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

FORM 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

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

Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the Registrant as of June 30, 2004 was approximately $ 2.8 million. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates).

On March 15, 2005, 43,065,336 shares of the Registrant's common stock, par value $0.001 per share, were outstanding.

Documents incorporated by reference: None

This Annual Report on Form 10-K 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 Annual 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.

PART I

ITEM 1. BUSINESS

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 science industries, in return for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. Through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at

warrantysuperstore.com. 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. In 2004, the Company launched its website: www.phase3med.com. The Company's information as filed with the Securities and Exchange Commission is available via a link on the website.

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"). On April 30, 2001 the Company sold Stamford and is no longer involved in property and casualty specialty insurance.

On January 7, 2002, the Company entered into a Stock Contribution Exchange Agreement, as amended (the "Exchange Agreement"), 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"). 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 Exchange 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 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 Exchange Agreement in June 2002.

StrandTek defaulted on the payment of $1,250,000 plus accrued interest due to the Company on July 31, 2002. As a result, on August 6, 2002, the Company filed a complaint in the Superior Court of New Jersey entitled Corniche Group Incorporated v StrandTek International, Inc., a Delaware corporation, StrandTek International, Inc., a Florida

corporation, David M. Veltman, William G. Buckles Jr., Jerome Bauman and Jan Arnett. The complaint sought recovery of the $1,250,000 loans, plus interest, costs and fees, and sought recovery against the individual defendants pursuant to their partial guarantees. On May 9, 2003, the Company 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.

Because the February 2002 $250,000 loan was unsecured and not guaranteed, the Company established an allowance of $250,000 at December 31, 2002. The Company was informed that on April 16, 2003, StrandTek made an assignment for the benefit of its creditors, so that any collection on its judgment other than on the personal guarantees is highly unlikely.

Between July 2003 and December 2003, guarantors Veltman, Buckles and Arnett paid their judgments in full, with payments totaling approximately $295,000, $295,000 and $297,000 respectively. In December 2003, the Company settled with defendant Bauman for a payment of $100,000. These payments, totaling approximately $987,000, complete the transaction and the legal action has been concluded.

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

DISCONTINUED OPERATIONS

Through April 2001 the Company operated a property and casualty reinsurance business through its wholly owned subsidiary, Stamford Insurance Company, Ltd. ("Stamford"). Stamford is chartered under the laws of, and is licensed to conduct business as an insurance company by, the Cayman Islands. Stamford provided reinsurance coverage for one domestic insurance company until the fourth quarter of 2000 when the relationship with the carrier was terminated.

CURRENT BUSINESS OPERATIONS

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 as described below under the sub-heading "Medical/Biotech Business".

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. The Company offered its products and services in the United States in states that permit program marketers to be the obligor on service contracts. This represented approximately 38 states for automobile service contracts and most states for other product categories. 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. The obligation to repair or replace products rested with the Company's appointed insurance carriers, Great American Insurance Company and American Home Shield. Great American Insurance Company provided contractual liability insurance covering the obligation to repair or replace products under the Company's automobile and consumer products extended warranties and service contracts and American Home Shield covered all home warranty contracts. The Company was responsible for the marketing, recording sales, collecting payment and reporting contract details and paying premiums to the insurance carriers. In addition, the Company provided information to the insurance carriers' appointed claims administrators who handle all claims under the Company's contracts, including the payment of claims.

The Company commenced operations initially by marketing its extended warranty products directly to the consumer through its web site. During fiscal 2000 the Company developed enhanced proprietary software to facilitate more efficient processing and tracking of online warranty transactions. This provided the Company with the ability to deliver its products over the Internet through a number of distribution channels by enabling it to supply a number of different extended warranty service contracts on a co-branded or private label basis to corporations, by embedding the Company's suite of products on such corporation's web sites. This new capability was launched in January 2001. It was anticipated that this would result in substantially reduced direct marketing costs for the years ending December 31, 2001 and thereafter. As a result the Company 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. Accordingly, alternative strategies for the Company were evaluated by the Board of Directors, including the acquisition of new business operations. As a result, the Company entered into the StrandTek Transaction but, as previously reported, the closing conditions were not met and the Exchange Agreement was terminated by written agreement between the parties. 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.

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 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. 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. In accordance with its business plan, the Company, in 2003 raised $514,781 of capital, including $214,781, net of expenses of $67,719, through the sale of Common Stock, and $295,000, net of commissions of $30,000, from the sale of notes. In addition, the Company received a total of approximately $987,000 from the settlement with the StrandTek guarantors. A significant portion of the Standtek proceeds was used to pay outstanding liabilities for legal expenses, employment terminations, travel and entertainment expenses and consultants. The balance of the proceeds was used for operating expenses and the retirement of certain debt. In the year ended December 31, 2004, the Company raised $1,114,375, net of expenses, of capital though the sales of Common Stock, and $660,000 from the sale of notes.

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 has 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. As of December 31, 2004, the Company has provided $805,324 to PSI pursuant to the royalty agreement. The Company is obligated to fund up to an additional $194,676 of expenses. The proof of concept study is continuing and there is no assurance of a favorable outcome.

On January 19, 2004, the Company entered into a letter of intent with NeoStem, Inc., a California company, whose primary business is to establish an autologous adult stem cell bank. A definitive agreement was never reached. However, on March 31, 2004, the Company entered into a joint venture agreement. NeoStem, Inc. pioneers adult stem cell therapeutics, including the collection and storage of stem cells. The joint venture provides for the Company to assist NeoStem in finding uses of and customers for NeoStem's services and/or technology. The Company's initial efforts will concentrate on developing programs utilizing NeoStem's services and/or technology through the Department of Homeland Security and/or other government agencies.

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 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.

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.

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.

RISK FACTORS

The risks described below are not the only risks facing the Company. Additional risks that the Company does not yet know of or that it currently thinks are immaterial may also impair its business operations. If any of the risks occur, its business strategy, financial condition or operating results could be adversely affected.

PHASE III HAS A HISTORY OF OPERATING LOSSES AND A SUBSTANTIAL ACCUMULATED EARNINGS DEFICIT AND IT WILL CONTINUE TO INCUR LOSSES.

Since its inception in 1980, the Company has generated only limited revenues from sales and has incurred substantial net losses of $1,748,372, $1,044,145 and $1,159,838 for the years ended December 31, 2004, 2003 and 2002, respectively. At December 31, 2004, the Company had a stockholders' deficit of approximately $1,900,000. The Company expects to incur additional operating losses as well as negative cash flow from its new business operations until revenues from the purchase of royalty interests are received.

THE COMPANY HAS LIQUIDITY PROBLEMS.

At December 31, 2004, the Company had a cash balance of $27,868, deficit working capital of $1,238,949 and a stockholders' deficit of $1,931,787. In addition, the Company sustained losses of $1,748,372, $1,044,145 and $1,159,838 for the three fiscal years ended December 31, 2004, 2003 and 2002, 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. On September 22, 2003, the Company commenced an equity private placement to accredited investors pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Through July 31, 2004, the Company sold only 14,957,913 shares, resulting in proceeds to the Company of $1,319,781, net of offering costs of $67,719. This amended private placement was terminated in July 2004. Additional financing is needed. There can be no assurance that the Company will be able to sell sufficient quantities of equity securities or borrow money so as to have sufficient funds to continue to operate.

THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN IS QUESTIONABLE.

The Company's auditors, Holtz Rubenstein Reminick LLP, modified its opinion in order to disclose the substantial doubt about the Company's ability to continue as a going concern. It will be more difficult for the Company to raise capital on favorable terms and fund the agreements currently in place or new agreements as a result of the substantial doubt about the Company's ability to continue as a going concern.

THE COMPANY WILL CONTINUE TO EXPERIENCE CASH OUTFLOWS.

The Company continues to incur expenses, including the salary of its President, COO, rent, legal and accounting fees, insurance and general administrative expenses. The Company's new business activities are in the development stage and will therefore result in additional cash outflows in the coming period. It is not possible at this time to state whether the Company will be able to finance these cash outflows or when the Company will achieve a positive cash position, if at all.

THE COMPANY'S LIMITED OPERATING HISTORY MAY IMPAIR ITS ABILITY TO PLAN.

The Company's limited operating history in its planned business activities may hinder its ability to evaluate its business and entails risks that the Company may fail to adequately address business issues with which it has limited experience. There is no way to predict when, if ever, the Company will achieve profitability or positive cash flow.

BECAUSE OF ITS FINANCIAL POSITION, THERE IS SUBSTANTIAL DOUBT ABOUT ITS ABILITY TO OPERATE AS A GOING CONCERN.

The Company has no cash generating revenues. As of December 31, 2004, the Company had a stockholders' deficit of $1,931,787 and had a working capital deficiency of $1,238,949. Although the Company continues to raise funds through the issuance of promissory notes, which have been substantially spent, the Company's financial condition still raises substantial doubt about its ability to operate as a going concern.

THE COMPANY WILL NEED ADDITIONAL FINANCING AND IS UNCERTAIN OF ITS ACCESS TO CAPITAL FUNDING.

The Company's proposed new business will require substantial capital to identify and make alliances with one or more medical companies based on the Company's current operating plan for its new business. In addition, the Company's cash requirements may vary materially from those now planned because of results in research, consulting with experts and modeling sales forecasts for the potential products of potential business partners.

RISKS RELATING TO THE COMPANY'S PROPOSED NEW BUSINESS

THE COMPANY HAS ONLY TWO BUSINESS PARTNERS TO DATE AND IS UNCERTAIN OF ITS FUTURE PROFITABILITY WITH ITS INTENDED VENTURE TO GENERATE REVENUES FROM SUCH RELATIONSHIPS.

The Company's ability to achieve profitability in its new business is dependent in part on the agreements, if any, entered into with business partners. Currently the Company has entered into one agreement with PSI, and one agreement with NeoStem and since the agreements are in its early stages, it is premature to predict any favorable outcome. There can be no assurance that any additional agreements will be entered into. The failure to enter into any such necessary agreements could delay or prevent the Company's new business from achieving profitability and would have a material adverse effect on the business, financial position and results of operations of the Company. Further, there can be no assurance that the Company's operations will become profitable even if the Company enters into agreements with business partners.

THE PSI ARRANGEMENT MAY NOT BE SUCCESSFUL.

The Company's contract with its first business partner, PSI, demonstrates certain of the risks of the Company's business. PSI is attempting 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 Company is providing funding and consulting services for PSI to conduct a proof of concept study. No assurances can be given that the proof of concept program will be successful, that any viable technology will arise from that program, that the Company or PSI will be able to commercialize any product or technology that is successfully developed, or that there will be market acceptance of any such product or technology sufficient to generate any material revenues for the Company. Even if everything is successful, it will be a long time before the Company receives any royalty revenues from the PSI project.

THERE ARE RISKS RELATING TO POTENTIAL CORPORATE COLLABORATIONS.

The Company's new business strategy includes identifying and partnering with various pharmaceutical and/or biotechnology companies that are developing a drug or medical device. There can be no assurance the Company will enter into any additional relationships with these business partners and, even if the Company does enter into such relationships, that the arrangements will be on favorable terms or that the Company's relationship will be successful. In some cases, the Company will generate income from its relationship with these companies only after its potential business partners' product has achieved significant pre-clinical and/or clinical development, has procured requisite regulatory approvals and/or has established its manufacturing capabilities.

The Company's potential business partners' business strategy may include entering into collaborations or marketing and distribution arrangements with corporate partners for the development (including clinical development), commercialization, marketing and distribution of certain of their product candidates. The Company's potential business partners may be dependent on such corporate collaborations to fund clinical testing, to make certain regulatory filings and to manufacture and market products resulting from the collaboration. There can be no assurance that such arrangements with a corporate collaboration will be scientifically, clinically or commercially successful. In the event that any such arrangements are made and then terminated, such actions could adversely affect the Company's business partners' ability to develop, commercialize, market and distribute certain of their product candidates.

If the Company's potential business partners breach or terminate their agreements with the Company, or fail to develop or commercialize their products or fail to develop or commercialize their products in a timely manner, the development of their products may be adversely affected, and thus not create an economic benefit for the Company.

There can be no assurance that the Company's potential business partners will not change their strategic focus or pursue alternative technologies or develop alternative products either on their own or in collaboration with others. The Company's business will also be affected by the effectiveness of its potential business partners' corporate partners in marketing their products.

THERE ARE COMPANIES, UNIVERSITIES AND RESEARCH INSTITUTIONS THAT MAY BE RESEARCHING AND TRYING TO DEVELOP PRODUCTS THAT ARE SIMILAR TO THE PRODUCTS OF THE COMPANY'S POTENTIAL BUSINESS PARTNERS.

Competition in the medical, pharmaceutical and biotechnology industries, the sector in which the Company plans to establish new business operations, is intense. The Company's potential business partners may face competition from companies with far greater financial, marketing, technical and research resources, name recognition, distribution channels and market presence than the Company's potential business partners who are marketing existing products or developing new products that are similar to the products developed by the Company's potential business partners. There can be no assurance that the Company's potential business partners' products will be able to compete successfully with existing products or products under development by other companies, universities and other institutions.

THE COMPANY'S POTENTIAL BUSINESS PARTNERS MAY DEPEND ON THIRD PARTIES.

The Company's potential business partners may rely entirely on third parties for a variety of functions, including certain functions relating to research and development, manufacturing, clinical trials management, regulatory affairs and sales, marketing and distribution. There can be no assurance that the Company's potential business partners will be able to establish and maintain any of these relationships on acceptable terms or enter into these arrangements without undue delays or expenditures. In addition, the business partners may require, and seek to raise, additional capital with third parties in order to develop products and meet their working capital needs. There is no guarantee that the business partners will be able to raise such additional capital, and any agreements previously made between the business partners and the Company may make the business partners less attractive to third parties in this regard.

THERE ARE UNCERTAINTIES ASSOCIATED WITH PRE-CLINICAL AND CLINICAL TESTING.

The grant of regulatory approvals for the commercial sale of any of the Company's potential business partners' potential products will depend in part on the Company's potential business partners and/or their collaborators successfully conducting extensive pre-clinical and clinical testing to demonstrate their products safety and efficacy in humans. The results of pre-clinical studies by the Company's potential business partners and/or their

collaborators may be inconclusive and may not be indicative of results that will be obtained in human clinical trials. In addition, results attained in early human clinical trials relating to the products under development by the Company's potential business partners may not be indicative of results that will be obtained in later clinical trials. As results of particular pre-clinical studies and clinical trials are received, the Company's potential business partners and/or their collaborators may abandon projects with which the Company assisted in developing which they might otherwise have believed to be promising.

The Company's potential business partners may be involved in developing drugs on which they plan to file investigational new drug applications ("INDs") with the FDA or make equivalent filings outside of the United States. There can be no assurance that necessary pre-clinical studies on these products will be completed satisfactorily, if at all, or that the Company's potential business partners otherwise will be able to make their intended filings. Clinical testing is very expensive, and the Company's potential business partners and/or their collaborators will have to devote substantial resources for the cost of clinical trials.

The Company's potential business partners may have no experience in conducting clinical trials and may have to rely, in part, on academic institutions and on clinical research organizations to conduct and monitor certain clinical trials. There can be no assurance that such entities will conduct the clinical trials successfully.

Failure to commence or complete any planned clinical trials by the Company's potential business partners would have a material adverse effect on the Company's new business.

THE COMPANY'S POTENTIAL BUSINESS PARTNERS AND THEIR PRODUCTS WILL BE SUBJECT TO GOVERNMENT REGULATIONS AND THERE IS NO ASSURANCE OF REGULATORY APPROVAL.

The Company's potential business partners and their products will be subject to comprehensive regulation by the FDA in the United States and by comparable authorities in other countries. These national agencies and other federal, state, and local entities regulate, among other things, the pre-clinical and clinical testing, safety, effectiveness, approval, manufacture, labeling, marketing, export, storage, record keeping, advertising, and promotion of the Company's potential business partners' products.

The process of obtaining FDA approvals can be costly, time consuming, and subject to unanticipated delays and the Company's potential business partners may have had only limited experience in filing and pursuing applications necessary to gain regulatory approvals. There can be no assurance that such approvals will be granted on a timely basis, or at all.

The Company's potential business partners may also be subject to numerous and varying foreign regulatory requirements governing the design and conduct of clinical trials and the managing and marketing of their products. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval.

There can be no assurance that the Company's potential business partners or their partners will qualify for regulatory approvals or receive necessary approvals to commercialize product candidates in any market. Delays in receipt of or failure to receive regulatory approvals, or the loss of previously received approvals, would have a material adverse effect on the Company's potential business partners' business, and therefore, on the Company's business.

THE COMPANY'S NEW VENTURE MAY REQUIRE IT TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940.

The Company is not registered as an investment company under the Investment Company Act of 1940, as amended (or any similar state laws) (the "Company Act"). The Company does not believe (i) it is an "investment company" pursuant to the Company Act, or (ii) that it will hold "securities" pursuant to the Company Act or the Securities Act of 1933, as amended. However, the Securities and Exchange Commission ("SEC") may disagree in the futue with the Company's position and deem the Company to be an "investment company" under the Company Act and require the Company to register as an investment company. If this were to occur, the Company's day-to-day operations would become subject to the regulatory and disclosure requirements imposed by the Company Act. The Company does not have the infrastructure to operate as an investment company.

RISKS RELATING TO INTELLECTUAL PROPERTY

IF THE COMPANY OR ITS BUSINESS PARTNERS ARE UNABLE TO OBTAIN PATENT PROTECTION FOR THE PRODUCTS THAT RESULT FROM THE MEDICAL DEVELOPMENT BUSINESS, THE VALUE OF THE MEDICAL DEVELOPMENT BUSINESS WILL BE ADVERSELY AFFECTED. IF THE COMPANY OR ITS BUSINESS PARTNERS INFRINGE PATENT OR OTHER INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES, THEY MAY NOT BE ABLE TO DEVELOP AND COMMERCIALIZE THE PRODUCTS AND SERVICES THAT WILL COMPRISE THE MEDICAL DEVELOPMENT BUSINESS OR THE COST OF DOING SO MAY INCREASE.

Patent positions of pharmaceutical and biotechnology companies are generally uncertain and involve complex legal, scientific and factual questions. The ability of the Company or its business partners to develop and commercialize products and services depends in significant part on the Company's or its business partners' ability to (i) obtain patents, (ii) obtain licenses to the proprietary rights of others on commercially reasonable terms, (iii) operate without infringing upon the proprietary rights of others, (iv) prevent others from infringing on the Company's or its business partners' proprietary rights, and (v) protect trade secrets.

THERE IS SIGNIFICANT UNCERTAINTY ABOUT THE VALIDITY AND PERMISSIBLE SCOPE OF PATENTS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY INDUSTRY, WHICH MAY MAKE IT DIFFICULT FOR THE COMPANY OR ITS BUSINESS PARTNERS TO OBTAIN PATENT PROTECTION FOR DISCOVERIES.

The validity and permissible scope of patent claims in the pharmaceutical and biotechnology fields, including the genomics field, involve important unresolved legal principles and are the subject of public policy debate in the United States and abroad. There is also some uncertainty as to whether human clinical data will be required for issuance of patents for human therapeutics. If the Company is involved in a project in this field and if such data are required, the Company's or its business partners' ability to obtain patent protection could be delayed or otherwise adversely affected.

THIRD PARTIES MAY OWN OR CONTROL PATENTS OR PATENT APPLICATIONS AND REQUIRE THE COMPANY OR ITS BUSINESS PARTNERS TO SEEK LICENSES, WHICH COULD INCREASE THE COMPANY'S OR ITS BUSINESS PARTNERS' DEVELOPMENT AND COMMERCIALIZATION COSTS, OR PREVENT THE COMPANY OR ITS BUSINESS PARTNERS FROM DEVELOPING OR MARKETING THE COMPANY'S OR ITS BUSINESS PARTNERS' PRODUCTS OR SERVICES.

The Company or its business partners may not have rights under some patents or patent applications related to some of their existing or proposed products, processes or services. Third parties may own or control these patents and patent applications in the United States and abroad. Therefore, in some cases, in order to develop, manufacture, sell or import some of the Company's or its business partners' existing and proposed products, processes or services, the Company or its business partners may choose to seek, or be required to seek, licenses under third-party patents issued in the United States and abroad or those that might issue from United States and foreign patent applications. In such event, the Company or its business partners would be required to pay license fees or royalties or both to the licensor. If licenses are not available to the Company or its business partners on acceptable terms, the Company or its business partners may not be able to develop, manufacture, sell or import these products, processes or services.

THE COMPANY OR ITS BUSINESS PARTNERS MAY BECOME INVOLVED IN EXPENSIVE PATENT LITIGATION OR OTHER PROCEEDINGS, WHICH COULD RESULT IN THE COMPANY OR ITS BUSINESS PARTNERS INCURRING SUBSTANTIAL COSTS AND EXPENSES OR SUBSTANTIAL LIABILITY FOR DAMAGES OR REQUIRE THE COMPANY OR ITS BUSINESS PARTNERS TO STOP THEIR DEVELOPMENT AND COMMERCIALIZATION EFFORTS.

There has been substantial litigation and other proceedings regarding the patent and other intellectual property rights in the pharmaceutical and biotechnology industries. The Company or its business partners may become a party to patent litigation or other proceedings regarding intellectual property rights.

The cost to the Company or its business partners of any patent litigation or other proceeding, even if resolved in the Company's or its business partners' favor, could be substantial. Some of the Company's or its business partners' competitors may be able to sustain the cost of such litigation or proceedings more effectively than the Company or its business partners because of their substantially greater financial resources. If a patent litigation or other

proceeding is resolved against the Company or its business partners, the Company or its business partners may be enjoined from developing, manufacturing, selling or importing their products, processes or services without a license from the other party and the Company or its business partners may be held liable for significant damages. The Company or its business partners may not be able to obtain any required license on commercially acceptable terms or at all.

Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on the Company's or its business partners' ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

COMPETITION

Competition in the medical, pharmaceutical and biotechnology industries, the sector in which the Company has established new business operations, is intense. The Company's potential business partners may face competition from companies with far greater financial, marketing, technical and research resources, name recognition, distribution channels and market presence than the Company's potential business partners who are marketing existing products or developing new products that are similar to the products developed by the Company's potential business partners. There can be no assurance that the Company's potential business partners' products will be able to compete successfully with existing products or products under development by other companies, universities and other institutions.

EMPLOYEES

As of December 31, 2004, the Company had four employees.

ITEM 2. PROPERTIES

On February 21, 2003 the Company began leasing office space in Melville, New York at an original annual rental of $18,000. The lease was extended for an additional twelve months and expires on March 31, 2005. The annual rental increased to approximately $19,200 on April 1, 2004 and continues until the expiration date. The lease has been renewed until March 2006 with an annual rental of approximately $20,100. This space will be sufficient for the Company's needs until the business plan of the Company has been successfully executed.

ITEM 3. LEGAL PROCEEDINGS

As discussed in Note 3 of the accompanying notes to the financial statements, StrandTek defaulted on the payment of $1,250,000 plus accrued interest due to the Company on July 31, 2002. The Company ceased accruing interest as of July 31, 2002 for financial statement purposes. As a result, on August 6, 2002, the Company filed a complaint in the Superior Court of New Jersey entitled Corniche Group Incorporated v StrandTek International, Inc., a Delaware corporation, StrandTek International, Inc., a Florida corporation, David M. Veltman, William G. Buckles Jr., Jerome Bauman and Jan Arnett. The complaint sought recovery of the $1,250,000 loan, plus interest, costs and fees, and sought recovery against the individual defendants pursuant to their partial guarantees.

Between July 2003 and December 2003, guarantors Veltman, Buckles and Arnett paid their judgments in full, with payments totaling approximately $295,000, $295,000 and $297,000 respectively. In December 2003, the Company settled with defendant Bauman for a payment of $100,000. These payments, totaling approximately $987,000, complete the transaction and the legal action has been concluded.

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

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Company's Common Stock is traded on the OTC Bulletin Board under the symbol "PHSM" since July 24, 2003. Prior to that date, the Company's Common Stock traded under the symbol "CNGI." The following table sets forth the high and low bid prices of the Company's Common Stock for each quarterly period within the two most recent fiscal years and the most recent quarter, as reported by Nasdaq Trading and Market Services. On March 15, 2005, the closing bid price for the Company's Common Stock was $0.04. Information set forth in the table below represents inter-dealer prices without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

2004	High	Low
First Quarter	$0.18	$0.13
Second Quarter	0.22	0.06
Third Quarter	0.10	0.07
Fourth Quarter	0.10	0.05
2003	High	Low
First Quarter	$0.13	$ 0.3
Second Quarter	0.15	0.06
Third Quarter	0.31	0.08
Fourth Quarter	0.31	0.11

(b) Holders. As of March 15, 2005, there were approximately 1,500 holders of record of the Company's Common Stock.

(c) Dividends. Holders of Common Stock are entitled to dividends when, as, and if declared by the Board of Directors out of funds legally available therefor. The Company has not paid any cash dividends on its Common Stock and, for the foreseeable future, intends to retain future earnings, if any, to finance the operations, development and expansion of its business. Future dividend policy is subject to the discretion of the Board of Directors.

SERIES A PREFERRED STOCK

The Certificate of Designation for the Company's 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 January 29, 2002 notice was given that, pursuant to the Company's Restated Certificate of Incorporation, as amended, the Company has called for redemption and will redeem (the "Redemption") on the date of the closing of the StrandTek Transaction (the "Redemption Date"), all shares of the Company's Series A Convertible Preferred Stock outstanding on that date at a redemption price of $1.05, plus accrued and unpaid dividends from July 1, 1995

through and including the Redemption Date of approximately $0.47 per share. The Redemption, among other financial, legal and business conditions, was a condition precedent to the closing of the StrandTek Transaction. Similarly, completion of the Redemption was subject to closing the StrandTek Transaction. Upon termination of the StrandTek Transaction, the Company rescinded the Notice of Redemption.

At December 31, 2004, 681,174 shares of Series A Preferred Stock were outstanding. If the preferred shareholders do not convert their shares into Common Stock, and if the Company were required to redeem any significant number of shares of Series A Preferred Stock, the Company's financial condition may be materially affected.

RECENT SALES OF UNREGISTERED SECURITIES

In September 2002, the Company sold to accredited investors, pursuant to Regulation D, 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 terms of 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 25,000 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 has the option to purchase an additional 25,000 shares of the Company's Common Stock for an aggregate purchase price of $125. As of December 31, 2003 a total of 1,000,000 of such shares resulting in net proceeds to the Company of $5,000 were exercised because the notes remained unpaid. As of December 31, 2004, options to purchase an additional 1,875,000 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 has been repaid and there are no additional options to purchase Common Stock outstanding. Two of the notes, totaling $50,000 was sold to an unrelated third party who agreed to cancel the two notes and replace them with a new note with does not contain the default penalty. This new note included a previous note of $25,000 and 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, is due June 30, 2005.

In February 2003, the Company sold to accredited investors, pursuant to Regulation D, a series of 30-day promissory notes in the aggregate principal sum of $50,000. The notes bear interest at 20% per annum payable at maturity. In November 2003, the Company repaid all $50,000 of such promissory notes together with all accrued interest of $6,854.

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. 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 and as of December 31, 2004, $170,000 of the principle amount of these notes remain unpaid. The due date of these notes has been extended to April 1, 2005 and bears interest at 20%. All interest payments have been made and are current.

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 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Such shares were not registered and will be subject to restrictions on resale. 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 2,825,000 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719. The investment banker, Robert M. Cohen & Company, has been fully paid for its efforts.

The Company amended its equity private placement (see Note 7 to the Audited Financial Statements) pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of Common Stock in increments of $5,000 or 50,000 shares. Such shares were not registered and will be subject to restrictions on resale. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these shares. The amended private placement closed on July 31, 2004. As of July 31, 2004, 12,132,913 shares of common stock have been sold with net proceeds to the Company of $1,105,000.

In February 2004, the Company sold 30 day 20% notes pursuant to Regulation D in the amount of $75,000 to two accredited investors to fund current operations. 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 for each 30 day period or part thereof. These notes and interest have been repaid.

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 has been repaid and $25,000 remains unpaid.

In May 2004, the Company sold a 30 day 20% note pursuant to Regulation D in the amount of $40,000 to an accredited investor to fund current operations. This note 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, 2004, the $25,000 note has been repaid and the two notes totaling $80,000 remain unpaid.

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 has been repaid and $25,000 remains unpaid. All related interest has been paid.

In August 2004, the Company sold a six month 20% $100,000 convertible note. This note at maturity will 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 March 2005, this note was converted into 1,960,784 shares of common stock. All interest payments were made on the note.

In September 2004, 7,282,913 shares of common stock were purchased by Robert Aholt, Jr., Chief Operating Officer of the Company for an aggregate purchase price of $650,000.

In December 2004, the Company sold two six month 8% notes to an officer and a director totaling $60,000 to fund current operations. In addition, the Company sold a six month 15% note and a six month 20% note totaling $40,000 to two accredited investors to fund operations. At December 31, 2004 these notes remain unpaid.

ITEM 6. SELECTED FINANCIAL DATA

The selected statements of operations and balance sheet data set forth below are derived from audited financial statements of the Company. The information set forth below should be read in conjunction with the Company's audited financial statements and notes thereto. See Item 8 "Financial Statements and Supplementary Data" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation". On February 4, 1999 the Company changed its fiscal year-end from March 31 each year to December 31 each year. The selected financial data set out below has not been retroactively restated to reflect such change in fiscal year-end date and accordingly is presented as historically reported in the financial statements of the Company. The requirement to provide geographical information for the operations of the Company is not practical.

Statement of Operations: ($'000 except net loss per share which is stated in $)	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Earned revenues	$ 49	$ 65	$ 81	$ 107	$ 27
Direct costs	34	44	60	70	33
Gross profit	15	21	21	37	(6)
Operating (loss)	(1,474)	(894)	(1,149)	(1,606)	(2,516)
Loss before discontinued operations and preferred dividends	(1,748)	(1,044)	(1,160)	(1,792)	(2,296)
Net loss attributable to common stockholders	(1,748)	(1,068)	(1,208)	(2,081)	(2,075)
Basic and diluted earnings per share:					
Loss from continuing operations	(.05)	(0.05)	(0.05)	(0.08)	(0.16)
Income (loss) from discontinued operations	--	--	--	(0.01)	(0.02)
Net loss attributable to common shareholders	(.05)	(0.05)	(0.05)	(0.09)	(0.14)
Weighted average number of shares outstanding	32,541,845	23,509,343	22,344,769	22,284,417	14,902,184

Balance Sheet Data: $'000	As of December 31, 2004	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001	As of December 31, 2000
Working Capital (Deficiency)	$ (1,239)	$ (794)	$ (82)	$ 1,085	$ 2,079
Total Assets	99	312	1,183	1,836	3,757
Current Liabilities	1,288	1,023	1,141	489	458
Long Term Debt	--	--	9	32	53
(Accumulated Deficit)	(12,510)	(10,762)	(9,694)	(8,486)	(6,406)
Total Stockholders' (Deficit)/ Equity	(1,932)	(1,503)	(824)	373	2,450

Add long term liab.

Selected Quarterly Financial Data

$'000 (except net loss per share which is stated in $)	Quarter Ended 12/31/04	Quarter Ended 9/30/04	Quarter Ended 6/30/04	Quarter Ended 3/31/04	Quarter Ended 12/31/03	Quarter Ended 9/30/03
Earned Revenues	$12	$3	$7	$27	$15	$15
Direct Costs	8	2	5	19	8	11
Gross profit	4	1	2	8	7	4
Operating Loss	(263)	(417)	(413)	(381)	(369)	(197)
Net Loss Attributable to Common Stockholders	(300)	(500)	(492)	(456)	(437)	(216)
Net loss per share	(.00)	(.01)	(.02)	(.02)	(0.02)	(0.01)

$'000 (except net loss per share which is stated in $)	Quarter Ended 6/30/03	Quarter Ended 3/31/03	Quarter Ended 12/31/02	Quarter Ended 9/30/02	Quarter Ended 6/30/02	Quarter Ended 3/31/02
Earned Revenues	$17	$18	$ 19	$ 20	$ 18	$ 24
Direct Costs	12	13	13	14	14	19
Gross profit	5	5	5	6	5	5
Operating Loss	(205)	(123)	(357)	(225)	(201)	(366)
Net Loss Attributable to Common Stockholders	(260)	(155)	(389)	(231)	* (246)	(342)
Net loss per share	(0.01)	(0.01)	--	(0.01)	(0.01)	(0.02)

* Includes impairment charges of $54,732 in fiscal 2002.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with the audited financial statements and notes thereto, included in Item 8 of this report, and is qualified in its entirety by reference thereto.

GENERAL

During the first half of fiscal 2001, management became concerned by the slow progress being made by its warrantysuperstore.com business. Accordingly, alternative strategies for the Company were evaluated by the Board of Directors, including the acquisition of new business operations. As a result, on January 7, 2002 the Company entered into the StrandTek Transaction as previously reported. Consummation of the StrandTek Transaction was conditioned upon certain closing conditions, including the Company obtaining financing via an equity private placement, which ultimately could not be met and as a result in June 2002, the Exchange Agreement was formally terminated by written agreement between the Company and StrandTek. In June 2002, management also determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company.

NEW BUSINESS OPPORTUNITIES

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. The Company now 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. 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.

CRITICAL ACCOUNTING POLICIES

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.

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 Item 8 of this report. 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.

FISCAL 2004 COMPARED TO FISCAL 2003

The Company generated 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 $227,000 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 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.

FISCAL 2003 COMPARED TO FISCAL 2002

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

General and administrative expenses totaled $685,000 during the year ended December 31, 2003 as compared to $912,000 for fiscal 2002, a decrease of $227,000 or 24.9%. The decrease was primarily attributable to decreases in employee termination costs ($145,000), legal ($86,000), travel and entertainment ($65,000), directors fees ($25,000), rents ($33,000) and depreciation ($16,000) partially offset by increases in insurance ($66,000) and salaries as a result of the employment agreement by and between the Company and Mark Weinreb ($41,000). Costs generally were significantly lower as the Company wound down its operations and closed its office facilities in Texas in July 2002.

The Company realized a loss from the unsecured, un-guaranteed note receivable from StrandTek of $150,000 in fiscal 2003. Through March 1, 2004, the Company made payments to PSI of $240,000. The Company's minimum commitment to PSI pursuant to the royalty agreement with PSI is $1,000,000.

Interest income increased by $18,000 to $89,000 in fiscal 2003 as compared to fiscal 2002 due to the collection of the StrandTek note receivable and the additional funds received from the sale of Common Stock and notes. Interest expense increased in fiscal 2003 to $215,000 from $23,000 in fiscal 2002 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 2003 relating to the Series A preferred in the amount of approximately $24,000 due to a recent accounting pronouncement.

For the reasons cited above, the net loss before preferred stock dividend decreased to $1,044,000 in fiscal 2003 from the comparable loss of $1,160,000 for fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

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, 2004	December 31, 2003
Cash used in operating activities	$(1,459,653)	$(1,021,913)
Cash (used by) provided by investing activities	(3,288)	847,419
Cash provided by financing activities	1,279,862	366,186

At December 31, 2004, the Company had a cash balance of $27,868, deficit working capital of $1,238,949 and a stockholders' deficit of $1,931,787. In addition, the Company sustained losses of $1,748,372, $1,044,145 and $1,159,838 for the three fiscal years ended December 31, 2004, 2003 and 2002, 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.

On September 22, 2003, the Company commenced an equity private placement to accredited investors pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Through July 31, 2004, the Company sold only 14,957,913 shares, resulting in proceeds to the Company of $1,319,781, net of offering costs of $67,719. This amended private placement was terminated in July 2004. Additional financing is needed. There can be no assurance that the Company will be able to sell sufficient quantities of equity securities or borrow money so as to have sufficient funds to continue to operate. Management has sold promissory notes which bear interest at between 8% and 20% per annum to fund the Company until such time as sufficient proceeds are received from the private placement of its Common Stock. No assurance can be given that future borrowings will be available.

The following table reflects a summary of the Company's contractual cash obligations as of December 31, 2004:

		Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable	$ 475,000	$ 475,000	$ 0	$ 0	$ 0
Operating leases	24,900	19,875	5,025	0	0
Employment agreements	668,340	374,950	293,390	0	0
Series A mandatorily redeemable convertible preferred stock	572,208	47,684	143,052	143,052	238,420
Purchase obligations	194,676	194,676	0	0	0
Total	$1,925,124	$1,064,501	$298,415	$ 0	$ 0

INFLATION

The Company does not believe that its operations have been materially influenced by inflation in the fiscal year ended December 31, 2004, 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary financial information required to be filed under this Item are presented commencing on page F-1 of the Annual Report on Form 10-K, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported on the Company's Form 8-K filed January 8, 2004, as amended on February 3, 2004, on January 6, 2004, upon recommendation and approval of the Company's and Board of Directors, the Company dismissed Travis, Wolff & Company, LLP ("Travis Wolff") and engaged Holtz Rubenstein Reminick LLP ("Holtz") as the Company's independent auditors for the fiscal year ended December 31, 2003.

Travis Wolff's audit report on the Company's financial statements for the year ended December 31, 2002 contained a qualified opinion as to the uncertainty of the Company's ability to continue as a going concern. No modifications were made to the financial statements as a result of this uncertainty.

During the years ended December 31, 2002 and 2001 and through January 6, 2004, there were no disagreements with Travis Wolff on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which if not resolved to Travis Wolff's satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company's financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2002 and 2001 and through January 6, 2004, the Company did not consult Holtz with respect to the application of accounting principles as to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

ITEM. 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the Company's most recently completed fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) covered by this report, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. 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 March 8, 2005:

Name	Age	Position
Mark Weinreb	52	Director, President & Chief Executive Officer
Robert Aholt, Jr.	43	Chief Operating Officer
Wayne Marasco	51	Director
Joseph Zuckerman	53	Director
Michael Lax	51	Director

Mark Weinreb
President, Chief Executive Officer and Director

Mr. Weinreb joined the Company on February 6, 2003 as a Director, Chief Executive Officer 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.

Robert Aholt, Jr.
Chief Operating Officer

Mr. Aholt joined the Company in September of 2004 as Chief Operating Officer. He is responsible for all operational aspects of the Company and is an integral part of the management team. Prior to joining the Company, Mr. Aholt was Principal and Chief Financial Officer of Systems Development, Inc. a private consulting firm focusing on strategic and technology consulting for Fortune 500 companies. As a co-founder of Systems Development in 1993, Mr. Aholt helped build the company into a multi-million dollar consulting practice. As CFO, he oversaw all financial and operational aspects of the firm. Prior to Systems Development, Mr. Aholt was CFO of IW Communications Group, a public relations firm that helps companies target Asian communities for public relations outreach. Mr. Aholt has also worked as a controller of First Affiliated Securities, a regional brokerage firm in Southern California. Mr. Aholt received a Bachelor of Arts degree from the University of California at Santa Barbara in 1985 and a Masters of Business Administration from the University of Southern California in 1988.

Wayne Marasco, M.D., Ph.D.
Director

Dr. Marasco joined the Board of Directors of the Company in June 2003. In August 2004 was the appointed the Company's Senior Scientific Advisor. Dr. Marasco is 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. 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 transplants) 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 holds leadership positions in national organizations and is 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.

Michael Lax
Director

Michael Lax joined the Board of Directors of the Company in March 2004 and graduated from the University of Rochester with degrees in Chemical and Mechanical Engineering. Upon his graduation in 1975, Mr. Lax went to work for Kodak as a Process and Product Development Engineer. Since 1988, Mr. Lax has been the President and Chief Executive Officer of Autronic Plastics, Inc. and its subsidiaries, a plastic manufacturing concern specializing in plastic product design, mold construction and manufacturing of industrial and precision components such as medical devices, office products, life safety products and entertainment packaging. Autronic Plastics, Inc.'s clients include Pfizer, Borders Books & Music, Blockbuster, Circuit City, Nintendo, and Cooper Lighting Company. Mr. Lax's 28 years of experience at Autronic Plastics, Inc. have centered on creative ideation, concept development and managing executions to ensure that the integrity of the initial designs come alive. Taking the company in a new direction, Mr. Lax founded Clear-Vu Products in 1990 to further specialize in the entertainment-packaging sector.

Mr. Lax has been awarded numerous patents for packaging designs, solid state illumination, and life safety products. In addition, his work and collaborations have received numerous design awards including a Gold Industrial Design Excellence Award from the Industrial Designers Society of America.

COMMITTEES OF THE BOARD OF DIRECTORS

Composition 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 or compensation committee at this time. 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.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These persons are required by the Securities and Exchange Commission to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on the Company's review of these reports and written representations furnished to the Company, the Company believes that in 2003 each of the reporting persons complied with these filing requirements, except that a report on Form 4 reporting one transaction in February 2003 with respect to Mark Weinreb due on February 8, 2003 was not filed until February 17, 2003, a report on Form 5 reporting four transactions for the year ended December 31, 2002 with respect to James J. Fyfe due on February 14, 2003 was not filed until June 10, 2003 and a report on Form 5 reporting four transactions for the year ended December 31, 2002 with respect to Paul L. Harrison due on February 14, 2003 was not filed until June 10, 2003. The following Forms 3 and 4 were filed late: Forms 3 for Joseph Zuckerman and Michael Lax upon becoming directors of the Company and for Robert Aholt upon becoming an officer of the Company, and 2 Forms 4 for Joseph Zuckerman relating to option grants. These late filings were inadvertent and required filings were made promptly after noting the failures to file. The following Forms 3 and 4 were filed late: Forms 3 for Joseph Zuckerman and Michael Lax upon becoming directors of the Company and for Robert Aholt upon becoming an officer of the Company, and 2 Forms 4 for Joseph Zuckerman relating to option grants.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions). A copy of such Code of Ethics has been filed as Exhibit 14.1 to Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation paid during the three years ended December 31, 2004 to the Company's Chief Executive Officer. No other executive officer of the Company earned in excess of $100,000 for services rendered during fiscal 2004.

Summary Compensation Table

			Annual Compensation	Long-Term Compensation	
Name and Principal Position	Notes	Year	Salary	Securities Underlying Options/SAR's	All Other Compensation
Mark Weinreb					
Chief Executive Officer		2004	$223,192	2,550,000	$12,000
(Appointed February 6, 2003)	(1)	2003	$157,154	2,500,000	$12,000

Notes:

(1) All other compensation comprises monthly automobile allowances.

OPTION GRANTS

The following table provides certain information with respect to options granted to the Company's chief executive officer during the fiscal years ended December 31, 2004:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted(2)	Percent of Total Options Granted to Employees In Fiscal Year	Exercise Price per Share ($)	Market Price on Date of Grant ($)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
						5%	10%
Mark Weinreb	2,500,000	100%	$0.03	$0.03	2/6/13	$53,275	$129,257
	50,000	6%	$0.10	$0.10	9/14/14	$8,552	$13,617

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(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 immediately.

OPTION EXERCISES AND HOLDINGS

The following table provides information concerning options exercised during 2004 and the value of unexercised options held by each of the executive officers named in the Summary Compensation Table at December 31, 2004.

Option Values at December 31, 2004

Name	Shares Acquired On Exercise (# shares)	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004 (# of shares)		Value of In-the-Money Options at December 31, 2004 ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mark Weinreb	--	--	2,500,000	--	$75,000	--
	--	--	50,000	--	--	--

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(1) Based on $0.06 per share, the closing price of the Company's Common Stock, as reported by the OTC Bulletin Board, on December 30, 2004.

EMPLOYMENT AGREEMENTS

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. 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 newly adopted 2003 Equity Participation Plan, 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 2,500,000 shares of the Company's Common Stock at an exercise price of $0.03 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 $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 to Mr. Weinreb, on the day immediately following the end of the five day period, an option for the purchase of an additional 2,500,000

shares of the Company's Common Stock for an exercise price of $0.50 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 has 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. 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.

In connection with the hiring of Mr. Weinreb and in anticipation of its new business line, on July 24, 2003, the Company held a meeting of stockholders to elect two directors, to approve and ratify the Company's 2003 Equity Participation Plan pursuant to which 15,000,000 shares of the Company's Common Stock are authorized to be issued, approve an amendment to the Company's Certificate of Incorporation to increase the authorized number of shares of Common Stock to 250,000,000, and approve a change of the Company's name to "Phase III Medical, Inc."

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 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.

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.

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.

DIRECTOR COMPENSATION

All current independent directors have individually received options to purchase 300,000 shares of the Company's Common Stock pursuant to the Company's 2003 Equity Participation Plan at prices ranging from $0.05 to $0.15. In addition to these options, all independent directors are reimbursed for out of pocket travel expenses and will receive an annual option grant to purchase 50,000 shares of the Company's Common Stock on the date of the Company's annual stockholder's meeting; provided; however, that no director may receive more than one grant of these options in any calendar year. Upon achieving certain target increases in stock price for a defined period of time during an existing independent directors tenure, the Company has agreed to grant each director an additional option to purchase 100,000 shares of the Company's Common Stock substantially upon the same terms of the options to purchase 300,000 shares of the Company's Common Stock previously granted, except for the exercise price of such options.

ITEM 12. 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 March 15, 2005, by (i) each beneficial owner of more than five percent of the outstanding Common Stock, (ii) each current named 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 Phase III Medical, Inc., 330 South Service Road, Suite 120, Melville, New York 11747.

Number and Percentage of Shares of Common Stock Owned

Name and Address of Beneficial Owner	Notes	# of Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned (See Note 1)
Joel San Antonio 56 North Stanwich Road Greenwich, CT 06831		3,752,500	8.7%
Mark Weinreb	(2) (6)	2,590,000	5.7%
Wayne Marasco	(3) (6)	1,525,000	3.5%
Michael Lax	(4) (6)	300,000	.7%
Joseph Zuckerman, M.D.	(5) (6)	600,000	1.4%
Robert Aholt, Jr.	(6)	9,721,376	22.6%
All current directors and officers as a group (five persons)	(2) (3) (4) (5)	14,736,376	31.2%

Notes:

(1) Based on 43,065,336 shares of Common Stock outstanding on March 15, 2005.

(2) Includes 2,550,000 currently exercisable options to purchase Common Stock.

(3) Includes 1,025,000 currently exercisable options to purchase Common Stock.

(4) Includes 300,000 currently exercisable options to purchase Common Stock.

(5) Includes 350,000 currently exercisable options to purchase Common Stock.

(6) Address is 330 South Service Road, Suite 120, Melville, NY 11747 EQUITY

COMPENSATION PLAN INFORMATION

The following table gives information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under the Company's 2003 Equity Participation Plan as of December 31, 2004. This plan was the Company's only equity compensation plan in existence as of December 31, 2004

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected In Column (a))
Equity Compensation Plans Approved by Shareholders	6,675,000	$ 0.08	8,325,000
Equity Compensation Plans Not Approved by ..... Shareholders	0	0	0
TOTAL	6,675,000	$ 0.08	8,325,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

All audit and audit-related work and all non-audit work performed by the Company's independent accountants is approved in advance by the Board of Directors of the Company, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered.

Audit Fees. Audit fees billed or expected to be billed to the Company by the Company's principal accountant for the audit of the financial statements included in the Company's Annual Reports on Form 10-K, and reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, for the years ended December 31, 2004 and 2003 totaled approximately $25,000 and $48,185, respectively.

Audit-Related Fees. The Company was billed $0 and $0 by the Company's principal accountant for the fiscal years ended December 31, 2004 and 2003, respectively, for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under the caption Audit Fees above.

Tax Fees. The Company was billed or expected to be billed an aggregate of $7,350 and $5,072 by the Company's principal accountant for the fiscal years ended December 31, 2004 and 2003, respectively, for tax services, principally advice regarding the preparation of income tax returns.

All Other Fees. The Company incurred fees for the fiscal years ended December 31, 2004 and 2003, respectively, for permitted non-audit services of $0 and $3,230, respectively.

The Company's Board of Directors pre-approved the Company's engagement of Holtz Rubenstein Reminick LLP to act as the Company's independent auditor for the fiscal year ended December 31, 2004 and 2003. The Company's Board of Directors pre-approved Travis Wolff & Company, L.L.P. to act as the Company's independent auditor for the fiscal years ended December 31, 2002. The Company's independent auditors performed all work only with its full time permanent employees.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are being filed as part of this Report:

(a)(1) Financial Statements:

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

(a)(2) 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.

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(a)(3) Exhibits:

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 (9)	3(j)
	(k)	Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (10)	C 3(f)
	(l)	Amendment to Certificate of Incorporation dated May 18, 1998 (10)	A
	(m)	Amendment to Certificate of Incorporation filed July 24, 2003 (15)	3.1
	(n)	By-laws of the Corporation, as amended on April 25, 1991 (6)	
4	(a)	Form of Underwriter's Warrant (6)	4.9.1
	(b)	Form of Promissory Note - 1996 Offering (9)	4(b)
	(c)	Form of Promissory Note - 1997 Offering (9)	4(c)
	(d)	Form of Common Stock Purchase Warrant - 1996 Offering (9)	4(d)
	(e)	Form of Common Stock Purchase Warrant - 1997 Offering (9)	4(e)
	(f)	Form of Promissory Note - September 2002 Offering (13)	4.1
	(g)	Form of Promissory Note - February 2003 Offering (13)	4.2
	(h)	Form of Promissory Note - March 2003 Offering (13)	4.3
10	(a)	1992 Stock Option Plan (8)	B
	(b)	Stock Purchase Agreement, dated as of March 4, 1998, between the Company and the Initial Purchasers named therein (10) B (c) 1998 Employee Stock Option Plan (10) D (d) Stock Contribution Exchange Agreement with StrandTek International, Inc. dated January 7, 2002, as amended on February 11, 2002 (11)	10(o)
	(e)	Supplemental Disclosure Agreement to Stock Contribution Exchange Agreement with StrandTek International, Inc. dated January 7, 2002 (11)	10(p)
	(f)	Employment Agreement dated as of February 6, 2003 by and between Corniche Group Incorporated and Mark Weinreb (12)	99.2
	(g)	Stock Option Agreement dated as of February 6, 2003 between Corniche Group Incorporated and Mark Weinreb (12)	99.3
	(h)	Corniche Group Incorporated 2003 Equity Participation Plan (12)	99.4
	(i)	Royalty Agreement, dated as of December 5, 2003, by and between Parallel Solutions, Inc. and Phase III Medical, Inc. (13)(14)	10.1

	(j)	Form of Stock Option Agreement (13)	10.2
	(k)	Employment Agreement dated as of September 13, 2004 between Phase III Medical, Inc. and Robert Aholt, Jr. (16)	10.3
	(l)	Stock Purchase Agreement, dated as of September 13, 2004, between Phase III Medical, Inc. and the Aholt, Jr. Family Trust (16)	10.4
	(m)	Form of Promissory Note - Robert Aholt, Jr. dated August 30, 2004 (16)	10.5
	(n)	Letter Agreement dated as of August 12, 2004 by and between Phase III Medical, Inc. and Dr. Wayne A. Marasco (16)	10.6
	(o)	Board of Directors Agreement by and between Phase III Medical, Inc. and Michael Lax (16)	10.7
	(p)	Board of Directors Agreement by and between Phase III Medical, Inc. and Joseph Zuckerman (16)	10.8
14	(a)	Code of Ethics for Senior Financial Officers (13)	14.1
23	(a)	Consent of Holtz Rubenstein Reminick LLP (16)	23.1
31	(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (16)	31.1
32	(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (16)	32.1

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, as indicated above, to the Company's proxy statement dated March 30, 1992, which exhibit is incorporated here by reference.

(9) 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.

(10) 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.

(11) 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, 2001, which exhibit is incorporated here by reference.

(12) 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.

(13) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 10-K, dated December 31, 2003, which exhibit is incorporated here by reference.

(14) Certain portions of this exhibit have been omitted based upon a request for confidential treatment. The omitted portions of this exhibit have been filed separately with the Securities and Exchange Commission on a confidential basis.

(15) 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.

(16) Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Phase III Medical, Inc.

By: /s/ Mark Weinreb

Mark Weinreb, President

Dated: March 31, 2005.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Mark Weinreb Mark Weinreb	Director, President and Chief Executive Officer	March 31, 2005
/s/ Robert Aholt, Jr. Robert Aholt, Jr.	Chief Operating Officer	March 31, 2005
/s/ Wayne Marasco Wayne Marasco	Director	March 31, 2005
/s/ Joseph Zuckerman Joseph Zuckerman	Director	March 31, 2005
/s/ Michael Lax Michael Lax	Director	March 31, 2005

Phase III Medical, Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Phase III Medical, Inc.

We have audited the accompanying balance sheets of Phase III Medical, Inc. as of December 31, 2004 and 2003 and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the two-year period ended December 31, 2004. 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 Phase III Medical, Inc. as of December 31, 2004 and 2003 and the results of its operations and cash flows for each of the years in the two year period ended December 31, 2004 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 18, 2005

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Phase III Medical, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2002 of Phase III Medical, Inc. (the "Company"). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Phase III Medical, Inc. for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming Phase III Medical, Inc. will continue as a going concern. As discussed in the accompanying notes to the consolidated financial statements, the Company sold its insurance subsidiary in July 2001. Additionally, the Company discontinued sales of its extended warranty service contracts through its website in December 2001. Accordingly, the Company has no operations nor available means to finance its current expenses and with which to pay its current 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.

/s/ TRAVIS, WOLFF & COMPANY, L.L.P.

Dallas, Texas
March 11, 2003

PHASE III MEDICAL, INC.

Balance Sheets

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,868	$ 210,947
Prepaid expenses and other current assets	21,233	18,024
Total current assets	49,101	228,971
Property and equipment, net	3,446	1,935
Deferred acquisition costs	43,897	77,782
Other assets	3,000	3,000
	$ 99,444	$ 311,688
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Interest and dividends payable - preferred stock	$ 480,880	$ 433,196
Accounts payable	149,169	87,896
Accrued liabilities	88,883	92,115
Notes payable	475,000	400,000
Convertible debentures, related party - net of debt discount of $5,882	94,118	--
Current portion of long-term debt	--	9,513
Total current liabilities	1,288,050	1,022,720
Unearned revenues	62,007	110,568
Series A mandatorily redeemable convertible preferred stock	681,174	681,174
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, 2004 and at December 31, 2003	100	100
Common stock, $.001par value; authorized, 250,000,000 shares; issued and outstanding, 41,029,552 at December 31, 2004 and 26,326,460 shares at December 31, 2003	41,031	26,327
Additional paid-in capital	10,537,408	9,232,753
Accumulated deficit	(12,510,326)	(10,761,954)
Total stockholders' deficit	(1,931,787)	(1,502,774)
	$ 99,444	$ 311,688

The accompanying notes are an integral part of these financial statements

PHASE III MEDICAL, INC.

Statements of Operations

	Years ended December 31,		
	2004	2003	2002
Earned revenues	$ 48,561	$ 64,632	$ 81,348
Direct Costs	(33,885)	(43,608)	(60,565)
Gross Profit	14,676	21,024	20,783
Selling, general and administrative	(763,640)	(685,353)	(911,950)
Purchase of medical royalty stream	(725,324)	(80,000)	--
Realized loss on note receivable		(150,000)	--
Provision for uncollectible note receivable and accrued interest	--	--	(258,103)
Operating loss	(1,474,288)	(894,329)	(1,149,270)
Other income (expense):			
Realized loss on marketable securities	--	--	(3,490)
Property and equipment impairment charge	--	--	(54,732)
Interest income	199	88,923	70,676
Interest expense - Series A mandatorily redeemable convertible preferred stock	(47,684)	(23,842)	--
Interest expense	(226,599)	(214,897)	(23,022)
	(274,084)	(149,816)	(10,568)
Provision for income taxes	--	--	--
Loss before preferred dividend	(1,748,372)	(1,044,145)	(1,159,838)
Preferred dividend	--	(23,842)	(47,684)
Net Loss attributable to common stockholders	$ (1,748,372)	$ (1,067,987)	$ (1,207,522)
Basic earnings per share			
Net loss attributable to common stockholders	$ (0.05)	$ (0.05)	$ (0.05)
Weighted average common shares outstanding	32,541,845	23,509,343	22,344,769

The accompanying notes are an integral part of these financial statements

PHASE III MEDICAL, INC.

Statements of Stockholders' Deficit

	Series B Convertible Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 2001	20,000	$ 200	22,290,710	$22,291
Issuance of common stock to directors	--	--	8,000	8
Conversion of Series B convertible preferred stock into common stock	(10,000)	(100)	100,000	100
Series A convertible stock dividends	--	--	--	--
Stock options granted with debt	--	--	--	--
Net loss	--	--	--	--
Balance at December 31, 2002	10,000	100	22,398,710	22,399
Issuance of common stock for cash, net of offering costs	--	--	2,825,000	2,825
Issuance of common stock upon exercise of common stock options	--	--	1,000,000	1,000
Issuance of common stock for services	--	--	100,000	100
Issuance of common stock to directors	--	--	2,750	3
Series A convertible stock dividends	--	--	--	--
Stock options granted with debt	--	--	--	--
Net loss	--	--	--	--
Balance at December 31, 2003	10,000	100	26,326,460	26,327
Issuance of common stock for cash, net of offering costs			12,132,913	12,133
Issuance of common stock upon exercise of common stock options			1,875,000	1,875
Issuance of common stock options for services				
Issuance of common stock for services			187,500	188
Interest expense on loans in default				
Debt discount on loan from officer				
Issuance of common stock for Interest			30,000	30
Issuance of common stock to officer for services			477,679	478
Net loss				
Balance at December 31, 2004	10,000	$ 100	41,029,552	$41,031

	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2001	$ 8,837,687	$ (8,486,445)	$ 373,733
Issuance of common stock to directors	1,113	--	1,121
Conversion of Series B convertible preferred stock into common stock	--	--	--
Series A convertible stock dividends	--	(47,684)	(47,684)
Stock options granted with debt	8,773	--	8,773
Net loss	--	(1,159,838)	(1,159,838)

Balance at December 31, 2002	8,847,573	(9,693,967)	(823,895)
Issuance of common stock for cash, net of offering costs	211,956	--	214,781
Issuance of common stock upon exercise of common stock options	4,000	--	5,000
Issuance of common stock for services	2,900	--	3,000
Issuance of common stock to directors	300	--	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	9,232,753	(10,761,954)	(1,502,774)
Issuance of common stock for cash, net of offering costs	1,092,867		1,105,000
Issuance of common stock upon exercise of common stock options	7,500		9,375
Issuance of common stock options for services	15,000		15,000
Issuance of common stock for services	14,062		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	4,170		4,200
Issuance of common stock to officer for services	26,272		26,750
Net loss		(1,748,372)	(1,748,372)
Balance at December 31, 2004	$10,537,408	$(12,510,326)	$(1,931,787)

The accompanying notes are an integral part of these financial statements

PHASE III MEDICAL, INC.

Statements of Cash Flows

	Years ended December 31,		
	2004	2003	2002
Cash flows from operating activities:	$(1,748,372)	$(1,044,145)	$(1,159,838)
Net loss			
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Property and equipment impairment charge		--	54,732
Common shares issued and stock options granted as payment for interest expense and for services rendered	187,337	169,327	9,894
Depreciation	1,777	646	16,766
Amortization of debt discount	11,765		
Series A mandatorily redeemable convertible preferred stock dividends	47,684	23,842	--
Unearned revenues	(48,561)	(64,632)	(84,579)
Deferred acquisition costs	33,885	46,053	59,744
Realized loss on note receivable		150,000	--
Provision for uncollectible note receivable and accrued interest	--	--	258,103
Changes in operating assets and liabilities :			
marketable securities	--	--	1,503,374
Prepaid expenses and other current assets	(3,209)	22,070	(28,463)
Other assets		(3,000)	4,175
Accounts payable, accrued expenses and other current liabilities	58,041	(322,074)	371,468
Net cash (used in) provided by operating activities	(1,459,653)	(1,021,913)	1,005,376
Cash flows from investing activities:			
Acquisition of property and equipment	(3,288)	(2,581)	(1,133)
Notes receivable	--	850,000	(1,250,000)
Proceeds from sale of property and equipment	--	--	3,795
Net cash (used in) provided by investing activities	(3,288)	847,419	(1,247,338)
Cash flows from financing activities:			
Net proceeds from issuance of capital stock	1,114,375	219,781	--
Stockholder advances	--	(106,000)	106,000
Net proceeds from notes payable	75,000	275,000	125,000
Proceeds from notes payable - related party	100,000	--	--
Repayment of long-term debt	(9,513)	(22,595)	(21,051)
Net cash provided by financing activities	1,279,862	366,186	209,949
Net (decrease) increase in cash and cash equivalents	(183,079)	191,692	(32,013)
Cash and cash equivalents at beginning of year	210,947	19,255	51,268
Cash and cash equivalents at end of year	$ 27,868	$ 210,947	$ 19,255

The accompanying notes are an integral part of these financial statements

PHASE III MEDICAL, INC.

Statements of Cash Flows - continued

	Years ended December 31,		
	2004	2003	2002
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 106,574	$ 26,483	$ 8,804
Supplemental schedule of non-cash investing and financing activities			
Issuance of common stock for services rendered	$ 32,027	$ 3,303	$ 1,121
Compensatory element of stock options	$ 127,137	$ 166,024	$ 8,773
Net accrual of dividends on Series A preferred stock	$ --	$ 23,842	$ 47,684

The accompanying notes are an integral part of these financial statements

Note 1 - The Company

Phase III Medical, Inc. (hereinafter referred to as the "Company") was known as Corniche Group Incorporated until it changed its name on July 24, 2003. 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 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value $0.01 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.

Note 1 - The Company - (Continued)

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 will provide 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.

At December 31, 2004, the Company had a cash balance of $27,868, deficit working capital of $1,238,949 and a stockholders' deficit of $1,931,787. In addition, the Company sustained losses of $1,748,372, $1,044,145 and $1,159,838 for the three fiscal years ended December 31, 2004, 2003 and 2002 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 consolidated financial statements of the Company do not reflect any adjustments relating to the doubt of its ability to continue as a going concern. Management is presently selling notes which bear interest at rates between 8% and 20% per annum to fund the Company until such time as sufficient proceeds, if any, are received from the private placement of its common stock. On September 22, 2003 the Company commenced an equity private placement to raise up to $4 million through the sale of up to 40 million shares of its Common Stock in increments of $5,000 or 50,000 shares. Since February 2003, the Company sold 14,957,913 shares, resulting in net proceeds to the Company of $1,319,781, of which 7,282,913 shares with net proceeds of $650,000 were to Robert Aholt, Jr., Chief Operating Officer of the Company. 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.

Note 2 - Summary of Significant Accounting Policies

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.

Note 2 - Summary of Significant Accounting Policies - (Continued)

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, 2004, 2003 and 2002 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. Assuming the fair market value of the stock at the date of grant to be $.03 in February 2003, $.05 in May, June and July 2003, $.18 in September 2003, $.15 in January 2004, $.14 in March 2004, $.11 in May 2004 and $.10 in September and November 2004, the life of the options to be from three to ten years, the expected volatility at 200%, expected dividends are none, and the risk-free interest rate of between 3% and 10%, the Company would have recorded compensation expense of $218,597, $205,760 and $43,593, respectively, for the years ended December 31, 2004, 2003 and 2002 as calculated by the Black-Scholes option pricing model. The weighted average fair value per option of options granted during 2004 and 2003 was $0.11 and $0.06, respectively. There were no employee stock options granted in 2002.

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:

	2004	2003	2002
Net loss as reported	$(1,748,372)	$(1,067,987)	$(1,159,838)
Additional compensation	(218,597)	(205,760)	(43,593)
Adjusted net loss	$(1,966,969)	$(1,273,747)	$(1,203,431)
Net loss per share as reported	$ (.05)	$ (.05)	$ (0.05)
Adjusted net loss per share	$ (.06)	$ (.05)	$ (0.05)

Note 2 - Summary of Significant Accounting Policies - (Continued)

Recently Issued Accounting Pronouncements - In December 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as revised. A Variable Interest Entity ("VIE") is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. Pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE must consolidate the VIE. The full adoption of FIN 46 in fiscal 2004 did not have a material effect on the Company's financial position and results of operations.

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 June 15, 2005.

On December 16, 2004, the FASB issued SFAS No. 153, "Exchange of Non-monetary Assets", an amendment of Accounting Principles Board ("APB") Opinion No. 29, which differed from the International Accounting Standards Board's ("IASB") method of accounting for exchanges of similar productive assets. Statement No. 153 replaces the exception from fair value measurement in APB No. 29, with a general exception from fair value measurement for exchanges of non-monetary assets that do not have commercial substance. The statement is to be applied prospectively and is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe that SFAS No. 153 will have a material impact on its results of operations or cash flows.

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,	
	2004	2003
Professional fees	$ 31,760	$ 49,009
Interest on notes payable	11,530	27,835
Salaries and related taxes	45,368	--
Other	225	15,271
	$ 88,883	$ 92,115

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 twenty five thousand 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 twenty five thousand shares of the Company's common stock for an aggregate purchase price of $125. During the year ended December 31, 2004, 1,875,000 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.

On February 11, 2003, the Company commenced a private placement offering to raise up to $100,000 in 30-day promissory notes in increments of $5,000 bearing interest at 20% 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 $50,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $45,000, net of offering costs. In November 2003, the Company repaid all $50,000 of such promissory notes together with all accrued interest of $6,854.

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

Note 5 - Notes Payable - (Continued)

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, 2004, $170,000 remain outstanding and although no longer in default, due to an extension of the due date to April 1, 2005, the notes bear interest at 20%.

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, 2004, $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. 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, 2004, $25,000 has been repaid and 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, 2004, $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, 2004, these notes remain unpaid. 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. As of December 31, 2004 this note remains unpaid. All interest payments have been paid timely.

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

	January 1, 2004	Proceeds	Repayments	Less: Debt Discounts	December 31, 2004
September 2002 Notes	$125,000	$ --	$(125,000)	$ --	$ --
March 2003 Notes	250,000	(80,000)	--	170,000	
Consultant Note	25,000	50,000	--	75,000	
2004 Notes	510,000	(280,000)	--	230,000	
Related Party Note	--	100,000	--	(5,882)	94,118
Total	$400,000	$ 660,000	$(485,000)	$ (5,882)	$569,118

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 Note 6 - Series A Mandatorily Redeemable Convertible Preferred Stock - (Continued)

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, 2004, 2003 and 2002, 681,174 shares of Series A Preferred Stock were outstanding, and accrued dividends on these outstanding shares were $480,880, $433,196, and $385,512 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 8,050,000 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 100,000 shares of the Company's common stock.

At December 31, 2004 and 2003, 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 2003 annual meeting, the stockholders approved an amendment increasing the authorized common stock to 250 million shares from 75 million shares.

(b) Common Stock: - (Continued)

In 2002, the Company issued 8,000 shares of its common stock whose fair value was $1,121 and in 2003 2,750 shares of its common stock whose fair value was $303 to its board members for director's fees.

In 2003, the Company issued 1,000,000 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 100,000 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 million through the sale of up to 40 million 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 2,825,000 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 12,132,913 common shares resulting in net proceeds to the Company of $1,105,000. Of these shares, 7,282,913 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 30,000 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 37,500 shares for a total of 187,500 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 477,679 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.

(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 282,500 shares of its Common Stock at an exercise price of $.12 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 through December 2004, the Company issued 25,000 warrants for a total of 125,000 warrants which entitles the holder to purchase one share of common stock at a price of

(c) Warrants: - (Continued)

$.05. 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 $3,250.

A total of 407,500 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 2004 at prices ranging from $.05 to $.12 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 300,000 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).

(ii) In April 1992, the Company adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of the Company's common stock that may be granted under this plan is 20,000 shares. The plan expired by its own terms in 2002.

Stock option activity under the 1992 and 1998 Stock Option Plans is as follows:

	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 2000	403,000	$ 1.45
Granted	75,000	0.37
Expired	(1,500)	0.31
Cancelled	(175,000)	1.23
Balances at December 31, 2001	301,500	1.30
Granted	--	--
Expired	(1,500)	0.41
Cancelled	(300,000)	1.31
Balances at December 31, 2004, 2003 and 2002	--	$ --

(e) Stock Option Plans:- (Continued)

Under the 1998 and 1992 plans 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.

(iii) At the 2003 annual meeting, the stockholders approved the 2003 Equity Participation 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. 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 2,500,000 shares of the Company's common stock at an exercise price of $0.03 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 2,500,000 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.

Additionally, the Company has granted options to purchase 2,675,000 shares in 2004 and 1,200,000 shares in 2003 of Common Stock at exercise prices ranging from $.05 to $.18 to members of its board of directors, employees, consultants and its advisory board. All options were granted at an exercise price 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	3,700,000	$.03 - $.18	$.05
Exercised	--	--	---
Expired	--	--	--
Cancelled	--	--	--
Balance at December 31, 2003	3,700,000	$.03 - $.18	$.05
Granted	2,975,000	$.10 - $.15	$.13
Exercised	--		
Expired	--		
Cancelled	--		
Balance at December 31, 2004	6,675,000	$.03 - $.18	$ 08

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

Options exercisable at December 31, 2003 - 3,700,000 at a weighted average exercise price of $.05 Options exercisable at December 31, 2004 - 5,675,000 at a weighted average exercise price of $.07

Stock Option Plans:- (Continued)

Exercise Price	Number Outstanding December 31, 2004	Weighted Average Remaining Contractual Life (years)	Number Exercisable December 31, 2004
$.03	2,500,000	8.10	2,500,000
$.05	900,000	8.44	900,000
$.10	1,375,000	9.72	1,375,000
$.11	200,000	9.40	-
$.14	300,000	9.17	300,000
$.15	1,100,000	9.05	300,000
$.18	300,000	8.70	300,000
	6,675,000		5,675,000

Note 8 - Income Taxes

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

	2004	2003
Net operating loss carryforwards	$ 3,247,000	$ 2,566,000
Depreciation and amortization	1,000	1,000
Capital loss carryforward	149,000	149,000
Deferred revenue	21,000	38,000
Deferred legal and other fees	51,000	30,000
Allowance for notes receivable	--	--
Net deferred tax assets	3,469,000	2,784,000
Deferred tax asset valuation allowance	(3,469,000)	(2,784,000)
	$ --	$ --

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:

	2004	2003	2002
Federal tax benefit at statutory rate	(34.0%)	(34.0%)	(34.0%)
Change in valuation allowance	34.0%	34.0%	33.0%
Permanent difference	--	--	1.0%
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, 2004, the Company had net operating loss carryforwards of approximately $9,725,727. 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 2024. The future tax benefit of the net operating loss carryforwards aggregating approximately $3,154,000 at December 31, 2004 has been fully reserved as it is not more likely than not that the Company will be able to use the operating loss in the future.

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.

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

Note 10 - Related Party Transactions - (Continued)

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.

Note 11 - Commitments and Contingencies

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 extended for an additional twelve months and expires on March 31, 2005. The annual rental increased to approximately $19,200 on April 1, 2004 and continues until the expiration date. The lease has been renewed until March 2006 with an annual rental of approximately $20,100. Rent expense approximated $24,900, $13,000 and $33,500 for the years ended December 31, 2004, 2003 and 2002, respectively.

On February 6, 2003, the Company entered into an employment agreement with the President and CEO. The employment agreement has an initial term of three years, with automatic annual extensions unless terminated by the Company or by the President at least 90 days prior to an applicable anniversary date. The Company has agreed to pay the President 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, the Company will pay 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 the President's service, and $20,000 for each subsequent year of the term, without condition.

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. As of December 31, 2004, the Company paid a total of $21,000 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 NeoStem Inc. 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. 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 year ended December 31, 2004, the Company paid $85,324 of such expenses.

Note 12 - Subsequent Events

In January 2005, the Company sold a 6 month 20% note in the amount of $25,000 to an accredited investor to fund current operations.

In February 2005, the Company sold a 6 month 20% note in the amount of $10,000 to an accredited investor to fund future operations.

Note 12 - Subsequent Events - (Continued)

In February and March 2005, the Company borrowed a total of $17,000 from its President to fund current operations. This note bears interest at 8% and will be repaid when the Company has sufficient cash.

In February 2005, the Company issued options to purchase 200,000 shares of its common stock to Jeff Trugman upon becoming an Advisory Board member. These options have an exercise price of $.07 and vest 50% after one year and the balance at the end of two years. The options have a life of ten years.

In January and February 2005, the Company issued 37,500 shares of its common stock for a total of 75,000 shares of its common stock to its investor relations firms for services. In addition, the Company issued 25,000 warrants which entitles the holder to purchase one share of common stock at a price of $.05. These warrants expire in three years from date of issue and were issued to the Company's investor relations firm.

In March 2005, the Company issued 1,960,784 shares of its common stock to Robert Aholt, Jr. as per the terms of his convertible note. The note in the amount of $100,000 is deemed paid and has been recorded as equity. All related interest payments have been made.

In March 2005, the Company sold a one year 15% note to an accredited investor in the amount of $20,000 to fund current operations.

Exhibit 10.3

PHASE III MEDICAL, INC.
330 South Service Road
Suite 120
Melville, New York 11747
631 574.4955

September 13, 2004

Mr. Robert Aholt, Jr.
20128 Cavern Court
Saugus, California 91390

Dear Mr. Aholt:

We are pleased to extend to you an invitation to become the Chief Operating Officer ("COO") of Phase III Medical, Inc. (the "Company").

As you know, the Company is a public company that, among other things, provides capital and guidance to companies, within the medical sector, in exchange for revenues, royalties and other contractual rights known as "royalty interests," that entitle it to receive a portion of revenue from the sale of pharmaceuticals, medical devices and biotechnology products. As COO, you 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 its business.

This Letter Agreement shall be effective as of September 13, 2004 (the "Commencement Date") and shall continue for a period of three (3) years from the Commencement Date (the "Term"). For all services rendered by you in any capacity required hereunder during the Term, you shall be entitled to 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, payable within normal payroll practices of the Company, provided that all conditions to payment specified herein have been met.

In further consideration for your services hereunder, on January 1, 2005 and on the first day of each calendar quarter thereafter during the Term, the Company shall grant you a number of shares of common stock, $0.001 par value per share, of the Company ("Common Stock"), with a "Dollar Value" of $26,750.00, $27,625.00 and $28,887.50, 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 shall be the average closing price of one share of Common Stock on the National Association of Securities Dealers, Inc. Over-the-Counter

Bulletin Board (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 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 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 shall 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.

At the end of each year, the parties will discuss variations in the cash and stock proportions of your compensation. In the absence of an alternative mutual agreement, the foregoing shall apply.

Your employment with the Company shall automatically terminate upon your death or Disability (as defined below). The Company may terminate your employment prior to the end of the Term with or without Cause (as defined below) immediately upon written notice to you. You may terminate your employment upon thirty (30) days' prior written notice to the Company. For purposes of this Letter Agreement, the terms set forth below shall have the meanings ascribed to them below:

"Cause" shall mean (i) willful malfeasance or willful misconduct by you in connection with your employment; (ii) your gross negligence in performing any of your duties under this Letter Agreement; (iii) your conviction of, or entry of a plea of guilty to, or entry of a plea of nolo contendre with respect to, any crime other than a traffic violation or infraction which is a misdemeanor; (iv) your material breach of any written policy applicable to all employees adopted by the Company that is not cured to the reasonable satisfaction of the Company within fifteen (15) business days after notice thereof; or (v) material breach by you of any of your agreements in this Letter Agreement which is not cured to the reasonable satisfaction of the Company within fifteen (15) business days after notice thereof.

"Disability" shall mean your inability to perform an essential function of your duties and responsibilities to the Company by reason of a physical or mental disability or infirmity, which inability has continued for a period of more than six (6) consecutive months, or for a period aggregating more than six (6) months, whether or not continuous, during any nine (9) month period. The existence of a Disability shall be determined by the Company in its absolute discretion.

"Good Reason" shall mean (i) the Company's reassignment of your base of operations outside of Los Angeles, California without your consent, (ii) the material reduction by the Company of your duties during the Term, (iii) the Company's material breach of the Company's obligations under this Letter Agreement, or (iv) the Company not retaining you as COO.

In the event your employment is terminated prior to the end of the Term due to your death or Disability, by the Company with or without Cause or upon your resignation from your position as COO for Good Reason, earned but unpaid cash compensation and

unreimbursed expenses due as of the date of such termination (the "Employment Termination Date") shall be payable in full. In addition, in the event your employment is terminated prior to the end of the Term for any of the reasons identified in the preceding sentence other than by the Company with Cause, you or your executor of your last will or the duly authorized administrator of your 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 you are then currently receiving and (ii) to receive, during the one (1) year period following the Employment Termination (the "Severance Period"), the stock grants that you would have been entitled to receive had your 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 your resignation for Good Reason, such severance payment and grant shall be subject to your execution and delivery to the Company of a release of all claims against the Company. 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.

The Company shall pay or reimburse you for all reasonable travel or other expenses (including, without limitation, digital subscriber line (DSL), car (at $750 per month), cell phone and insurance expenses) incurred by you in connection with the performance of your duties and obligations under this Letter Agreement, subject to your presentation of appropriate vouchers in accordance with such procedures as the Company may from time to time establish (including any procedures established to preserve any deductions for Federal income taxation purposes to which the Company may be entitled). I will also pay the executive search firm that you engaged up to $5,000 of the amounts that you owe to such firm.

All payments provided for under this Letter Agreement shall be paid in cash from the general funds of the Company. The Company shall not be required to establish a special or separate fund or other segregation of assets to assure such payments, and, if the Company shall make any investments to aid it in meeting its obligations hereunder, you shall have no right, title or interest whatever in or to any such investments except as may otherwise be expressly provided in a separate written instrument relating to such investments.

You acknowledge that, as COO, you will have access to the Company's confidential information and that all confidential information shall be and remain the sole property of the Company and that you will not at any time, now or in the future, disclose, disseminate or otherwise make public any of the confidential information without the express written permission of the Company.

You acknowledge and agree that your services pursuant to this Letter Agreement are unique and extraordinary; that the Company will be dependent upon you for development, financial, marketing and other expertise; and that you will have access to and control of confidential information of the Company. You further acknowledge that the business of the Company is international in scope and cannot be confined to any particular geographic area. You further acknowledge that the scope and duration of the restrictions set forth in this paragraph are reasonable in light of the specific nature and duration of the transactions contemplated by this Letter Agreement. For the foregoing reasons and to induce the Company to enter this Letter Agreement, you covenant and agree that during the Term and

the period beginning at the end of the Term and ending one (1) year after the end of the Term, you shall not unless with written consent of the Company:

(i) engage in any business directly related to the business of providing capital and guidance to companies, within the medical pharmaceutical and biotechnology sector, or in any other business conducted by the Company during the Term (collectively, the "Prohibited Activity") in the world for your own account;

(ii) become interested in any individual, corporation, partnership or other business entity (a "Person") engaged in any Prohibited Activity in the world, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, consultant or in any other relationship or capacity; provided, however, that you may own directly or indirectly, solely as an investment, securities of any Person which are traded on any national securities exchange if you (x) are not a controlling person of, or a member of a group which controls, such person or (y) do not, directly or indirectly, own 5% or more of any class of securities of such person; or

(iii) directly or indirectly hire, employ or retain any person who at any time during the last twelve (12) months of the Term was an employee of the Company or directly or indirectly solicit, entice, induce or encourage any such person to become employed by any other person.

You hereby acknowledge that the covenants and agreements contained in the immediately preceding paragraph are reasonable and valid in all respects and that the Company is entering into this Letter Agreement on such acknowledgment. If you breach, or threaten to commit a breach, of any of the restrictive covenants set forth in this Letter Agreement (the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity: (i) the right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company; and (ii) the right and remedy to require you to account for and pay over to the Company such damages as are recoverable at law as the result of any transactions constituting a breach of any of the Restrictive Covenants.

You hereby represent and warrant that (i) you have the legal capacity to execute and perform this Letter Agreement, (ii) this Letter Agreement is a valid and binding agreement enforceable against you according to its terms, (iii) the execution and performance of this Letter Agreement does not violate the terms of any existing agreement or understanding to which you are a party or by which you may be bound and (iv) you have, and will, maintain during the Term, all requisite licenses, permits and approvals necessary to perform the duties of COO set forth herein. You also hereby agree that you shall not participate in any medical, health, and insurance plans which may from time to time be in effect for employees of, or

consultants to, or other agents of, the Company. You hereby acknowledge to the Company that you desire to, and are capable of, securing such benefits independent of your relationship with the Company.

This Letter Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York, without reference to the choice of law principles thereof. Any claim, controversy or dispute between the parties hereto, arising out of, relating to, or in connection with this Letter Agreement or any aspect of your services to the Company hereunder, including but not limited to the termination of this Letter Agreement and any and all claims in tort or contract, shall be submitted to arbitration in Melville, New York, pursuant to the American Arbitration Association ("AAA") National Arbitration Rules for the Resolution of Employment Disputes. This provision shall apply to claims against the Company and/or its affiliates and their respective current or former employees, agents, managers, officers and/or directors. Any issue about whether a claim is covered by this Letter Agreement shall be determined by the arbitrator. There shall be one arbitrator, who (a) shall be chosen from a panel provided by the AAA and who shall apply the substantive law of the State of New York, (b) may award injunctive relief or any other remedy available from a judge, including attorney fees and costs to the prevailing party, and (c) shall not have the power to award punitive damages. Judicial review of the arbitrator's award shall be strictly limited to the issue of whether said award was obtained through fraud, corruption or misconduct.

This Letter Agreement shall be binding upon, and shall inure to the benefit of, the Company and you and its and your respective permitted successors, assigns, heirs, beneficiaries and representatives. This Letter Agreement is personal to you and may not be assigned by you without the prior written consent of the Company. Any attempted assignment in violation of this paragraph shall be null and void. This Letter Agreement shall constitute the entire agreement among the parties with respect to the matters covered hereby and shall supersede all previous written, oral or implied understandings among them with respect to such matters.

We are excited about your involvement with the Company and look forward to a long and mutually rewarding scientific and business relationship.

For our records, I would appreciate your countersigning the attached copy of this Letter Agreement and returning the same to me at your earliest convenience.

Sincerely,

PHASE III MEDICAL, INC.

By: _____
Mark Weinreb, President & CEO

Accepted and agreed to:

- _____
Robert Aholt

Exhibit 10.4

Phase III Medical, Inc.

SUBSCRIPTION AGREEMENT

This SUBSCRIPTION AGREEMENT (this "Agreement"), dated as of September 13, 2004, is by and between Phase III Medical, Inc., a Delaware corporation (the "Company"), and Aholt Jr. Family Trust dated 2/17/97 (the "Investor").

WHEREAS, the Company desires to issue and sell to the Investor, and the Investor desires to purchase from the Company, shares of common stock, $0.001 par value per share, of the Company (the "Common Stock"), upon and subject to the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements of the parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Purchase and Sale of the Shares.

1.1. Agreement to Sell and Purchase Shares. Subject to the terms and conditions hereof, the Company agrees to issue and sell to the Investor and the Investor agrees to purchase from the Company, at the Closing (as defined below), an aggregate of 7,282,913(1) shares of Common Stock (the "Shares"), for an aggregate purchase price of $650,000 (the "Purchase Price"), payable in immediately available funds at the Closing.

1.2. Delivery of Shares; Legend.

(a) As soon as reasonably practicable after the Closing, the Company shall deliver to the Investor one or more certificates, registered in the name of the Investor, representing the Shares. Delivery of certificates representing the Shares shall be made against receipt by the Company of a check payable to the order of the Company or a wire transfer of U.S. funds to an account designated by the Company in the full amount of the Purchase Price.

- ----------
(1) The aggregate number of shares shall be equal to the quotient of $650,000 divided by the Per Share Purchase Price. The Per Share Purchase Price shall be equal to 85% of the average of the closing price of one share of Common Stock on the NASD Over-The-Counter Bulletin Board for the five (5) days immediately preceding the date of this Agreement. Notwithstanding the foregoing, the Per Share Purchase Price shall not be more than $0.10 per share nor less than $0.085 per share.

(b) The certificates representing the Shares delivered pursuant to Section 1.2(a), and any securities issued in exchange for or in respect thereof, shall bear a legend to the following effect.

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH STATE SECURITIES LAWS."

1.3. Closing. The closing (the "Closing") of the transactions contemplated by this Agreement shall take place on the date hereof at the offices of the Company.

1.4 Additional Purchase/Conversion of Note. The Investor has also loaned to the Company on or about August 30, 2004 the sum of $100,000 pursuant to a six month promissory note bearing interest at 20% per annum (the "Note"). The Investor and the Company hereby irrevocably agree that upon the Maturity of that Note, the Company shall repay the Note in shares of its Common Stock, at a conversion price equal to a per share purchase price equal to 85% of the average of the closing price of one share of Common Stock on the NASD Over-the-Counter Bulletin Board for the five (5) days immediately preceding the Maturity Date of the Note, or, if the Company's Common Stock is not then traded on the OTC Bulletin Board, at 85% of fair market value as determined by the Board of Directors of the Company.

2. Representations, Warranties and Covenants of the Investor.

2.1. Authorization; Enforceability. The Investor is (i) a bona fide resident of the state contained in the address set forth on the signature page as the Investor's home address, (ii) at least 21 years of age and (iii) legally competent to execute this Agreement. This Agreement has been duly executed and delivered by the Investor and, assuming the due authorization, execution and delivery of this Agreement by the other party hereto, constitutes the legal, valid and binding obligation of the Investor, enforceable against the Investor in accordance with its terms, subject to the effects of any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or general laws of applicability affecting creditors' rights generally and to general equitable principles.

2.2. No Conflict. The execution, delivery and performance by the Investor of this Agreement will not result in the violation by the Investor of any law, statute, rule, regulation, order, writ, injunction, judgment or decree of any

court or governmental authority to or by which the Investor is bound, and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute (with due notice or lapse of time or both) a default under, any lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Investor is a party or by which he is bound or to which any of his properties or assets is subject.

2.3. Governmental Consents. No consent, approval, authorization or other order of any governmental authority or other third party is required to be obtained by the Investor in connection with the authorization, execution, delivery and performance by the Investor of this Agreement.

2.4. Investment Representations.

(a) The Investor hereby represents and warrants to the Company that the Investor is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Specifically, the Investor certifies that (initial all appropriate spaces on the following pages):

_____ (Initial) (1) The Investor is an accredited investor because he has an individual net worth, or with his spouse has a joint net worth, in excess of $1,000,000. For purposes of this Agreement, "net worth" means the excess of total assets at fair market value, including home, home furnishings and automobiles, over total liabilities.

_____ (Initial) (2) The Investor is an accredited investor because he has individual income (exclusive of any income attributable to his spouse) of more than $200,000 in each of the past two years, or joint income with his spouse in excess of $300,000 in each of those years, and such investor reasonably expects to reach the same income level in the current year.

_____ (Initial) (3) The Investor is an accredited investor because he is a director, executive officer or managing member of the Company.

(b) The Investor hereby certifies that he is not a non-resident alien for purposes of income taxation (as such term is defined in the Internal Revenue Code of 1986, as amended, and Income Tax Regulations). The Investor hereby agrees that if any of the information in this Section 2.4(b) changes, the Investor will notify the Company within 60 days thereof. The Investor understands that the information contained in this Section 2.4(b) may be disclosed to the Internal Revenue Service by the Company and that any false statement contained in this Section 2.4(b) could be punished by fine, imprisonment or both.

(c) The Investor will not sell or otherwise transfer the Shares without registration under the Securities Act or an exemption therefrom, and fully understands and agrees that he must bear the economic risk of his investment for an indefinite period of time because, among other reasons, the Shares have not been registered under the Securities Act or under the securities laws of certain states and, therefore, cannot be resold, pledged, assigned or otherwise disposed of unless they are subsequently registered under the Securities Act and under applicable securities laws of such states or an exemption from such registration is

available. The Investor understands that the Company is under no obligation to register the Shares on his behalf or to assist him in complying with any exemption from such registration under the Securities Act, except that if any sale proposed by the Investor is exempt from registration, the Company will cause its counsel, at the Company's expense, to provide an appropriate opinion to that effect to the Company's transfer agent. It also understands that sales or transfers of the Shares are further restricted by state securities laws. The Investor further understands that the Company is not registered as an investment company under the Investment Company Act of 1940, as amended.

(d) The Investor acknowledges that in making a decision to subscribe for the Shares, the Investor has relied solely upon independent investigations made by the Investor. The Investor understands the business objectives and policies of, and the strategies which may be pursued by, the Company. The Investor's investment in the Shares is consistent with the investment purposes and objectives and cash flow requirements of the Investor and will not adversely affect the Investor's overall need for diversification and liquidity. The Investor acknowledges that he is not subscribing pursuant hereto for any Shares as a result of or subsequent to (a) any advertisement, article, notice or other communications published on-line, in any newspaper, magazine or similar media or broadcast over television or radio, or (b) any seminar or meeting whose attendees, including the Investor, had been invited as a result of, subsequent to or pursuant to any of the foregoing.

(e) The Investor has not reproduced, duplicated or delivered this Agreement to any other person, except professional advisors to the Investor or as instructed by the Company.

(f) The Investor has such knowledge and experience in financial and business matters that the Investor is capable of evaluating the merits and risks of the Investor's investment in the Shares and is able to bear such risks, and has obtained, in the Investor's judgment, sufficient information from the Company or its authorized representatives to evaluate the merits and risks of such investment. The Investor has evaluated the risks of investing in the Shares and has determined that the Shares is a suitable investment for the Investor.

(g) The Investor can afford a complete loss of the investment in the Shares, can afford to hold the investment in the Shares for an indefinite period of time, and acknowledges that distributions may be paid in cash or in kind.

(h) The Investor's overall commitment to investments that are not readily marketable is not disproportionate to his net worth, and his investment in the Shares will not cause such overall commitment to become excessive.

(i) The Investor has adequate means of providing for his current needs and contingencies and has no need for liquidity in its investment in the Shares.

(j) The Investor is acquiring the Shares subscribed for herein for his own account, for investment purposes only and not with a view to distribute or resell such Shares in whole or in part.

(k) The Investor agrees and is aware that:

(1) the Company has a limited operating history under its current business plan;

(2) no federal or state agency has passed upon the Shares or made any findings or determination as to the fairness of this investment;

(3) there are substantial risks of loss of investment incidental to the purchase of the Shares; and

(4) the Shares cannot be resold readily because the Shares have not been registered by the Securities and Exchange Commission and the Shares cannot be resold without (A) the Company's consent, which may require an effective registration statement, or (B) an opinion of counsel that an exemption of registration is available, and the Investor may have to bear the risk of this investment for an indefinite period of time.

(l) The Investor and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares, which have been requested by the Investor. The Investor and his advisors, if any, have been afforded the opportunity to ask questions of the Company and have received complete and satisfactory answers to any such inquiries. The Investor has had access to all additional information necessary to verify the accuracy of the information set forth in this Agreement and any other materials furnished herewith, and has taken all the steps necessary to evaluate the merits and risks of an investment as proposed hereunder. Except as set forth in this Agreement, the Company has made no representation or warranty on which the Investor has relied to enter into this Agreement and acquire the Shares.

(m) The Investor does not have a present intention to sell the Shares nor a present arrangement or intention to effect any distribution of any of the Shares to or through any person or entity for purposes of selling, offering, distributing or otherwise disposing of any of the Shares.

(n) The Investor understands that the legend set forth in Section 1.2(b), to the effect that the Shares have not been registered under the Securities Act or applicable state securities laws, shall be placed on the certificate evidencing the Shares and appropriate notations to such effect will be made in the Company's stock books.

(o) The Investor understands that the net proceeds to the Company from this subscription will be used by the Company for general operating expenses.

2.5. Brokers. There is no broker, investment banker, financial advisor, finder or other person which has been retained by or is authorized to act on behalf of the Investor who is entitled to any fee or commission in connection with the execution of this Agreement.

3. Indemnification. The Investor agrees to indemnify and hold harmless the Company, and its managers, officers, directors, employees, agents and shareholders, and each other person, if any, who controls or is controlled by, within the meaning of Section 15

of the Securities Act, any thereof, against any and all loss, liability, claim, damage, cost and expense whatsoever (including, but not limited to, legal fees and disbursements and any and all other expenses whatsoever incurred in investigating, preparing for or defending against any litigation, arbitration proceeding, or other action or proceeding, commenced or threatened, or any claim whatsoever) arising out of or in connection with, or based upon or resulting from, (a) any false representation or warranty or breach or failure by the Investor to comply with any covenant or agreement made by the Investor in this Agreement or in any other document furnished by the Investor to any of the foregoing in connection with this transaction or (b) any action for securities law violations instituted by the Investor which is finally resolved by judgment against the Investor.

4. Power of Attorney. The Investor, as a shareholder of the Company, hereby appoints the Company as its true and lawful representative and attorney-in-fact, in its name, place and stead to make, execute, sign, acknowledge, swear to and file:

(a) any Company certificate, business certificate, fictitious name certificate, amendment thereto, or other instrument or document of any kind necessary or desirable to accomplish the business, purpose and objectives of the Company, or required by any applicable federal, state, or local or foreign law; and

(b) any and all instruments, certificates and other documents which may be deemed necessary or desirable to effect the winding-up and termination of the Company (including, but not limited to, a notice of dissolution of the Shareholder).

This power of attorney is coupled with an interest, is irrevocable, and shall survive and shall not be affected by the subsequent death, disability, incompetency, termination, bankruptcy, insolvency or dissolution of the Investor; provided, however, that this power of attorney will terminate upon the substitution of another shareholder of the Company for the Investor, upon the withdrawal of the Investor from the Company or upon the redemption of all of the Shares owned by the Investor.

5. Miscellaneous.

5.1. Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally or when mailed by certified or registered mail, return receipt requested and postage prepaid, and addressed to the address of such party set forth below or to such changed address as such party may have fixed by written notice to the other given in accordance with this Section 5.1; provided, however, that any notice of change of address shall be effective only upon receipt:

If to the Company:

Phase III Medical, Inc.
330 South Service Road, Suite 120
Melville, NY 11747
Attn: Mark Weinreb, President and CEO

If to the Investor:

the same address as indicated on the signature page hereto.

5.2. Entire Agreement; Amendment. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them. This Agreement may be amended only by mutual written agreement of the Company and the Investor. No course of dealing between or among any persons having any interest in this Agreement will be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any person under or by reason of this Agreement.

5.3. Successors and Assigns. This Agreement shall be binding upon the Investor and his heirs, legal representatives, successors, and permitted assigns and shall inure to the benefit of the Company and its successors and assigns. The Investor shall not assign any of its obligations hereunder without the prior written consent of the Company.

5.4. Governing Law. This Agreement shall be governed by and construed under the laws of the State of New York without regard to its choice of law provisions.

5.5. Jurisdiction. The Investor hereby irrevocably agrees that any suit, action or proceeding with respect to this Agreement and any or all transactions relating hereto and thereto may be brought in U.S. federal and state courts in the State of New York. The Investor hereby irrevocably submits to the jurisdiction of such courts with respect to any such suit, action or proceeding and agrees and consents that service of process as provided by U.S. federal and New York law may be made upon the Investor in any such suit, action or proceeding brought in any of said courts, and may not claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Investor hereby further irrevocably consents to the service of process out of any of the aforesaid courts, in any such suit, action or proceeding, by the mailing of copies thereof, by certified or registered mail, return receipt requested, addressed to the Investor at the address of the Investor then appearing on the records of the Company. Nothing contained herein shall affect the right of the Company to commence any action, suit or proceeding or otherwise to proceed against the Investor in any other jurisdiction or to serve process upon the Investor in any manner permitted by any applicable law in any relevant jurisdiction.

5.6. Additional Information and Subsequent Changes to Representations.

(a) The Company may request from time to time such information as it may deem necessary to determine the eligibility of the Investor to hold Stock or to enable the Company's compliance with applicable regulatory requirements or tax status, and the Investor shall provide such information as may reasonably be requested.

(b) The Investor agrees to notify the Company promptly if there is any change with respect to any of the information or representations given or made by the Company pursuant to this Agreement and to provide the Company with such further information as the Company may reasonably require. In addition, the Investor agrees that at any time in the

future at which the Investor may acquire additional shares of Common Stock, the Investor shall be deemed to have reaffirmed, as of the date of such acquisition of additional shares of Common Stock, each and every representation made by the Investor in this Agreement, except to the extent modified in writing by the Investor and consented to by the Company.

5.7. Severability. In the event that any provision of this Agreement or the application of any provision hereof is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, the remainder of this Agreement shall not be affected except to the extent necessary to delete such illegal, invalid or unenforceable provision unless the provision held invalid shall substantially impair the benefit of the remaining portion of this Agreement.

5.8. Headings. The headings of the sections hereof are inserted as a matter of convenience and for reference only and in no way define, limit or describe the scope of this Agreement or the meaning of any provision hereof.

5.9. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which together shall be deemed to be one and the same agreement. A facsimile transmission of this signed Agreement shall be legal and binding on all parties hereto to the same extent as if delivered personally.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above under penalties of perjury.

COMPANY:

PHASE III MEDICAL, INC.

By:

Name:
Title:

INVESTOR:

- ---
Robert Aholt, Jr. Trustee
Aholt Jr. Family Trust dated 2/17/97

Address: 20128 Cavern Court
Saugus, California 91390

Tax I.D. Number: xxx-xx-xxxx

EXHIBIT 10.5
Aholt Promissory Note

Exhibit 10.5

THIS PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE NOTE HAS BEEN ACQUIRED FOR INVESTMENT AND MUST BE HELD INDEFINITELY and MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT IS SUBSEQUENTLY REGISTERED UNDER SAID ACT or, in the opinion of counsel to the company, an exemption from registration under said act is available.

PROMISSORY NOTE

$100,000 August 30, 2004

FOR VALUE RECEIVED, Phase III Medical, Inc., a Delaware corporation, ("Maker") promises to pay to Robert Aholt ("Payee"), in lawful money of the United States of America, the principal sum of One Hundred Thousand Dollars ($100,000.00), together with interest thereon accruing at an annual rate equal to 20%, in the manner provided below. Interest shall be calculated on the basis of a year of 365 or 366 days, as applicable, and charged for the actual number of days elapsed.

1. PAYMENTS

1.1 Principal and interest.

Interest on the unpaid principal amount shall be payable monthly in arrears until the entire principal amount shall be paid in full. All principal and accrued interest shall be paid in full on February 30, 2005 (6 months after the date of issuance of this Note).

1.2 Manner of Payment

All payments of principal and interest on this Note shall be made by check at Robert Aholt, 20128 Cavern Court, Saugus, CA, 91390, or at such other place in the United States of America as Payee shall designate to Maker in writing. If any payment of principal or interest on this Note is due on a day which is not a

Business Day, such payment shall be due on the next succeeding Business Day. "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of New York.

1.3 Prepayment

Maker may, without premium or penalty, at any time and from time to time, prepay all or any portion of the outstanding principal balance due under this Note, provided that each such prepayment is accompanied by accrued interest on the amount of principal prepaid calculated to the date of such prepayment.

Any partial prepayments shall be applied first to accrued interest and then to principal.

2. DEFAULTS

2.1 Events of Default

The occurrence of any one or more of the following events with respect to Maker shall constitute an event of default hereunder ("Event of Default"):

(a) If Maker shall fail to pay when due any payment of principal or interest on this Note.

(b) If, pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors (a "Bankruptcy Law"), Maker shall (i) commence a voluntary case or proceeding; (ii) consent to the entry of an order for relief against it in an involuntary case; (iii) consent to the appointment of a trustee, receiver, assignee, liquidator or similar official; (iv) make an assignment for the benefit of its creditors; or (v) admit in writing its inability to pay its debts as they become due.

(c) If a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (i) is for relief against Maker in an involuntary case; (ii) appoints of a trustee, receiver, assignee, liquidator or similar official for the Maker or substantially all of the Maker's properties; or (iii) orders the liquidation of the Maker, and in each case the order is not dismissed within 90 days.

2.2 Remedies

Upon the occurrence of an Event of Default hereunder (unless all Events of Default have been cured or waived by Payee), Payee may, at its option, (i) by written notice to Maker, declare the entire unpaid principal balance of this Note, together with all accrued interest thereon, immediately due and payable, and (ii) exercise all and any rights and remedies available to it under applicable law, including, without limitation, the right to collect from maker all

sums due under

this Note. Maker shall pay all reasonable costs and expenses incurred by or on behalf of Payee in connection with Payee's exercise of any or all of its rights and remedies under this Note, including, without limitation, reasonable attorneys' fees and expenses.

3. REPRESENTATIONS BY PAYEE

Payee represents and warrants to Maker as follows:

(a) Payee has received and examined all information, including financial statements, of or concerning Maker which Payee considers necessary to making an informed decision regarding this Note. In addition, Payee has had the opportunity to ask questions of, and receive answers from, the officers and agents of Maker concerning Maker and to obtain such information, to the extent such persons possessed the same or could acquire it without unreasonable effort or expense, as Payee deemed necessary to verify the accuracy of the information referred to herein.

(b) The Payee acknowledges and understands that (i) the Maker will use the proceeds of this Note in its the establishment of new business operations; (ii) the proceeds of this Note will not be sufficient to provide Maker with the necessary funds to achieve its current business plan; (iii) the Maker does not have sufficient cash available to repay this Note; (iv) this Note will not be guaranteed nor will it be secured by any assets of Maker nor senior to any other indebtedness of Maker; and (v) Payee bears the economic risk of never being repaid on this Promissory Note.

(c) The Payee hereby certifies that Payee is an "Accredited Investor" (as that term is defined by Regulation D under the Securities Act of 1933, as amended) because at least one of the following statements is applicable to Payee:

(i) Payee is an Accredited Investor because the Payee had individual income of more than $200,000 in each of the two prior calendar years and reasonably expects to have individual income in excess of $200,000 during the current calendar year.

(ii) The Payee is an Accredited Investor because the Payee and his spouse together had income of more than $300,000 in each of the two prior calendar years and reasonably expect to have joint income in excess of $300,000 during the current calendar year.

(iii) The Payee is an Accredited Investor because the Payee has an individual net worth, or the Payee and his spouse have a joint net worth of more than $1,000,000.

(d) Payee is acquiring this Note for his own account, for investment purposes only, and not with a view to the resale or distribution of all or any part thereof.

(e) Payee acknowledges that this Note (i) has not been registered under applicable securities laws, (ii) will be a "restricted security" as defined in applicable securities laws, (iii) has been issued in reliance on the statutory exemptions from registration contemplated by applicable securities laws based (in part) on the accuracy of Payee's representations contained herein, and (iv) will not be transferable without registration under applicable securities laws, unless an exemption from such registration requirements is available.

(f) Payee has reviewed and understands Maker's (i) Annual Report on Form 10-K for the fiscal year ended December 31, 2003; (ii) Quarterly Reports on Form10-Q for the quarters ended March 31, June 30, September 30, 2003, and March 31, June 30, 2004; (iii) proxy statement for its 2003 annual meeting of shareholders and (iv) all Current Report on Form 8-K filed since the filing of its last Form 10-K.

4. MISCELLANEOUS

4.1 Waiver

The rights and remedies of Payee under this Note shall be cumulative and not alternative. No waiver by Payee of any right or remedy under this Note shall be effective unless it is in writing and signed by Payee. Neither the failure nor any delay in exercising any right, power or privilege under this Note will operate as a waiver of such right, power or privilege and no single or partial exercise of any such right, power or privilege by Payee will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum amount permitted by applicable law, (i) no claim or right of Payee arising out of this Note can be discharged by Payee, in whole or in part, by a waiver or renunciation of the claim or right unless in a writing, signed by Payee; (b) no waiver that may be given by Payee will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on Maker will be deemed to be a waiver of any obligation of Maker or of the right of Payee to take further action without notice or demand as provided in this Note.

Maker acknowledges that this Note and Maker's obligations under this Note are, and shall at all times continue to be, absolute and unconditional in all respects, and shall at all times be valid and enforceable. To the extent permitted by applicable law, Maker hereby absolutely, unconditionally and irrevocably forever waives any and all right to assert any defense, set-off, off-set, counterclaim, cross-claim, or claim of any nature whatsoever with respect to this Note or Maker's obligations hereunder.

4.2 Notices

Any notice or communication to be given hereunder by any party, to the other party shall be in writing and shall be deemed to have been given when personally delivered, or one day after the date sent by recognized overnight courier or transmitted by facsimile, which transmission by facsimile has been confirmed or 3 (three) days after the date sent by registered or certified mail, postage prepaid, as follows:

If to Maker, addressed to it at:

Phase III Medical, Inc.
330 South Service Road
Suite 120
Melville, NY 11747
Attn: Mark Weinreb
Facsimile Number: (631) 574 4956

If to Payee, addressed to:

Name: Robert Aholt
Address: 20128 Cavern Court
Saugus, CA 91390

Or persons or addresses as may be designated in writing by the party to receive such notice.

4.3 Severability

If any provision of this Note is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Note will remain in full force and effect. Any provision of this Note held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

4.4 Governing Law.

This Promissory Note will be governed by the laws of the State of New York without regard to conflicts of laws principles.

4.5 Assignment; Parties in Interest

This Note shall bind Maker and its successors and assigns. This Note shall not be assigned or transferred by Maker, without the express prior written consent of Payee, and this Note will inure to the benefit of Payee and his heirs, estates, representatives, administrators, successors and assigns.

4.6 Section Headings, Construction

The headings of Sections in this Note are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Note unless otherwise specified.

All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

4.7 Savings Clause

If, at any time, the rate of interest under this Note shall be deemed by any competent court of law, governmental agency or tribunal to exceed the maximum rate of interest permitted by the laws of any applicable jurisdiction or the rules or regulations of any regulatory authority or agency, then during such time as such rate of interest would be deemed excessive, that portion of each interest payment attributable to that portion of such interest rate that exceeds the maximum rate of interest so permitted shall be deemed a voluntary prepayment of principal or, if all principal has been paid, that portion of each interest payment attributable to that portion of such interest rate that exceeds the maximum rate of interest so permitted shall be promptly refunded to Maker.

4.8 Waiver of Jury Trial

MAKER AND PAYEE EACH HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRAIL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS NOTE, IT BEING AGREED THAT ALL SUCH TRAILS SHALL BE CONDUCTED SOLELY BY A JUDGE. MAKER AND PAYEE EACH CERTIFY THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF EITHER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE OTHER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS. MAKER AND PAYEE EACH AGREE AND ACKNOWLEDGE THAT IT HAS BEEN REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE OR BEEN ADVISED THAT IT SHOULD BE REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE. IF MAKER OR PAYEE HAS DECIDED NOT TO BE REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE, IT IRREVOCABLY AND FOREVER WAIVES ANY AND ALL DEFENSES OR RIGHTS ARISING OUT OF OR RELATED TO SAID DECISION.

IN WITNESS WHEREOF, Maker has executed and delivered this Note as of the date first stated above.

PHASE III MEDICAL, INC.

Bye :

Name: Mark Weinreb
Title: President and Chief Executive Officer

Accepted and agreed to:

- ---
Payee: Robert Aholt

EXHIBIT 10.6
Marasco Letter Agreement

PHASE III MEDICAL, INC.
330 South Service Road
Suite 120
Melville, New York 11747
631 574.4955

August 12, 2004

Wayne A. Marasco, M.D., Ph.D.
Department of Cancer Immunology & AIDS
Dana-Farber Cancer Institute - Harvard Medical School
44 Binney Street
Boston, MA 02115

Dear Dr. Marasco:

We are pleased to extend to you an invitation to become the Senior Scientific Advisor ("SSA") of Phase III Medical, Inc. (the "Company").

As you know, the Company is a public company that, among other things, provides capital and guidance to companies, within the medical sector, in exchange for revenues, royalties and other contractual rights known as "royalty interests," that entitle it to receive a portion of revenue from the sale of pharmaceuticals, medical devices and biotechnology products. As SSA, you 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 its business. You will report your reviews and evaluations to the Chief Executive Officer and President who will have direct responsibilities for Business Development decisions. In keeping with Harvard Medical School's new policies on Conflicts of Interest and Commitment for full-time Faculty Members (accepted May 26, 2004), your position will not include any fiduciary or other responsibilities that are required to operate a material segment of the operations of the business.

This Letter Agreement shall be effective as of August 12, 2004 (the "Commencement Date") and shall continue for a period of three (3) years from the Commencement Date (the "Term"). For all services rendered by you in any capacity required hereunder during the Term, you shall be entitled to an annual salary of $84,000 for the first year of the Term, $92,400 for the second year of the Term, and $101,640 for the third year of the Term payable within normal payroll practices of the Company, provided that all conditions to payment specified herein have been met. In addition to the annual cash compensation stated in the preceding sentence, you shall also be entitled to five (5%) percent of all collected revenues ("additional cash compensation") derived from the Company's royalty or other revenue sharing agreements, provided that the amount of annual salary and additional cash compensation (in the form of such revenue sharing) shall not exceed $200,000 per year during the Term. Such additional cash compensation shall be payable quarterly within 45 days of the end of each quarter, provided that all conditions to payment specified herein have been met.

Although the annual cash compensation and additional cash compensation stated above shall begin to accrue as of the Commencement Date, you 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 light of such repayment restrictions, and in further consideration for your services hereunder, upon execution of this Letter Agreement, you will be granted an option, fully vested, to purchase 675,000 shares of the Company's common stock at an exercise price of ten 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. In addition, in the event that the closing price of the Company's common stock equals or exceeds fifty cents per share for any five consecutive trading days during the Term, the Company shall grant you, on the day immediately following the end of the five day period, pursuant to the 2003 Equity Participation Plan and a Stock Option Agreement, an option for the purchase of an additional 1,000,000 shares of common stock substantially upon the terms of the initial option and in the form of the initial option agreement, except that the exercise price shall be fifty cents per share. You will not be entitled to any further option grants as a director of the Company under any existing or future plans, but you will be entitled to participate in any future option plans established by the board for the officers of the Company so long as you remain as SSA.

The Company shall pay or reimburse you for all reasonable travel or other expenses incurred by you in connection with the performance of your duties and obligations under this Letter Agreement, subject to your presentation of appropriate vouchers in accordance with such procedures as the Company may from time to time establish (including any procedures established to preserve any deductions for Federal income taxation purposes to which the Company may be entitled).

This Letter Agreement shall automatically terminate upon your death or permanent disability. In addition, the Company may also terminate this Agreement with or without cause immediately upon written notice to you. A termination for cause would occur in the event that you, after written notice and an opportunity to cure, consistently and willfully refuse to perform the services required by you under this Letter Agreement. You may terminate this Letter Agreement upon thirty days' prior written notice to the Company. In the event this Letter Agreement terminates due to your death, permanent disability or upon notice from

the Company with or without cause, earned but unpaid cash and additional cash compensation and unreimbursed expenses due as of the date of termination of this Letter Agreement shall be payable in full. However, no other payments shall be made, nor benefits provided, by the Company under this Letter Agreement except as otherwise required by law. In the event that the Company decides to terminate your employment without cause prior to the end of the three year term, you will be entitled to receive a severance payment equal to one

year's salary, paid at the same level of salary as you are then currently receiving and as a single payment to be paid promptly after the last day of employment as SSA, in exchange for your execution of a release of all other claims against the Company.

You acknowledge that, as SSA, you will have access to the Company's confidential information and that all confidential information shall be and remain the sole property of the Company and that you will not at any time, now or in the future, disclose, disseminate or otherwise make public any of the confidential information without the express written permission of the Company.

You hereby represent and warrant that (i) you have the legal capacity to execute and perform this Letter Agreement, (ii) this Letter Agreement is a valid and binding agreement enforceable against you according to its terms, (iii) the execution and performance of this Letter Agreement does not violate the terms of any existing agreement or understanding to which you are a party or by which you may be bound and (iv) you have, and will, maintain during the Term, all requisite licenses, permits and approvals necessary to perform the duties of SSA set forth herein. You also hereby agree that you shall not participate in any medical, health, and insurance plans which may from time to time be in effect for employees of, or consultants to, or other agents of, the Company. You hereby acknowledge to the Company that you desire to, and are capable of, securing such benefits independent of your relationship with the Company.

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York, without reference to the choice of law principles thereof. Any claim, controversy or dispute between the parties hereto, arising out of, relating to, or in connection with this Letter Agreement or any aspect of your services to the Company hereunder, including but not limited to the termination of this Letter Agreement and any and all claims in tort or contract, shall be submitted to arbitration in Melville, New York, pursuant to the American Arbitration Association ("AAA") National Arbitration Rules for the Resolution of Employment Disputes. This provision shall apply to claims against the Company and/or its affiliates and their respective current or former employees, agents, managers, officers and/or directors. Any issue about whether a claim is covered by this Letter Agreement shall be determined by the arbitrator. There shall be one arbitrator, who (a) shall be chosen from a panel provided by the AAA and who shall apply the substantive law of the State of New York, (b) may award injunctive relief or any other remedy available from a judge, including attorney fees and costs to the prevailing party, and (c) shall not have the power to award punitive damages. Judicial review of the arbitrator's award shall be strictly limited to the issue of whether said award was obtained through fraud, corruption or misconduct.

This Letter Agreement shall be binding upon, and shall inure to the benefit of, the Company and you and its and your respective permitted successors, assigns, heirs, beneficiaries and representatives. This Letter Agreement is personal to you and may not be assigned by you without the prior written consent of the Company. Any attempted assignment in violation of this paragraph shall be null and void. This Letter Agreement shall constitute the entire agreement among the parties with respect to the matters covered hereby and shall supersede all previous written, oral or implied understandings among them with respect to such matters.

The Company acknowledges the Dana-Farber Cancer Institute's standard consulting agreement provisions. These provisions, which were attached as Exhibit A to a Board of Director's Engagement Letter dated May 19, 2003 by the Company, as agreed to and accepted by you, have been reviewed and approved by the Company.

The company recognizes the constraints on your time and agrees that your efforts on behalf of the Company, as a Director and SSA, will not require more than four (4) hours per week, scheduled to accommodate your existing commitments.

We are excited about your involvement with the Company and look forward to a long and mutually rewarding scientific and business relationship.

For our records, I would appreciate your countersigning the attached copy of this Letter Agreement and returning the same to me at your earliest convenience.

Sincerely,

Mark Weinreb, President & CEO
Date Signed: November 18, 2004

Accepted and agreed to:

- ----------
Wayne A. Marasco, M.D., Ph.D.
Date Signed: November 18, 2004

EXHIBIT 10.7
Lax Board of Directors Agreement

Exhibit 10.7

PHASE III MEDICAL, INC.
330 South Service Road
Suite 120
Melville, New York 11747
631.574.4955
March 2, 2004

Michael Lax
1303 Ridge Road
Laurel Hollow, NY 11791

Dear Mr. Lax:

We are pleased to extend to you an invitation to become a Director of the Phase III Medical, Inc. (the "Company").

As you know, the Company is a public company that, among other items, is entering the medical sector by acquiring or participating in one or more biotechnology and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the general public and/or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom.

We are requesting that you serve as a Director for an initial term until our next annual meeting of shareholders. In consideration of your agreeing to accept the Directorship, you will be granted an option, fully vested, to purchase Three Hundred Thousand (300,000) shares of the Company's common stock at an exercise price of Fourteen ($.14) 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 (10)

years and otherwise the grant will be in accordance with the Company's 2003 Equity Participation Plan and Non-Qualified Stock Option Grant Agreement.

In addition, in the event that the closing price of the Company's Common Shares equals or exceeds One Dollar ($1.00) per share for any five (5) consecutive trading days during your term as a Director, the Company shall grant you, on the day immediately following the end of the five (5) day period, pursuant to the Equity Participation Plan and a Stock Option Agreement, an option for the purchase of an additional One Hundred Thousand (100,000) Common Shares substantially upon the terms of the Initial Option and in the form of the Initial Option Agreement, except that the exercise price shall be $1.00 per share.

While a Director, you will be covered by the Company's D&O insurance policy and, to the extent permitted by law, will also be indemnified by the Company.

You will be responsible to attend Annual and Special Meetings of the Board of Directors (either in person or telephonically), to attend the Annual and/or Special Shareholder Meetings as necessary, to participate in appropriate committees and to generally assist 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 its business.

You acknowledge that, as member of the Board of Directors, you will have access to the Company's Confidential Information and that all Confidential Information shall be and remain the sole property of the Company and that you will not at any time, now or in the future, disclose, disseminate or otherwise make public any of the Confidential Information without the express written permission of the Company. We will ask you to sign a confidentiality agreement similar to that signed by our board of advisor members, attached hereto.

We are excited about your involvement with the Company and look forward to a long and mutually rewarding scientific and business relationship.

For our records, I would appreciate your countersigning the attached copy of this Engagement Agreement and returning the same to me at your earliest convenience.

Sincerely,

Mark Weinreb, President & CEO

Accepted and agreed to:

- ----------
Michael Lax

Phase III Medical, Inc.

Confidentiality, Proprietary Information
and Inventions Agreement

I recognize that Phase III Medical, Inc., a Delaware corporation (the "Company"), is engaged in a continuous program of entering the medical sector by acquiring or participating in one or more biotech and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the public, or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom (the "Business"). Any company with which the Company enters into, or seeks or considers entering into, a business relationship in furtherance of the Business is referred to as a "Business Partner".

I understand that as part of my performance of duties as a director of the Company (the "Engagement"), I will have access to confidential or proprietary information of the Company and the Business Partners, and I may make new contributions and inventions of value to the Company. I further understand that my Engagement creates in me a duty of trust and confidentiality to the Company with respect to any information: (1) related, applicable or useful to the business of the Company, including the Company's anticipated research and development or such activities of its Business Partners; (2) resulting from tasks performed by me for the Company; (3) resulting from the use of equipment, supplies or facilities owned, leased or contracted for by the Company; or (4) related, applicable or useful to the business of any partner, client or customer of the Company, which may be made known to me or learned by me during the period of my Engagement.

For purposes of this Agreement, the following definitions apply:

"Proprietary Information" shall mean information relating to the Business or the business of any Business Partner and generally unavailable to the public that has been created, discovered, developed or otherwise has become known to the Company or in which property rights have been assigned or otherwise conveyed to the Company or a Business Partner, which information has economic value or potential economic value to the business in which the Company is or will be engaged. Proprietary Information shall include, but not be limited to, trade secrets, processes, formulas, writings, data, know-how, negative know-how, improvements, discoveries, developments, designs, inventions, techniques, technical data, patent applications, customer and supplier lists, financial information, business plans or projections and any modifications or enhancements to any of the above.

"Inventions" shall mean all Business-related discoveries, developments, designs, improvements, inventions, formulas, software programs, processes, techniques, know-how, negative know-how, writings, graphics and other data, whether or not patentable or registrable under patent, copyright or similar statutes, that are related to or useful in the business or future business of the Company or its Business Partners or result from use of premises or other property owned, leased or contracted for by the Company. Without limiting the generality of the foregoing, Inventions shall also include anything related to the

Business that derives actual or potential economic value from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use.

As part of the consideration for my Engagement or continued Engagement, as the case may be, and the compensation received by me from the Company from time to time, I hereby agree as follows:

1. Proprietary Information and Inventions. All Proprietary Information and Inventions related to the Business shall be the sole property of the Company and its assigns, and the Company or its Business Partners, as the case may be, and their assigns shall be the sole owner of all patents, trademarks, service marks, copyrights and other rights (collectively referred to herein as "Rights") pertaining to Proprietary Information and Inventions. I hereby assign to the Company any rights I may have or acquire in Proprietary Information or Inventions or Rights pertaining to the Proprietary Information or Inventions which Rights arise in the course of my Engagement. I further agree as to all Proprietary Information or Inventions to which Rights arise in the course of my Engagement to assist the Company or any person designated by it in every proper way (but at the Company's expense) to obtain and from time to time enforce Rights relating to said Proprietary Information or Inventions in any and all countries. I will execute all documents for use in applying for, obtaining and enforcing such Rights in such Proprietary Information or Inventions as the Company may desire, together with any assignments thereof to the Company or persons designated by it. My obligation to assist the Company or any person designated by it in obtaining and enforcing Rights relating to Proprietary Information or Inventions shall continue beyond the cessation of my Engagement ("Cessation of my Engagement). In the event the Company is unable, after reasonable effort, to secure my signature on any document or documents needed to apply for or enforce any Right relating to Proprietary Information or to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agents and attorneys-in-fact to act for and in my behalf and stead in the execution and filing of any such application and in furthering the application for and enforcement of Rights with the same legal force and effect as if such acts were performed by me. I hereby acknowledge that all original works of authorship that are made by me (solely or jointly with others) within the scope of my Engagement and which are protectable by copyright are "works for hire" as that term is defined in the United States Copyright Act (17 USCA, Section 101).

2. Confidentiality. At all times, both during my Engagement and after the Cessation of my Engagement, whether the cessation is voluntary or involuntary, for any reason or no reason, or by disability, I will keep in strictest confidence and trust all Proprietary Information, and I will not disclose or use or permit the use or disclosure of any Proprietary Information or Rights pertaining to Proprietary Information, or anything related thereto, without the prior written consent of the Company, except as may be necessary in the ordinary course of performing my duties for the Company. I recognize that the Company has received and in the future will receive from third parties (including Business Partners) their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree that I owe the Company and such third parties (including Business Partners), during my Engagement and thereafter, a duty to hold all such confidential or proprietary information in

the strictest confidence, and I will not disclose or use or permit the use or disclosure of any such confidential or proprietary information without the prior written consent of the Company, except as may be necessary in the ordinary course of performing my duties for the Company consistent with the Company's agreement with such third party.

3. Noncompetition and Nonsolicitation. During my Engagement, and for a period of two (2) years after the Cessation of my Engagement, I will not directly or indirectly, whether alone or in concert with others or as a partner, officer, director, consultant, agent, employee or stockholder of any company or commercial enterprise, directly or indirectly, engage in any activity in the United States or Canada that the Company shall determine in good faith is or may be in competition with the Company concerning its work in the Business. During my Engagement and for a period of two (2) years after the Cessation of my Engagement, I will not, either directly or indirectly, either alone or in concert with others, solicit or encourage any employee of or consultant to the Company to leave the Company or engage directly or indirectly in competition with the Company in the Business. During my Engagement and for a period of two (2) years after the Cessation of my Engagement, I agree not to plan or otherwise take any preliminary steps, either alone or in concert with others, to set up or engage in any business enterprise that would be in competition with the Company in the Business. The following shall not be deemed to be competitive with the Company: (i) my ownership of stock, partnership interests or other securities of any entity not in excess of two percent (2%) of any class of such interests or securities which is publicly traded; and (ii) my continued research engagements for academic institutions.

4. Delivery of Company Property and Work Product. In the event of the Cessation of my Engagement, I will deliver to the Company all biological materials, devices, records, sketches, reports, memoranda, notes, proposals, lists, correspondence, equipment, documents, photographs, photostats, negatives, undeveloped film, drawings, specifications, tape recordings or other electronic recordings, programs, data and other materials or property of any nature belonging to the Company or its clients or customers, and I will not take with me, or allow a third party to take, any of the foregoing or any reproduction of any of the foregoing.

5. No Conflict. I represent, warrant and covenant that my performance of all the terms of this Agreement and the performance of my duties for the Company does not and will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my Engagement. I have not entered into, and I agree that I will not enter into, any agreement, either written or oral, in conflict herewith.

6. No Use of Confidential Information. I represent, warrant and covenant that I have not brought and will not bring with me to the Company or use in my Engagement any materials or documents of a former employer, or any person or entity for which I have acted as an independent contractor or consultant, that are not generally available to the public, unless I have obtained written authorization from any such former employer, person or firm for their possession and use. I understand and agree that, in my service to the Company, I am not to breach any obligation of confidentiality that I have to former employers or other persons.

7. Equitable Relief. I acknowledge that irreparable injury may result to the Company from my violation or continued violation of the terms of this Agreement and, in such event, I expressly agree that the Company shall be entitled, in addition to damages and any other remedies provided by law, to an injunction or other equitable remedy respecting such violation or continued violation by me.

8. Severability. If any provision of this Agreement shall be determined by any court of competent jurisdiction to be unenforceable or otherwise invalid as written, the same shall be enforced and validated to the extent permitted by law. All provisions of this Agreement are severable, and the unenforceability or invalidity of any single provision hereof shall not affect the remaining provisions.

9. Miscellaneous. This Agreement shall be governed by and construed under the laws of the State of New York applied to contracts made and performed wholly within such state. No implied waiver of any provision within this Agreement shall arise in the absence of a waiver in writing, and no waiver with respect to a specific circumstance, event or occasion shall be construed as a continuing waiver as to similar circumstances, events or occasions. This Agreement, together with the Advisory Board Agreement dated this date, contains the sole and entire agreement and understanding between the Company and myself with respect to the subject matter hereof and supersedes and replaces any prior agreements to the extent any such agreement is inconsistent herewith. This Agreement can be amended, modified, released or changed in whole or in part only by a written agreement executed by the Company and myself. This Agreement shall be binding upon me, my heirs, executors, assigns and administrators, and it shall inure to the benefit of the Company and each of its successors or assigns. This Agreement shall be effective as of the first day of my being retained to render services to the Company, even if such date precedes the date I sign this Agreement.

10. Thorough Understanding of Agreement. I have read all of this Agreement and understand it completely, and by my signature below I represent that this Agreement is the only statement made by or on behalf of the Company upon which I have relied in signing this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on the date written below.

DATED: March 2, 2004

Director:

Name: Michael Lax
Address: 1303 Ridge Road
Laurel Hollow, NY 11791

PHASE III MEDICAL, INC.

By:

Mark Weinreb, President

EXHIBIT 10.8
Zuckerman Board of Directors Agreement

Exhibit 10.8

PHASE III MEDICAL, INC.
330 South Service Road
Suite 120
Melville, New York 11747
631.574.4955
January 20, 2004

Joseph D. Zuckerman, M.D.
Professor and Chairman
NYU-Hospital for Joint Diseases
Department of Orthopaedic Surgery
301 East 17th Street
New York, New York 10003

Dear Dr. Zuckerman:

We are pleased to extend to you an invitation to become a Director of the Phase III Medical, Inc. (the "Company").

As you know, the Company is a public company that, among other items, is entering the medical sector by acquiring or participating in one or more biotechnology and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the general public and/or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom.

We are requesting that you serve as a Director for an initial term until our next annual meeting of shareholders. In consideration of your agreeing to accept the Directorship, you will be granted an option, fully vested, to purchase Three Hundred Thousand (300,000) shares of the Company's common stock at an exercise price of Fifteen (.15(cent)) 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 (10)

years and otherwise the grant will be in accordance with the Company's 2003 Equity Participation Plan and Non-Qualified Stock Option Grant Agreement.

In addition, in the event that the closing price of the Company's Common Shares equals or exceeds One Dollar ($1.00) per share for any five (5) consecutive trading days during your term as a Director, the Company shall grant you, on the day immediately following the end of the five (5) day period, pursuant to the Equity Participation Plan and a Stock Option Agreement, an option for the purchase of an additional One Hundred Thousand (100,000) Common Shares substantially upon the terms of the Initial Option and in the form of the Initial Option Agreement, except that the exercise price shall be $1.00 per share.

While a Director, you will be covered by the Company's D&O insurance policy and, to the extent permitted by law, will also be indemnified by the Company.

You will be responsible to attend Annual and Special Meetings of the Board of Directors (either in person or telephonically), to attend the Annual and/or Special Shareholder Meetings as necessary, to participate in appropriate committees and to generally assist 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 its business.

You acknowledge that, as member of the Board of Directors, you will have access to the Company's Confidential Information and that all Confidential Information shall be and remain the sole property of the Company and that you will not at any time, now or in the future, disclose, disseminate or otherwise make public any of the Confidential Information without the express written permission of the Company. We will ask you to sign a confidentiality agreement similar to that signed by our board of advisor members, attached hereto.

We are excited about your involvement with the Company and look forward to a long and mutually rewarding scientific and business relationship.

For our records, I would appreciate your countersigning the attached copy of this Engagement Agreement and returning the same to me at your earliest convenience.

Sincerely,

Mark Weinreb, President & CEO

Accepted and agreed to:

- ---------------------------
Joseph D. Zuckerman, M.D.

Phase III Medical, Inc.

Confidentiality, Proprietary Information
and Inventions Agreement

I recognize that Phase III Medical, Inc., a Delaware corporation (the "Company"), is engaged in a continuous program of entering the medical sector by acquiring or participating in one or more biotech and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the public, or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom (the "Business"). Any company with which the Company enters into, or seeks or considers entering into, a business relationship in furtherance of the Business is referred to as a "Business Partner".

I understand that as part of my performance of duties as a director of the Company (the "Engagement"), I will have access to confidential or proprietary information of the Company and the Business Partners, and I may make new contributions and inventions of value to the Company. I further understand that my Engagement creates in me a duty of trust and confidentiality to the Company with respect to any information: (1) related, applicable or useful to the business of the Company, including the Company's anticipated research and development or such activities of its Business Partners; (2) resulting from tasks performed by me for the Company; (3) resulting from the use of equipment, supplies or facilities owned, leased or contracted for by the Company; or (4) related, applicable or useful to the business of any partner, client or customer of the Company, which may be made known to me or learned by me during the period of my Engagement.

For purposes of this Agreement, the following definitions apply:

"Proprietary Information" shall mean information relating to the Business or the business of any Business Partner and generally unavailable to the public that has been created, discovered, developed or otherwise has become known to the Company or in which property rights have been assigned or otherwise conveyed to the Company or a Business Partner, which information has economic value or potential economic value to the business in which the Company is or will be engaged. Proprietary Information shall include, but not be limited to, trade secrets, processes, formulas, writings, data, know-how, negative know-how, improvements, discoveries, developments, designs, inventions, techniques, technical data, patent applications, customer and supplier lists, financial information, business plans or projections and any modifications or enhancements to any of the above.

"Inventions" shall mean all Business-related discoveries, developments, designs, improvements, inventions, formulas, software programs, processes, techniques, know-how, negative know-how, writings, graphics and other data, whether or not patentable or registrable under patent, copyright or similar statutes, that are related to or useful in the business or future business of the Company or its Business Partners or result from use of premises or other property owned, leased or contracted for by the Company. Without limiting the generality of the foregoing, Inventions shall also include anything related to the

Business that derives actual or potential economic value from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use.

As part of the consideration for my Engagement or continued Engagement, as the case may be, and the compensation received by me from the Company from time to time, I hereby agree as follows:

1. Proprietary Information and Inventions. All Proprietary Information and Inventions related to the Business shall be the sole property of the Company and its assigns, and the Company or its Business Partners, as the case may be, and their assigns shall be the sole owner of all patents, trademarks, service marks, copyrights and other rights (collectively referred to herein as "Rights") pertaining to Proprietary Information and Inventions. I hereby assign to the Company any rights I may have or acquire in Proprietary Information or Inventions or Rights pertaining to the Proprietary Information or Inventions which Rights arise in the course of my Engagement. I further agree as to all Proprietary Information or Inventions to which Rights arise in the course of my Engagement to assist the Company or any person designated by it in every proper way (but at the Company's expense) to obtain and from time to time enforce Rights relating to said Proprietary Information or Inventions in any and all countries. I will execute all documents for use in applying for, obtaining and enforcing such Rights in such Proprietary Information or Inventions as the Company may desire, together with any assignments thereof to the Company or persons designated by it. My obligation to assist the Company or any person designated by it in obtaining and enforcing Rights relating to Proprietary Information or Inventions shall continue beyond the cessation of my Engagement ("Cessation of my Engagement). In the event the Company is unable, after reasonable effort, to secure my signature on any document or documents needed to apply for or enforce any Right relating to Proprietary Information or to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agents and attorneys-in-fact to act for and in my behalf and stead in the execution and filing of any such application and in furthering the application for and enforcement of Rights with the same legal force and effect as if such acts were performed by me. I hereby acknowledge that all original works of authorship that are made by me (solely or jointly with others) within the scope of my Engagement and which are protectable by copyright are "works for hire" as that term is defined in the United States Copyright Act (17 USCA, Section 101).

2. Confidentiality. At all times, both during my Engagement and after the Cessation of my Engagement, whether the cessation is voluntary or involuntary, for any reason or no reason, or by disability, I will keep in strictest confidence and trust all Proprietary Information, and I will not disclose or use or permit the use or disclosure of any Proprietary Information or Rights pertaining to Proprietary Information, or anything related thereto, without the prior written consent of the Company, except as may be necessary in the ordinary course of performing my duties for the Company. I recognize that the Company has received and in the future will receive from third parties (including Business Partners) their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree that I owe the Company and such third parties (including Business Partners), during my Engagement and thereafter, a duty to hold all such confidential or proprietary information in the

strictest confidence, and I will not disclose or use or permit the use or disclosure of any such confidential or proprietary information without the prior written consent of the Company, except as may be necessary in the ordinary course of performing my duties for the Company consistent with the Company's agreement with such third party.

3. Noncompetition and Nonsolicitation. During my Engagement, and for a period of two (2) years after the Cessation of my Engagement, I will not directly or indirectly, whether alone or in concert with others or as a partner, officer, director, consultant, agent, employee or stockholder of any company or commercial enterprise, directly or indirectly, engage in any activity in the United States or Canada that the Company shall determine in good faith is or may be in competition with the Company concerning its work in the Business. During my Engagement and for a period of two (2) years after the Cessation of my Engagement, I will not, either directly or indirectly, either alone or in concert with others, solicit or encourage any employee of or consultant to the Company to leave the Company or engage directly or indirectly in competition with the Company in the Business. During my Engagement and for a period of two (2) years after the Cessation of my Engagement, I agree not to plan or otherwise take any preliminary steps, either alone or in concert with others, to set up or engage in any business enterprise that would be in competition with the Company in the Business. The following shall not be deemed to be competitive with the Company: (i) my ownership of stock, partnership interests or other securities of any entity not in excess of two percent (2%) of any class of such interests or securities which is publicly traded; and (ii) my continued research engagements for academic institutions.

4. Delivery of Company Property and Work Product. In the event of the Cessation of my Engagement, I will deliver to the Company all biological materials, devices, records, sketches, reports, memoranda, notes, proposals, lists, correspondence, equipment, documents, photographs, photostats, negatives, undeveloped film, drawings, specifications, tape recordings or other electronic recordings, programs, data and other materials or property of any nature belonging to the Company or its clients or customers, and I will not take with me, or allow a third party to take, any of the foregoing or any reproduction of any of the foregoing.

5. No Conflict. I represent, warrant and covenant that my performance of all the terms of this Agreement and the performance of my duties for the Company does not and will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my Engagement. I have not entered into, and I agree that I will not enter into, any agreement, either written or oral, in conflict herewith.

6. No Use of Confidential Information. I represent, warrant and covenant that I have not brought and will not bring with me to the Company or use in my Engagement any materials or documents of a former employer, or any person or entity for which I have acted as an independent contractor or consultant, that are not generally available to the public, unless I have obtained written authorization from any such former employer, person or firm for their possession and use. I understand and agree that, in my service to the Company, I am not to breach any obligation of confidentiality that I have to former employers or other persons.

7. Equitable Relief. I acknowledge that irreparable injury may result to the Company from my violation or continued violation of the terms of this Agreement and, in such event, I expressly agree that the Company shall be entitled, in addition to damages and any other remedies provided by law, to an injunction or other equitable remedy respecting such violation or continued violation by me.

8. Severability. If any provision of this Agreement shall be determined by any court of competent jurisdiction to be unenforceable or otherwise invalid as written, the same shall be enforced and validated to the extent permitted by law. All provisions of this Agreement are severable, and the unenforceability or invalidity of any single provision hereof shall not affect the remaining provisions.

9. Miscellaneous. This Agreement shall be governed by and construed under the laws of the State of New York applied to contracts made and performed wholly within such state. No implied waiver of any provision within this Agreement shall arise in the absence of a waiver in writing, and no waiver with respect to a specific circumstance, event or occasion shall be construed as a continuing waiver as to similar circumstances, events or occasions. This Agreement, together with the Advisory Board Agreement dated this date, contains the sole and entire agreement and understanding between the Company and myself with respect to the subject matter hereof and supersedes and replaces any prior agreements to the extent any such agreement is inconsistent herewith. This Agreement can be amended, modified, released or changed in whole or in part only by a written agreement executed by the Company and myself. This Agreement shall be binding upon me, my heirs, executors, assigns and administrators, and it shall inure to the benefit of the Company and each of its successors or assigns. This Agreement shall be effective as of the first day of my being retained to render services to the Company, even if such date precedes the date I sign this Agreement.

10. Thorough Understanding of Agreement. I have read all of this Agreement and understand it completely, and by my signature below I represent that this Agreement is the only statement made by or on behalf of the Company upon which I have relied in signing this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on the date written below.

DATED: January 20, 2004

Director:

Name: Joseph D. Zuckerman, M.D.
Address:
NYU-Hospital for Joint Diseases
Department of Orthopaedic Surgery
301 East 17th Street
New York, New York 10003

PHASE III MEDICAL, INC.

By:

Mark Weinreb, President

~

EXHIBIT 31.1
302 Certification

Exhibit 31.1

CERTIFICATION

I, Mark Weinreb, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's board of directors 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 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 report based on such evaluation; and

(c) Disclosed in this 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; and

5. The registrant's board of directors and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: March 31, 2005

/s/ Mark Weinreb

Mark Weinreb
Chief Executive Officer

EXHIBIT 32.1

906 Certification

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 annual report of Phase III Medical, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission (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) 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 results of operations of the Company for the periods presented.

Dated: March 31, 2005

/s/ Mark Weinreb

Mark Weinreb
Chief Executive Officer

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.