

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 1934

Date of Report (Date of earliest event reported):
December 31, 2005

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 11747

(Address of principal executive offices) (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

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Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On December 31, 2005, January 6, 2006 and January 13, 2006, the Registrant, entered into Subscription Agreements (the "Agreement") with certain accredited investors and consummated the sale of Units consisting of Convertible Promissory Notes and detachable warrants under Regulation D under the Securities Act of 1933, as amended. Gross proceeds raised were \$250,000 on December 31, 2005, \$137,500 on January 6, 2006 and \$50,000 on January 13, 2006, totaling to date an aggregate of \$437,500 in gross proceeds.

Each Unit was comprised of: (a) a nine month note in the principal amount of \$25,000 bearing 9% simple interest, payable semi-annually, with the 2nd payment paid upon maturity, convertible into shares of the Company's common stock, \$.001 par value (the "Common Stock") at a conversion price of \$.06 per share; and (b) 416,666 detachable three year Warrants, each for the purchase of one share of Common Stock at an exercise price of \$.12 per share.

The Notes are subject to mandatory conversion by the Company if the closing price of the Common Stock has been at least \$.18 for a period of at least 10 consecutive trading days prior to the date on which notice of conversion is sent by the Company to the holders of the Promissory Notes, and if the underlying shares are then registered for resale with the SEC.

Holders of the Units are entitled to certain registration rights. The Company will, promptly following the last closing date, endeavor to file a Registration Statement with the SEC to include the shares of Common Stock underlying the Promissory Notes, the shares of Common Stock underlying the

Warrants, the shares of Common Stock issued to the Placement Agent as its fee (the "Placement Agent Shares") and the shares of Common Stock underlying the warrants (the "Placement Agent Warrants") issued to the Placement Agent in payment of its fee. In the event that the Registration Statement is not declared effective by the SEC as of the six-month anniversary of the last closing date, the conversion price of the Promissory Notes and the exercise price of the Warrants shall be decreased by five percent for each 30-day period that the Registration Statement is not declared effective by the SEC; provided, however, that in no event shall the conversion price of the Promissory Notes and the exercise price of the Warrants be decreased pursuant to the operation of this provision to an amount that is less than \$.04 and \$.10 respectively

The Company paid to WestPark Capital, Inc. (the "Placement Agent") a commission (i) in cash equal to 10% of the aggregate principal amount of the Promissory Notes sold (\$43,750); (ii) 437,500 shares of common stock; and (iii) a warrant to purchase 729,166 shares of the Company's common stock. The Placement Agent was also reimbursed for certain expenses.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

Exhibit 10.1 Form of Convertible Promissory Note.

Exhibit 99.1 Form of Warrant.

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

Dated: January 18, 2006

CONVERTIBLE PROMISSORY NOTE

US\$ _____

New York, New York
December [__], 2006

FOR VALUE RECEIVED, PHASE III MEDICAL, INC., a Delaware corporation (the "Maker"), unconditionally, subject to the terms hereof, hereby promises to pay to the order of [_____] a [_____] corporation, or its successor or assigns (the "Holder"), at such place as the Holder may from time to time designate in writing to the Maker, in lawful money of the United States of America, the principal sum of _____ Thousand and No/100 Dollars (\$_____), together with interest as herein provided, subject to the terms set forth in this Convertible Promissory Note (the "Note"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Subscription Agreement or the Notes.

Section 1. Term. The principal balance of this Note, together with all accrued interest, shall be payable on the earlier of (i) the "Maturity Date" (as defined in Section 2, below) or (ii) the occurrence of any of the "Events of Default" (as defined in Section 6, below). Upon the payment in full of the outstanding principal and all accrued interest thereon, this Note shall be surrendered to the Maker for cancellation.

Section 2. Maturity Date. The "Maturity Date" is September [__], 2006.

Section 3. Interest; Prepayment. The unpaid principal balance of this Note shall bear interest at the rate of nine percent (9%) per annum payable semi-annually on June __, 2006 and the Maturity Date. Interest shall commence to accrue as of the date hereof and shall be calculated on the basis of a 365-day year. Any interest not paid shall be capitalized as principal and compounded semiannually. In no event shall the Holder be entitled to interest exceeding the maximum rate permitted by the laws of the State of Delaware. If any excess of interest is provided for or shall be adjudicated to be so provided for in this Note, then in such event: (i) the provisions of this paragraph shall govern and control; (ii) the Maker shall not be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount permitted by the laws of the State of Delaware; and (iii) any such excess which may have been collected or attributed shall be subtracted from the then unpaid principal amount hereof, or refunded to the Maker. For so long as any Event of Default is continuing, and until such default has been cured, interest shall accrue at a rate of 14% per annum on the unpaid portion of principal and interest on this Note.

Subject to the Maker's providing not less than 10 days' written notice to the Holder to provide the Holder with the opportunity to exercise any or all of his conversion rights, the Maker may prepay this Note at any time, in whole or in part, without premium or penalty. All such payments shall be applied first to accrued but unpaid interest and the remainder to principal.

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Section 4. Conversion.

- (a) Optional Conversion. All or any portion of the principal amount of this Note then outstanding, together with any accrued and unpaid interest hereunder, may be converted at the option of the Holder at any time and from time to time into shares of the Maker's common stock, \$.001 par value (the "Common Stock") at a conversion price (the "Conversion Price") of \$.06 per share of Common Stock (a "Conversion Share"), with the number of Conversion Shares subject to adjustment from time to time pursuant to Section 11, at the sole discretion of the Holder, at any time through and including the Maturity Date. The Holder may effect conversions under this Section 4, by delivering written notice in the form attached hereto as Exhibit A (the "Conversion Notice") to the Maker. Holder may convert the principal amount of this Note and if the Holder is converting less than all of the principal amount, together with any accrued and unpaid interest hereunder, represented by this Note, the Maker shall honor such conversion to the extent permissible hereunder and shall promptly deliver to the Holder a schedule in the form of Schedule 1 attached hereto (the "Conversion Schedule") indicating the principal amount which has not been converted.

(b) Mandatory Conversion. On the day that written notice is given to the Holder by the Company, this Note shall be automatically converted into Conversion Shares at the then effective Conversion Price if (a) the closing price for a share of Common Stock as reported on the Over the Counter Bulletin Board (or the principal market for the Company's Common Stock at the time if other than the Over the Counter Bulletin Board) has been at least \$.18 per share (subject to adjustment consistent with any adjustment in the Conversion Price hereunder) for the period of 10 consecutive trading days prior to the date on which such notice is sent by the Company, and (b) the Conversion Shares to be issued upon conversion and the shares underlying the Unit Warrant Shares have been registered for resale pursuant to a registration statement declared and remaining effective pursuant to the Securities Act of 1933, as amended (the "Securities Act").

Section 5. Mechanics of Conversion.

(a) Number of Issuable Conversion Shares. The number of Conversion Shares issuable upon conversion of the Note and any interest thereunder shall equal the outstanding principal amount of this Note and any interest thereon to be converted, divided by the Conversion Price on the "Conversion Date,". The Conversion Date is the date of the Conversion Notice.

(b) Effective Date of Conversion; Certificate. Each and every conversion hereunder shall be effective on the Conversion Date. The Maker shall, by the fifth business day following each Conversion Date, issue or cause to be issued and cause to be delivered to or upon the written order of the Holder and in such name or names as the Holder may designate a certificate for the Conversion Shares. The Holder, or any Person so designated by the Holder to receive Conversion Shares, shall be deemed to have become holder of record thereof as of such Conversion Date.

(c) Effect of Conversion Notice. The Holder shall deliver this original Note to the Maker to effect a conversion hereunder or an affidavit of loss and indemnity agreement in form and substance reasonably acceptable to the Maker and in accordance with Section 12.1. Notwithstanding any failure to deliver the original Note, execution and delivery of the Conversion Notice by the Holder shall have the same effect as cancellation of the Note and issuance of a New Note representing the remaining outstanding principal amount.

(d) The Maker's Obligations. The Maker's obligations to issue and deliver Conversion Shares upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation, or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Maker or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Maker to the Holder in connection with the issuance of such Conversion Shares.

Section 6. Events of Default. Upon the occurrence of any of the following "Events of Default," all principal and accrued and unpaid interest shall immediately become due and payable:

(a) Bankruptcy, etc. The Company shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or an involuntary case is commenced against the Company, and the petition is not controverted within 20 days, or is not dismissed within 60 days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of the Company, or the Company commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Company, or there is commenced against the Company any such proceeding which remains undismissed for a period of 60 days, or the Company is adjudicated insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or the Company suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or the Company makes a general assignment for the benefit of creditors; or any corporate action is taken by the Company for the purpose of effecting any of the foregoing;

(b) Breach of Covenants. The breach of any of the covenants of the Maker set forth in this Note and the Warrant To Purchase Shares of Common Stock of the Maker issued to Holder as of the date hereof, subject to a thirty calendar day period to cure following written notice thereof from Holder.

(c) Nonpayment of Principal and Interest. If any of the principal or accrued and unpaid interest shall not be paid when due, subject to a thirty day period to cure.

Section 7. Charges, Taxes, and Expenses. Issuance of certificates for Conversion Shares upon conversion of (or otherwise in respect of) this Note shall be made without charge to the Holder for any issue or transfer tax,

withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Maker; provided, however, that the Maker shall not be required to pay any tax that may be payable in respect of any transfer involved in the registration of any certificates for Conversion Shares or Note in a name other than that of the Holder.

Section 8. Reservation of Common Stock. The Maker covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Conversion Shares as required hereunder, the number of shares of Common Stock that are then issuable and deliverable upon the conversion of (and otherwise in respect of) this entire Note (taking into account the adjustments of Section 10), free from preemptive rights or any other contingent purchase rights of persons other than the Holder. The Maker covenants that all Conversion Shares so issuable and deliverable shall, upon issuance in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

Section 9. Certain Adjustments. The Conversion Price is subject to adjustment from time to time as set forth in this Section 10.

(a) Stock Dividends and Splits. If the Maker, at any time while this Note is outstanding: (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this subsection shall become effective immediately after the record date for the determination of shareholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this subsection shall become effective immediately after the effective date of such subdivision or combination.

(b) Reorganization, Consolidation, Merger, etc. In case at any time or from time to time, the Maker shall (a) effect a reorganization, (b) consolidate with or merge with or into any other person, (c) reclassify its shares of capital stock in such a manner as would effect its Common Stock, or (d) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Maker, then, in each such case, as a condition to the consummation of such a transaction, proper and adequate provision shall be made by the Maker whereby the Holder of the Note, on the conversion hereof as provided in Section 4, at any time after the consummation of such reorganization, consolidation, merger, or reclassification or the effective date of such dissolution, as the case may be, shall receive, in lieu of the Conversion Shares and Conversion Warrants issuable on such conversion prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so converted this Note, immediately prior thereto, all subject to further adjustment thereafter as otherwise provided in this Section 10.

(c) Calculations. All calculations under this Section 10 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The

number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Maker, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(d) Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 11, the Maker at its expense will compute such adjustment in accordance with the terms hereof. Upon written request by a Holder, Maker will deliver to any Holder so requesting a certificate describing in reasonable detail such adjustment and the transactions giving rise thereto,

Section 10. Fractional Shares. The Maker shall not be required to issue or cause to be issued fractional Conversion Shares on conversion of this Note. If any fraction of a Conversion Share would, except for the provisions of this Section 10, be issuable upon conversion of this Note or payment of interest hereon, the number of Conversion Shares to be issued will be rounded up to the nearest whole Conversion Share.

Section 11. Miscellaneous.

(a) Exchange; Lost, Stolen, Destroyed, or Mutilated Note. Upon receipt of evidence reasonably satisfactory to the Maker of the ownership of and the loss, theft, destruction, or mutilation of this Note and (in the case of loss, theft, or destruction) upon delivery of an indemnity agreement in an amount and by a person or an entity reasonably satisfactory to the Maker, or (in the case of mutilation) upon surrender and cancellation of the mutilated Note, the Maker will execute and deliver, in lieu thereof, a new Note containing the same terms and conditions, as adjusted for unpaid principal and interest on this Note.

(b) Successors and Assigns. The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Note, express or implied, is intended to confer upon any party, other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Note, except as expressly provided in this Note.

(c) Notices. Any notice required or permitted under this Note shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or by telex or confirmed facsimile, or one delivery day after deposit with a recognized overnight express delivery service or courier (for FedEx Express Overnight [or equivalent] delivery to and from an address within the United States of America) or three delivery days after deposit with a recognized overnight express delivery service or courier (for FedEx Express International Priority [or equivalent] delivery to and from an address outside the United States of America), and addressed to the party to be notified at the address indicated for such party below, or at such other address as such party may designate by ten days' advance written notice to the other party:

(a) If to the Maker: Phase III Medical, Inc.
330 South Service Road
Suite 120
Melville, NY 11747
Attention: Mark Weinreb, Chief Executive Officer
Facsimile: 631.574.4955

With a copy to: (which shall not constitute notice)
Lowenstein Sandler PC
65 Livingston Ave.
Roseland, NJ 07068
Fax 973.597.2565

(b) If to the Holder: [_____
[_____
[_____
[_____
Facsimile: [_____]

With a copy to: Meister Seelig & Fein LLP
(which shall not constitute notice) 140 East 45th Street, 19th Floor
New York, NY 10017
Attention: Ronniel Levy, Esq.
Facsimile: 646.539.3622

(d) Severability. If one or more provisions of this Note are held to be unenforceable under applicable law, such provisions shall be excluded from this Note and the balance of this Note shall be interpreted as if such provisions were so excluded and shall be enforceable in accordance with its terms.

(e) Consents, Waivers, and Modifications. No consent, waiver or modification of any nature relating to this Note, or the obligations of the Maker hereunder, shall be effective unless the same is in writing and signed by an authorized representative of the Holder.

(f) Entire Agreement. This Note and the other documents delivered pursuant hereto, or referenced herein, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof.

(g) Governing Law. This Note shall be construed in accordance with and governed by the laws of the State of Delaware and the venue for any dispute resolution process shall be New York County, New York. Subject to the terms of this Note, this Note is an instrument representing an unconditional obligation of the Maker for payment of money only and is enforceable by summary proceeding and without a jury pursuant to New York C.P.L.R. 3213, in the Supreme Court of the State of New York, County of New York.

(h) Further Assurances. At any time or from time to time upon request of a party hereto (the "Requesting Party"), the other party hereto will execute and deliver such further documents and do such other acts and things as the Requesting Party may reasonably request in order fully to effectuate the purpose of this Note and to provide for the payment of the principal and interest due hereunder.

(i) No Stockholder Rights. No provision of this Note shall be construed as conferring upon the Holder the right to vote or to consent or to receive dividends or to receive notice as a stockholder in respect of meetings of stockholders for the election of directors of the Maker or any other matter whatsoever as a stockholder of the Maker. No provision hereof, in the absence of conversion referred to in Section 4 hereof, and no mere enumeration herein of

the rights or privileges of the Holder, shall give rise to any liability of Holder for the purchase price of such shares or as a stockholder of the Maker, whether such liability is asserted by the Maker, creditors of the Maker, or others.

(j) Amendments. This Note may not be amended without the prior, written consent of the Holder (which consent shall not be unreasonably withheld, delayed, or denied), if such amendment would materially and adversely disadvantage the Holder or one or more of such holders vis-a-vis any of such other holders.

(k) Headings. The titles and subtitles used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

IN WITNESS WHEREOF, the undersigned has executed or caused a duly authorized officer or representative to execute this Note, all as of the date first above written.

PHASE III MEDICAL, INC.
a Delaware corporation

By: _____
Mark Weinreb, Chief Executive Officer

EXHIBIT A

CONVERSION NOTICE

(To be Executed by the Registered Holder in order to convert Note)

The undersigned hereby elects to convert the principal amount of Note and any accrued interest thereon indicated below, into Units, as of the date written below. If shares are to be issued in the name of a Person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Maker in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any. All terms used in this notice shall have the meanings set forth in the Note.

Conversion calculations:

Date to Effect Conversion

Principal amount of Note owned prior to conversion

Principal amount of Note to be Converted

Principal amount of Note remaining after Conversion

Accrued Interest to be Converted

Number of shares of Common Stock to be Issued

Applicable Conversion Price

Name of Holder

By: _____

Name: _____

Title: _____

Schedule 1

PHASE III MEDICAL, INC.
CONVERTIBLE NOTE DUE SEPTEMBER [___], 2006

CONVERSION SCHEDULE

This Conversion Schedule reflects conversions made under the above-referenced Note.

Date of Conversion	Amount of Conversion	Aggregate Principal Amount Remaining Subsequent to Conversion	Applicable Conversion Price

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED, OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

Warrant No. _____

WARRANT TO PURCHASE SHARES OF COMMON STOCK

OF

PHASE III MEDICAL, INC.

THIS CERTIFIES that, in consideration of the receipt of _____ (\$_____) and other value received, [_____] is entitled to purchase from PHASE III MEDICAL, INC., a Delaware corporation (the "Corporation"), subject to the terms and conditions hereof, _____ shares (the "Warrant Shares") of common stock, \$.001 par value (the "Common Stock"). This warrant, together with all warrants hereafter issued in exchange or substitution for this warrant, is referred to as the "Warrant" and the holder of this Warrant is referred to as the "Holder." The number of Warrant Shares is subject to adjustment as hereinafter provided. Notwithstanding anything to the contrary contained herein, this Warrant shall expire at 5:00 p.m. (Eastern Time) on December [___], 2008 (the "Termination Date").

1. Exercise of Warrants.

(a) The Holder may, at any time prior to the Termination Date, exercise this Warrant in whole or in part at an exercise price per share equal to \$.12 per share, subject to adjustment as provided herein (the "Exercise Price"), by the surrender of this Warrant (properly endorsed) at the principal office of the Corporation, or at such other agency or office of the Corporation in the United States of America as the Corporation may designate by notice in writing to the Holder at the address of such Holder appearing on the books of the Corporation, and by payment to the Corporation of the Exercise Price in lawful money of the United States by check or wire transfer for each share of Common Stock being purchased. Upon any partial exercise of this Warrant, there shall be executed and issued to the Holder a new Warrant in respect of the shares of Common Stock as to which this Warrant shall not have been exercised. In the event of the exercise of the rights represented by this Warrant, a certificate or certificates for the Warrant Shares so purchased, as applicable, registered in the name of the Holder, shall be delivered to the Holder hereof as soon as practicable after the rights represented by this Warrant shall have been so exercised.

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(b) If, but only if, at any time after six months from the date of the Final Closing, there is no effective registration statement registering the resale of the Common Stock underlying this Warrant, other than during an Allowed Delay as defined in the Subscription Agreement dated of even day herewith, this Warrant may also be exercised at such time by means of a "cashless exercise" in which, at any time prior to the Termination Date, the Holder of this Warrant may, at its option, elect to have the Company reduce the number of Warrant Shares otherwise issuable by a number of shares of Common Stock delivered to the Company by the Holder having a fair market value equal to the exercise price of the Warrant Shares being purchased. For purposes hereof, "fair market value" shall mean Fair Market Value of one share of Company Common Stock shall mean the average closing price (the "Price") of one share of Company Common Stock on the National Association of Securities Dealers, Inc. Over-the-Counter Bulletin Board (the "Bulletin Board") (or other similar exchange or association on which the Company Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date for which such Fair Market Value is being determined. If the Company Common Stock is not then quoted on the Bulletin Board or otherwise listed or quoted on an exchange or association, the Price shall be the fair market value of one share of Company Common Stock as of the date for which such Fair Market Value is being determined as determined in good faith by the Board of Directors of the Company.

2. Reservation of Warrant Shares. The Corporation agrees that, prior to the expiration of this Warrant, it will at all times have authorized and in

reserve, and will keep available, solely for issuance or delivery upon the exercise of this Warrant, the number of Warrant Shares as from time to time shall be issuable by the Corporation upon the exercise of this Warrant.

3. No Stockholder Rights. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a stockholder of the Corporation.

4. Transferability of Warrant. Prior to the Termination Date and subject to compliance with applicable Federal and State securities and other laws, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed for transfer. Any registration rights to which this Warrant may then be subject shall be transferred together with the Warrant to the subsequent purchaser.

5. Certain Adjustments. With respect to any rights that Holder has to exercise this Warrant and convert into shares of Common Stock, Holder shall be entitled to the following adjustments:

(a) Merger or Consolidation. If at any time there shall be a merger or a consolidation of the Corporation with or into, or if the Corporation shall enter into an agreement providing for the transfer or sale of all or substantially all of its assets to, another entity (the "Surviving Entity") when the Corporation is not the surviving corporation, then, as part of such merger or consolidation or transfer of assets, lawful provision shall be made so that the holder hereof shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property (including cash) of the Surviving Entity resulting from such merger,

consolidation or transfer of assets, to which the holder hereof as the holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger, consolidation or transfer of assets, if this Warrant had been exercised immediately before such transaction. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the holder hereof as the holder of this Warrant after the merger, consolidation, or transfer of assets. Under no circumstances may the Corporation into any agreement or instrument providing for the merger, consolidation or transfer of its assets or similar transaction without first assuring Warrant is fully enforceable and exercisable with respect to the Surviving Entity as contemplated by this Warrant.

(b) Reclassification, Recapitalization, etc. If the Corporation at any time shall, by subdivision, combination or reclassification of securities, recapitalization, automatic conversion, or other similar event affecting the number or character of outstanding shares of Common Stock, or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split or Combination of Common Stock and Stock Dividend. In case the Corporation shall at any time subdivide, redivide, recapitalize, split (forward or reverse) or change its outstanding shares of Common Stock into a greater number of shares or declare a dividend upon its Common Stock payable solely in shares of Common Stock, the Exercise Price shall be proportionately reduced and the number of Warrant Shares proportionately increased. Conversely, in case the outstanding shares of Common Stock of the Corporation shall be combined into a smaller number of shares, the Exercise Price shall be proportionately increased and the number of Warrant Shares proportionately reduced.

6. Legend and Stop Transfer Orders. Unless the Warrant Shares have been registered under the Securities Act, upon exercise of any part of the Warrant, the Corporation shall instruct its transfer agent to enter stop transfer orders with respect to such Warrant Shares, and all certificates or instruments representing the Warrant Shares shall bear on the face thereof substantially the following legend:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED, OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

7. Miscellaneous. This Warrant shall be governed by and construed in accordance with the laws of the State of New York. All the covenants and provisions of this Warrant by or for the benefit of the Corporation shall bind and inure to the benefit of its successors and assigns hereunder. Nothing in this Warrant shall be construed to give to any person or corporation other than the Corporation and the holder of this Warrant any legal or equitable right, remedy, or claim under this Warrant. This Warrant shall be for the sole and exclusive benefit of the Corporation and the Holder. The section headings herein

are for convenience only and are not part of this Warrant and shall not affect the interpretation hereof. Upon receipt of evidence satisfactory to the Corporation of the loss, theft, destruction, or mutilation of this Warrant, and of indemnity reasonably satisfactory to the Corporation, if lost, stolen, or destroyed, and upon surrender and cancellation of this Warrant, if mutilated, the Corporation shall execute and deliver to the Holder a new Warrant of like date, tenor, and denomination.

IN WITNESS WHEREOF, the Corporation has caused this Warrant to be executed by its duly authorized officers under its seal, this [__] day of December 2005.

PHASE III MEDICAL, INC.

Mark Weinreb, President & Chief Executive Officer

WARRANT EXERCISE FORM

To Be Executed by the Holder in Order to Exercise Warrant

To: Phase III Medical, Inc.
330 South Service Road
Suite 120
Melville, New York 11747
Attn: President and CEO

Dated: _____, 200_

The undersigned, pursuant to the provisions set forth in the attached Warrant No. _____, hereby irrevocably elects to purchase (check applicable box):

- [-] _____ shares of the Common Stock of Phase III Medical, Inc. covered by such Warrant; or
[-] the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in subsection 1(b) (if applicable).

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant. Such payment takes the form of (check applicable box or boxes):

- [-] \$_____ in lawful money of the United States; and/or
[-] if the provisions of subsection 1(b) of this Warrant are in effect, the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ Warrant Shares (using a Fair Market Value of \$_____ per share for purposes of this calculation); and/or
[-] if the provisions of subsection 1(b) of this Warrant are in effect, the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 1(b), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 1(b).

The undersigned hereby requests that certificates for the Warrant Shares purchased hereby be issued in the name of:

(please print or type name and address)

(please insert social security or other identifying number)

and be delivered as follows:

(please print or type name and address)

(please insert social security or other identifying number)

and if such number of shares of Common Stock shall not be all the shares evidenced by this Warrant Certificate, that a new Warrant for the balance of such shares be registered in the name of, and delivered to, Holder.

Signature of Holder

SIGNATURE GUARANTEE:

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form. Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

whose address is

Dated: _____, 200_

Holder's Signature: -----

Holder's Address: -----

Signature Guaranteed: -----

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust Corporation. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing warrant.