

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

For the Transition Period from to -----

Commission file number 0-10909

PHASE III MEDICAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

22-2343568

(I.R.S. Employer
Identification No.)

330 SOUTH SERVICE ROAD, SUITE 120, MELVILLE, NEW YORK 11747

(Address of principal executive offices) (zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No ---

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

Yes No X
--- ---

40,476,873 SHARES, \$.001 PAR VALUE, AS OF OCTOBER 31, 2004

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

1

Page No.

Part I - Financial Information:

Item 1. Financial Statements (Unaudited):

Balance Sheets

At September 30, 2004 and December 31, 2003 3

Statements of Operations

For the three and nine months
ended September 30, 2004 and 2003 4

Statements of Cash Flows

for the nine months ended
September 30, 2004 and 2003 5

Notes to Unaudited Financial Statements 6 - 11

Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12 - 14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	15
Item 4.	Controls and Procedures	15

Part II - Other Information:

Item 1.	Legal Proceedings	16
Item 3.	Defaults Upon Senior Securities	16
Item 6.	Exhibits and Reports on Form 8-K.	16
	Signatures	17

PHASE III MEDICAL, INC.

BALANCE SHEETS
(Unaudited)

ASSETS

	September 30, 2004	December 31, 2003
Current assets:		
Cash and equivalents	\$461,436	\$210,947
Prepaid expenses and other current assets	-	18,024
Total current assets	461,436	228,971
Property and equipment, net	3,936	1,935
Deferred acquisition costs	51,674	77,782
Other assets	3,000	3,000
	\$520,046	\$311,688

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Interest and dividends payable - preferred stock	\$468,959	\$433,196
Accounts payable	227,396	87,896
Accrued liabilities	81,709	92,115
Notes payable	575,000	400,000
Convertible debentures, related party - net of debt discount of \$14,706	85,294	-
Current portion of long-term debt	-	9,513
Total current liabilities	1,438,358	1,022,720
Unearned revenues	73,185	110,568
Series A mandatorily redeemable convertible preferred stock	681,174	681,174
Total Liabilities	2,192,717	1,814,462
Stockholders' Deficit:		
Preferred stock; authorized, 5,000,000 shares		
Series B convertible redeemable preferred stock, liquidation value, 10 shares of common stock per share; \$0.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares	100	100
Common stock, \$.001 par value; authorized, 250,000,000 shares; issued and outstanding, 39,364,373 shares at September 30, 2004 and 26,326,460 shares at December 31, 2003	39,365	26,327
Additional paid-in capital	10,498,699	9,232,753
Accumulated deficit	(12,210,835)	(10,761,954)
Total stockholders' deficit	(1,672,671)	(1,502,774)
	\$520,046	\$311,688

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See accompanying notes to financial statements

PHASE III MEDICAL, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Earned revenues	\$2,968	\$15,294	\$37,383	\$50,303
Direct costs	(1,964)	(10,826)	(26,108)	(35,926)
Gross profit	1,004	4,468	11,275	14,377
Selling, general and administrative	(184,342)	(201,253)	(508,953)	(539,321)
Purchase of medical royalty stream	(234,060)	-	(714,060)	-
Operating loss	(417,398)	(196,785)	(1,211,738)	(524,944)
Other income (expense):				
Interest income	-	51,116	159	51,123
Interest expense	(71,176)	(58,293)	(201,539)	(120,707)
Interest expense - Series A mandatorily redeemable convertible preferred stock	(11,921)	-	(35,763)	-
Net loss	(500,495)	(203,962)	(1,448,881)	(594,528)
Preferred dividend	-	(11,921)	-	(35,763)
Net loss attributable to common stockholders	\$(500,495)	\$(215,883)	\$(1,448,881)	\$(630,291)
Net loss per common share	\$(.01)	\$(.01)	\$(.05)	\$(.03)
Weighted average common shares outstanding	33,464,208	23,190,047	29,885,230	22,890,937

See accompanying notes to financial statements.

PHASE III MEDICAL, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2004	2003

Cash flows from operating activities:		
Net loss	\$(1,448,881)	\$(594,528)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common shares issued and stock options granted for services rendered and interest expense	152,337	91,446
Depreciation	1,933	431
Deferred acquisition costs	26,108	35,926
Amortization of debt discount	2,941	
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	18,024	20,470
Unearned revenues	(37,383)	(50,303)
Accounts payable, accrued expenses and other current liabilities	164,857	(364,796)

Net cash used in operating activities	(1,120,064)	(861,354)

Cash flows from investing activities:		
Notes receivable collections	-	675,000
Acquisition of property and equipment	(3,934)	(2,581)

Net cash (used in) provided by investing activities	(3,934)	672,419

Cash flows from financing activities:		
Net Proceeds from issuance of common stock	1,109,000	5,000
Proceeds from advances on notes payable	410,000	295,000
Proceeds from convertible debenture, related party	100,000	-
Repayments of notes payable	(235,000)	-
Stockholder repayments	-	(81,000)
Repayment of long-term debt	(9,513)	(16,760)

Net cash provided by financing activities	1,374,487	202,240

Net increase in cash and cash equivalents	250,489	13,305
Cash and cash equivalents at beginning of period	210,947	19,255

Cash and cash equivalents at end of period	\$461,436	\$32,560
	=====	
	2004	2003

Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$61,825	\$9,949
	=====	
Supplemental Schedule of Non-cash Financing Activities:		
Net accrual of dividends on Series A Preferred Stock	\$-	\$35,763
	=====	

Issuance of common stock for services rendered	\$6,000	\$3,303
	=====	=====
Compensatory element of stock options	\$127,137	\$88,143
	=====	=====

See accompanying notes to financial statements.

PHASE III MEDICAL, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY

Phase III Medical, Inc. ("Phase III" or the "Company") (formerly known as Corniche Group Incorporated) provides capital and guidance to companies, within the medical sector, in exchange for revenues, royalties and other contractual rights known as "royalty interests", that entitle it to receive a portion of revenue from the sale of pharmaceuticals, medical devices and biotechnology products. The Company charges payments for the purchase of future potential royalty interests to expense as paid and will record revenues when royalty payments are received. As of September 30, 2004, the Company has not received any such royalty payments. Previously, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com through June 30, 2002. The business of the Company today comprises the "run off" of its sale of extended warranties and service contracts via the Internet and the new business opportunity it is pursuing in the medical/bio-tech sector.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2004 and December 31, 2003, the results of operations for the three and nine months ended September 30, 2004 and 2003 and the cash flows for the nine months ended September 30, 2004 and 2003. The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

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

The December 31, 2003 balance sheet has been derived from the audited financial statements at that date included in the Company's Annual Report on Form 10-K. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

NOTE 3 - STOCK OPTIONS

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

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

	Three Months Ended September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
	-----	-----	-----	-----
Net loss as reported	\$ (500,495)	\$ (203,962)	\$ (1,448,881)	\$ (594,528)
Additional compensation	(7,488)	(4,638)	(165,273)	(9,094)
	-----	-----	-----	-----
Adjusted net loss	\$ (507,983)	\$ (208,600)	\$ (1,614,154)	\$ (603,622)
	=====	=====	=====	=====
Net loss per share as reported	\$ (.01)	\$ (.01)	\$ (.05)	\$ (.03)
	=====	=====	=====	=====
Adjusted net loss per share	\$ (.02)	\$ (.01)	\$ (.05)	\$ (.03)
	=====	=====	=====	=====

NOTE 4 - NOTES PAYABLE

In September 2002, the Company sold to accredited investors five 60-day promissory notes in the principal sum of \$25,000 each, resulting in net proceeds to the Company of \$117,500, net of offering costs. The notes bear interest at 15% per annum payable at maturity. The notes include a default penalty pursuant to which if the notes are not paid on the due date the holder shall have the option to purchase twenty five thousand shares of the Company's common stock for an aggregate purchase price of \$125. If the non payment continues for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note is paid in full, the holder shall have the option to purchase an additional twenty five thousand shares of the Company's common stock for an aggregate purchase price of \$125. During the nine months ended September, 2004, options for 800,000 shares of common stock were exercised by the note holders. At September 30, 2004, the Company had reserved 1,075,000 shares of the Company's common stock for issuance against exercise of the options granted pursuant to the default penalty. At September 30, 2004, \$100,000 of these notes was unpaid along with \$38,106 of accrued interest.

On March 17, 2003, the Company commenced a private placement offering which raised \$250,000 in 6-month promissory notes in increments of \$5,000 bearing interest at 15% per annum. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these promissory notes. As of September 30, 2004, \$225,000 remains outstanding and all notes are in default. All interest payments on these notes have been made.

On August 26, 2003, the Company borrowed \$25,000 from a then consultant to the Company. The loan bears interest at 8% and as of September 30, 2004, \$26,956, including accrued interest of \$1,956, remains unpaid.

In February 2004, the Company commenced a sale of 30 day 20% notes in the amount of \$125,000 to three accredited investors to fund current operations. It was anticipated that these notes will be repaid from the proceeds of the January 2004 amended equity private placement. Two of these notes have a default provision that if they are not paid within 30 days, there is an additional interest payment of \$250 per \$25,000 for each 30 day period or part thereof. As of September 30, 2004, \$95,000 of these notes remains unpaid. All interest payments have been paid timely. In May 2004, the Company sold an additional 30 day 20% note in the amount of \$40,000 to an accredited investor to fund current operations. This note plus interest has been repaid. In July 2004, the Company sold a five month 20% note in the amount of \$25,000 and two six month 20% notes totaling \$80,000 to three accredited investors to fund current operations. These notes remain unpaid as of September 30, 2004. All interest payments have been paid timely. In August 2004, the Company sold additional 30 day 20% notes in the amount of

\$55,000 to two accredited investors to fund current operations. As of September 30, 2004, \$25,000 of these notes remains unpaid. All interest payments have been paid timely.

In August 2004, the Company sold a six month 20% convertible note in the amount of \$100,000 to its Chief Operating Officer ("COO"). Upon maturity, the Company and the COO have agreed to convert the principal amount of the new note into shares of the Company's common stock at 85% of the average price as quoted on the NASD Over-the-Counter Bulletin Board for the five days prior to the maturity date of the note. Approximately \$18,000 of the total debt was attributed to the intrinsic value of the beneficial conversion feature. This amount was recorded as an equity component. The remaining balance of approximately \$82,000 was recorded as debt. For the nine months ended September 30, 2004 the amortization of debt discount approximated \$3,000. All interest is paid monthly in arrears. As of September 30, 2004 this note remains unpaid. All interest payments have been paid timely.

A summary of the above descriptions is as follows:

	December 31, 2003	Proceeds	Repayments	September 30, 2004
September 2002 Notes	\$125,000	\$ -	\$(25,000)	\$100,000
March 2003 Notes	250,000		(25,000)	225,000
Consultant Note	25,000			25,000
February - August 2004 Notes		410,000	(185,000)	225,000
Related Party Note	-	100,000	-	100,000
Total	\$400,000	\$480,000	\$(235,000)	\$675,000

NOTE 5 - SERIES "A" MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Certificate of Designation for the Company's Series A Preferred Stock provides that at any time after December 1, 1999 any holder of Series A Preferred Stock may require the Company to redeem his shares of Series A Preferred Stock (if there are funds with which the Company may legally do so) at a price of \$1.00 per share. Notwithstanding the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. The holders of Series A Preferred Stock may convert their Series A Preferred Stock into shares of Common Stock of the Company at a price of \$5.20 per share. At September 30, 2004 and December 31, 2003, 681,174 shares of Series A Preferred Stock were outstanding.

NOTE 6 - STOCKHOLDERS' EQUITY

(a) Common Stock:

During the nine months ended September 30, 2004, the Company issued 30,000 shares of its common stock whose fair value was \$4,200 to two note holders as additional interest.

The Company amended its equity private placement to raise up to \$4 million through the sale of up to 40 million shares of Common Stock in increments of \$5,000 or 50,000 shares. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these shares. The initial placement closed on December 31, 2003. During the nine months ended September 30, 2004, the Company sold 12,132,913 common shares resulting in net proceeds to the Company of \$1,105,000. Such shares have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption of registration requirements.

As described in Note 4, the Company granted purchasers of the Company's September 2002 60-day promissory notes, options to purchase shares of common stock if the Company defaulted on the payment of principal or interest on such promissory notes. For each 30 day period, the purchaser is granted the option to purchase 25,000 shares of common stock for an aggregate price of \$125 on the 30th day. During the nine months ended September 30, 2004, holders of such promissory notes exercised their options and purchased 800,000 shares of common stock resulting in net proceeds to the Company of \$4,000.

(b) Warrants:

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company. A total of 351,500 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of September 30, 2004 at prices ranging from \$0.05 to \$8.10 and expiring through December 2008. In connection with the September 2003 equity private placement, the Company issued a 5 year warrant to purchase 282,500 shares of its Common Stock at an exercise price of \$0.12 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains piggyback registration rights. On August 20, 2004 and September 20, 2004, the Company issued 3 year warrants to purchase a total of 50,000 shares of its Common Stock at \$.05 per share, 25,000 on each date, to Consulting For Strategic Growth, Ltd., the Company's public relations firm.

(c) Stock Option Plans:

In February 2003, the Company adopted the 2003 Equity Participation Plan, which was approved by stockholders at the Company's Annual Meeting on July 24, 2003. Under this plan, the Company has reserved 15,000,000 shares of common stock for the grant of incentive stock options and non-statutory stock options to employees and non-employee directors, consultants and advisors.

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

	For the Nine Months Ended September 30, 2004	
	Shares	Prices
Outstanding at beginning of period	3,700,000	\$0.03 to \$0.18
Granted	2,735,000	\$0.10 to \$0.15
Expired	-	-
Cancelled	-	-
Outstanding at end of period	6,435,000	\$0.03 to \$0.18

Options are granted at an exercise price equal to the fair value of the common stock at the grant date. However, included above are 300,000 options to purchase the Company's common stock at \$.10 per share granted at an exercise price of \$.10 when the fair value on that date was \$.15. Therefore the Company recorded an expense of \$15,000 associated with that transaction. During the nine months ended September 30, 2004, options to purchase 1,000,000 shares of the Company's common stock were granted to five members of the Company's Board of Advisors pursuant to their agreements. Each advisor was issued options to purchase 200,000 shares of the Company's common stock at a range of exercise prices of \$.11 to \$.15 per share. The remaining options granted were for services to consultants and directors of the Company.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

On April 22, 2004, the Company entered into an agreement with an advisor in connection with its amended private placement to provide assistance in finding qualified investors. The agreement calls for the payment of 10% of the funds raised by the Company as a direct result of introductions made by the advisor. In addition, the Company is obligated to pay a 2% non-accountable expense allowance on all funds received that are subject to the 10% payment. As of September 30, 2004, the Company paid a total of \$21,000 under this agreement.

On March 20, 2004, the Company entered into a consulting agreement which will provide the Company with advice as to business development possibilities for the services and technology of NeoStem Inc. (See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS). The agreement provides for the issuance of options to purchase 300,000 shares of the Company's common stock at an exercise price of \$.10 per share. This option is immediately vested and expires ten years from the date of issue. The agreement also provides for the payment of \$2,500 per month for each month after the Company has received capital contributions of \$1,000,000 from the date of the agreement. If certain performance levels are met, the Company is obligated to issue an additional option to purchase 500,000 shares of the Company's common stock for an exercise price of \$.10 per share.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. "(PSI)" to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company is providing capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. During the nine months ended September 30, 2004, the Company

paid \$640,000 as specified in the agreement which brought the total paid since the inception of the agreement to \$720,000. The agreement also calls for the Company to pay on behalf of PSI \$280,000 of certain expenses relating to testing of the bioshielding concept. During the nine months ended September 30, 2004, the Company paid \$74,060 of such expenses.

NOTE 8 - RELATED PARTIES

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

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

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

On August 12, 2004 ("Commencement Date") the Company and Dr. Wayne A. Marasco, a Company Director, entered into a Letter Agreement appointing Dr. Marasco as the Company's Senior Scientific Advisor. Dr. Marasco will be responsible for assisting the Company in reviewing and evaluating business, scientific and medical opportunities, and for other discussions and meetings that may arise during the normal course of the Company conducting business. For his services, during a three year period ("Term"), Dr. Marasco shall be entitled to annual cash compensation with increases each year of the Term and an additional cash compensation based on a percentage of collected revenues derived from the Company's royalty or revenue sharing agreements. Although the annual cash compensation and additional cash compensation stated above shall begin to accrue as of the Commencement Date, Dr. Marasco will not be entitled to receive any such amounts until the Company raises \$1,500,000 in additional equity financing after the Commencement Date. In addition, Dr. Marasco was granted an option, fully vested, to purchase 675,000 shares of the Company's common stock at an exercise price of \$.10 cents per share. The shares will be subject to a one year lockup as of the date of grant. The exercise period will be ten years, and the grant will otherwise be in accordance with the Company's 2003 Equity Participation Plan and Non-Qualified Stock Option Grant Agreement. Although this agreement has been agreed to in principle, as of November 12, 2004, this agreement has not been executed.

NOTE 9 - INDUSTRY AND GEOGRAPHICAL SEGMENTAL INFORMATION

The Company's operations are currently in one segment, namely the "run off" of its sale of extended warranties and service contracts via the Internet. Additionally, the Company is currently endeavoring to

establish new business operations in the medical/bio-tech sector. The Company did not realize any revenue from its purchase of the royalty interest. The Company's operations are conducted entirely in the United States.

NOTE 10 - SUBSEQUENT EVENTS

On October 20, 2004, the Company issued a 3 year warrant to purchase an additional 25,000 shares at \$.05 per share of its Common Stock to Consulting For Strategic Growth, Ltd., the Company's public relations firm. In addition, 37,500 unregistered shares of the Company's common stock were issued pursuant to their agreement with the Company.

As described in Note 4, holders of promissory notes in default exercised options to purchase 1,075,000 shares of common stock since September 30, 2004, with net proceeds to the Company of \$5,375. Subsequent to September 30, 2004, \$50,000 was repaid with accrued interest and \$50,000 was transferred to a previous consultant who holds a note in the amount of \$25,000 as described in Note 4. The two notes were combined into a new note in the amount of \$75,000 which bears interest at 8%, payable at maturity and matures in June 2005. Accrued interest of \$5,244 due on the two combined notes has been paid and the remaining interest due in the amount of \$10,044 has been included in a deferred payment arrangement commencing January 1, 2005 which also includes the payment of unpaid amounts for services. The deferred payment arrangement does not accrue interest.

As described in Note 4, \$225,000 of notes in default were outstanding at September 30, 2004. Subsequent to September 30, 2004, the Company repaid \$55,000 of these notes. In addition, the remaining \$170,000 of these notes have had their maturity extended to April 1, 2005, however, annual interest will continue to be paid at 20%.

As described in Note 4, \$70,000 of promissory notes sold in February 2004, were repaid subsequent to September 30, 2004. The remaining note in the amount of \$25,000 has been extended to April 2005 and has had the annual interest rate reduced to 8%.

A summary of the debt repayments subsequent to September 30, 2004 is as follows:

	September 30, 2004	Transfer	Repayments	October 31, 2004
September 2002 Notes	\$100,000	\$(50,000)	\$(50,000)	\$-
March 2003 Notes	225,000		(55,000)	170,000
Consultant Note	25,000	50,000		75,000
February - August 2004 Notes	225,000		(70,000)	155,000
Related Party Note	100,000	-	-	100,000
Total	\$675,000	\$ 0	\$(175,000)	\$500,000

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

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

GENERAL

The Company provides capital and guidance to companies within the medical sector, in exchange for revenues, royalties and other contractual rights known as "royalty interests" that entitle it to receive a portion of revenue from the sale of pharmaceuticals, medical devices and biotechnology products. On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company is providing capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. During the nine months ended September 30, 2004, the Company paid \$640,000 as specified in the agreement which brought the total paid since the inception of the agreement to \$720,000. The agreement also calls for the Company to pay on behalf of PSI \$280,000 of certain expenses relating to testing of the bioshielding concept. During the nine months ended September 30, 2004, the Company paid \$74,060 of such expenses.

On January 19, 2004, the Company entered into a letter of intent with NeoStem, Inc., a California company, whose primary business is to establish an autologous adult stem cell bank. If a definitive agreement is reached, Phase III would provide funding and guidance in connection with the adult stem cell banking enterprise in exchange for a share of the revenues derived from such enterprise. This letter of intent has expired, however, the Company and NeoStem continue to discuss and work towards a definitive agreement. As of September 30, 2004, no payments have been made to NeoStem. No assurances can be given that a definitive revenue sharing agreement will be finalized, that the Company will raise the capital needed to fund its obligations to NeoStem, that NeoStem's collection, processing and storage technology will be successfully implemented, that NeoStem will be able to commercialize its adult stem cell banking enterprise, or that there will be market acceptance of any such enterprise sufficient to generate any material revenues for NeoStem or any material royalty revenues for the Company, or that any stem cell therapeutic strategies will be successfully developed or commercialized.

On March 31, 2004, the Company signed a Joint Venture Agreement with NeoStem to introduce NeoStem to potential clients for its services and/or technology. In exchange for such introductions, Phase III will receive 10% of any revenues or fees and 2% of any research grants received from or as a result of the introduced client. As of September 30, 2004, no payments have been received under this agreement.

RESULTS OF OPERATIONS

The Company recognizes revenue from its warranty service contracts business over the life of contracts executed. Additionally, the Company purchased insurance to fully cover any losses under the service contracts from a domestic carrier. The insurance premium expense and other costs related to the sale are amortized ratably over the life of the contracts.

Three Months Ended September 30, 2004 Compared To Three Months Ended September 30, 2003.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$2,968 for the three months ended September 30, 2004 as compared to \$15,294 for the three months ended September 30, 2003. The revenues generated in the quarter were derived entirely from revenues deferred over the life of contracts sold in prior periods. Similarly, direct costs incurred were \$1,964 and \$10,826 for the three months ended September 30, 2004 and 2003, respectively. In addition, the Company paid \$234,060 towards the purchase of royalty interests as per its agreement with PSI. Due to the uncertainty of the future revenues, the amounts paid have been charged to current operations.

General and administration expenses decreased approximately \$17,000 to \$184,342 for the three months ended September 30, 2004 as compared to \$201,253 for the three months ended September 30, 2003. The decrease in general and administrative expenses is primarily due to reductions in professional fees of \$59,000, investment banking expenses of \$10,000 offset by increases in salaries of \$24,000, D&O insurance of \$16,000 and investor relations of \$12,000.

Interest expense increased by approximately \$13,000 for the three months ended September 30, 2004 from the three months ended September 30, 2003 primarily as a result of short-term loans obtained in the last nine months of fiscal year ended December 31, 2003 and the nine months ended September 30, 2004.

For the reasons cited above, primarily the payment towards royalty interests, the net loss for the three months ended September 30, 2004 increased to \$500,495 from \$203,962 for the three months ended September 30, 2003.

Nine Months Ended September 30, 2004 Compared To Nine Months Ended September 30, 2003.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$37,383 for the nine months ended September 30, 2004 as compared to \$50,303 for the nine months ended September 30, 2003. The revenues generated in the nine months were derived entirely from revenues deferred over the life of contracts sold in prior periods. Similarly, direct costs incurred were \$26,108 and \$35,926 for the nine months ended September 30, 2004 and 2003, respectively. In addition, the Company paid \$714,060 towards the purchase of royalty interests as per its agreement with PSI. Due to the uncertainty of the future revenues, the amounts paid have been charged to current operations.

General and administration expenses decreased approximately \$30,000 to \$508,953 for the nine months ended September 30, 2004 as compared to \$539,321 for the nine months ended September 30, 2003. The decrease in general and administrative expenses is primarily due to reductions in professional fees of \$133,000, travel and entertainment of \$18,000, directors fees of \$13,000, investment banking fees of \$10,000 and other general expenses of \$8,000 offset by increases in salaries of \$74,000, D&O insurance of \$53,000, office rent of \$13,000 and investor relations of \$12,000.

Interest expense increased by approximately \$81,000 for the nine months ended September 30, 2004 from the nine months ended September 30, 2003 primarily as a result of short-term loans obtained in the last nine months of fiscal year ended December 31, 2003 and the nine months ended September 30, 2004.

For the reasons cited above, primarily the payments towards royalty interests, the net loss for the nine months ended September 30, 2004 increased to \$1,448,881 from \$594,528 for the nine months ended September 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
	----- September 30, 2004	September 30, 2003 -----
Cash used in Operating Activities	\$(1,120,064)	\$(861,354)
Cash (used) provided by Investing Activities	\$(3,934)	\$672,419
Cash provided by Financing Activities	\$1,374,487	\$202,240

The Company incurred a net loss of \$1,448,881 for the nine months ended

September 30, 2004. Such loss adjusted for non-cash items such as deferred revenues (net of deferred acquisition costs) (\$11,275) and other non cash credits totaling \$183,319 resulted in cash used in operations totaling \$1,120,064 for the nine months ended September 30, 2004, including working capital movements of \$145,498.

To meet its cash requirement for the nine months ended September 30, 2004, the Company relied on:

- (i) the net proceeds from the issuance of Promissory Notes in the amount of \$275,000; and
- (ii) the proceeds from the sale of the Company's common stock in the amount of \$1,109,000
- (iii) proceeds from the settlement of the Strandtek litigation

The Company has a contractual commitment to pay PSI up to an additional \$206,000 through the end of its agreement. As of September 30, 2004, the Company had cash balances totaling approximately \$461,000. The Company will rely on its current cash and proceeds from the sale of promissory notes and common stock to fund its new business operations until they become cash generative. The Company amended its equity private placement to raise up to \$4 million through the sale of up to 40 million shares of Common Stock in increments of \$5,000 or 50,000 shares. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these shares. The initial placement closed on December 31, 2003. As of September 30, 2004, the Company has sold 12,132,913 common shares resulting in net proceeds to the Company of \$1,109,000. Such shares have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption of registration requirements. Additionally, the Company issued \$325,000 of 20% promissory notes with maturity dates from 30 days to six months from the date of issue to fund the PSI payments and current operating expenses. The Company repaid \$100,000 of these notes as of September 30, 2004 and \$70,000 subsequent to September 30, 2004. In addition, the Company sold a six month 20% note in the amount of \$100,000 to its Chief Operating Officer ("COO"). Upon maturity, the Company and the COO have agreed to convert the principal amount of the note into shares of the Company's common stock at 85% of the average price as quoted on the NASD Over-the-Counter Bulletin Board for the five days prior to the maturity date of the note. All interest is paid monthly in arrears. As of September 30, 2004 this note remains unpaid. All interest payments have been paid timely. The Company plans to meet its current and future obligations through the sales of common stock and loans from accredited investors. There can be no assurance that sufficient proceeds will be raised to meet current obligations when due.

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

INFLATION

The Company does not believe that its operations have been materially influenced by inflation for the nine months ended September 30, 2004, a situation which is expected to continue for the foreseeable future.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

Item 4. CONTROLS AND PROCEDURES

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

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

PHASE III MEDICAL, INC.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company was in default on the September 2002 60-day promissory notes sold to accredited investors in the amount of \$100,000 as of September 30, 2004. The notes include a default penalty pursuant to which if the notes are not paid on the due date the holder shall have the option to purchase twenty five thousand shares of the Company's common stock for an aggregate purchase price of \$125. If the nonpayment continues for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note is paid in full, the holder shall have the option to purchase an additional twenty five thousand shares of the Company's common stock for an aggregate purchase price of \$125. During the nine months ended September 30, 2004, options for 800,000 shares were exercised by the note holders. At September 30, 2004, the Company had reserved 1,075,000 shares of the Company's common stock for issuance against exercise of the options granted pursuant to the default penalty. Subsequent to September 30, 2004, all options were exercised and \$50,000 of these notes was repaid and \$50,000 of these notes was converted to a new 8% note due in June 2005 with all interest paid at maturity.

Notes issued from March through August 2003, for \$225,000, are in default and bear interest at 20% per annum. In October 2004, \$55,000 of these notes was repaid and \$170,000 of these notes was extended to April 1, 2005 and therefore, no longer in default. Notes issued in February and March 2004, for \$125,000 is in default. Two of these notes, for \$50,000, require an additional interest payment of \$250 per \$25,000 invested for each 30 day period they remain unpaid. At September 30, 2004, \$95,000 of these notes remain unpaid, however \$70,000 was repaid in October 2004 and the balance of \$25,000 was extended to a maturity date of April 1, 2005, the interest rate reduced to 8% and therefore no longer in default.

Cumulative dividends payable on Series A Convertible Redeemable Preferred Stock totaled \$468,959 at September 30, 2004, of which \$35,763 represents dividends for the nine months then ended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

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

(b) Reports on Form 8-K

One Current Report on Form 8-K was filed by the Company during the quarter ended September 30, 2004.

Date filed: September 13, 2004

Items: 3.02 - Sale of 7,282,913 of unregistered shares of the Company's Common Stock to Aholt, Jr. Family Trust
5.02 - Appointment of Robert Aholt, Jr. as Chief Operating Officer
9.01 - Exhibits

SIGNATURES

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

PHASE III MEDICAL, INC. (Registrant)

By: /s/ Mark Weinreb

Mark Weinreb, President and Chief Executive Officer

Date: November 12, 2004

CERTIFICATION

I, Mark Weinreb, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phase III Medical, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly;
4. The registrant's other certifying officer(s) (if any) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) presented in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2004

/s/ Mark Weinreb

Name: Mark Weinreb

Title: Chief Executive Officer of Phase III Medical, Inc.

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

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

In connection with the Quarterly Report of Phase III Medical, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2004 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Weinreb, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of the dates presented and the result of operations of the Company for the periods presented.

Dated: November 12, 2004

/s/Mark Weinreb

Mark Weinreb
Chief Executive Officer

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

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