and quotation of all the Registrable Securities covered by the Registration Statement on the Nasdaq National Market or the Nasdaq Capital Market, or, (c) if the Company is unsuccessful in satisfying the preceding clauses (a) or (b), the Company shall secure the inclusion for quotation on The American Stock Exchange, Inc. or if it is unable to, the Over The Counter Bulletin Board for such Registrable Securities and, without limiting the generality of the foregoing, to attempt to arrange for at least two (2) market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities. The Company shall pay all fees and expenses in connection with satisfying its obligation under this Section 3(g).

ARTICLE IV

INDEMNIFICATION AND CONTRIBUTION

(a) To the extent the Purchaser includes any Shares or Warrant Shares in a registration statement pursuant to the terms hereof, the Company will indemnify and hold harmless the Purchaser, its directors and officers, and each Person, if any, who controls the Purchaser within the meaning of the Securities Act, from and against, and will reimburse the Purchaser, its directors and officers and each controlling Person with respect to, any and all loss, damage, liability, cost, and expense to which the Purchaser or such controlling Person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs, or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they

were made, not misleading; *provided, however*, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expense arises out of or is based upon any untrue

statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by the Purchaser or any such controlling Person in writing specifically for use in the preparation thereof.

(b) To the extent the Purchaser includes any Shares or Warrant Shares in a registration statement pursuant to the terms hereof, Purchaser will indemnify and hold harmless the Company, its directors and officers and any controlling Person from and against, and will reimburse the Company, its directors and officers and any controlling Person with respect to, any and all loss, damage, liability, cost, or expense to which the Company, its directors and officers or such controlling Person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs, or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in conformity with written information furnished by or on behalf of the Purchaser specifically for use in the preparation thereof.

(c) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable hereunder to the extent permitted by law, provided that (i) no contribution shall be made under circumstances where the indemnifying party would not have been liable for indemnification pursuant to the provisions hereof, (ii) no seller of securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of securities who was not guilty of such fraudulent misrepresentation, and (iii) the amount of the contribution together with any other payments made in respect of such loss, damage, liability, or expense, by any seller of securities shall be limited to the net amount of proceeds received by such seller from the sale of such securities.

(d) The Purchaser will cooperate with the Company in connection with this Agreement, including timely supplying all information and executing and returning the Selling Securityholder Notice and Questionnaire attached hereto as Exhibit A, and any other documents requested by the Company that are required to enable the Company to perform its obligations to register the Shares and the Warrant Shares.

ARTICLE V

MISCELLANEOUS

5.1 Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the holders of a majority of the then outstanding Registrable Securities.

5.2 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

5.3 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties.

5.4 Execution and Counterparts. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.5 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be determined in accordance with the provisions of the Purchase Agreement.

5.6 Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any other remedies provided by law.

5.7 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.8 Headings. The headings in this Agreement are for convenience only, do not constitute a part of the Agreement and shall not be deemed to limit or affect any of the provisions hereof.

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

PHASE III MEDICAL, INC.

By: _____

Name: Robin L. Smith
Title: CEO

[SIGNATURE PAGE OF PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGES TO REGISTRATION RIGHTS AGREEMENT]

Name of Purchaser: _____

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Purchaser: _____

Facsimile Number of Purchaser: _____

Address for Notice of Purchaser: _____

Annex A

PHASE III MEDICAL, INC.

Selling Securityholder Notice and Questionnaire

The undersigned beneficial owner of common stock, par value $0.001 per share (the "Common Stock"), of Phase III Medical, Inc., a Delaware corporation (the "Company"), (the "Registrable Securities") understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "Commission") a registration statement on an appropriate form for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement, dated as of _____, 2006 (the "Registration Rights Agreement"), among the Company and the Purchaser. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

Certain legal consequences arise from being named as a selling securityholder in the Registration Statement and the related prospectus. Accordingly, the Purchaser and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Registration Statement and the related prospectus.

NOTICE

The undersigned beneficial owner (the "Selling Securityholder") of Registrable Securities hereby elects to include the Registrable Securities owned by it and listed below in Item 3 (unless otherwise specified under such Item 3) in the Registration Statement. The undersigned hereby provides the following

information to the Company and represents and warrants that such information is accurate:

QUESTIONNAIRE

1. Name.

(a) Full Legal Name of Selling Securityholder

_____

(b) Full Legal Name of Registered Holder (if not the same as (a) above) through which Registrable Securities Listed in Item 3 below are held:

_____

(c) Full Legal Name of Natural Control Person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the securities covered by the questionnaire):

_____

2. Address for Notices to Selling Securityholder:

_____

_____

_____

_____

Telephone:

_____

Fax:

_____

Contact Person:

_____

3. Beneficial Ownership of Registrable Securities:

(a) Type and Principal Amount of Registrable Securities beneficially owned:

_____

_____

_____

_____

4. Broker-Dealer Status:

(a) Are you a broker-dealer?

Yes No

(b) If “yes” to Section 4(a), did you receive your Registrable Securities as compensation for investment banking services to the Company.

Yes No

Note: If no, the Commission’s staff has indicated that you should be identified as an underwriter in the Registration Statement.

(c) Are you an affiliate of a broker-dealer?

Yes No

(d) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?

Yes No

Note: If no, the Commission’s staff has indicated that you should be identified as an underwriter in the Registration Statement.

5. Beneficial Ownership of Other Securities of the Company Owned by the Selling Securityholder.

Except as set forth below in this Item 5, the undersigned is not the beneficial or registered owner of any securities of the Company other than the Registrable Securities listed above in Item 3.

(a) Type and Amount of Other Securities beneficially owned by the Selling Securityholder:

_____

_____

_____

6. Relationships with the Company:

Except as set forth below, neither the undersigned nor any of its affiliates, officers, directors or principal equity holders (owners of 5% of more of the equity securities of the undersigned) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

_____

_____

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof at any time while the Registration Statement remains effective.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Items 1 through 6 and the inclusion of such information in the Registration Statement and the related prospectus and any amendments or supplements thereto. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated:

Beneficial
Owner Name: _____

By: _____

Name: _____

Title: _____

Exhibit 10.3

THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF (1) AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH SECURITIES UNDER THE ACT AND ANY OTHER APPLICABLE SECURITIES LAWS, OR (2) AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

PHASE III MEDICAL, INC.

WARRANT TO PURCHASE _____ SHARES
(SUBJECT TO ADJUSTMENT)
OF
COMMON STOCK, PAR VALUE $0.001 PER SHARE

Date _____, 2006 Warrant No. ___

For value received, Phase III Medical, Inc., a Delaware corporation (the "**Company**"), hereby certifies that _____, or its registered transferees, successors or assigns (each person or entity holding all or part of this Warrant being referred to as a "**Holder**"), is the registered holder of warrants (the "**Warrants**") to subscribe for and purchase **_____ (_____)** shares (as adjusted pursuant to Section 3 hereof, the "**Warrant Shares**") of the fully paid and nonassessable common stock, par value $0.001 per share (the "**Common Stock**"), of the Company, at a purchase price per share initially equal to **EIGHT CENTS ($0.08)** (the "**Warrant Price**") on or before, 5:00 P.M., Eastern Time, on **_____,** 2011 (the "**Expiration Date**"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used in this Warrant, the term "**Business Day**" means any day other than a Saturday or Sunday on which commercial banks located in New York, New York are open for the general transaction of business. This Warrant has been issued in connection with the holder's investment in the Company's Common Stock financing of even date herewith.

This Warrant was issued pursuant to a Securities Purchase Agreement by and between the Company and the Holder (the "**Purchase Agreement**"), pursuant to an offering by the Company of shares of the Company's Common Stock and Warrants, as described in the Purchase Agreement.

1. Exercise.

(a) Method of Exercise; Payment; Issuance of New Warrant.

(i) Subject to the provisions hereof, the Holder may exercise this Warrant, in whole or in part and from time to time, by the surrender of this Warrant (with the Notice of Exercise attached hereto as **Appendix A** duly executed) at the principal office of the Company, or such other office or agency of the Company as it may reasonably designate by written notice to the Holder, during normal business hours on any Business Day, and the payment by the Holder by cash, certified check payable to the Company or wire transfer of immediately available funds to an account designated to the exercising Holder by the Company of an amount equal to the then applicable Warrant Price multiplied by the number of Warrant Shares then being purchased, or in the event of a cashless exercise pursuant to Section 1(b) below, with the Net Issue Election

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Notice attached hereto as **Appendix B** duly executed and completed. On the date on which the Holder shall have satisfied in full the Holder's obligations set forth herein regarding an exercise of this Warrant (provided such date is prior to the Expiration Date), the Holder (or such other person or persons as directed by the Holder, subject to compliance with applicable securities laws) shall be treated for all purposes as the holder of record of such Warrant Shares as of the close of business on such date.

(ii) In the event of any exercise of the rights represented by this Warrant, certificates for the whole number of shares of Common Stock so purchased shall be delivered to the Holder (or such other person or persons as directed by the Holder, subject to compliance with applicable securities laws) as promptly as is reasonably practicable (but not later than three (3) Business Days) after such exercise at the Company's expense, and, unless this Warrant has been fully exercised, a new Warrant representing the whole number of Warrant Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the Holder as soon as reasonably practicable thereafter (but not later than three (3) Business Days) after such exercise.

(b) Cashless Right to Convert Warrant into Common Stock. Notwithstanding any provision herein to the contrary, if as of the date of exercise of all or a part of this Warrant, the Fair Market Value (as defined below) for one share of Common Stock is greater than the Warrant Price, then in lieu of exercising this Warrant for cash, the Holder may elect to receive, without the payment by the Holder of the Warrant Price, Warrant Shares equal to the value of this Warrant or any portion hereof by the surrender of this Warrant (or such portion of this Warrant being so exercised) together with the Net Issue Election Notice annexed hereto as **Appendix B** duly executed and completed, at the office of the Company, or such other office or agency of the Company as it may reasonably designate by written notice to the Holder, during normal business hours on any Business Day. Thereupon, the Company shall issue to the Holder such number of fully paid, validly issued and nonassessable Warrant Shares, as is computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

where

X = the number of shares of Common Stock to be issued to the Holder (or such other person or persons as directed by the Holder, subject to compliance with all applicable laws) upon such exercise of the rights under this Section 1(b)

Y = the total number of shares of Common Stock covered by this Warrant which the Holder has surrendered for cashless exercise

A = the "Fair Market Value" of one share of Common Stock on the date that the Holder delivers the Net Issue Election Notice to the Company as provided herein

B = the Warrant Price in effect under this Warrant on the date that the Holder delivers the Net Issue Election Notice to the Company as provided herein

The "**Fair Market Value**" of a share of Common Stock as of a particular date (the "**Valuation Date**") shall mean the following:

(i) if the Common Stock is then listed on a national securities exchange, the average closing sale price of one share of Common Stock on such exchange over the ten (10) trading days ending on the last trading day prior to the Valuation Date; provided that if such stock has not traded in the ten (10) consecutive trading days prior to the Valuation Date, the Fair Market Value shall be the average closing price of one share of Common Stock in the most recent ten (10) trading days during which the Common Stock has traded prior to the Valuation Date;

(ii) if the Common Stock is then included in The Nasdaq Stock Market, Inc. ("**Nasdaq**"), the average closing sale price of one share of Common Stock on Nasdaq over the ten (10) trading days ending on the last trading day prior to the Valuation Date or, if no closing sale price is available for any of such ten (10) trading days, the closing sale price for such day shall be determined as the average of the high bid and the low ask price quoted on Nasdaq as of the end of such trading day; provided that if the Common Stock has not traded in the ten (10) consecutive trading days prior to the Valuation Date, the Fair Market Value shall be the average closing price of one share of Common Stock in the most recent ten (10) trading days during which the Common Stock has traded prior to the Valuation Date;

(iii) if the Common Stock is then included in the Over-the-Counter Bulletin Board, the average closing sale price of one share of Common Stock on the Over-the-Counter Bulletin Board over the ten (10) trading days ending on the last trading day prior to the Valuation Date or, if no closing sale price is available for any of such ten (10) trading days, the closing sale price for such day shall be determined as the average of the high bid and the low ask price quoted on the Over-the-Counter Bulletin Board as of the end of such trading day; provided that if the Common Stock has not traded in the ten (10) consecutive trading days prior to the Valuation Date, the Fair Market Value shall be the average closing price of one share of Common Stock in the most recent ten (10) trading days during which the Common Stock has traded prior to the Valuation Date;

(iv) if the Common Stock is then included in the "pink sheets", the average closing sale price of one share of Common Stock on the "pink sheets" over the ten (10) trading days ending on the last trading day prior to the Valuation Date or, if no closing sale price is available for any of such ten (10) trading days, the closing sale price for such day shall be determined as the average of the high bid and the low ask price quoted on the "pink sheets" as of the end of such trading day; provided that if the Common Stock has not traded in the ten (10) consecutive trading days prior to the Valuation Date, the Fair Market Value shall be the average closing price of one share of Common Stock in the most recent ten (10) trading days during which the Common Stock has traded prior to the Valuation Date; or

(v) if the Common Stock is not then listed on a national securities exchange or quoted on Nasdaq or the Over-the-Counter Bulletin Board or the "pink sheets", the Fair Market Value of one share of Common Stock as of the Valuation Date shall be determined in good faith by the Board of Directors of the Company (the "**Board**").

2. Reservation of Shares; Stock Fully Paid; Listing**.** The Company shall keep reserved a sufficient number of shares of the authorized and unissued shares of Common Stock to provide for the exercise of the rights of purchase represented by this Warrant in compliance with its terms. All Warrant Shares issued upon exercise of this Warrant shall be, at the time of delivery of the certificates for such Warrant Shares upon payment in full of the Warrant Price therefor in accordance with the terms of this Warrant (or proper exercise of the cashless exercise rights contained in Section 1(b) hereof), duly authorized, validly issued, fully paid and non-assessable shares of Common Stock of the Company. The Company shall during all times prior to the Expiration Date when the shares of Common Stock issuable

upon the exercise of this Warrant are authorized for listing or quotation on any national securities exchange, Nasdaq (or the Over-the-Counter Bulletin Board or the "pink sheets", as the case may be), keep the shares of Common Stock issuable upon the exercise of this Warrant authorized for listing or quotation on such national securities exchange, Nasdaq (or the Over-the-Counter Bulletin Board or the "pink sheets", as the case may be).

3. Adjustments.

3.1 With respect to any rights that Holder has to exercise this Warrant and convert into shares of Common Stock, Holder shall be entitled to the following adjustments:

(a) Merger or Consolidation. If at any time there shall be a merger or a consolidation of the Company with or into, or if the Company shall enter into an agreement providing for the transfer or sale of all or substantially all of its assets to, another entity (the "Surviving Entity") when the

Company is not the surviving corporation, then, as part of such merger or consolidation or transfer of assets lawful provision shall be made so that the holder hereof shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property (including cash) of the Surviving Entity resulting from such merger, consolidation or transfer of assets, to which the holder hereof as the holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger, consolidation or transfer of assets, if this Warrant had been exercised immediately before such transaction. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the holder hereof as the holder of this Warrant after the merger, consolidation, or transfer of assets. Under no circumstances may the Company into any agreement or instrument providing for the merger, consolidation or transfer of its assets or similar transaction without first assuring Warrant is fully enforceable and exercisable with respect to the Surviving Entity as contemplated by this Warrant.

(b) Reclassification, Recapitalization, etc. If the Company at any time shall, by subdivision, combination or reclassification of securities, recapitalization, automatic conversion, or other similar event affecting the number or character of outstanding shares of Common Stock, or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split or Combination of Common Stock and Stock Dividend. In case the Company shall at any time subdivide, redivide, recapitalize, split (forward or reverse) or change its outstanding shares of Common Stock into a greater number of shares or declare a dividend upon its Common Stock payable solely in shares of Common Stock, the Exercise Price shall be proportionately reduced and the number of Warrant Shares proportionately increased. Conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the Exercise Price shall be proportionately increased and the number of Warrant Shares proportionately reduced.

(d) Consideration Other than Cash. For purposes of this Warrant, if a part or all of the consideration received by the Company in connection with the issuance of shares of Common Stock or the issuance of any of the securities described in this Warrant consists of property other than cash, such consideration shall be deemed to have a fair market value as is reasonably determined in good faith by the Board.

(e) No Increased Warrant Price. Notwithstanding any other provisions of this Section 3, no adjustment of the Warrant Price pursuant to this Section 3 shall have the effect of increasing the Warrant Price above the Warrant Price in effect immediately prior to such adjustment.

3.2 Certificate as to Adjustments; Notice by Company. In each case of an adjustment or readjustment of the Warrant Price, the Company at its expense will furnish the Holder with a certificate prepared by the Treasurer or Chief Financial Officer of the Company, showing such adjustment or readjustment, and stating in detail the facts upon which such adjustment or readjustment is based.

3.3 Further Adjustments. In the event that, as a result of an adjustment made pursuant to this Section 3, the Holder shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, the number of such other shares so receivable upon exercise of this Warrant shall be subject thereafter to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Warrant Shares contained in this Warrant.

3.4 Adjustment of Number of Shares. Upon each adjustment in the Warrant Price pursuant to this Section 3, the number of Warrant Shares purchasable hereunder shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Warrant Shares purchasable immediately prior to such adjustment by a fraction, (i) the numerator of which shall be the Warrant Price immediately prior to such adjustment, and (ii) the denominator of which shall be the Warrant Price immediately thereafter.

4. Redemption of Warrants. This Warrant is subject to redemption by the Company as provided in this Section 4.

4.1. This Warrant may be redeemed, at the option of the Company, in whole and not in part, at a redemption price of $.0001 per Warrant (the "**Redemption Price**"), provided (i) the average closing price of the Common Stock as quoted by Bloomberg, LP., on the Principal Trading Market (as defined below) on which the Common Stock is included for quotation or trading, shall equal or exceed $.36 per share (taking into account all adjustments) for the twenty (20) consecutive trading days ending on the second trading day prior to the date of Redemption Notice (as defined below) is sent to the Holder (the "**Target Price**"); (ii) the Common Stock is either quoted on the NASD Bulletin Board, traded on a national securities exchange or quoted on the NNM or NCSM (the "**Principal Trading Market**"); (iii) the registration statement covering the resale of the Warrant Shares under the Securities Act has been declared effective by the Securities and Exchange Commission and remains effective on the Redemption Date (as defined below) so that the Warrant Shares may be sold without limitation; (iv) the dollar value of the trading volume of the Common Stock for each of the twenty (20) consecutive trading days prior to the Redemption Date equals or exceeds $100,000; and (v) the Holder of this Warrant is not subject to any lock-up provisions with respect to this Warrant or the Warrant Shares.

4.2. If the conditions set forth in Section 4.1 are met, and the Company desires to exercise its right to redeem this Warrant, it shall mail a notice (the "**Redemption Notice**") to the registered holder of this Warrant by first class mail, postage prepaid, at least ten (10) Business Days prior to the date fixed by the Company for redemption of the Warrants (the "**Redemption Date**").

4.3. The Redemption Notice shall specify (i) the Redemption Price, (ii) the Redemption Date, (iii) the place where the Warrant certificates shall be delivered and the redemption price paid, and (iv) that the right to exercise this Warrant shall terminate at 5:00 p.m. (New York time) on the business day immediately preceding the Redemption Date. No failure to mail such notice nor any

defect therein or in the mailing thereof shall affect the validity of the proceedings for such redemption except as to a holder (a) to whom notice was not mailed, or (b) whose notice was defective. An affidavit of the Secretary or an Assistant Secretary of the Company that the Redemption Notice has been mailed shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

4.4. Any right to exercise a Warrant shall terminate at 5:00 p.m. (New York time) on the business day immediately preceding the Redemption Date. On and after the Redemption Date, the holder of this Warrant shall have no further rights except to receive, upon surrender of this Warrant, the Redemption Price.

4.5. From and after the Redemption Date, the Company shall, at the place specified in the Redemption Notice, upon presentation and surrender to the Company by or on behalf of the holder thereof the warrant certificates evidencing this Warrant being redeemed, deliver, or cause to be delivered to or upon the written order of such holder, a sum in cash equal to the Redemption Price of this Warrant. From and after the Redemption Date, this Warrant shall expire and become void and all rights hereunder and under the warrant certificates, except the right to receive payment of the Redemption Price, shall cease. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, the Target Price shall be proportionately adjusted by the ratio which the total number of shares of Common Stock outstanding immediately prior to such event bears to the total number of shares of Common Stock to be outstanding immediately after such event.

5. Transfer Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the registered holder of this Warrant in respect of which such shares are issued, and in such case, the Company shall not be required to issue or deliver any certificate for Warrant Shares or any Warrant until the person requesting the same has paid to the Company the amount of such tax or has established to the Company's reasonable satisfaction that such tax has been paid.

6. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen, or destroyed, the Company shall issue in exchange and substitution of and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of the Warrant, and with respect to a lost, stolen or destroyed Warrant, reasonable and customary indemnity or bond with respect thereto, if requested by the Company.

7. Fractional Shares. No fractional shares of Common Stock shall be issued in connection with any exercise or cashless exercise hereunder, and in lieu of any such fractional shares the Company shall make a cash payment therefor to the Holder (or such other person or persons as directed by the Holder, subject to compliance with all applicable laws) based on the Fair Market Value of a share of Common Stock on the date of exercise or cashless exercise of this Warrant.

8. Compliance with Securities Act and Legends**.** The Holder, by acceptance hereof, agrees that it will not offer, sell or otherwise dispose of this Warrant, or any shares of Common Stock to be issued upon exercise hereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or the rules and regulations promulgated thereunder, as amended (the

"**1933 Act**"), or any state's securities laws. All shares of Common Stock issued upon exercise of this Warrant (unless registered under the 1933 Act) shall be stamped or imprinted with a legend as follows:

> THIS SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF (1) AN EFFECTIVE REGISTRATION STATEMENT COVERING THESE SECURITIES UNDER THE ACT AND ANY OTHER APPLICABLE SECURITIES LAWS, OR (2) AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

9. Rights as a Stockholder. Except as expressly provided in this Warrant, no Holder, as such, shall be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of the directors or upon any matter submitted to stockholders at any meeting thereof, or to receive notice of meetings, or to receive dividends or subscription rights or otherwise, until this Warrant shall have been exercised and the Warrant Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein.

10. Modification and Waiver. This Warrant and any provision hereof shall not be changed, waived, discharged or terminated except by an instrument in writing signed by the Company and the then current Holder, and such change, waiver, discharge or termination shall be binding on any future Holder.

11. Notices. Unless otherwise provided, any notice required or permitted under this Warrant shall be given in accordance with the terms of the Purchase Agreement.

12. Securities Purchase Agreement and Registration Rights Agreement. This Warrant has been issued pursuant to the Purchase Agreement, and the transferability of this Warrant and the Common Stock issuable upon the exercise hereof are subject to the Purchase Agreement. In addition, the Holder of this Warrant and the Common Stock issuable upon the exercise hereof is entitled to have such shares of Common Stock registered under the Securities Act in accordance with the Registration Rights Agreement referred to in the Purchase Agreement and to such remedies for breaches of, or defaults under, such Registration Rights Agreement.

13. Descriptive Headings. The descriptive headings contained in this Warrant are inserted for convenience only and do not constitute a part of this Warrant.

14. Governing Law. This Warrant shall be governed exclusively by and construed in accordance with the internal laws of the State of New York without regard to the conflicts of laws principles thereof. The parties hereto hereby irrevocably agree that any suit or proceeding arising directly and/or indirectly pursuant to or under this Warrant, shall be brought solely in a federal or state court located in the City, County and State of New York. By its execution hereof, the parties hereby covenant and irrevocably submit to the in personam jurisdiction of the federal and state courts located in the City, County and State of New York and agree that any process in any such action may be served upon any of them personally, or by certified mail or registered mail upon them or their agent, return receipt requested, with the same full force and effect as if personally served upon them in New York City. The parties hereto waive any claim that any such jurisdiction is not a convenient forum for any such suit or

proceeding and any defense or lack of in personam jurisdiction with respect thereto. In the event of any such action or proceeding, the party prevailing therein shall be entitled to payment from the other party hereto of its reasonable counsel fees and disbursements in an amount judicially determined. Acceptance, receipt and execution of this Warrant by the Holder hereof shall constitute acceptance of and agreement to the foregoing terms and conditions.

15. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Continental Stock Transfer and Trust Company. Upon the appointment of any subsequent transfer agent for the Common Stock or other shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by this Warrant, the Company will mail to the Holder a statement setting forth the name and address of such transfer agent.

16. No Impairment of Rights. The Company will not, by amendment of its Certificate of Incorporation or through any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against material impairment.

17. Assignment. Subject to the terms hereof and compliance with applicable federal and state securities laws, this Warrant may be transferred by the Holder with respect to any or all of the Warrant Shares then purchasable hereunder. Upon surrender of this Warrant to the Company, together with a properly endorsed notice of transfer (an "**Assignment Form**"), for transfer of this Warrant in its entirety by the Holder, the Company shall issue a new warrant of the same denomination to the designated transferee. Upon surrender of this Warrant to the Company, together with a properly endorsed Assignment Form, by the Holder for transfer with respect to a portion of the Warrant Shares then purchasable hereunder, the Company shall issue a new warrant to the designated transferee, in such denomination as shall be requested by the Holder hereof, and shall issue to such Holder a new warrant covering the number of Warrant Shares in respect of which this Warrant shall not have been transferred. In addition to, and not in limitation of, the foregoing, a Holder that is a corporation, a partnership or a limited liability company, may distribute any portion of this Warrant to its respective shareholders, partners or members. Unless and until the provisions for assignment set forth herein have been fully complied with, the Company may treat the last registered Holder as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary.

18. Limitation on Exercise. Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates and any other persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Exchange Act, does not exceed 9.99% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of an Exercise Notice hereunder will constitute a representation by the Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Warrant Shares requested in such Exercise Notice is permitted under this paragraph. This provision shall not restrict the number of shares of Common Stock which a Holder may receive or beneficially own in order to determine the amount of securities or other consideration that such Holder may receive in the event of a merger or other business combination or reclassification involving the Company as contemplated in Section 3 of this Warrant. By written notice to the Company,

the Holder may waive the provisions of this Section but any such waiver will not be effective until the 61st day after such notice is delivered to the Company.

IN WITNESS WHEREOF, the Company and the Holder have caused this Warrant to be executed on their behalf by one of their officers thereunto duly authorized.

Phase III Medical, Inc.

By:

Name:

Title:

APPENDIX A

NOTICE OF EXERCISE

To: **[Company]**

1. The undersigned hereby irrevocably elects to purchase [_____] shares of Common Stock of **[Company]** pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full, by **[**cash, certified check/wire transfer, or surrender of the originally executed Warrant**] [select the applicable method of payment]**.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below:

_____

_____

(Name)

_____

(Address)

_____

(Signature)

_____

(Date)

3. Please issue a new Warrant of equivalent form and tenor for the unexercised portion of the attached Warrant in the name of the undersigned or in such other name as is specified below:

Date: _____

(Warrantholder) _____

Name: (Print) _____

By: _____

APPENDIX B

Net Issue Election Notice

To: **[Company]**

Date:[_____]

The undersigned hereby elects under Section 1(c) of this Warrant to surrender the right to purchase [_____] shares of Common Stock pursuant to this Warrant and hereby requests the issuance of [_____] shares of Common Stock. The certificate(s) for the shares issuable upon such net issue election shall be issued in the name of the undersigned or as otherwise indicated below.

_____

Signature

Name for Registration

Mailing Address

Exhibit 10.4

AGREEMENT

This Agreement is entered into as of the __th day of _____ 2006 by and between the undersigned Investor and Phase III Medical, Inc. (the "Company") a Delaware corporation with offices at 420 Lexington Avenue, Suite 450, New York, New York 10107.

WHEREAS, pursuant to the terms of a subscription agreement, the Investor purchased from the Company pursuant to the terms of a private placement under Regulation D promulgated under Section 4(2) and Rule 506 of the Securities Act of 1933, as amended (the "Act") Units of the Company consisting of (a) a promissory note (the "*Note*"), convertible into shares (the "*Conversion Shares*") of the Company's common stock, par value $.001 ("Common Stock") at the rate of $.06 per Conversion Share, subject to adjustment and (b) a detachable warrant (the "*Unit Warrant*") for the purchase of an equivalent number of shares of Common Stock at an exercise price of $.12 per share, subject to adjustment (the "*Unit Warrant Shares*");

WHEREAS, the Note is scheduled to mature nine months from the date of issuance;

WHEREAS, pursuant to the terms of the subscription agreement, the Investor has certain rights relating to the registration with the Securities and Exchange Commission pursuant to the filing with them of a registration statement under the Securities Act of 1933;

WHEREAS, the Company wishes to induce the Investor to either currently convert Investor's Note or extend the Term of the Note and to amend certain of its rights to the filing of a registration statement.

Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the subscription agreement, the Note or the Unit Warrant, as the case may be.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Capitalized Terms. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the subscription agreement, the Note or the Unit Warrant, as the case may be.

2. Amendment of Note and Unit Warrant.

Investor hereby agrees to amend the Note and the Unit Warrant in the manner set forth opposite one of the checked boxes below (please choose):

Option 1

o Extend the term of the Note for an additional four months from the Maturity Date in consideration for which:

(i) the Company shall issue to Investor for each $25,000 in principal amount of the Note 56,818 shares of unregistered Common Stock; and

(ii) the exercise price per Unit Warrant shall be reduced from $.12 to $.08.

Option 2

o Convert the Note upon execution of this Agreement into shares of the Company's Common Stock in consideration for which:

(i) the conversion price per Conversion Share shall be reduced to $.044;

(ii) the Company shall issue to Investor for each $25,000 in principal amount of the Note, 113,636 shares of Common Stock;

(iii) the exercise price per Unit Warrant shall be reduced from $.12 to $.08; and

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(iv) a new warrant shall be issued substantially on the same terms as the original Unit Warrant to purchase an additional 416,666 shares of Common Stock for each $25,000 in principal amount of the Note at an exercise price of $.08 per share.

3. Amendment of Registration Rights.

Investor further agrees that (i) there shall not be a Registration Default under the terms of Section 5(f) of the subscription agreement, and (ii) the delay of the filing of the Registration Statement shall be considered an Allowed Delay under Section 5(g) of the subscription agreement so long as the Registration Statement is declared effective by the Commission by February 28, 2007.

4. Waiver of Penalties.

Investor hereby waives any and all penalties and liquidated damages accumulated as of the date of this Letter.

5. No Other Changes. Except as provided in this Agreement the terms of the Note, Unit Warrant and Subscription Agreement shall remain unchanged.

IN WITNESS WHEREOF, the parties have executed this Agreement.

PHASE III MEDICAL, INC.

By:_____

Name:_____

Title:_____

INVESTOR

By: _____

Name:_____

Title:_____

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement of NeoStem, Inc. (formerly known as Phasc 111 Medical, Inc.) on Form S-1 (Registration No. 333-107438) of our report dated February 23,2006 except for Note 12, as to which the date is March 27,2006 and Note 13 as to which the date is August 29,2006, appearing in the Prospectus, which is part of this Registration Statement with respect to the financial statement of NeoStem, Inc. (formerly known as Phase I11 Medical, Inc.) for the year ended December 31, 2005.

We also consent to the reference to us under the headings “Selected Financial Data” and “Experts” in such Prospectus.

/s/ Holtz Rubenstein Reminick LLP
Holtz Rubenstein Reminick LLP
Melville, New York
August 3 1,2006