SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from________to________

Commission file number 0-10909

PHASE III MEDICAL, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 22-2343568 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 330 SOUTH SERVICE ROAD, SUITE 120, MELVILLE, NEW YORK | 11747 |
| (Address of principal executive offices) | (zip code) |

Registrant's telephone number, including area code: 631-574-4955

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes_X_ No___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes___ No_X_

45,532,900 SHARES, $.001 PAR VALUE, AS OF APRIL 30, 2005

(Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date)



I N D E X

PHASE III MEDICAL, INC.

BALANCE SHEETS
(Unaudited)

ASSETS

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 5,379 | $ 27,868 |
| Prepaid expenses and other current assets | 18,352 | 21,233 |
| Total current assets | 23,731 | 49,101 |
| Property and equipment, net | 2,957 | 3,446 |
| Deferred acquisition costs | 36,480 | 43,897 |
| Other assets | 3,000 | 3,000 |
| | $ 66,168 | $ 99,444 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Current liabilities: | | |
| Interest and dividends payable - preferred stock | $ 492,801 | $ 480,880 |
| Accounts payable | 204,333 | 149,169 |
| Accrued liabilities | 165,096 | 88,883 |
| Notes payable | 547,000 | 475,000 |
| Convertible debentures, related party - net of debt discount of $0 and $5,882 | - | 94,118 |
| Total current liabilities | 1,409,230 | 1,288,050 |
| Unearned revenues | 51,472 | 62,007 |
| Series A mandatorily redeemable convertible preferred stock | 681,174 | 681,174 |
| Total Liabilities | 2,141,876 | 2,031,231 |
| 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, 250,000,000 shares; issued and outstanding, 43,065,336 shares at March 31, 2005 and 41,029,552 shares at December 31, 2004 | 43,066 | 41,031 |
| Additional paid-in capital | 10,641,122 | 10,537,408 |
| Accumulated deficit | (12,759,996) | (12,510,326) |
| Total stockholders' deficit | (2,075,708) | (1,931,787) |
| | $ 66,168 | $ 99,444 |

See accompanying notes to financial statements

PHASE III MEDICAL, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended March 31, 2005 | 2004 |
|---|---|---|
| Earned revenues | $ 10,535 | $ 27,342 |
| Direct costs | (7,417) | (19,273) |
| Gross profit | 3,118 | 8,069 |
| Selling, general and administrative | (215,501) | (149,083) |
| Purchase of medical royalty stream | - | (240,000) |
| Operating loss | (212,383) | (381,014) |
| Other income (expense): | | |
| Interest income | - | 159 |
| Interest expense | (25,366) | (63,430) |
| Interest expense - Series A mandatorily redeemable convertible preferred stock | (11,921) | (11,921) |
| Net loss attributable to common stockholders | $ (249,670) | $ (456,206) |
| Net loss per common share | $ (.01) | $ (.02) |
| Weighted average common shares outstanding | 41,924,642 | 26,650,636 |

See accompanying notes to financial statements

PHASE III MEDICAL, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Three Months Ended March 31, 2005 | 2004 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (249,670) | $ (456,206) |
| 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 | 5,749 | 19,200 |
| Depreciation | 489 | 308 |
| Amortization of debt discount | 5,882 | - |
| Series A mandatorily redeemable convertible preferred stock dividends | 11,921 | - |
| Deferred acquisition costs | 7,417 | 19,273 |
| Changes in operating asset and liabilities: | | |
| Prepaid expenses and other current assets | 2,881 | (12,767) |
| Unearned revenues | (10,535) | (27,342) |
| Accounts payable, accrued expenses, and other current liabilities | 131,377 | 61,309 |
| Net cash used in operating activities | (94,489) | (396,225) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | - | (1,113) |
| Net cash used in investing activities | - | (1,113) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | - | 96,000 |
| Net proceeds from advances on notes payable | 72,000 | 120,000 |
| Repayment of long-term debt | - | (5,964) |
| Net cash provided by financing activities | 72,000 | 210,036 |
| Net decrease in cash and cash equivalents | (22,489) | (187,302) |
| Cash and cash equivalents at beginning of period | 27,868 | 210,947 |
| Cash and cash equivalents at end of period | $ 5,379 | $ 23,645 |

| | Three Month Ended March 31, 2005 | 2004 |
|---|---|---|
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 18,541 | $ 17,299 |
| Supplemental Schedule of Non-cash Financing Activities: | | |
| Net accrual of dividends on Series A Preferred Stock | $ 11,921 | $ - |
| Issuance of common stock for services rendered | $ 4,875 | $ - |
| Compensatory element of stock options | $ 874 | $ 47,629 |

See accompanying notes to financial statements.

# PHASE III MEDICAL, INC.

## NOTES TO UNAUDITED FINANCIAL STATEMENTS

### NOTE 1 - THE COMPANY

Phase III Medical, Inc. ("Phase III" or the "Company") (formerly known as Corniche Group Incorporated) provides capital and guidance to companies in multiple sectors of the healthcare and life sciences industries, in exchange for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies known as "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. As of March 31, 2005, the Company has not received any such royalty payments. Previously, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com through June 30, 2002. 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.

### NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited 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 March 31, 2005 and December 31, 2004, the results of operations for the three months ended March 31, 2005 and 2004 and the cash flows for the three months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year.

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.

The December 31, 2004 balance sheet has been derived from the audited financial statements at that date included in the Company's Annual Report on Form 10-K. 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.

### NOTE 3 -STOCK OPTIONS

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123 ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and does not permit the use of the original SFAS No. 123 prospective method of transition in fiscal years beginning after December 15, 2003. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results, regardless of whether, when, or how an entity adopts preferable fair value based method of accounting. SFAS No. 148 improves the prominence and clarity of the pro forma disclosures required by SFAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the "Summary of Significant Accounting Policies" or its equivalent and improves the timeliness of those disclosures by requiring their inclusion in financial reports for interim periods. The Company has adopted the disclosure requirements of SFAS No. 148. The Company will continue to account for stock-based employee compensation under APB Opinion No. 25 and its related interpretations.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for all periods:

| | Three Months Ended March 31, 2005 | 2004 |
|---|---|---|
| Net loss as reported | $ (249,670) | $ (456,206) |
| Additional compensation | (17,726) | (300,795) |
| Adjusted net loss | $ (267,396) | $ (757,001) |
| Net loss per share as reported | $ (.01) | $ (.02) |
| Adjusted net loss per share | $ (.01) | $ (.03) |

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 small business filers the first interim reporting period that begins after December 31, 2005.

NOTE 4 - NOTES PAYABLE

On March 17, 2003, the Company commenced a private placement offering which raised $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 (the "Securities Act"), are eligible to purchase these promissory notes. As of March 31, 2005, $170,000 remains unpaid and the due date of these notes has been extended. All interest payments on these notes have been made.

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 is due on June 30, 2005 together with the accrued interest.

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 the notes remain unpaid. As of March 31, 2005, $25,000 of these notes remains unpaid, the interest rate has been reduced to 8% and the due date has been extended to April 1, 2005. All interest payments have been paid timely. On April 26, 2005 this note together with all accrued interest was repaid. 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 March 31, 2005, $25,000 has been repaid, all interest payments have been paid timely and the due date has been extended. 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 March 31, 2005, $25,000 of these notes remains unpaid. All interest payments have been paid timely and the due date has been extended. In December 2004, the Company sold a 60 day 8% note in the amount of $35,000, a 180 day 15% note in the amount of $25,000, a 180 day 20% note in the amount of $15,000 and a 90 day 8% note in the amount of $25,000 to four accredited investors totaling $100,000. As of March 31, 2005, these notes remain unpaid. All interest payments have been made timely and the due date has been extended.

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. The remaining debt discount of $5,882 was amortized in the first quarter of 2005. On February 20, 2005, the note was converted into 1,960,784 shares of Common Stock as per the prescribed formula. All interest payments have been paid timely.

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. 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. In March 2005, the Company sold a 30 day 8% note (for which the due date has been extended) in the amount of $17,000 and a one year 15% note in the amount of $20,000 to two accredited investors to fund current operations. All interest payments on these notes have been made timely.

A summary of the above descriptions is as follows:

| | December 31, 2004 | Proceeds | Repayments/ Conversions | March 31, 2005 |
|---|---|---|---|---|
| March 2003 Notes | $ 170,000 | $ - | $ - | $ 170,000 |
| Consultant Note | 75,000 | - | - | 75,000 |
| February - August 2004 Notes | 230,000 | - | - | 230,000 |
| 2005 Notes | - | 72,000 | - | 72,000 |
| Related Party Note | 94,118 | - | (94,118) | - |
| Total | $ 569,118 | $ 72,000 | $ (94,118) | $ 547,000 |

NOTE 5 - 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. At March 31, 2005 and December 31, 2004, 681,174 shares of Series A Preferred Stock were outstanding.

NOTE 6 - STOCKHOLDERS' EQUITY

(a) Common Stock:

On each of January and February 20, 2005, the Company issued 37,500 shares of its Common Stock, for a total of 75,000 shares, as compensation to its public relations firm. The Company recorded $4,875 of expense as a result of this issuance.

On February 20, 2005, the Company issued 1,960,784 shares of its Common Stock in exchange for the conversion of the related party note.

(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 351,500 shares of Common Stock are reserved for issuance upon exercise of outstanding warrants as of March 31, 2005 at prices ranging from $0.05 to $8.10 and expiring through December 2008. In connection with the September 2003 equity private placement, the Company issued a 5 year warrant to purchase 282,500 shares of its Common Stock at an exercise price of $0.12 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains piggyback registration rights. On January 20, 2005, the Company issued three year warrants to purchase a total of 25,000 shares of its Common Stock at $.05 per share to Consulting For Strategic Growth, Ltd., the Company's public relations firm. The Company recorded expense of $874 as the fair value of these warrants using the Black-Scholes method.

(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. Under this plan, the Company has reserved 15,000,000 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 March 31, 2005 | |
|---|---|---|
| | Shares | Prices |
| Outstanding at beginning of period | 6,685,000 | $0.03 to $0.18 |
| Granted | 200,000 | $0.07 |
| Expired | - | - |
| Cancelled | - | - |
| Outstanding at end of period | 6,885,000 | $0.03 to $0.18 |

Options are usually granted at an exercise price at least equal to the fair value of the common stock at the grant date. During the three months ended March 31, 2005, options to purchase 200,000 shares of the Company's Common Stock at an exercise price of $.07 were granted to a member of the Company's Board of Advisors pursuant to his agreement.

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

On March 20, 2004, the Company entered into a consulting agreement which provides for the Company to give advice as to business development possibilities for the services and technology of NeoStem Inc. (See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS). The agreement provides for the issuance of options to purchase 300,000 shares of the Company's Common Stock at an exercise price of $.10 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 500,000 shares of the Company's Common Stock for an exercise price of $.10 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. The Company has paid a total of $720,000 since the inception of the agreement. 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. Since inception, through March 31, 2005, the Company paid $74,060 of such expenses.

## NOTE 8 - RELATED PARTIES

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. Mr. Aholt received 477,679 shares of the Company's Common Stock based on the January 1, 2005 date. Mr. Aholt will receive 800,898 shares on April 1, 2005.

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 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 675,000 shares of the Company's common stock at an exercise price of $.10 cents 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. As of March 31, 2005, Mr. Marasco has accrued $52,500 in salary under this agreement.

## NOTE 9 - INDUSTRY AND GEOGRAPHICAL SEGMENTAL INFORMATION

The Company's operations are currently in one segment, namely the "run off" of its sale of extended warranties and service contracts via the Internet. Additionally, the Company is currently endeavoring to establish new business operations by providing capital and guidance to companies in multiple sectors of the healthcare and life sciences industries, in exchange for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. The Company did not realize any revenue from its purchase of the royalty interest. The Company's operations are conducted entirely in the United States.

## NOTE 10 - SUBSEQUENT EVENTS

On April 1, 2005, 800,898 shares of the Company's Common Stock were issued to Robert Aholt based on the formula in his employment agreement in payment of salary.

On April 15, 2005, the Company entered into an engagement agreement with an investment banker to be the sole placement agent in a proposed private placement of convertible notes and warrants. The notes, warrants and underlying securities have not been registered under the Securities Act and my not be offered or sold in the United States without registration or an applicable exemption. The agreement calls for an upfront payment of $25,000 which has been paid and an additional $25,000 at closing of the first placement. All other fees are based on the amount raised.

On April 20, 2005, the Company entered into the following agreements with Catherine M. Vaczy, a previously unrelated third party.

- Employment agreement to become the Company's Executive Vice President and General Counsel

- Stock Purchase Agreement to purchase 1,666,666 shares of the Company's Common Stock at .$06 per share totaling $100,000

- Promissory Note in the principal amount of $100,000 bearing annual interest at 15% and payable April 20, 2006, subject to certain rights and obligations contained therein relating to the conversion of the Promissory Note into shares of Common Stock

- Stock Option Agreement to purchase 150,000 shares of the Company's Common Stock at an exercise price of $.10 per share.

In April 2005, the Company repaid $25,000 to a note holder from the February - August 2004 notes. (See Note 4) In addition, the Company sold 100,000 shares of its Common Stock to an accredited investor at a price of $.06 per share resulting in gross proceeds to the Company of $6,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and the documents incorporated herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Quarterly Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "plan", "intend," "may," "will," "expect," "believe", "could," "anticipate," "estimate," or "continue" or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by law, the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL

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. The Company has paid a total of $720,000 since the inception of the agreement. 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. Since inception, through March 31, 2005, the Company paid $74,060 of such expenses.

RESULTS OF OPERATIONS

The Company recognizes revenue from its warranty service contracts business over the life of 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.

Three Months Ended March 31, 2005 Compared To Three Months Ended March 31, 2004.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of $10,535 for the three months ended March 31, 2005 as compared to $27,342 for the three months ended March 31, 2004. The revenues generated in the quarter were derived entirely from revenues deferred over the life of contracts sold in prior periods. Similarly, direct costs incurred were $7,417 and $19,273 for the three months ended March 31, 2005 and 2004, respectively. In addition, the Company paid $0 and $240,000 respectively for the three months ended March 31, 2005 and 2004 towards the purchase of royalty interests as per its agreement with PSI. Due to the uncertainty of the future revenues, the amounts paid have been charged to current operations.

General and administration expenses increased approximately $66,000 to $215,501 for the three months ended March 31, 2005 as compared to $149,083 for the three months ended March 31, 2004. The increase in general and administrative expenses is primarily due to increases in payroll and related expenses of $73,000 and investor relations expenses of $15,000, partially offset by reductions in professional fees of $22,000.

Interest expense decreased by approximately $38,000 for the three months ended March 31, 2005 from the three months ended March 31, 2004. Such decrease was primarily as a result of reduced interest rates on certain debt, no shares being issued as additional interest and the elimination of default options on debt that has been repaid.

For the reasons cited above, including primarily that no payments were made towards royalty interests, the net loss for the three months ended March 31, 2005 decreased to $249,670 from $456,206 for the three months ended March 31, 2004.

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

| | Three Months Ended | |
|---|---|---|
| | March 31, 2005 | March 31, 2004 |
| Cash used in Operating Activities | $ (94,489) | $ (396,225) |
| Cash (used) provided by Investing Activities | $ - | $ (1,113) |
| Cash provided by Financing Activities | $ 72,000 | $ 210,036 |

The Company incurred a net loss of $249,670 for the three months ended March 31, 2005. Such loss adjusted for non-cash items such as deferred revenues (net of deferred acquisition costs) ($3,118) and other non cash credits totaling $24,021 resulted in cash used in operations totaling $94,489 for the three months ended March 31, 2005, including working capital movements of $134,258.

To meet its cash requirement for the three months ended March 31, 2005, the Company relied on the net proceeds from the issuance of Promissory Notes in the amount of $72,000.

The Company has a contractual commitment to pay PSI up to an additional $194,676 through the end of its agreement. As of March 31, 2005, the Company had cash balances totaling approximately $5,379. The Company will rely on its current cash and proceeds from the sale of promissory notes and common stock to fund its new business operations until they become cash generative. All interest payments have been paid timely. The Company plans to meet its current and future obligations through the sales of common stock and loans from accredited investors. There can be no assurance that sufficient proceeds will be raised to meet current obligations when due.

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.

INFLATION

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

(a) Our principal executive officer has concluded, based on his evaluation of, the effectiveness of our "disclosure controls and procedures" as of the end of the period covered by this quarterly report on Form 10-Q (as defined under Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934) were effective as of such date to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive, as appropriate, to allow timely decisions regarding required disclosure.

(b) During our last fiscal quarter and subsequent to our evaluation, there were no significant changes in internal controls or other factors that have materially affected, or reasonably likely to materially affect our internal controls over financial reporting.

PHASE III MEDICAL, INC.

PART II

OTHER INFORMATION

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

The following securities were sold during the first quarter of 2005 in private transactions exempt from registration pursuant to Section 4(2) of the Securities Act and/or Regulation D there under: (i) on each of January and February 20, 2005, the Company issued 37,500 shares of its Common Stock, for a total of 75,000 shares, as compensation to its public relations firm; and (ii) on February 20, 2005, the Company issued 1,960,784 shares of its Common Stock in exchange for the conversion of a related party note.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Cumulative dividends payable on Series A Convertible Redeemable Preferred Stock totaled $492,801 at March 31, 2005, of which $11,921 represents dividends for the three months then ended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None

SIGNATURES

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

PHASE III MEDICAL, INC. (Registrant)

By: /s/ Mark Weinreb
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Mark Weinreb, President and Chief Executive Officer

Date: May 16, 2005

Exhibit 31.1

CERTIFICATION

I, Mark Weinreb, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phase III Medical, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly;

4. The registrant's other certifying officer(s) (if any) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

c) presented in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ Mark Weinreb
- ------------------
Name: Mark Weinreb
Title: Chief Executive Officer of Phase III Medical, Inc.

A signed original of this written statement required by Section 302 has been provided to Phase III Medical, Inc. and will be retained by Phase III Medical, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Phase III Medical, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2005 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Weinreb, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of the dates presented and the result of operations of the Company for the periods presented.

Dated: May 16, 2005

/s/ Mark Weinreb
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Mark Weinreb
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to Phase III Medical, Inc. and will be retained by Phase III Medical, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.