

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934Date of Report (Date of earliest event reported):
January 19, 2006

PHASE III MEDICAL, INC.

(Exact name of registrant as specified in its charter)DELAWARE

(State or other jurisdiction of incorporation)

0-10909

22-2343568

Commission File Number-----
IRS Employer
Identification No.330 SOUTH SERVICE ROAD, SUITE 120, MELVILLE, NEW YORK
(Address of principal executive offices)11747
(Zip Code)631.574.4955
Registrant's Telephone Number-----
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below): N/A

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

GENERAL.

On January 19, 2006, Phase III Medical, Inc. ("Phase III" or the "Company") consummated its acquisition of the assets of NeoStem, Inc. ("NeoStem"), a California corporation. The purchased assets were those relating to NeoStem's business of collecting and storing adult stem cells. The purchase price for NeoStem's assets consisted of 5 million shares of the Company's common stock, plus the assumption of certain enumerated liabilities of NeoStem and liabilities under assumed contracts. Of the stock consideration, 60% (or 3 million shares) will be retained in escrow for a period of one (1) year subject to certain indemnification claims. The assumed liabilities of NeoStem as of the Closing Date, including accounts payable and accrued liabilities, professional fees incurred in the acquisition and capitalized lease obligations, were approximately \$465,000, of which holders agreed to the satisfaction of approximately \$82,000 of such liabilities by the issuance of an additional 2,012,225 shares of the Company's Common Stock. The amount of the consideration paid pursuant to the Agreement was determined based on arms length negotiations between the parties. The shares issued to NeoStem are subject to certain piggyback registration rights. A copy of the Asset Purchase Agreement dated December 6, 2005 among the Company, its wholly-owned subsidiary, Phase III Medical Holding Company and NeoStem was annexed to the Company's Current Report on Form 8-K filed on December 12, 2005.

Effective with the acquisition, the business of the Company has changed, so that the business of NeoStem now will be the principal business of the Company. The Company will attempt to utilize the combined Phase III and NeoStem management teams to develop and expand NeoStem's adult stem cell processing and storage business, instead of its historic business of providing capital and business guidance to companies in the healthcare and life science industries.

BUSINESS.

NeoStem, Inc. (hereinafter referred to as "NeoStem") was incorporated in California on July 12, 2002 under the name Second Chance Stem Cells, Inc. NeoStem was known as Second Chance Stem Cells, Inc. until it changed its name on November 22, 2002, to NeoStem, Inc. From its inception through September 30, 2005, NeoStem was engaged in the sale of adult stem cell banking services and medical imaging products.

In October, 2003 NeoStem leased, for 15 months, laboratory space in a research facility at Cedars Sinai Hospital in Los Angeles, CA. and

entered into a services agreement with Apheresis Services of Southern California, Inc. to provide adult stem cell collection services. In December, 2003 NeoStem purchased approximately \$120,000 of equipment in the form of capital leases to outfit its laboratory for processing, cryopreservation and storage of adult stem cells. In May, 2004, after a validation process and inspection and approval by the State of California, NeoStem received a biologics license and commenced commercial operations. As such, NeoStem was no longer considered to be a development stage Company. In January, 2005 NeoStem moved its adult stem cell processing and storage facility to Good Samaritan Hospital because its lease at Cedars Sinai Hospital was not renewed. NeoStem was compelled to cease operations because it did not have sufficient assets to complete the revalidation of the laboratory at Good Samaritan Hospital and NeoStem's biologics license was suspended. In October, 2005 NeoStem has restarted the validation of the laboratory at Good Samaritan Hospital and is currently seeking a new biologics license from the State of California.

NeoStem has nominal operations and nominal assets at this time, so that, after consummation of the asset purchase, the Company remains a "shell company", as that term is defined in Rule 12b-2 under the Exchange Act. From inception through September 30, 2005, NeoStem had aggregate revenues of \$25,500, and aggregate losses of \$2,357,940. At September 30, 2005, NeoStem had negative working capital of \$277,308 and negative stockholders equity of \$269,493.

NeoStem is attempting to pioneer the pre-disease collection, processing and storage of adult stem cells for present and future medical treatment. (The adult stem cell industry is a field independent of embryonic stem cell research. "Autologous" refers to tissue transfers where the donor and the recipient are the same.) In the future, it hopes to also become involved in therapeutic applications for future healthcare needs. NeoStem provides adult stem cell processing, collection and banking services, with the goal of making stem cell collection and storage widely available, so that the general population will have the opportunity to store their own stem cells for future healthcare needs.

Phase III will attempt to develop this business into a leader in the adult stem cell field and to capitalize on the increasing importance the Company believes adult stem cells will play in the future of regenerative medicine. The use of adult stem cells as a treatment option for those who develop heart disease, certain types of cancer and other critical health problems is a burgeoning area of clinical research today.

PRIOR RELATIONSHIPS. On September 9, 2005, the Company signed a revenue sharing agreement with NeoStem. The Company had agreed to fund NeoStem up to \$20,000 initially to pay certain expenses which the Company had the right to approve or not to approve prior to funding. The Company had agreed to fund NeoStem based on a formula relating to the Company's ability to raise capital. Once funded, NeoStem would pay the Company monthly based on the revenue generated in the previous month with a minimum payment due each month. That agreement was terminated as a result of the NeoStem acquisition.

On March 31, 2004, the Company entered into a joint venture agreement to assist NeoStem in finding uses of and customers for NeoStem's services and/or technology. The Company's initial efforts concentrated on developing programs utilizing NeoStem's services and/or technology through the Department of Homeland Security and/or other government agencies. That agreement was terminated as a result of the NeoStem acquisition.

EMPLOYEES. As of December 31, 2005, NeoStem had 3 employees. Of those individuals, 2 will remain with the Company.

PROPERTIES. In January 2005, NeoStem began leasing space at Good Samaritan Hospital in Los Angeles, California at an annual rental of approximately \$26,000 for use as its stem cell processing and storage facility. The lease expired on December 31, 2005, but NeoStem continues to occupy the space on a month-to-month basis. This space will be sufficient for the Company's needs in the short term and the Company is in the process of negotiating a new lease for the facility with the landlord. If such negotiations are unsuccessful, the Company believes that it will be able to find a suitable alternative location.

NeoStem also leases office space on a month-to-month basis from Symbion Research International at a monthly rental of \$1,687.

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, following the closing as of January 19, 2006, by (i) each beneficial owner of more than five percent of the outstanding Common Stock, (ii) each officer and director and (iii) all 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.

Name and Address of Beneficial Holder (1)	Number of Shares Beneficially Owned (2)	Percentage of Common Stock Beneficially Owned (2)
Mark Weinreb President, Chief Executive Officer and Director	8,185,000 (3)	9.62%
Dr. Wayne Marasco Senior Scientific Advisor and Director	3,608,333 (4)	4.48%
Dr. Joseph Zuckerman Director	2,135,000(5)	2.67%
Catherine M. Vaczy Executive Vice President and General Counsel	5,906,488(6)	7.52%
Dr. Armando Munoz Caribbean Stem Cell Group, Inc. Box 800982-00780-0982 Cotto Laurel, Puerto Rico 00780	9,791,666(7)	11.99%
Robert Aholt, Jr 20128 Cavern Court Saugus, Los Angeles, CA 91390	12,652,230(8)	15.91%
Larry A. May, Officer	496,148(9)	<1%
Denis Rodgerson, Officer	675,227(10)	<1%
Joel San Antonio 56 North Stanwich Road Greenwich, CT 06831	3,752,500(11)	4.78%
NeoStem, Inc. 29219 Canwood Street Suite 100 Agoura Hills, CA 91301	5,000,000	6.37%
All Directors and Officers as a group (seven persons)	33,658,426(12)	37.37%

1. Unless otherwise noted, each stockholder's address is in care of Phase III Medical, Inc., 330 South Service Road, Suite 120, Melville, New York 11747.
2. The percentage of Common Stock owned by each stockholder is calculated by dividing (i) the number of shares deemed to be beneficially owned by such stockholder as of January 19, 2006, as determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by (ii) the sum of (A) 78,533,587 which is the number of shares of Common Stock outstanding as of January 1, 2006, plus (B) the number of shares of Common Stock issuable upon exercise of currently exercisable options and warrants held by such stockholder. For purposes of this security ownership table, "currently exercisable options and warrants" consist of options and warrants exercisable as of January 19, 2006 or within 60 days after January 19, 2006. Except as indicated by footnote, the stockholder has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such stockholder.
3. Includes currently exercisable options to purchase 4,550,000 shares of Common Stock; 3,000,000 shares of restricted Common Stock, vested as to 1,000,000 shares.
4. Includes currently exercisable options to purchase 2,025,000 shares of Common Stock.
5. Includes currently exercisable options to purchase 1,350,000 shares of Common Stock.
6. Includes currently exercisable options to purchase 200,000 shares of Common Stock.
7. Includes 6,250,000 shares of Common Stock held by Caribbean Stem Cell Group, Inc. of which Dr. Munoz is President and a currently exercisable Warrant to purchase 3,125,000 shares of Common Stock expiring on January 31, 2006 held by Caribbean Stem Cell Group.
8. Includes 7,282,913 shares of Common Stock owned by the Robert J. Aholt, Jr. Family Trust dated 2/17/97 of which Mr. Aholt is Trustee and currently exercisable options to purchase 1,000,000 shares of Common Stock.
9. Includes currently exercisable options to purchase 400,000 shares of Common Stock. Does not include shares to which Mr. May is entitled to have distributed to him in connection with the Registrant's issuance to NeoStem of 5,000,000 shares of its Common Stock pursuant to the Registrant's purchase of NeoStem's assets.
10. Does not include shares to which Dr. Rodgerson is entitled to have distributed to him in connection with the Registrant's issuance to NeoStem of 5,000,000 shares of its Common Stock pursuant to the Registrant's purchase of NeoStem's assets.
11. This information was obtained from the records of the Company's stock transfer agent.
12. Includes currently exercisable options to purchase 9,525,000 shares of Common Stock.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

On November 20, 2005, the Company issued to an employee an aggregate of 60,000 shares of its restricted Common Stock in payment of an aggregate of \$3,000 in accrued salary.

On January 19, 2006, the Company effected the issuance of the shares of Common Stock in connection with the purchase of the NeoStem assets described in Item 2.01 above.

On December 1, 2005, the Company issued to its investor relations consultant 16,666 shares of unregistered Common Stock pursuant to the terms of its consulting agreement in partial consideration for services thereunder.

On December 22, 2005, the Company issued to its Executive Vice President and General Counsel an aggregate of 416,666 shares of its restricted Common Stock in payment of an aggregate of \$25,000 in accrued salary.

Effective as of each of January 10, 2006 and January 11, 2006, respectively, the Company effected the exchange (the "Exchange") of an aggregate of \$45,000 in outstanding indebtedness of the Company represented by certain promissory notes (the "Notes") for an aggregate of 765,000 shares of restricted Common Stock of the Company. The rate at which the Notes were exchanged for shares of Common Stock was 17,000 shares of Common Stock for every \$1,000 of indebtedness represented by the Notes.

The offer and sale by the Company of the securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for transactions by an issuer not involving a public offering except that the offer and sale by the Company of the securities described in paragraph three of this Item 3.02 above were made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act for exchange offers. The offer and sale of such securities were made without general solicitation or advertising and no commissions were paid.

5.02 DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS' APPOINTMENT OF PRINCIPAL OFFICERS.

(a) On January 20, 2006, Robert Aholt tendered his resignation as chief operating officer of the Company effective February 19, 2006.

(b) In connection with the NeoStem acquisition, Larry A. May joined the Company as an officer. Mr. May, the former Treasurer of Amgen (one of the world's largest biotechnology companies), initially joined Phase III Medical to assist with licensing activities in September 2003. For the last 20 years, Mr. May has worked in the areas of life science and biotechnology. From 1983 to 1998, Mr. May worked for Amgen as Corporate Controller (1983 to 1988), Vice President/Corporate Controller/Chief Accounting Officer (1988 to 1997), and Vice President/Treasurer (1997 to 1998). At Amgen, Mr. May helped build its accounting, finance and IT organizations. From 1998 to 2000, Mr. May served as the Senior Vice President, Finance & Chief Financial Officer of Biosource International, Inc., a provider of biologic research reagents and assays. From 2000 to May 2003, Mr. May served as the Chief Financial Officer of Saronyx, Inc., a company focused on developing productivity tools and secure communication systems for research scientists. From August 2003 to present, Mr. May served as the Chief Executive Officer and Chief Financial Officer of NeoStem. Mr. May received a Bachelor of Science degree in Business Administration & Accounting in 1971 from the University of Missouri.

(c) In connection with the NeoStem acquisition, Denis Rodgerson, Ph.D. joined Phase III as an officer of the Company. Dr. Rodgerson, one of the original founders of NeoStem, has over 36 years experience managing large tertiary care and reference clinical laboratories with many patents and articles to his credit. Prior to joining NeoStem, he co-founded StemCyte, and oversaw the company to the world's second largest umbilical cord stem cell bank with multinational collection centers. His career has included being the Vice-Chairman and Professor of the Department of Pathology and Laboratory Medicine at the University of California Los Angeles ("UCLA") and Director of Pediatric Laboratories and Analytical Toxicology Service at the University of Colorado. At UCLA, where he was the Head of Clinical Chemistry and Toxicology and Clinical Laboratory Computing, he was in charge of a laboratory and administrative staff of more than 300 with an annual operating budget of \$12 million and revenues of \$60 million.

Prior to UCLA, he held the positions of Director of Pediatric Laboratories and Analytical Toxicology Service at the University of Colorado for 12 years. He is a Fellow of the Association of Clinical Scientists and Institute of Medical Laboratory Science. As a long-standing member of the American Association for Clinical Chemistry, he served on its Board of Directors and was the Chairman of the 1969 National Meeting and many other committees. The committees that he has served on at UCLA and the University of California system-wide, include serving as the Director of the Office of Industry Relations, Chairman of the System-wide Library Committee, member of the System-wide Committee on Information Transfer and Technology Policy and the President's Task-Force on the California Digital Library. Dr. Rodgerson has published more than 150 articles in the medical and scientific literature. He has held consulting positions for many institutions and corporations, including NASA, National Bureau of Standards, Hewlett Packard, Beckman Instruments, Hybridtech, Boehringer-Mannheim Corporation, 3M Company, Warren-Teed Pharmaceuticals, Micromedic Systems, Ortho Diagnostics, National Health Laboratories, Consolidated Biomedical Laboratories, Bio-Dynamics, Inc., Fisher Scientific, E. I. DuPont de Nemours, Ciba Pharmaceuticals, DNA Technology, and Diagnostic Products Corporation. Dr. Rodgerson received his M.S. and Ph.D. from the University of Colorado.

In connection with the Company's acquisition of the assets of NeoStem on January 19, 2006, the Company entered into employment agreements with each of Larry A. May and Denis O. Rodgerson. Mr. May is the former Chief Executive Officer and Dr. Rodgerson is one of the founders of NeoStem. Pursuant to Mr. May's employment agreement, he is to serve as an officer of the Company reporting to the CEO for a term of three years, subject to earlier termination as provided in the agreement. In return, Mr. May will be paid an annual salary of \$165,000, payable in accordance with the Company's standard payroll practices, will be entitled to participate in the Company's benefit plans generally available to other executives, including a car allowance equal to \$750 per month and was granted on his commencement date an employee stock option under the Company's Equity Purchase Plan ("EPP") to purchase 150,000 shares of the Company's Common Stock at a per share purchase price equal to \$.05, the closing price of the Common Stock on the commencement date, which vests as to 50,000 shares of Common Stock on the first, second and third anniversaries of the commencement date. Under certain circumstances, Mr. May is also entitled to a severance payment equal to one year's salary in the event of the early termination of his employment.

Dr. Rodgerson's employment agreement is identical to Mr. May's employment agreement, except that (i) its term is one year; (ii) he was granted an option to purchase 50,000 shares of Common Stock under the EPP vesting in its entirety after one year; and (iii) his agreement does not contain a provision for severance.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Form 8-K constitute "forward-looking statements" within the meaning of the Private Securities Litigation reform Act of 1995, including statements concerning the Company's ability to develop the adult stem cell business, the future of regenerative medicine and the role of adult stem cells in that future, the future use of adult stem cells as a treatment option and the potential revenue growth of NeoStem's business. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Phase III Medical, Inc. ("the Company"), or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The Company's ability to enter the adult stem cell arena and future operating results are dependent upon many factors, including but not limited to (i) the Company's ability to obtain sufficient capital or a strategic business arrangement to fund its expansion plans; (ii) the Company's ability to build the management and human resources and infrastructure necessary to support the growth of its business; (iii) competitive factors and developments beyond the Company's control; (iv) scientific and medical developments beyond the Company's control; and (v) other risk factors discussed in the Company's periodic filings with the Securities and Exchange Commission which are available for review at WWW.SEC.GOV under "Search for Company Filings."

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

- (i) Report of Independent Registered Public Accounting Firm
- (ii) Balance Sheets at December 31, 2004 and 2003 and September 30, 2005 (unaudited)
- (iii) Statements of Operations for Years Ended December 31, 2004, 2003 and 2002 and nine months ended and September 30, 2005 (unaudited) and 2004 (unaudited)
- (iv) Statements of Stockholders' Deficit for Years Ended December 31, 2004, 2003 and 2002 and nine months ended September 30, 2005 (unaudited) and 2004 (unaudited)
- (v) Statements of Cash Flows for Years Ended December 31, 2004, 2003 and 2002 and nine months ended September 30, 2005 (unaudited) and 2004 (unaudited)
- (vi) Notes to Financial Statements

(b) PRO FORMA FINANCIAL INFORMATION

- (i) Phase III Medical, Inc. Proforma Consolidated Balance Sheet as of September 30, 2005
- (ii) Phase III Medical, Inc. Proforma Consolidated Statement of Operations Nine Months Ended September 30, 2005
- (iii) Phase III Medical, Inc. Proforma Consolidated Statement of Operations Year Ended December 31, 2004

(c) EXHIBITS

Exhibit 10.1. Employment Agreement between the Company and Larry A. May dated January 19, 2006

Exhibit 10.2 Employment Agreement between the Company and Denis O. Rodgeron dated January 19, 2006

SIGNATURE

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

PHASE III MEDICAL, INC.

By: /S/MARK WEINREB

Mark Weinreb
President and CEO

Dated: January 25, 2006

NEOSTEM, INC.

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Section 1. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

NeoStem, Inc.

We have audited the accompanying balance sheets of NeoStem, Inc. as of December 31, 2004 and 2003 and the related statements of operations, stockholders' deficit and cash flows for each of the years in the three-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 NeoStem, Inc. as of December 31, 2004 and 2003 and the results of its operations and cash flows for each of the years in the three 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
January 18, 2006

NeoStem, Inc.
Balance Sheets

	December 31,		September 30,
	2004	2003	2005
Assets			(Unaudited)
Current Assets:			
Cash and cash equivalents	\$ 3,687	\$ 162,426	\$ 95
Prepaid expenses and other current assets	2,500	13,056	--
Total Current Assets	6,187	175,482	95
Property and Equipment, net	110,371	94,184	91,108
Other Assets	5,500	5,400	5,500
	\$ 122,058	\$ 275,066	\$ 96,703
Liabilities and Stockholders' Deficit			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 52,192	\$ 24,016	\$ 250,113
Interest and dividends payable - preferred stock	33,202	--	--
Convertible debentures and accrued interest	--	261,287	--
Capitalized lease obligations - current portion	25,310	--	27,290
Total Current Liabilities	110,704	285,303	277,403
Capitalized Lease Obligations - long term portion	101,419	92,893	88,793
Commitments and Contingencies			
Stockholders' Deficit:			
Preferred stock, 20,000,000 authorized Series A preferred stock, par value \$.01 7% non-cumulative dividend; authorized 2,250,000 shares; issued and outstanding 2,019,298 at September 30, 2005, 1,755,000 at December 31, 2004 and -0- shares at December 31, 2003	355,000	--	403,859
Common Stock, \$.01 par value; authorized, 30,000,000 shares; issued and outstanding, 12,221,973 at September 30, 2005, 8,587,187 at December 31, 2004 and 8,102,167 shares at December 31, 2003	85,872	81,022	122,220
Additional Paid-in Capital	482,832	276,520	1,562,368
Stock Subscription Receivable	--	(43,000)	--
Accumulated Deficit	(1,013,769)	(417,672)	(2,357,940)
Total Stockholders' Deficit	(90,065)	(103,130)	(269,493)
Total Liabilities and Stockholders' Deficit	\$ 122,058	\$ 275,066	\$ 96,703

The accompanying notes are an integral part of these financial statements

NeoStem, Inc.

Statements of Operations

	Years Ended December 31,			Nine Months Ended September 30,	
	2004	2003	2002	2005 (Unaudited)	2004 (Unaudited)
Revenues	\$ 25,050	\$ --	\$ --	\$ 450	\$ 16,825
Direct Costs	(53,302)	--	--	(374,871)	(144,962)
Gross Profit (Loss)	(28,252)	--	--	(374,421)	(128,137)
Selling, general and administrative	(500,588)	(356,523)	(3,504)	(936,089)	(265,128)
Operating loss	(528,840)	(356,523)	(3,504)	(1,310,510)	(393,265)
Other income (expense):					
Interest expense	(67,257)	(57,625)	(20)	(33,661)	(34,941)
	(596,097)	(414,148)	(3,524)	(1,344,171)	(428,206)
Provision for income taxes	--	--	--	--	--
Net Loss	\$ (596,097)	\$ (414,148)	\$ (3,524)	\$ (1,344,171)	\$ (428,206)
Net Loss Per Common Share	\$ (0.07)	\$ (0.06)	\$ (0.00)	\$ (0.13)	\$ (0.05)
Weighted Average Common Shares Outstanding	8,344,677	7,051,084	3,000,000	10,404,580	8,157,007

The accompanying notes are an integral part of these financial statements

NeoStem, Inc.

Statements of Stockholders' Deficit

	Preferred Stock		Common Stock		Additional Paid In Capital	Stock Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at July 12, 2002		\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
Sales of common stock			6,000,000	60,000	60,000	(118,000)	-	2,000
Net loss							(3,524)	(3,524)
Balance at December 31, 2002			6,000,000	60,000	60,000	(118,000)	(3,524)	(1,524)
Sales of common stock			1,426,667	14,267	38,533			52,800
Collection of stock subscription receivable						75,000		75,000
Issuance of common stock for services			675,000	6,755	21,992			28,747
Issuance of common stock warrants as additional interest					49,795			49,795
Issuance of common stock warrants for services					106,200			106,200
Net loss							(414,148)	(414,148)
Balance at December 31, 2003			8,102,167	81,022	276,520	(43,000)	(417,672)	(103,130)
Sales of common stock			106,000	1,060	20,140			21,200
Issuance of preferred stock upon conversion of debt	1,755,000	355,000						355,000
Collection of stock subscription receivable						43,000		43,000
Exercise of common stock warrants			160,000	1,600	3,200			4,800
Issuance of common stock warrants as additional interest					19,527			19,527
Issuance of common stock warrants for services					19,145			19,145
Issuance of common stock for services			219,020	2,190	144,300			146,490
Net loss							(596,097)	(596,097)
Balance at December 31, 2004	1,755,000	355,000	8,587,187	85,872	482,832	-	(1,013,769)	(90,065)
Sales of common stock			15,000	150	2,850			3,000
Issuance of common stock for services			3,619,786	36,198	1,076,686			1,112,884
Issuance of preferred stock upon conversion of accrued interest	264,298	48,859						48,859
Net loss							(1,344,171)	(1,344,171)
Balance at September 30, 2005 (unaudited)	2,019,298	\$403,859	12,221,973	\$122,220	\$ 1,562,368	\$ -	(2,357,940)	(269,493)

The accompanying notes are an integral part of these financial statements

NeoStem, Inc.

Statements of Cash Flows

	Years Ended December 31,			Nine Months Ended September 30,	
	2004	2003	2002	2005 (Unaudited)	2004 (Unaudited)
Cash Flows from Operating Activities:					
Net loss	\$ (596,097)	\$ (414,148)	\$ (3,524)	\$(1,344,171)	\$ (428,206)
Adjustments to reconcile net loss to net cash used in operating activities:					
Common stock issued as payment for services rendered	146,490	28,747	--	1,112,884	84,160
Common stock warrants issued as payment for interest	19,527	49,795	--	--	19,527
Common stock warrants issued as payment for services rendered	19,145	106,200	--	--	13,287
Depreciation	24,292	514	--	19,263	16,971
Changes in operating assets and liabilities :					
Prepaid expenses and other current assets	10,556	(13,056)	--	2,500	8,382
Other assets	(100)	(5,400)	--	--	--
Accounts payable, accrued expenses and other current liabilities	64,399	29,071	2,000	208,726	21,287
Net Cash Used in Operating Activities	(311,788)	(218,277)	(1,524)	(798)	(264,592)
Cash Flows from Investing Activities:					
Acquisition of property and equipment	(13,723)	(2,573)	--	--	(13,723)
Net Cash Used in Investing Activities	(13,723)	(2,573)	--	--	(13,723)
Cash Flows from Financing Activities:					
Net proceeds from issuance of capital stock	21,200	52,800	2,000	3,000	--
Net proceeds from exercise of warrants	4,800	--	--	--	--
Proceeds from stock subscription receivable	43,000	75,000	--	--	22,000
Principal payments on capitalized leases	(2,228)	--	(5,794)	--	--
Net proceeds from sales of convertible debt	100,000	255,000	--	--	100,000
Net Cash Provided by (Used In) Financing Activities	166,772	382,800	2,000	(2,794)	122,000
Net (Decrease) Increase in Cash and Cash Equivalents	(158,739)	161,950	476	(3,592)	(156,315)
Cash and Cash Equivalents, beginning of period	162,426	476	--	3,687	162,426
Cash and Cash Equivalents, end of period	\$ 3,687	\$ 162,426	\$ 476	\$ 95	\$ 6,111

The accompanying notes are an integral part of these financial statements

NeoStem, 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	\$ 22,575	\$ 1,543	\$ 20
	=====	=====	=====
Supplemental schedule of non-cash investing and financing activities			
Issuance of common stock for services rendered	\$146,490	\$ 28,747	\$-
	=====	=====	=====

The Company entered into two capital lease obligations of approximately \$27,000 and one capital lease obligation of approximately \$91,000 during the years ended December 31, 2004 and 2003, respectively, for the purchase of laboratory equipment.

On August 31, 2004, convertible notes in the amount of \$355,000 were converted into 1,755,000 shares of Series A preferred stock.

The accompanying notes are an integral part of these financial statements

NOTE 1 - THE COMPANY

NeoStem, Inc. (hereinafter referred to as the "Company") was incorporated in California on July 12, 2002 under the name Second Chance Stem Cells, Inc. The Company was known as Second Chance Stem Cells, Inc. until it changed its name on November 22, 2002, to NeoStem, Inc. From its inception through September 30, 2005, the Company was engaged in the sale of adult stem cell processing and banking services and medical imaging products.

In October, 2003 the Company leased, for 15 months, laboratory space in a research facility at Cedars Sinai Hospital in Los Angeles, CA. and entered into a services agreement with Apheresis Services of Southern California, Inc. to provide adult stem cell collection services. In December, 2003 the Company purchased approximately \$120,000 of equipment in the form of capital leases to outfit its laboratory for processing, cryopreservation and storage of adult stem cells. In May, 2004, after a validation process and inspection and approval by the State of California, the Company received a biologics license and commenced commercial operations. As such, the Company is no longer considered to be a development stage Company. In January, 2005 the Company moved its adult stem cell processing and storage facility to Good Samaritan Hospital because its lease at Cedars Sinai Hospital was not renewed. The Company was compelled to cease operations because it did not have sufficient assets to complete the revalidation of the laboratory at Good Samaritan Hospital and the Company's biologics license was suspended. In October, 2005 the Company has restarted the validation of the laboratory at Good Samaritan Hospital and is currently seeking a new biologics license from the State of California.

In September 2005, the Company entered into a financing agreement with Phase III Medical, Inc. that called for Phase III Medical to invest \$500,000 in exchange for a royalty on future sales.

At September 30, 2005, the Company had a cash balance of \$95, deficit working capital of \$277,308 and a stockholders' deficit of \$269,493. In addition, the Company sustained losses of \$1,344,171, \$ 596,097 and \$ 414,448 for the nine months ended September 30, 2005 and the two fiscal years ended December 31, 2004 and 2003 respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. The financial statements of the Company do not reflect any adjustments relating to the doubt of its ability to continue as a going concern.

On December 7, 2005, the Company signed an agreement to sell its business and operations to Phase III Medical, Inc. ("Phase III") for a purchase price of \$350,000 which will be financed through the issuance of 5,000,000 shares of common stock of Phase III.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The Company's principal financial instruments consist of its note payable and capitalized lease obligations. The Company believes that the carrying amount of the note payable approximates the fair value as the interest rates approximate the current prevailing interest rate. The fair value of the capitalized lease obligations was estimated using a discounted cash flow analysis, based on the Company's assumed incremental borrowing rates for similar types of borrowing arrangements. The carrying amount for the capitalized lease obligations approximates fair value.

STOCK BASED COMPENSATION - The fair value of warrants or stock exchanged for services from non employees is expensed over the period benefited. The warrants are valued using the Black-Scholes option-pricing model.

CASH EQUIVALENTS: Short-term cash investments, which have a maturity of ninety days or less when purchased, are considered cash equivalents in the 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 5 years. Depreciation is computed on the straight-line method. Repairs and maintenance expenditures that do not extend original asset lives are charged to expense as incurred.

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

COMPREHENSIVE INCOME (LOSS): 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.

NET (LOSS) INCOME PER COMMON SHARE: The basic net (loss) income per share is computed using weighted average number of common shares outstanding for the applicable period. The dilutive (loss) income per share is computed using the weighted average number of common shares plus common shares plus common equivalent shares outstanding, except if the effect on the per share amounts, including equivalents, would be anti-dilutive.

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.

ADVERTISING POLICY: All expenditures for advertising are charged against operations as incurred. Advertising costs amounted to \$2,270, \$8,489, \$12,674, \$0 and \$0 for the nine months ended September 30, 2005 and 2004, and for the years ended December 31, 2004, 2003, and 2002 respectively.

REVENUE RECOGNITION: The Company recognizes revenue upon completion of the stem cell collection service equally over the annual period for the banking of the collected stem cells.

INTERIM FINANCIAL STATEMENTS - The unaudited financial statements for the nine months ended September 30, 2005 and 2004 reflect all adjustments, consisting only of normal recurring accruals which are in the opinion of management necessary for fair statement of the results for the period. The results of operations are not necessarily indicative of the results expected for the fiscal year.

NOTE 3 - PROPERTY AND EQUIPMENT

The summary of the Company's property and equipment is as follows:

	December 31, 2004	2003	September 30, 2005
	-----	-----	-----
Office equipment	\$ 18,293	\$ 2,572	\$ 18,293
Laboratory equipment	4,758	-	4,758
Laboratory equipment under capitalized leases	112,126	92,126	112,126
	-----	-----	-----
	135,177	94,698	135,177
Less: accumulated depreciation	(24,806)	(514)	(44,069)
	-----	-----	-----
Property and equipment - net	\$ 110,371	\$ 94,184	\$ 91,108
	=====	=====	=====

Included in laboratory equipment are certain assets having a gross value of approximately \$118,000 and accumulated depreciation of \$20,000 leased under capital leases.

NOTE 4 - CONVERTIBLE DEBENTURES

Commencing in July 2003 through December 2003, the Company sold convertible promissory notes resulting in total proceeds to the Company of \$255,000. The notes accrued interest at 7% per annum and were convertible into Series A Preferred Stock at the earlier of the completion of an aggregate of equity financing in the amount of \$1,000,000 or August 31, 2004. The conversion would occur at the same rate as the equity financing or \$.20 per share on August 31, 2004. In 2004, the Company sold an additional \$100,000 of convertible debentures. On August 31, 2004, convertible notes in the amount of \$355,000 were converted to 1,775,000 shares of Series A Preferred Stock. On June 30, 2005, the accrued interest on the convertible debt in the amount of \$48,859 was converted to 244,145 shares of Series A Preferred Stock in lieu of payment.

NOTE 5 - CAPITALIZED LEASE OBLIGATIONS

The Company purchased laboratory equipment under two capitalized leases (See Note 3). The depreciation expense recorded in the year ended December 31, 2004 and nine months ended September 30, 2005 and 2004 amounted to \$20,424, \$16,818 and \$14,818 respectively.

The future minimum lease payments of capital leases and the present value of the net minimum lease payments as of December 31, 2004 are as follows:

Years Ended December 31,	
2005	\$ 40,213
2006	41,131
2007	39,519
2008	37,906
2009	17,471

Minimum lease payments	176,240
Less amount representing interest	49,511

Present value of net minimum lease payments	126,729
Less: current maturities	25,310

Long-term portion of capitalized lease obligations	\$ 101,419
	=====

NOTE 6 - STOCKHOLDERS' EQUITY

(a) SERIES A CONVERTIBLE REDEEMABLE PREFERRED STOCK:

In connection with the sale of convertible debentures, (see Note 4) the Company issued 1,775,000 shares of Series A Preferred Stock on August 31, 2004 and 244,298 shares of Series A Preferred Stock on June 30, 2005 for a total outstanding of 2,019,298 as of September 30, 2005. 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 shall be entitled to receive in any fiscal year, when, if and as declared by the Board of Directors, a non-cumulative dividend in the amount equal to 7% of \$.20 per share of Series A Preferred Stock per annum (the "Preferential Dividend"), before any cash dividends are paid to the holders of record of Common Stock. Thereafter, the holders of record of the Series A Preferred Stock and Common Stock shall share ratably in any additional dividends during such fiscal year or an as converted basis. So long as any Series A Preferred Stock remains outstanding, no dividend shall be paid to the holders of record of Common Stock (other than a dividend in shares of Common Stock) without the consent of the holders of record of a majority of the shares of Series A Preferred Stock then outstanding and no dividend may be paid on the Common Stock so long as dividends previously or concurrently declared on the Series A Preferred Stock remain unpaid. The Company is authorized to issue up to 20,000,000 shares of preferred stock.

(b) COMMON STOCK:

The Company was initially funded in 2002, by the founders with a collective contribution of cash and a receivable of \$118,000 in exchange for 6,000,000 of the Company's Common Shares. In June 2003, the Board of Directors authorized the issuance of 1,150,000 of the Company's Common Shares to an Officer of the Company in exchange for \$32,500 of previous unpaid services and \$25,000 in cash. In September, 2003 this Officer elected to take a partial payment of \$25,000 for prior unpaid services. The Officer immediately returned the \$25,000 to the Company for the cash component and forgave \$7,500 of compensation owed in exchange for 650,000 of the Company's Common Shares. In July, 2003 the Company issued 926,667 of the Company's Common Shares to another investor for cash of \$27,800. In August, 2003 the Board of Directors authorized the issuance of Convertible Promissory Notes "Promissory Notes" to raise \$355,000 of capital. The terms of these Promissory Notes called for interest to accrue at the rate of 7% per annum and to convert into Series A Preferred Stock upon the earlier of a closing of a round of equity financing of \$1,000,000 or August 31, 2004. The Promissory Notes would convert into Series A Preferred Stock based on the per share value of the equity financing or \$.20/share if no equity financing occurred before August 31, 2004. The Promissory Notes were converted into Series A Preferred Stock on August 31, 2004 and on June 30, 2005, the combined principal and interest of \$403,859 was converted into 2,019,295 preferred shares. In order to provide the Company with working capital at various times in the third and fourth quarters of 2005 certain officers and founders purchased 145,000 of common shares for \$29,000. The Company is authorized to issue up to 30,000,000 shares of common stock.

(c) WARRANTS:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, Advisory Board members and consultants to the Company.

In the year ended December 31, 2003, the Company issued a 10 year warrant to purchase 50,000 shares of its Common Stock to its legal counsel at an exercise price of \$.05. The fair value of these warrants was \$9,993 at December 31, 2003 which was charged to expense. In addition, the Company issued a 5 year warrant to purchase one share of its Common Stock at an exercise price of \$.07 to its holders of convertible debt for each \$1.00 of debt as additional interest. This amounted to 255,000 warrants with a fair value at December 31, 2003 of \$49,795 which was charged to expense. The Company issued 5 year warrants to purchase 424,000 shares of its Common Stock at an exercise price of \$.07 to Advisory Board members and vendors in exchange for services. The fair value at December 31, 2003 related to these warrants was \$ 83,646 which was charged to expense. The Company issued a 5 year warrant to an Advisory Board member to purchase 20,000 shares of its Common Stock at an exercise price of \$.05 in exchange for services which had a fair value of \$3,955 at December 31, 2003 which was charged to expense. The Company issued 5 year warrants to purchase 24,000 shares of its Common Stock at an exercise price of \$.154 to an Advisory Board member and a vendor in exchange for services. The fair value at December 31, 2003 related to these warrants was \$ 4,701 which was charged to expense. The Company issued a 5 year warrant to a vendor to purchase 20,000 shares of its Common Stock at an exercise price of \$.20 in exchange for services which had a fair value of \$3,905 at December 31, 2003 which was charged to expense.

In the year ended December 31, 2004, the Company issued a 5 year warrant to purchase one share of its Common Stock at an exercise price of \$.07 to additional purchasers of convertible debt for each \$1.00 of debt as additional interest. This amounted to 100,000 warrants with a fair value at December 31, 2004 of \$19,527 which was charged to expense. In addition, the Company issued 5 year warrants to purchase 90,000 shares of its Common Stock at an exercise price of \$.20 to three Advisory Board members and a vendor in exchange for services. The fair value at December 31, 2004 related to these warrants was \$ 17,575 which was charged to expense. The Company issued a 5 year warrant to a vendor to purchase 5,500 shares of its Common Stock at an exercise price of \$.154 in exchange for services which had a fair value of \$1,077 at December 31, 2004 which was charged to expense. The Company issued a 5 year warrant to a vendor to purchase 2,500 shares of its Common Stock at an exercise price of \$.07 in exchange for services which had a fair value of \$493 at December 31, 2004 which was charged to expense.

A total of 838,500 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 2004 at prices ranging from \$.05 to \$.20 and expiring through December 2009. During the year ended December 31, 2004, 160,000 warrants were exercised at an exercise price of \$.03 resulting in proceeds to the Company of \$4,800.

NOTE 7 - INCOME TAXES

Deferred tax assets consisted of the following as of:

	December 31,		September 30,
	2004	2003	2005
Net operating loss carryforwards	\$ 1,013,769	\$ 417,672	2,357,940
Deferred tax asset valuation allowance	(1,103,769)	(417,672)	(2,357,940)
	\$ -	\$ -	\$ -
	=====	=====	=====

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:

	Year Ended December 31,			Nine Months Ended September 30,	
	-----	-----	-----	-----	-----
Federal tax benefit at statutory rate	(34.0%)	(34.0%)	(34.0%)	(34.0%)	(34.0%)
Change in valuation allowance	34.0%	34.0%	34.0%	34.0%	34.0%
	-----	-----	-----	-----	-----
Provision for income taxes	0.00%	0.00%	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. As of December 31, 2004, the Company had approximately \$2,358,000 of NOL carryforwards which expire at various dates through 2024.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

LEASES

In October 2003, the Company entered into a 15 month lease for its laboratory and research facility at Cedars Sinai Hospital in Los Angeles, CA. for the purpose of collecting and storing adult stem cells. In January 2005, the Company moved its adult stem cell processing and storage facility to Good Samaritan Hospital because its lease at Cedars Sinai Hospital was not renewed. The new lease is for a period of 12 months through December 31, 2005 at a monthly rental of \$2,172.

The Company also leases office space on a month-to-month basis from Symbion Research International at a monthly rental of \$1,687.

Rent expense was approximately \$95,000, \$17,000, and \$0 for the years ended December 31, 2004, 2003, and 2002, respectively, and \$28,000 and \$72,000 for the nine months ended September 30, 2005 and 2004, respectively.

LITIGATION

In December 2005, the Company settled a claim made against them in August 2005 by a former executive officer. The Company agreed to pay the former officer \$20,000 and issued 1,550,000 shares of common stock. The Company has accrued \$75,000 as a result of the settlement reached in the nine months ended September 30, 2005 financial statements.

The Company is involved in various litigation arising during the normal course of business which, in the opinion of the management of the Company, will not have a material effect on the Company's financial position, results of operations, or cash flows.

NOTE 9 - RELATED PARTIES

A business development consulting firm owned by one of the Company's Officers was paid for services in both cash and warrants to purchase common stock. Warrants were issued in the year ended December 31, 2003 to purchase 200,000 shares of the Company's Common Stock at an exercise price of \$.07 per share of common stock. The Company recorded an expense of \$39,456 as a result of issuing these warrants. The Company incurred additional expenses of approximately \$28,000 and \$30,000 for the years ended December 31, 2004 and 2003, respectively.

PROFORMA BALANCE SHEET (UNAUDITED) (continued)

Phase III Medical, Inc.
 Proforma Consolidated Balance Sheet
 September 30, 2005

	Historical		Proforma	
	Phase III	NeoStem	Adjustments	Consolidated
Unearned revenues	33,806			33,806
Series A mandatorily redeemable convertible preferred stock	681,174			681,174
Capitalized lease obligations - long term portion		88,793		88,793
Total liabilities	2,587,256	366,196	174,000	174,000
Stockholders deficit:				
Preferred stock; authorized 5,000,000 shares				
Series B convertible redeemable preferred stock, liquidation value, 10 shares of common stock per share: \$0.01 par value ; authorized, 825,000 shares: issued and outstanding, 10,000 shares	100			100
Series A preferred stock, par value \$0.01 7% non-cumulative dividend; authorized 2,250,000 shares; issued and outstanding 2,019,298		403,859	(403,859) (3)	-
Common stock, \$0.001 par value; authorized, 250,000,000 shares; issued and outstanding 53,256,843 shares	53,257		50,000 (3)	103,257
Common stock \$0.01 par value, authorized, 30,000,000, issued and outstanding, 12,221,973		22,220	(122,220) (3)	-
Additional paid-in capital	11,151,500	1,562,368	300,000 (3)	11,451,500
Accumulated deficit	(13,728,413)	(2,357,940)	(1,562,368) (3) 2,357,940 (3)	- (13,728,413)
Total stockholders' deficit	(2,523,556)	(269,493)	619,493	619,493
	\$ 63,700	\$ 96,703	\$ 793,493	\$ 793,493

See accompanying notes to proforma consolidated financial statements.

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

Consideration to be provided by Phase III Medical, Inc. ("Phase III") in the Asset Purchase is \$350,000 which is to be financed through the issuance of 5,000,000 shares of common stock of Phase III. This consideration will be allocated to the tangible and identifiable intangible assets acquired according to their respective values at the closing of the transaction.

The unaudited pro forma statements of operations of Phase III for the nine months ended September 30, 2005 and the year ended December 31, 2004, give effect to (i) the Asset Purchase, applying the purchase method of accounting and (ii) certain adjustments that are directly attributable to the Asset Purchase as if the transaction was consummated as of January 1, 2004.

In the opinion of Phase III and NeoStem, Inc. management, all adjustments and/or disclosures necessary for a fair presentation of the pro forma data have been made. These unaudited pro forma financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or the financial position that would have been achieved had the Asset Purchase and sale of certain assets been consummated as of the dates indicated or the results that may be obtained in the future.

These unaudited pro forma financial statements and notes thereto should be read in conjunction with the Phase III consolidated financial statements and the notes thereto as of and for the year ended December 31, 2004 and Phase III consolidated financial statements and the notes thereto for the nine month period ended September 30, 2005.

PROFORMA BALANCE SHEET (UNAUDITED)

Phase III Medical, Inc.
Proforma Consolidated Balance Sheet
September 30, 2005

ASSETS	Historical		Proforma	
	Phase III	NeoStem	Adjustments	Consolidated
Cash and equivalents	\$ 10,377	\$ 95	\$ (95) (3)	\$ 10,377
Prepaid expenses and other current assets	24,218			24,218
Total current assets	34,595	95	(95)	34,595
Property and equipment, net	1,978	91,108		93,086
Deferred acquisition costs	24,127			24,124
Other assets	3,000	5,500		8,500
Goodwill			793,588 (3)	793,588
	<u>\$ 63,700</u>	<u>\$ 96,703</u>	<u>\$ 793,493</u>	<u>\$ 953,896</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Interest and dividends payable - preferred stock	\$ 516,643	\$	\$	\$ 516,643
Accounts payable and accrued expenses	380,372	250,113		630,485
Accounts payable and accrued expenses - related parties	327,261		174,000 (3)	501,261
Notes payable	400,000			400,000
Notes payable - related parties	148,000			148,000
Convertible debentures, related party	100,000			100,000
Capitalized lease obligations - current portion	27,290			27,290
Total current liabilities	1,872,276	277,403	174,000	2,323,679

See accompanying notes to proforma consolidated financial statements.

PROFORMA STATEMENT OF OPERATIONS (UNAUDITED)

Phase III Medical, Inc.
 Proforma Consolidated Statement of Operations
 Nine Months Ended September 30, 2005

	Historical		Proforma	
	Phase III	NeoStem	Adjustments	Consolidated
Earned revenues	\$ 28,201	\$ 450	\$	\$ 28,651
Direct costs	(19,770)	(374,871)		(394,641)
Gross profit	8,431	(374,421)		(365,990)
Selling, general and administrative	(1,112,331)	(936,089)		(2,048,420)
Purchase of medical royalty stream	(6,540)	-		(6,540)
Operating loss	(1,110,440)	(1,310,510)		(2,414,410)
Other income (expense):				
Interest expense	(71,884)	(33,661)		(105,545)
Interest expense - Series A mandatorily redeemable convertible preferred stock	(35,763)			(35,763)
Net loss	\$ 1,218,087	\$ (1,344,171)	\$	\$ (2,555,718)
Net loss per common share	\$ (0.03)	\$	\$	\$ (0.05)
Weighted average common shares outstanding	46,257,323		5,000,000 (2)	51,257,323

See accompanying notes to proforma consolidated financial statements

PROFORMA STATEMENT OF OPERATIONS (UNAUDITED)

Phase III Medical, Inc.
 Proforma Consolidated Statement of Operations
 Year Ended December 31, 2004

	Historical		Proforma	
	Phase III	NeoStem	Adjustments	Consolidated
Earned revenues	\$ 48,561	\$ 25,050	\$	\$ 73,611
Direct costs	(33,885)	(53,302)		(87,187)
Gross profit	14,676	(28,252)		(13,576)
Selling, general and administrative	(763,640)	(500,588)		(1,264,228)
Purchase of medical royalty stream	(725,324)	-		(725,324)
Operating loss	(1,474,288)	(528,840)		(1,277,804)
Other income (expense):				
Interest income	199			
Interest expense	(226,599)	(67,257)		(293,856)
Interest expense - Series A mandatorily redeemable convertible preferred stock	(47,684)			(47,684)
Net loss	\$ (1,748,372)	\$ (596,097)	\$	\$ (1,619,344)
Net loss per common share	\$ (0.05)	\$	\$	\$ (0.04)
Weighted average common shares outstanding	32,541,845		5,000,000(2)	37,541,845

See accompanying notes to proforma consolidated financial statements

PHASE III MEDICAL, INC.
NOTES TO UNAUDITED PROFORMA CONSOLIDATED FINANCIAL
INFORMATION

(1) BASIS OF PRESENTATION

The purchase method of accounting has been used in the preparation of the accompanying unaudited proforma consolidated financial statements. Under this method of accounting the purchase consideration is allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair value. For purposes of the unaudited proforma consolidated financial statements, the preliminary fair values of NeoStem's assets were estimated by NeoStem's and Phase III's management. The final allocation of the purchase price will be determined after the completion of the Asset Purchase and will be based on a comprehensive final evaluation of tangible and identifiable intangible assets acquired (including their estimated useful lives).

(2) CONSIDERATION

Pursuant to the Purchase Agreement, NeoStem's common and preferred shareholders will receive 5,000,000 shares of Phase III common stock, which was issued at the closing.

(3) ASSET PURCHASE

The preliminary allocation to the net assets purchased is as follows:

Property and equipment	\$ 91,108
Other assets	5,500
Goodwill	793,588
Accounts payable and accrued liabilities	(250,113)
Professional fees incurred in acquisition	(174,000)
Capitalized lease obligations	(116,083)

Total consideration	\$ 350,000
	=====

All NeoStem assets not included above (including cash and cash equivalents) are removed in preparation of the unaudited pro forma consolidated financial statements because they are not being acquired by Phase III. A 100% valuation allowance was considered for deferred taxes.

The above pro forma adjustments are based on preliminary estimates. The final allocation of the purchase price will be determined after the completion of the Asset Purchase and will be based on a comprehensive final evaluation of the fair value of NeoStem's tangible and identifiable intangible assets acquired at the time of the asset purchase.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 19, 2006 by and between Phase III Medical, Inc. (the "Company") and Larry May (the "Executive").

W I T N E S S E T H:

WHEREAS, simultaneously with execution of this Agreement, the Company is acquiring, through its wholly-owned subsidiary, Phase III Medical Holding Company ("Holding"), substantially all of the business assets of NeoStem, Inc. (the "Former Employer") pursuant to the terms of an Asset Purchase Agreement dated as of December 6, 2005 (the "Asset Purchase Agreement") and entered into by and among the Company, Holding and the Former Employer;

WHEREAS, the Executive has performed valuable services for the Former Employer; and

WHEREAS, the Executive is willing to serve after the acquisition as an employee of the Company and the Company desires to retain the Executive effective upon consummation of the acquisition on the terms and conditions herein set forth;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. EMPLOYMENT. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, upon the terms and conditions hereinafter provided, for a period commencing on the date first above written (the "Commencement Date") and, subject to earlier termination pursuant to Section 5 hereof, continuing until the third (3rd) anniversary of the Commencement Date (the "Term"). The Executive hereby represents and warrants that he has the legal capacity to execute and perform this Agreement, and that its execution and performance by him will not violate the terms of any existing agreement or understanding to which the Executive is a party. The Executive also represents that he understands that the Company has no obligations to the Executive with respect to any agreements which exist or may have existed between the Executive and the Former Employer.

SECTION 2. POSITION AND DUTIES. During the Term, the Executive agrees to serve as an officer of the Company, and as an officer of any subsidiary or division of the Company and will have such powers and duties as may be reasonably conferred upon him by the Board of Directors of the Company (the "Board"). During the Term, and except for reasonable vacation periods, the Executive shall devote substantially all of his business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates. Executive shall be based in or around Los Angeles, California; however, it is understood that reasonable travel, estimated at two times monthly shall be required to the Company's headquarters in New York.

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SECTION 3. COMPENSATION. For all services rendered by the Executive in any capacity required hereunder during the Term, including, without limitation, services as an officer, director, or member of any committee of the Company or any subsidiary, affiliate or division thereof, the Executive shall be compensated as follows:

(a) The Company shall pay the Executive a fixed annual salary equal to \$165,000 (the "Base Salary") in bi-weekly installments or otherwise in accordance with the Company's payroll practices, including the withholding of appropriate payroll taxes.

(b) The Executive shall be entitled to participate in all compensation and employee benefit plans or programs, and to receive all benefits and perquisites, which are approved by the Board of Directors of the Company and are generally made available by the Company to all salaried employees of the Company and to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof. Notwithstanding any of the foregoing, nothing in this Agreement shall require the Company to establish, maintain or continue any particular plan or program nor preclude the amendment, rescission or termination of any such plan or program that may be established from time to time. Notwithstanding the foregoing, you will not participate in any medical, health and insurance plans of the Company; however, the Company shall reimburse you for reasonable costs of health insurance for you which you obtain upon receipt of appropriate monthly medical insurance invoices.

(c) On the Commencement Date, Executive shall be granted an option under and subject to the Company's 2003 Equity Participation Plan ("EPP") to purchase 150,000 shares of the Company's common stock, \$.001 par value ("Common Stock") at an exercise price equal to the closing price of the Common Stock on the Commencement Date, which shall vest and become exercisable as to 50,000 shares of Common Stock on each of the first, second and third anniversaries of the Commencement Date.

SECTION 4. BUSINESS EXPENSES. The Company shall pay or reimburse the Executive for all reasonable travel or other reasonable expenses incurred by the Executive in connection with the performance of his duties and obligations under this Agreement, including a monthly car allowance of \$750

(paid through the Company's payroll), subject to the Executive's presentation of appropriate vouchers in accordance with such expense account policies and approval procedures as the Company may from time to time establish for officers (including but not limited to prior approval of extraordinary expenses) and to preserve any deductions for Federal income taxation purposes to which the Company may be entitled.

SECTION 5. TERMINATION OF EMPLOYMENT.

(a) The Company may terminate Executive's employment prior to the end of the Term immediately upon written notice to Executive. Executive may terminate Executive's employment upon thirty days' prior written notice to the Company. In the event that the Executive's employment terminates prior to expiration of the Term due to any reason, earned but unpaid Base Salary as of the date of termination of employment shall be payable in full. In the event the Company terminates Executive's employment prior to the expiration of the Term based on any reason except a Termination for Cause, Executive will be entitled to receive severance payments equal to one year's salary, paid at the same level and timing of salary as Executive is then receiving; provided, however, that no severance payments shall be made hereunder unless and until Executive executes and delivers to the Company a release of all claims against the Company. However, no other payments shall be made, or benefits provided, by the Company under this Agreement except as otherwise required by law.

(b) For purposes of this Agreement, the term "Termination for Cause" means, to the maximum extent permitted by applicable law, a termination of the Executive's employment by the Company for any event or circumstance which, pursuant to applicable law, constitutes cause for dismissal, including termination because the Executive has (a) materially breached or failed to perform his duties under applicable law (including but not limited to laws governing employment practices and securities laws), this Agreement or any employment policies or practices of the Company and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness, (b) committed an act of dishonesty in the performance of his duties hereunder, (c) intentionally engaged in conduct detrimental to the business of the Company, (d) been convicted of a felony or a misdemeanor involving moral turpitude, (e) materially breached or failed to perform his obligations and duties hereunder or under any policies or procedures of the Company, and, if such breach or failure is curable, which breach or failure the Executive shall fail to remedy within 15 days after written demand from the Company (which demand shall specify the breach or failure and any necessary or desired corrective action) or (f) violated in any material respect the representations made in Section 1 above or the provisions of Section 6 below.

(c) The Company shall have the right to suspend the Executive with pay during any period in which it is investigating a possible basis for a Termination for Cause. Upon suspension, the Company shall provide the Executive with reasonable notice of the basis for suspension to the extent practical.

SECTION 6. CONFIDENTIALITY; COVENANT AGAINST COMPETITION. (a) The Executive recognizes and acknowledges that all information pertaining to the affairs, business, clients, customers or acquisition targets of the Company or any of its subsidiaries or affiliates or predecessors (any or all of such entities being hereinafter referred to as the "Business"), as such information may exist from time to time, other than information that the Company has previously made publicly available or which has otherwise entered the public domain through no fault of the Executive, is confidential information and is a unique and valuable asset of the Business, access to and knowledge of which will be essential to the performance of the Executive's duties under this Agreement. In consideration of the payments made to him hereunder, the Executive shall not, except to the extent reasonably necessary in the performance of his duties under this Agreement, or as required by law, during the term of his employment hereunder and thereafter, divulge to any person, firm, association, corporation, or governmental agency, any information concerning the affairs, businesses, clients, customers or acquisition targets of the Company or the Business (except such information as is required by law to be divulged to a government agency or pursuant to subpoena or similar lawful process), or make use of any such information for his own purposes or for the benefit of any person, firm, association or corporation (except the Business) and shall use his reasonable best efforts to prevent the disclosure of any such information by others. All records, memoranda, letters, books, papers, reports, customer lists, accountings or other data, and other records and documents relating to the Business, whether made by the Executive or otherwise coming into his possession, are confidential information and are, shall be, and shall remain the property of the Business. No copies thereof shall be made which are not retained by the Business, and the Executive agrees, on termination of his employment that he will not retain or make copies of any such documents relating to the Business and, on demand of the Company, to deliver the same to the Company.

(b) All proprietary information and all of the Executive's interest in trade secrets, trademarks, computer programs, customer information, customer lists, employee lists, products, procedures, copyrights, patents and developments developed by the Executive as a result of, or in connection with, his employment hereunder, shall belong to the Company; and without further compensation, but at the Company's expense, upon the request of the Company, the Executive shall execute any and all assignments or other documents and take any and all such other action as the Company may reasonably request in order to vest in the Company all of the Executive's right, title and interest in and to all of the foregoing items, free and clear of all liens, charges and encumbrances of the Executive of any kind.

(c) In consideration of the payments made to him hereunder, during the period commencing on the effective date of the termination of his employment (whether pursuant to this Agreement or under any extension hereof), and ending on the second (2nd) anniversary of such effective date of termination of his employment (the "Restrictive Period"), the Executive shall not, without express prior written approval of the Board of Directors of the Company, as evidenced by a resolution of the Company's Board, directly or indirectly, for himself or on behalf of or in conjunction with, any other person, persons, company, partnership, corporation or business of whatever nature, own or hold any proprietary interest in, or be employed by or receive remuneration from, or engage as an officer, director or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative of, any corporation, partnership, sole proprietorship or other entity (a "Competitor") engaged in competition with the "Business Activities" of the Company or any of its subsidiaries or affiliates at the time of such termination of employment, in the "Territory", other than severance-type or retirement-type benefits from entities constituting prior employers of the Executive. The Executive agrees that during such Restrictive Period he will not solicit for himself or for the account of any Competitor, any customer or client of the Company or its subsidiaries or affiliates, or, in the event of the Executive's termination of his employment, any entity or individual that was such a customer or client during the eighteen (18)-month period immediately preceding the Executive's termination of employment. "Business Activities" shall mean the collection and storage of adult stem cells and any ancillary or related services engaged in by the Company or its subsidiaries during the Term.

The Executive agrees that the restrictive covenants contained herein are in addition and not in lieu of any similar covenants contained in the Asset Purchase Agreement.

In addition, during such Restrictive Period the Executive agrees not to act on behalf of himself or any Competitor to interfere with the relationship between the Company or its subsidiaries or affiliates and their employees, independent contractors, customers, suppliers or acquisition targets. The Executive also agrees, during such Restrictive Period not to hire an employee of the Company or its subsidiaries or induce any such employee to leave the employment of the Company or its subsidiaries, provided that the Executive shall be permitted to call upon and hire any member of his immediate family.

For purposes of this Agreement, "Territory" shall mean the entire United States.

For purposes of the preceding paragraphs, (i) the term "proprietary interest" means legal or equitable ownership, whether through stockholding or otherwise, of an equity interest in a business, firm or entity other than ownership of less than two (2%) percent of any class of equity interest in a publicly held business, firm or entity and (ii) an entity shall be considered to be "engaged in competition" if such entity is, or is a holding company for, a company engaged in any aspect of the Business or providing any other services competitive with the business then being conducted by the Company and/or its subsidiaries at the date of termination of employment, in the Territory.

(d) The Executive acknowledges the reasonableness of the restrictions contained in this Section 6. The Executive acknowledges that the Company and its subsidiaries and their successors and assigns would be irreparably injured in a manner not adequately compensated by money damages by a breach or violation (or threatened breach or violation) of the provisions of this Section 6 by the Executive. Therefore, in the event of any such breach or violation (or threatened breach or violation), in addition to all other rights and remedies which the Company may have, whether at law or in equity, the Company and its successors and assigns shall be entitled to obtain injunctive or other equitable relief against the Executive without the need to post bond or other security in connection therewith and the Executive hereby consents to the entry of an order for such injunctive or other equitable relief.

(e) The Executive's agreement as set forth in this Section 6 shall survive the expiration of the Term and the termination of the Executive's employment with the Company.

(f) If any court determines that the provisions of this Section 6, or any part hereof, is unenforceable because of the duration or geographic scope of such provisions, such court shall have the power to reduce the duration or scope of such provisions, as the case may be, so that, as so reduced, such provisions are then enforceable to the maximum extent permitted by applicable law.

SECTION 7. WITHHOLDING TAXES. The Company may directly or indirectly withhold from any payments made under this Agreement all Federal, state, city or other taxes and all other deductions as shall be required pursuant to any law or governmental regulation or ruling or pursuant to any contributory benefit plan maintained by the Company in which the Executive may participate.

SECTION 8. NOTICES. All notices, requests, demands and other communications required or permitted hereunder shall be given in writing and shall be deemed to have been duly given if delivered or mailed, postage prepaid, by certified or registered mail or by use of an independent third party commercial delivery service for same day or next day delivery and providing a signed receipt as follows:

- (a) To the Company:
Phase III Medical, Inc. 330
South Service Road
Suite 120
Melville, New York 11747
Attention: General Counsel

- (b) To the Executive: Mr.
Larry May
11038 Hilderth
Ct. Camarillo, CA 93012

or to such other address as either party shall have previously specified in writing to the other. Notice by mail shall be deemed effective on the second business day after its deposit with the United States Postal Service, notice by same day courier service shall be deemed effective on the day of deposit with the delivery service and notice by next day delivery service shall be deemed effective on the day following the deposit with the delivery service.

SECTION 9. NO ATTACHMENT. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect; PROVIDED, HOWEVER, that nothing in this Section 9 shall preclude the assumption of such rights by executors, administrators or other legal representatives of the Executive or his estate and their conveying any rights hereunder to the person or persons entitled thereto.

SECTION 10. SOURCE OF PAYMENT. All payments provided for under this 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, the Executive 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. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right, without prejudice to rights which employees may have, shall be no greater than the right of an unsecured creditor of the Company.

SECTION 11. BINDING AGREEMENT; NO ASSIGNMENT. This Agreement shall be binding upon, and shall inure to the benefit of, the Executive and the Company and their respective permitted successors, assigns, heirs, beneficiaries and representatives. This Agreement is personal to the Executive and may not be assigned by him. This Agreement may not be assigned by the Company except (a) in connection with a sale of all or substantially all of its assets or a merger or consolidation of the Company, or (b) to an entity that is a subsidiary or affiliate of the Company. Any attempted assignment in violation of this Section 11 shall be null and void. SECTION 12. GOVERNING LAW; CONSENT TO JURISDICTION. The validity, interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of New York. In addition, the Executive and the Company irrevocably submit to the jurisdiction of the courts of the State of New York and the United States District Court sitting in New York County for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on the Executive or the Company anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. The Executive and the Company irrevocably consent to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court.

SECTION 13. ENTIRE AGREEMENT. This 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.

SECTION 14. AMENDMENTS. This Agreement may only be amended or otherwise modified by a writing executed by all of the parties hereto.

SECTION 15. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has signed this Agreement, all as of the first date above written. PHASE III MEDICAL, INC.

By: /S/ MARK WEINREB

Name: Mark Weinreb
Title: President and CEO

/S/ LARRY MAY

Larry May, Executive

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 19, 2006 by and between Phase III Medical, Inc. (the "Company") and Denis O. Rodgerson (the "Executive").

W I T N E S S E T H:

WHEREAS, simultaneously with execution of this Agreement, the Company is acquiring, through its wholly-owned subsidiary, Phase III Medical Holding Company ("Holding"), substantially all of the business assets of NeoStem, Inc. (the "Former Employer") pursuant to the terms of an Asset Purchase Agreement dated as of December 6, 2005 (the "Asset Purchase Agreement") and entered into by and among the Company, Holding and the Former Employer;

WHEREAS, the Executive has performed valuable services for the Former Employer; and

WHEREAS, the Executive is willing to serve after the acquisition as an employee of the Company and the Company desires to retain the Executive effective upon consummation of the acquisition on the terms and conditions herein set forth;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. EMPLOYMENT. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, upon the terms and conditions hereinafter provided, for a period commencing on the date first above written (the "Commencement Date") and, subject to earlier termination pursuant to Section 5 hereof, continuing until the first (1st) anniversary of the Commencement Date (the "Term"). The Executive hereby represents and warrants that he has the legal capacity to execute and perform this Agreement, and that its execution and performance by him will not violate the terms of any existing agreement or understanding to which the Executive is a party. The Executive also represents that he understands that the Company has no obligations to the Executive with respect to any agreements which exist or may have existed between the Executive and the Former Employer.

SECTION 2. POSITION AND DUTIES. During the Term, the Executive agrees to serve as an officer of the Company, and as an officer of any other subsidiary or division of the Company and will have such powers and duties as may be reasonably conferred upon him by the Board of Directors of the Company (the "Board"). During the Term, and except for reasonable vacation periods, the Executive shall devote substantially all of his business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates. Executive shall be based in or around Los Angeles, California; however, it is understood that reasonable travel shall be required to the Company's headquarters in New York.

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SECTION 3. COMPENSATION. For all services rendered by the Executive in any capacity required hereunder during the Term, including, without limitation, services as an officer, director, or member of any committee of the Company or any subsidiary, affiliate or division thereof, the Executive shall be compensated as follows:

(a) The Company shall pay the Executive a fixed annual salary equal to \$165,000 (the "Base Salary") in bi-weekly installments or otherwise in accordance with the Company's payroll practices, including the withholding of appropriate payroll taxes.

(b) The Executive shall be entitled to participate in all compensation and employee benefit plans or programs, and to receive all benefits and perquisites, which are approved by the Board of Directors of the Company and are generally made available by the Company to all salaried employees of the Company and to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof. Notwithstanding any of the foregoing, nothing in this Agreement shall require the Company nor any subsidiary of the Company to establish, maintain or continue any particular plan or program nor preclude the amendment, rescission or termination of any such plan or program that may be established from time to time. Notwithstanding the foregoing, you will not participate in any medical, health and insurance plans of the Company; however, the Company shall reimburse you for reasonable costs of health insurance for you which you obtain upon receipt of appropriate monthly medical insurance invoices.

(c) On the Commencement Date, Executive shall be granted an option under and subject to the Company's 2003 Equity Participation Plan ("EPP") to purchase 50,000 shares of the Company's common stock, \$.001 par value ("Common Stock") at an exercise price equal to the closing price of the Common Stock on the Commencement Date, which shall vest and become exercisable in its entirety on the first anniversary of the Commencement Date.

SECTION 4. BUSINESS EXPENSES. The Company shall pay or reimburse the Executive for all reasonable travel or other reasonable expenses incurred by the Executive in connection with the performance of his duties and obligations under this Agreement, including a monthly car allowance of \$750

(paid through the Company's payroll), subject to the Executive's presentation of appropriate vouchers in accordance with such expense account policies and approval procedures as the Company may from time to time establish for officers (including but not limited to prior approval of extraordinary expenses) and to preserve any deductions for Federal income taxation purposes to which the Company may be entitled.

SECTION 5. TERMINATION OF EMPLOYMENT FOR CAUSE.

(a) The Company may terminate Executive's employment prior to the end of the Term immediately upon written notice to Executive. Executive may terminate Executive's employment upon thirty days' prior written notice to the Company. In the event that the Executive's employment terminates prior to expiration of the Term due to any reason, earned but unpaid Base Salary as of the date of termination of employment shall be payable in full. However, no other payments shall be made, or benefits provided, by the Company under this Agreement except as otherwise required by law.

(b) For purposes of this Agreement, the term "Termination for Cause" means, to the maximum extent permitted by applicable law, a termination of the Executive's employment by the Company for any event or circumstance which, pursuant to applicable law, constitutes cause for dismissal, including termination because the Executive has (a) materially breached or failed to perform his duties under applicable law (including but not limited to laws governing employment practices and securities laws), this Agreement or any employment policies or practices of the Company and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness, (b) committed an act of dishonesty in the performance of his duties hereunder, (c) intentionally engaged in conduct detrimental to the business of the Company, (d) been convicted of a felony or a misdemeanor involving moral turpitude, (e) materially breached or failed to perform his obligations and duties hereunder or under any policies or procedures of the Company, and, if such breach or failure is curable, which breach or failure the Executive shall fail to remedy within 15 days after written demand from the Company (which demand shall specify the breach or failure and any necessary or desired corrective action) or (f) violated in any material respect the representations made in Section 1 above or the provisions of Section 6 below.

(c) The Company shall have the right to suspend the Executive with pay during any period in which it is investigating a possible basis for a Termination for Cause. Upon suspension, the Company shall provide the Executive with reasonable notice of the basis for suspension to the extent practical.

SECTION 6. CONFIDENTIALITY; COVENANT AGAINST COMPETITION. (a) The Executive recognizes and acknowledges that all information pertaining to the affairs, business, clients, customers or acquisition targets of the Company or any of its subsidiaries or affiliates or predecessors (any or all of such entities being hereinafter referred to as the "Business"), as such information may exist from time to time, other than information that the Company has previously made publicly available or which has otherwise entered the public domain through no fault of the Executive, is confidential information and is a unique and valuable asset of the Business, access to and knowledge of which will be essential to the performance of the Executive's duties under this Agreement. In consideration of the payments made to him hereunder, the Executive shall not, except to the extent reasonably necessary in the performance of his duties under this Agreement, or as required by law, during the term of his employment hereunder and thereafter, divulge to any person, firm, association, corporation, or governmental agency, any information concerning the affairs, businesses, clients, customers or acquisition targets of the Company or the Business (except such information as is required by law to be divulged to a government agency or pursuant to subpoena or similar lawful process), or make use of any such information for his own purposes or for the benefit of any person, firm, association or corporation (except the Business) and shall use his reasonable best efforts to prevent the disclosure of any such information by others. All records, memoranda, letters, books, papers, reports, customer lists, accountings or other data, and other records and documents relating to the Business, whether made by the Executive or otherwise coming into his possession, are confidential information and are, shall be, and shall remain the property of the Business. No copies thereof shall be made which are not retained by the Business, and the Executive agrees, on termination of his employment that he will not retain or make copies of any such documents relating to the Business and, on demand of the Company, to deliver the same to the Company.

(b) All proprietary information and all of the Executive's interest in trade secrets, trademarks, computer programs, customer information, customer lists, employee lists, products, procedures, copyrights, patents and developments developed by the Executive as a result of, or in connection with, his employment hereunder, shall belong to the Company; and without further compensation, but at the Company's expense, upon the request of the Company, the Executive shall execute any and all assignments or other documents and take any and all such other action as the Company may reasonably request in order to vest in the Company all of the Executive's right, title and interest in and to all of the foregoing items, free and clear of all liens, charges and encumbrances of the Executive of any kind.

(c) In consideration of the payments made to him hereunder, during the period commencing on the effective date of the termination of his employment (whether pursuant to this Agreement or under any extension hereof), and ending on the second (2nd) anniversary of such effective date of termination of his employment (the "Restrictive Period"), the Executive shall not, without express prior written approval of the Board of Directors of the Company, as evidenced by a resolution of the Company's Board, directly or indirectly, for himself or on behalf of or in conjunction with, any other person, persons, company, partnership, corporation or business of whatever nature, own or hold any proprietary interest in, or be employed by or receive remuneration from, or engage as an officer, director or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative of, any corporation, partnership, sole proprietorship or other entity (a "Competitor") engaged in competition with the "Business Activities" of the Company or any of its subsidiaries or affiliates at the time of such termination of employment, in the "Territory", other than severance-type or retirement-type benefits from entities constituting prior employers of the Executive. The Executive agrees that during such Restrictive Period he will not solicit for himself or for the account of any Competitor, any customer or client of the Company or its subsidiaries or affiliates, or, in the event of the Executive's termination of his employment, any entity or individual that was such a customer or client during the eighteen (18)-month period immediately preceding the Executive's termination of employment. "Business Activities" shall mean the collection and storage of adult stem cells and any ancillary or related services engaged in by the Company or its subsidiaries during the Term.

The Executive agrees that the restrictive covenants contained herein are in addition and not in lieu of any similar covenants contained in the Asset Purchase Agreement.

In addition, during such Restrictive Period the Executive agrees not to act on behalf of himself or any Competitor to interfere with the relationship between the Company or its subsidiaries or affiliates and their employees, independent contractors, customers, suppliers or acquisition targets. The Executive also agrees, during such Restrictive Period not to hire an employee of the Company or its subsidiaries or induce any such employee to leave the employment of the Company or its subsidiaries, provided that the Executive shall be permitted to call upon and hire any member of his immediate family.

For purposes of this Agreement, "Territory" shall mean the entire United States.

For purposes of the preceding paragraphs, (i) the term "proprietary interest" means legal or equitable ownership, whether through stockholding or otherwise, of an equity interest in a business, firm or entity other than ownership of less than two (2%) percent of any class of equity interest in a publicly held business, firm or entity and (ii) an entity shall be considered to be "engaged in competition" if such entity is, or is a holding company for, a company engaged in any aspect of the Business or providing any other services competitive with the business then being conducted by the Company and/or its subsidiaries at the date of termination of employment, in the Territory.

(d) The Executive acknowledges the reasonableness of the restrictions contained in this Section 6. The Executive acknowledges that the Company and its subsidiaries and their successors and assigns would be irreparably injured in a manner not adequately compensated by money damages by a breach or violation (or threatened breach or violation) of the provisions of this Section 6 by the Executive. Therefore, in the event of any such breach or violation (or threatened breach or violation), in addition to all other rights and remedies which the Company may have, whether at law or in equity, the Company and its successors and assigns shall be entitled to obtain injunctive or other equitable relief against the Executive without the need to post bond or other security in connection therewith and the Executive hereby consents to the entry of an order for such injunctive or other equitable relief.

(e) The Executive's agreement as set forth in this Section 6 shall survive the expiration of the Term and the termination of the Executive's employment with the Company.

(f) If any court determines that the provisions of this Section 6, or any part hereof, is unenforceable because of the duration or geographic scope of such provisions, such court shall have the power to reduce the duration or scope of such provisions, as the case may be, so that, as so reduced, such provisions are then enforceable to the maximum extent permitted by applicable law.

SECTION 7. WITHHOLDING TAXES. The Company may directly or indirectly withhold from any payments made under this Agreement all Federal, state, city or other taxes and all other deductions as shall be required pursuant to any law or governmental regulation or ruling or pursuant to any contributory benefit plan maintained by the Company in which the Executive may participate.

SECTION 8. NOTICES. All notices, requests, demands and other communications required or permitted hereunder shall be given in writing and shall be deemed to have been duly given if delivered or mailed, postage prepaid, by certified or registered mail or by use of an independent third party commercial delivery service for same day or next day delivery and providing a signed receipt as follows:

(a) To the Company:
Phase III Medical, Inc.
330 South Service Road
Suite 120
Melville, New York 11747
Attention: General Counsel

(b) To the Executive:
Denis O. Rodgerson, Ph.D.
2801 Corral Cyn Dr.
Malibu, CA 90265

or to such other address as either party shall have previously specified in writing to the other. Notice by mail shall be deemed effective on the second business day after its deposit with the United States Postal Service, notice by same day courier service shall be deemed effective on the day of deposit with the delivery service and notice by next day delivery service shall be deemed effective on the day following the deposit with the delivery service.

SECTION 9. NO ATTACHMENT. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect; PROVIDED, HOWEVER, that nothing in this Section 9 shall preclude the assumption of such rights by executors, administrators or other legal representatives of the Executive or his estate and their conveying any rights hereunder to the person or persons entitled thereto.

SECTION 10. SOURCE OF PAYMENT. All payments provided for under this 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, the Executive 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. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right, without prejudice to rights which employees may have, shall be no greater than the right of an unsecured creditor of the Company.

SECTION 11. BINDING AGREEMENT; NO ASSIGNMENT. This Agreement shall be binding upon, and shall inure to the benefit of, the Executive and the Company and their respective permitted successors, assigns, heirs, beneficiaries and representatives. This Agreement is personal to the Executive and may not be assigned by him. This Agreement may not be assigned by the Company except (a) in connection with a sale of all or substantially all of its assets or a merger or consolidation of the Company, or (b) to an entity that is a subsidiary or affiliate of the Company. Any attempted assignment in violation of this Section 11 shall be null and void. SECTION 12. GOVERNING LAW; CONSENT TO JURISDICTION. The validity, interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of New York. In addition, the Executive and the Company irrevocably submit to the jurisdiction of the courts of the State of New York and the United States District Court sitting in New York County for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on the Executive or the Company anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. The Executive and the Company irrevocably consent to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court.

SECTION 13. ENTIRE AGREEMENT. This 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.

SECTION 14. AMENDMENTS. This Agreement may only be amended or otherwise modified by a writing executed by all of the parties hereto.

SECTION 15. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has signed this Agreement, all as of the first date above written. PHASE III MEDICAL, INC.

By: /S/ MARK WEINREB

Name: Mark Weinreb
Title: President and CEO

/S/ DENIS O. RODGERSON

Denis O. Rodgeron