

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, 2005

OR

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

For the Transition Period from _____ to _____

Commission file number 0-10909

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

DELAWARE
(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 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

55,645,530 SHARES, \$.001 PAR VALUE, AS OF NOVEMBER 10, 2005

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

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PHASE III MEDICAL, INC.

BALANCE SHEETS
(Unaudited)

ASSETS

	September 30, 2005	December 31, 2004
Current assets:		
Cash and equivalents	\$ 10,377	\$ 27,868
Prepaid expenses and other current assets	24,218	21,233
Total current assets	34,595	49,101
Property and equipment, net	1,978	3,446
Deferred acquisition costs	24,127	43,897
Other assets	3,000	3,000
	\$ 63,700	\$ 99,444

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Interest and dividends payable - preferred stock	\$ 516,643	\$ 480,880
Accounts payable and accrued expenses	380,372	235,053
Accounts payable and accrued expenses related parties	327,261	2,999
Notes payable	400,000	390,000
Notes payable - related parties	148,000	85,000
Convertible debentures, related party - net of debt discount of \$0 and \$5,882	100,000	94,118
Total current liabilities	1,872,276	1,288,050
Unearned revenues	33,806	62,007
Series A mandatorily redeemable convertible preferred stock	681,174	681,174
Total Liabilities	2,587,256	2,031,231
Stockholders' Deficit:		
Preferred stock; authorized, 5,000,000 shares Series B convertible redeemable preferred stock, liquidation value, 10 shares of common stock per share; \$0.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares	100	100
Common stock, \$.001 par value; authorized, 250,000,000 shares; issued and outstanding, 53,256,843 shares at September 30, 2005 and 41,029,552 shares at December 31, 2004	53,257	41,031
Additional paid-in capital	11,151,500	10,537,408
Accumulated deficit	(13,728,413)	(12,510,326)
Total stockholders' deficit	(2,523,556)	(1,931,787)
	\$ 63,700	\$ 99,444

See accompanying notes to financial statements

PHASE III MEDICAL, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Earned revenues	\$ 8,218	\$ 2,968	\$ 28,201	\$ 37,383
Direct costs	(5,750)	(1,964)	(19,770)	(26,108)
Gross profit	2,468	1,004	8,431	11,275
Selling, general and administrative	(538,070)	(184,342)	(1,112,331)	(508,953)
Purchase of medical royalty stream	(6,540)	(234,060)	(6,540)	(714,060)
Operating loss	(542,142)	(417,398)	(1,110,440)	(1,211,738)
Other income (expense):				
Interest income	-	-	-	159
Interest expense	(21,288)	(71,176)	(71,884)	(201,539)
Interest expense - Series A mandatorily redeemable convertible preferred stock	(11,921)	(11,921)	(35,763)	(35,763)
Net loss attributable to common stockholders	\$ (575,351)	\$ (500,495)	\$ (1,218,087)	\$ (1,448,881)
Net loss per common share	\$ (.01)	\$ (.01)	\$ (.03)	\$ (.05)
Weighted average common shares outstanding	51,237,184	33,464,208	46,257,323	29,885,230

See accompanying notes to financial statements.

PHASE III MEDICAL, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net loss	\$(1,218,087)	\$(1,448,881)
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	239,318	152,337
Depreciation	1,468	1,933
Deferred acquisition costs	19,770	26,108
Amortization of debt discount	5,882	2,941
Series A mandatorily redeemable preferred stock dividends	35,763	
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	(2,985)	18,024
Unearned revenues	(28,201)	(37,383)
Accounts payable, accrued expenses and other current liabilities	469,581	164,857
Net cash used in operating activities	(477,491)	(1,120,064)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(3,934)
Net cash used in investing activities	-	(3,934)
Cash flows from financing activities:		
Net Proceeds from issuance of common stock	287,000	1,109,000
Proceeds from advances on notes payable	55,000	410,000
Proceeds from advances on notes payable - related parties	48,000	
Proceeds from convertible debenture, related party	100,000	100,000
Repayments of notes payable	(30,000)	(235,000)
Repayment of long-term debt	-	(9,513)
Net cash provided by financing activities	460,000	1,374,487
Net (decrease) increase in cash and cash equivalents	(17,491)	250,489
Cash and cash equivalents at beginning of period	27,868	210,947
Cash and cash equivalents at end of period	\$ 10,377	\$ 461,436
	2005	2004
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 64,166	\$ 61,825
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	\$ 236,122	\$ 6,000
Compensatory element of stock options	\$ 3,196	\$ 127,137

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") provides capital as well as consulting and guidance to companies in multiple sectors of the healthcare and life sciences industries, in exchange for a percentage of revenues, royalty fees, licensing fees and other product sales of the target companies. The Company charges payments for the purchase of these interests to expense as paid and will record revenues when payments are received. As of September 30, 2005, the Company has not received any such payments. Through June 30, 2002, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com. The business of the Company today comprises the "run off" of its sale of extended warranties and service contracts via the Internet and the new business opportunity it is pursuing in the healthcare and life sciences industries.

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, 2005 and December 31, 2004, the results of operations for the three and nine months ended September 30, 2005 and 2004 and the cash flows for the nine months ended September 30, 2005 and 2004. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

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

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

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, 2005	September 30, 2004	Nine Months Ended September 30, 2005	September 30, 2004
Net loss as reported	\$ (575,351)	\$ (500,495)	\$ (1,218,087)	\$ (1,448,881)
Additional compensation	(49,553)	(7,488)	(85,005)	(165,273)
Adjusted net loss	\$ (624,904)	\$ (507,983)	\$ (1,303,092)	\$ (1,614,154)
Net loss per share as reported	\$ (.01)	\$ (.01)	\$ (.03)	\$ (.05)
Adjusted net loss per share	\$ (.01)	\$ (.02)	\$ (.03)	\$ (.05)

NOTE 4 - NOTES PAYABLE

On March 17, 2003, the Company commenced a private placement offering which raised \$250,000 in 6-month promissory notes in increments of \$5,000 bearing interest at 15% per annum. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Securities Act"), were eligible to purchase these promissory notes. As of September 30, 2005, \$170,000, of which \$15,000 is to a related party, is outstanding from the original \$250,000 and is in default and remains unpaid. All interest payments on these notes have been made.

On August 26, 2003, the Company borrowed \$25,000 from a then consultant to the Company. In October 2004, this note was combined with a note of \$50,000 previously held by an unrelated third party. This new note accrues interest at 8% and was due on August 31, 2005 together with the accrued interest. As of September 30, 2005, this note remains unpaid and is in default. All interest payments have been accrued.

In February 2004, the Company commenced a sale of 30 day 20% notes in the amount of \$125,000 to three accredited investors to fund current operations. It was anticipated that these notes would be repaid from the proceeds of the January 2004 amended equity private placement. Two of these notes have a default provision that if they are not paid within 30 days, there is an additional interest payment of \$250 per \$25,000 of principal outstanding for each 30 day period or part thereof the notes remain unpaid. As of September 30, 2005, all of these notes together with accrued interest have been repaid. In May 2004, the Company sold an additional 30 day 20% note in the amount of \$40,000 to an accredited investor to fund current operations. This note plus interest has been repaid. In July 2004, the Company sold a five month 20% note in the amount of \$25,000 and two six month 20% notes totaling \$80,000 to three accredited investors to fund current operations. As of September 30, 2005, the \$25,000 note has been repaid together with accrued interest. As of September 30, 2005 the remaining \$80,000 is in default. All interest has been paid. 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, 2005, \$25,000 of these notes remains unpaid and is in default. All interest payments have been made. In December 2004, the Company sold a 60 day 8% note in the amount of \$35,000 to the President and CEO, a 180 day 15% note in the amount of \$25,000 to a related party, a 180 day 20% note in the amount of \$15,000, of which \$5,000 has been repaid and a 90 day 8% note in the amount of \$25,000 to a Director, all accredited investors, totaling \$100,000. As of September 30, 2005, these notes remain unpaid and are in default. All interest payments have been made.

In August 2004, the Company sold a six month 20% convertible note in the amount of \$100,000 to its Chief Operating Officer ("COO"). Upon maturity, the Company and the COO have agreed to convert the principal amount of the new note into shares of the Company's Common Stock at 85% of the average price as quoted on the NASD Over-the-Counter Bulletin Board for the five days prior to the maturity date of the note. The remaining debt discount of \$5,882 was amortized in the first quarter of 2005. On February 20, 2005, the note was converted into 1,960,784 shares of Common Stock as per the prescribed formula. All interest payments have been paid.

In January 2005, the Company sold a six month 20% note in the amount of \$25,000 to an accredited investor to fund current operations. This note is in default and remains unpaid. All interest payments have been made. In February 2005, the Company sold a six month 20% note in the amount of \$10,000 to an accredited investor to fund current operations. This note is in default and remains unpaid. All interest payments have been made. In March 2005, the Company sold a 30 day 8% note in the amount of \$17,000 to the President and CEO and a one year 15% note in the amount of \$20,000 to

two accredited investors to fund current operations. All interest payments on these notes are current. The note in the amount of \$17,000 remains unpaid and is in default as of September 30, 2005.

In April 2005, the Company sold a one year 15% note in the amount of \$100,000 to its Executive Vice President and General Counsel. The note contains certain rights and obligations regarding its conversion into shares of the Company's Common Stock. All interest payments on this note have been made.

In August 2005, the Company sold an 8% note in the amount of \$10,000 to its President and CEO, an accredited investor which is due on demand.

In September 2005, Company sold two 8% notes in the amounts of \$6,000 and \$15,000 to its President and CEO, an accredited investor which are due on demand.

A summary of the above descriptions is as follows:

	December 31, 2004	Proceeds	Repayments/ Conversions to Common Stock	September 30, 2005
March 2003 Notes	\$ 155,000	\$ -	\$ -	\$ 155,000
Consultant Note	75,000	-	-	75,000
February - December 2004 Notes	145,000	-	(30,000)	115,000
2005 Notes	-	55,000	-	55,000
Notes - Related Parties	100,000	48,000	-	148,000
Convertible Debt - Related Parties	94,118	100,000	(94,118)	100,000
	-----	-----	-----	-----
Total	\$ 569,118	\$ 203,000	\$(124,118)	\$ 648,000
	=====	=====	=====	=====

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 31, 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, 2005 and December 31, 2004, 681,174 shares of Series A Preferred Stock were outstanding.

NOTE 6 - STOCKHOLDERS' EQUITY

(a) Common Stock:

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

On February 20, 2005, the Company issued 1,960,784 shares of its Common Stock in exchange for the conversion of the promissory note held by its COO.

On April 1, 2005, the Company issued 800,898 shares of its Common Stock to its COO in partial payment of salary as per his employment agreement.

On April 20, 2005, the Company sold 1,666,666 shares of its Common Stock to its Executive Vice President and General Counsel at a price of \$.06 per share resulting in net proceeds to the Company of \$100,000.

On May 4, 2005, the Company sold 100,000 shares of its Common Stock to an unrelated third party at a price of \$.06 per share resulting in net proceeds to the Company of \$6,000.

In May 2005, the Company sold a total of 350,000 shares of its Common Stock to two directors at a price of \$.06 per share resulting in net proceeds to the Company of \$21,000.

On June 8, 2005, the Company sold 416,666 shares of its Common Stock to an unrelated third party at a price of \$.06 per share resulting in net proceeds to the Company of \$25,000.

On July 1, 2005, the Company issued 668,750 shares of its Common Stock to its COO in partial payment of salary as per his employment agreement. The Company recorded an expense of \$21,400 as a result of this issuance.

On each of July 1, August 1, and September 1, 2005, the Company issued 16,666 shares of its Common Stock for a total of 49,998 shares as compensation to its public relations firm. The Company recorded an expense of \$2,833 as a result of this issuance.

On July 18, 2005, the Company sold 1,250,000 shares of its Common Stock to its Executive Vice President and General Counsel at a price of \$.06 per share resulting in net proceeds to the Company of \$75,000.

On July 20, 2005, the Company issued 3,000,000 restricted shares of its Common Stock to its President and CEO as additional compensation as per his employment agreement approved by the shareholders of the Company at its annual meeting. The Company recorded an expense of \$120,000 as a result of this issuance.

On August 12, 2005, the Company issued 412,339 shares of its Common Stock to its Executive Vice President and General Counsel as payment of deferred compensation as per her employment agreement. The Company recorded an expense of \$24,740 as a result of this issuance.

On August 16, 2005, the Company sold 833,333 shares of its Common Stock to a director at a price of \$.06 per share resulting in net proceeds to the Company of \$50,000.

On September 14, 2005, the Company issued 500,000 shares of its Common Stock to an Advisory Board member as compensation pursuant to her advisory agreement. The Company recorded an expense of \$40,000 as a result of this issuance.

On September 29, 2005, the Company sold 142,857 shares of its Common Stock to an unrelated third party at a price of \$.07 per share resulting in net proceeds to the Company of \$10,000.

(b) Warrants:

The Company has issued Common Stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, directors, officers and advisory board members of the Company. A total of 672,500 shares of Common Stock are reserved for issuance upon exercise of outstanding warrants as of September 30, 2005 at prices ranging from \$0.05 to \$8.10 and expiring through December 2008. In connection with the September 2003 equity private placement, the Company issued a 5 year warrant to purchase 282,500 shares of its Common Stock at an exercise price of \$0.12 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains piggyback registration rights. On January 20, 2005, the Company issued three year warrants to purchase a total of 25,000 shares of its Common Stock at \$.05 per share to Consulting For Strategic Growth, Ltd., the Company's investor relations and public relations firm. This issuance brings their total warrants to 150,000. The Company recorded expense of \$874 as the fair value of these warrants using the Black-Scholes method. On September 14, 2005, the Company issued 240,000 Common Stock purchase warrants to a member of its Advisory Board. These warrants vest at the rate of 20,000 per month beginning with September 14, 2005. Each warrant entitles the holder to purchase one share of the Company's Common Stock at a price of \$.08 per share. The warrant expires three years from issuance.

(c) Stock Option Plans:

In February 2003, the Company adopted the 2003 Equity Participation Plan (the "2003 EPP"), 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. In July 2005 the plan was increased to a total of 50,000,000 shares.

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

	For the Nine Months Ended September 30, 2005	
	Shares	Prices
Outstanding at beginning of period	6,685,000	\$0.03 to \$0.18
Granted	10,850,000	\$0.07 to \$.10
Expired	-	-
Cancelled	-	-
Outstanding at end of period	17,535,000	\$0.03 to \$0.18

Options are usually granted at an exercise price at least equal to the fair value of the Common Stock at the grant date. During the nine months ended September 30, 2005, options to purchase 200,000 shares of the Company's Common Stock at an exercise price of \$.07 were granted to a member of the Company's Board of Advisors pursuant to his agreement and options to purchase 150,000 shares at an exercise price of \$.10 and 750,000 shares at an exercise price of \$.06 were granted to the Executive Vice President and General Counsel. Options to purchase shares at an exercise price of \$.06 were granted to two members of the Board of Directors totaling 4,050,000 shares. Options to purchase 4,000,000 shares at an exercise price of \$.06 were granted to the President and CEO. The COO and another employee were granted options to purchase a total of 1,700,000 shares at an exercise price of \$.06.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

On March 20, 2004, the Company entered into a consulting agreement which provides for the Company to give advice as to business development possibilities for the services and technology of NeoStem, Inc. ("NeoStem") (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. This agreement expired on September 20, 2005.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company is providing capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. The Company has paid a total of \$720,000 since the inception of the agreement. The agreement also calls for the Company to pay on behalf of PSI \$280,000 of certain expenses relating to testing of the bioshielding concept. Since inception, through September 30, 2005, the Company paid \$74,060 of such expenses. In August 2005, the Company received from PSI a letter stating that the proof of concept study under the royalty agreement has been completed and that despite interesting preliminary in vitro results, the study did not meet the success standards set forth in the royalty agreement and that PSI has no definitive plans to move forward with the program. Phase III has requested pursuant to the royalty agreement that additional in vitro studies be performed with other molecules. PSI is under no obligation to perform any additional studies. If no additional studies are performed under the royalty agreement the likelihood of PSI generating revenues in which the Company would share is substantially reduced.

On June 16, 2005, the Company signed a revenue sharing agreement with Healthwave, a medical billing company that utilizes advanced, proprietary technology and connectivity to improve the efficiency of paper-and labor-intensive routines of healthcare transaction processing. Under the agreement, Phase III initially will fund Healthwave \$125,000 (with a potential for an additional \$125,000) and will provide guidance to them principally relating to developing and marketing Healthwave's healthcare transaction processing services. In return, Healthwave will pay Phase III on a monthly basis a portion of its gross revenues, with certain stated minimums based on the stage of the agreement. Healthwave has the right to terminate the agreement by paying to Phase III a buy-out fee. The agreement is contingent on Phase III receiving certain minimum financing and satisfactorily completing its due diligence.

On September 9, 2005, the Company signed a revenue sharing agreement with NeoStem, Inc. ("NeoStem"). The Company has agreed to fund NeoStem up to \$20,000 initially to pay certain expenses which the Company has the right to approve or not to approve prior to funding. The Company has agreed to fund NeoStem based on a formula relating to the Company's ability to raise capital. Once funded, NeoStem will pay the Company monthly based on the revenue generated in the previous month with a minimum payment due each month. No assurances can be given 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

NOTE 8 - RELATED PARTIES

On May 4, 2005, the Company's Board of Directors (the "Board") voted to approve an amendment to Mr. Weinreb's letter agreement, subject to approval of the stockholders which was obtained on July 20, 2005, pursuant to which Mr. Weinreb's employment agreement was amended to (a) extend the expiration date thereof from February 2006 to December 2008; (b) change Mr. Weinreb's annual base salary of \$217,800 (with an increase of 10% per annum) to an annual base salary of \$250,000 (with no increase per annum); (c) grant Mr. Weinreb 3,000,000 shares of common stock, 1,000,000 shares of which shall vest on each of the date of grant and the first and second anniversaries of the date of grant; (d) amend the severance provision of the existing employment agreement to provide that in the event of termination without cause (subject to certain exceptions), Mr. Weinreb will be entitled to receive a lump sum payment equal to his then base salary and automobile allowance for a period of one year; (e) commencing in August 2006, increase Mr. Weinreb's annual bonus from \$20,000 to \$25,000; (f) in August 2005, pay Mr. Weinreb \$15,000 to cover costs incurred by him on behalf of the Company; and (g) in 2006, provide for the reimbursement of all premiums in an annual aggregate amount of up to \$18,000 payable by Mr. Weinreb for life and long term care insurance covering each year during the remainder of the term of his employment.

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

In consideration for Mr. Aholt's services under the Letter Agreement, Mr. Aholt will be entitled to receive a monthly salary of \$4,000 during the first year of the Term, \$5,000 during the second year of the Term, and \$6,000 during the third year of the Term. In further consideration for Mr. Aholt's services under the Letter Agreement, on January 1, 2005 and on the first day of each calendar quarter thereafter during the Term, Mr. Aholt will be entitled to receive shares of Common Stock with a "Dollar Value" of \$26,750, \$27,625 and \$28,888, respectively, during the first, second and third years of the Term. The per share price (the "Price") of each share granted to determine the Dollar Value will be the average closing price of one share of Common Stock on the Bulletin Board (or other similar exchange or association on which the Common Stock is then listed or quoted) for the five (5) consecutive trading days immediately preceding the date of grant of such shares; provided, however, that if the Common Stock is not then listed or quoted on an exchange or association, the Price will be the fair market value of one share of Common Stock as of the date of grant as determined in good faith by the Board of Directors of the Company. The number of shares of Common Stock for each quarterly grant will be equal to the quotient of the Dollar Value divided by the Price. The shares granted will be subject to a one year lockup as of the date of each grant. Mr. Aholt received 477,679 shares of the Company's Common Stock on January 1, 2005, 800,898 shares on April 1, 2005 and 668,750 shares on July 1, 2005.

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

On May 4, 2005, the Board voted to approve an amendment to Mr. Aholt's Letter Agreement, subject to approval of the stockholders which was obtained on July 20, 2005, to (a) replace the provision of Mr. Aholt's existing employment agreement pursuant to which he is compensated in shares of Common Stock with a provision pursuant to which he will be compensated solely in cash, effective as of September 30, 2005; (b) replace the provision of Mr. Aholt's existing employment agreement pursuant to which his compensation accrues on a monthly and/or quarterly basis with a provision pursuant to which his compensation will be paid in accordance with the Company's normal payroll practices, effective as of September 30, 2005; and (c) provide for a minimum annual bonus of \$12,000, payable in January of each year during the term of his employment, commencing in January 2006.

On August 12, 2004 ("Commencement Date") the Company and Dr. Wayne A. Marasco, a Company Director, entered into a Letter Agreement appointing Dr. Marasco as the Company's Senior Scientific Advisor. Dr. Marasco will be responsible for assisting the Company in reviewing and evaluating business, scientific and medical opportunities, and for other discussions and meetings that may arise during the normal course of the Company conducting business. For his services, during a three year period ("Term"), Dr. Marasco shall be entitled to annual cash compensation with increases each year of the Term and an additional cash compensation based on a percentage of collected revenues derived from the Company's royalty or revenue sharing agreements. Although the annual cash compensation and additional cash compensation stated above shall begin to accrue as of the Commencement Date, Dr. Marasco will not be entitled to receive any such amounts until the Company raises \$1,500,000 in additional equity financing after the Commencement Date. In addition, Dr. Marasco was granted an option, fully vested, to purchase 675,000 shares of the Company's common stock at an exercise price of \$.10 cents per share. The shares will be subject to a one year lockup as of the date of grant. The exercise period will be ten years, and the grant will otherwise be in accordance with the Company's 2003 Equity Participation Plan and Non-Qualified Stock Option Grant Agreement. As of September 30, 2005, Dr. Marasco has accrued \$96,692 in salary under this agreement.

On May 4, 2005, the Board voted to approve an amendment to Dr. Marasco's Letter Agreement, subject to approval of the stockholders which was obtained on July 20, 2005, pursuant to which Dr. Marasco's Letter Agreement with the Company was amended to (a) extend the term of the Letter Agreement from August 2007 to August 2008; (b) provide for an annual salary of \$110,000, \$125,000 and \$150,000 for the years ended August 2006, 2007 and 2008, payable in each such year during the term; (c) provide for a minimum annual bonus of \$12,000, payable in January of each year during the term, commencing in January 2006; (d) eliminate Dr. Marasco's right under his existing Letter Agreement to receive 5% of all collected revenues derived from the Company's royalty or other revenue sharing agreements (which right is subject to the limitation that the amount of such additional cash compensation and Dr. Marasco's annual salary do not exceed, in the aggregate, \$200,000 per year); and (e) permit Dr. Marasco to begin receiving all accrued but unpaid cash compensation under his Letter Agreement upon the Company's consummation of any financing, whether equity or otherwise, pursuant to which the Company raises \$1,500,000.

On April 20, 2005 (the "Commencement Date"), the Company entered into a letter agreement (the "Letter Agreement") with Catherine M. Vaczy pursuant to which Ms. Vaczy serves as the Company's Executive Vice President and General Counsel. Subject to the terms and conditions of the Letter Agreement, the term of Ms. Vaczy's employment in such capacity will be for a period of three (3) years from the commencement date (the "Term").

In consideration for Ms. Vaczy's services under the Letter Agreement, Ms. Vaczy is entitled to receive an annual salary of \$155,000 during the first year of the term, a minimum annual salary of \$170,500 during the second year of the term, and a minimum annual salary of \$187,550 during the third year of the term. Ms. Vaczy and the Company have agreed that from the commencement date until the 90th day thereafter (the "Initial 90 Day Period"), Ms. Vaczy's salary will be paid to her at a rate of 50% of the annual rate and accrue as to the remainder. At the end of the initial 90 day period, and at the end of each additional 90 day period thereafter, whether to continue to accrue salary at this rate and provision for payment of accrued amounts will be discussed in good faith. Payment of accrued salary may be made in cash, or, upon mutual agreement, shares of Common Stock. Any shares of Common Stock issued in payment of accrued salary shall have a per share price equal to 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 issue of such shares; provided, however, that if the common stock is not then quoted on the Bulletin Board or otherwise listed or quoted on an exchange or association, the price shall be the fair market value of one share of common stock as of the date of issue as determined in good faith by the Board. The number of shares of common stock for any issuance in payment of accrued salary shall be equal to the quotient of the amount of the accrued salary divided by the price. The shares issued will be subject to a one-year lock up as of the date of each grant and shall be registered with the Securities and Exchange Commission on a Registration Statement on Form

In the event Ms. Vaczy'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 Ms. Vaczy's employment is terminated prior to the end of the term for any reason other than by the Company with "cause" or Ms. Vaczy without "good reason", Ms. Vaczy or her executor or her last will or the duly authorized administrator of her estate, as applicable, will be entitled in the event the employment termination date is after April 20, 2006, to receive severance payments equal to Ms. Vaczy's then one year's salary, paid in accordance with the Company's standard payroll practices for executives of the Company and (ii) in the event the employment termination date is before April 20, 2006 but after October 20, 2005, to receive severance payments equal to one-sixth of Ms. Vaczy's then one year's salary, paid in accordance with the Company's standard payroll practices for executives of the Company. In addition, in the event Ms. Vaczy's employment is terminated prior to the end of the term by the Company without "cause" or by Ms. Vaczy for "good reason", the option (as defined below) shall vest and become immediately exercisable in its entirety and remain exercisable in accordance with its terms. No other payments shall be made, nor benefits provided, by the Company in connection with the termination of employment prior to the end of the term, except as otherwise required by law.

In August 2005, Ms. Vaczy's Letter Agreement was amended to provide that (i) as of October 1, 2005 she will cease to accrue salary and will as of that date begin to receive payment of salary solely in cash in accordance with the Company's standard payroll practices, and (ii) will be issued in payment of salary accruing during the period that commenced on April 20, 2005 and ended on September 30, 2005, shares of Common Stock. With respect to the portion of salary that accrued from April 20, 2005 through August 12, 2005, the price per share will be \$.06, the closing price of the Common Stock on August 12, 2005. For the portion of salary that accrued from August 13, 2005 through September 30, 2005, the price per share will be the closing price of the Common Stock on September 30, 2005. Pursuant to the foregoing, on August 12, 2005, Ms. Vaczy was issued 412,339 shares of Common Stock in payment of \$24,740 in accrued salary and on October 3, 2005, Ms. Vaczy was issued 260,817 shares in payment of \$10,433 in accrued salary.

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 each of October 1, 2005 and November 1, 2005, 16,666 shares of the Company's Common Stock were issued to Consulting for Strategic Growth Ltd., the Company's investor relations and public relations firm; as compensation for work to be performed in October and November 2005.

On October 3, 2005, the Company issued 260,817 shares of its Common Stock to its Executive Vice President and General Counsel as payment of deferred compensation as per her employment agreement.

On October 3, 2005, the Company issued 461,206 shares of its Common Stock to its COO in partial payment of salary as per his employment agreement.

On October 6, 2005, the Company sold 250,000 shares of its Common Stock to an accredited investor at a price of \$.04 per share resulting in gross proceeds to the Company of \$10,000.

On October 6, 2005, the Company sold 500,000 shares of its Common Stock to a member of its Advisory Board, an accredited investor, at a price of \$.05 per share resulting in gross proceeds to the Company of \$25,000.

In October 2005, the Company signed a non-binding letter of intent to purchase all the assets, properties and rights of NeoStem that relate to its adult stem cell collection and storage business and assume certain of its liabilities. The letter of intent provides that the Company will pay the entire purchase price in shares of the Company's Common Stock, \$.001 par value. The letter of intent expires on December 31, 2005 unless extended by the parties.

On November 10, 2005, the Company sold a total of 833,332 shares of its Common Stock to two accredited investors at a price of \$.06 per share resulting in gross proceeds to the Company of \$50,000.

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. Through September 30, 2005, the Company has paid PSI a total of \$720,000 under the agreement. The agreement also calls for the Company to pay on behalf of PSI \$280,000 of certain expenses relating to testing of the bioshielding concept. Through September 30, 2005, the Company paid \$74,060 of such expenses. In August 2005, the Company received from PSI a letter stating that the proof of concept study under the royalty agreement has been completed and that despite interesting preliminary in vitro results, the study did not meet the success standards set forth in the royalty agreement and that PSI has no definitive plans to move forward with the program. Phase III has requested pursuant to the royalty agreement that additional in vitro studies be performed with other molecules. PSI is under no obligation to perform any additional studies. If no additional studies are performed under the royalty agreement the likelihood of PSI generating revenues in which the Company would share is substantially reduced.

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, 2005, no payments have been received under this agreement.

On June 16, 2005, the Company signed a revenue sharing agreement with Healthwave, a medical billing company that utilizes advanced, proprietary technology and connectivity to improve the efficiency of paper-and labor-intensive routines of healthcare transaction processing. Under the agreement, Phase III initially will fund Healthwave \$125,000 (with a potential for an additional \$125,000) and will provide guidance to them principally relating to developing and marketing Healthwave's healthcare transaction processing services. In return, Healthwave will pay Phase III on a monthly basis a portion of its gross revenues, with certain stated minimums based on the stage of the agreement. Healthwave has the right to terminate the agreement by paying to Phase III a buy-out fee. The agreement is contingent on Phase III receiving certain minimum financing and satisfactorily completing its due diligence.

On September 9, 2005, the Company signed a revenue sharing agreement with NeoStem. The Company has agreed to fund NeoStem up to \$20,000 initially to pay certain expenses which the Company has the right to approve or not to approve prior to funding. The Company has agreed to provide additional funding to NeoStem based on a formula relating to the Company's ability to raise capital.

On October 19, 2005, the Company signed a non-binding letter of intent to purchase all the assets, properties and rights of NeoStem that relate to its adult stem cell collection and storage business and assume certain of its liabilities. The letter of intent provides that the Company will pay the entire purchase price in shares of the Company's Common Stock. The letter of intent expires on December 31, 2005 unless extended by the parties.

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, 2005 Compared To Three Months Ended September 30, 2004.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$8,218 for the three months ended September 30, 2005 as compared to \$2,968 for the three months ended September 30, 2004. The revenues generated in the quarter were derived entirely from revenues deferred over the life of contracts sold in prior periods. Similarly, direct costs incurred were \$5,750 and \$1,964 for the three months ended September 30, 2005 and 2004, respectively. In addition, the Company paid \$6,540 of expenses relating to its revenue sharing agreement with NeoStem for the three months ended September 30, 2005 as compared to \$234,060 paid for the three months ended September 30, 2004 to PSI. Due to the uncertainty of the future revenues, these amounts paid have been charged to current operations.

General and administration expenses increased approximately \$354,000 to \$538,070 for the three months ended September 30, 2005 as compared to \$184,342 for the three months ended September 30, 2004. The increase in general and administrative expenses is primarily due to increases in payroll and related expenses of \$219,000, professional fees of \$70,000, investment banking expenses of \$25,000, printing costs relating to a private placement that has yet to close of \$27,000 and expenses relating to the amending of certain employment agreements of \$13,000.

Interest expense decreased by approximately \$50,000 for the three months ended September 30, 2005 from the three months ended September 30, 2004. Such decrease was primarily as a result of reduced interest rates on certain debt, no shares being issued as additional interest and the elimination of default options on debt that has been repaid.

For the reasons cited above, the net loss for the three months ended September 30, 2005 increased to \$575,351 from \$500,495 for the three months ended September 30, 2004.

Nine Months Ended September 30, 2005 Compared To Nine Months Ended September 30, 2004.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$28,201 for the nine months ended September 30, 2005 as compared to \$37,383 for the nine months ended September 30, 2004. 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 \$19,770 and \$26,108 for the nine months ended September 30, 2005 and 2004, respectively. In addition, the Company paid \$6,540 of expenses relating to its revenue sharing agreement with NeoStem for the nine months ended September 30, 2005 as compared to \$714,060 paid for the nine months ended September 30, 2004 to PSI. Due to the uncertainty of the future revenues, these amounts paid have been charged to current operations.

General and administration expenses increased approximately \$603,000 to \$1,112,331 for the nine months ended September 30, 2005 as compared to \$508,953 for the nine months ended September 30, 2004. The increase in general and administrative expenses is primarily due to increases in payroll and related expenses of \$379,000, increases in professional fees of \$156,000, increases in investment banking fees and investor relations of \$30,000, increases in printing costs related to a private placement yet to close of \$27,000 and increases in stock transfer fees of \$8,000.

Interest expense decreased by approximately \$130,000 for the nine months ended September 30, 2005 from the nine months ended September 30, 2004. Such decrease was primarily as a result of reduced interest rates on certain debt, no shares being issued as additional interest and the elimination of default options on debt that has been repaid.

For the reasons cited above, the net loss for the nine months ended September 30, 2005 decreased to \$1,218,087 from \$1,448,881 for the nine months ended September 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

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

	Nine Months Ended	
	September 30, 2005	September 30, 2004
Cash used in Operating Activities	\$ (477,491)	\$ (1,120,064)
Cash used by Investing Activities	-	\$ (3,934)
Cash provided by Financing Activities	\$ 460,000	\$ 1,374,487

The Company incurred a net loss of \$1,218,087 for the nine months ended September 30, 2005. Such loss adjusted for non-cash items such as deferred revenues (net of deferred acquisition costs) (\$8,431) and other non-cash credits totaling \$282,431 resulted in cash used in operations totaling \$477,491 for the nine months ended September 30, 2005 including working capital movements of \$466,596 which is comprised of accounts payable, accrued expenses and other liabilities of \$469,581 and prepaid expenses of \$(2,985).

To meet its cash requirements for the nine months ended September 30, 2005, the Company relied on the net proceeds from the issuance of Promissory Notes and Common Stock in the amount of \$490,000. In order to address the cash requirements for the Company through the end of the year, the Company, on June 28, 2005, commenced a private placement of a minimum of \$500,000 and a maximum of \$2,000,000, without accounting for any over-subscription allowances, of Senior Secured Convertible Notes and Common Stock Warrants. The Convertible Notes bear interest at 10% per annum paid semiannually in arrears and are convertible at any time into shares of the Company's Common Stock at a conversion price of \$.08 per share. In addition, for each \$1,000 face amount of Convertible Note purchased, the investor will receive a Warrant to purchase 12,500 shares of Common Stock. Each Warrant is exercisable at a price of \$.10 per share. This offering expired on August 31, 2005. The placement agent has not closed nor remitted any funds to the Company.

The Company has a contractual commitment to pay PSI up to an additional \$205,940 through the end of its agreement. In addition, the Company has the obligation to pay NeoStem up to any additional \$13,460 of approved expenses. As of September 30, 2005, the Company had cash balances totaling approximately \$10,000. The Company will rely on its current cash and proceeds from additional financing through the issuance of promissory notes and sales of common stock to fund its new business operations until they become cash generative, if at all. All interest payments are current. 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.

In order to provide the funding to Healthwave and NeoStem pursuant to the revenue sharing agreements between each of them and the Company, the Company will need to raise sufficient funds. Each of these agreements provides that the Company's funding obligations are subject to the Company raising \$1,500,000 in equity financing. The Company will also need to raise sufficient funds to pay its debts and other obligations.

In the event the Company consummates the acquisition of all of NeoStem's assets relating to its adult stem cell collection and storage business, the business of NeoStem will become the Company's primary business and it will utilize the combined management team and advisors to grow and expand the Company. NeoStem operates the first autologous adult stem cell bank in the world and is pioneering the pre-disease collection, processing and storage of adult stem cells for future medical treatments. In order to grow the business as planned, the Company will need to raise substantial funds and is currently seeking to do so.

INFLATION

The Company does not believe that its operations have been materially influenced by inflation for the nine months ended September 30, 2005, a situation which is expected to continue for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

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

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

PHASE III MEDICAL, INC.

PART II

OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Notes issued from March through August 2003, in the amount of \$170,000, of which \$15,000 is from a related party, are in default and bear interest at 20% per annum. Notes issued in August through December 2004, for \$280,000, of which \$275,000 is still outstanding, are in default and bear interest at rates from 8% to 20% per annum. Notes issued in January through September 2005, for \$52,000, are in default and bear interest at rates from 8% to 20% per annum.

Cumulative dividends payable on Series A Convertible Redeemable Preferred Stock totaled \$516,643 at September 30, 2005, of which \$35,763 represents dividends for the nine months then ended.

ITEM 6. EXHIBITS

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.
- 10.8 Restricted Stock Agreement with Mark Weinreb

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 14, 2005

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 14, 2005

/s/ Mark Weinreb

Name: Mark Weinreb

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

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

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 14, 2005

/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.

PHASE III MEDICAL, INC.

RESTRICTED STOCK GRANT AGREEMENT

This Restricted Stock Grant Agreement (the "Agreement"), dated as of the "Award Date" set forth in the attached Exhibit A, is entered into between Phase III Medical, Inc., a Delaware corporation (the "Company"), and the individual identified in Exhibit A (the "Awardee").

WHEREAS, the Company desires to provide the Awardee an incentive to participate in the success and growth of the Company through the holding of a proprietary interest in the Company; and

WHEREAS, to give effect to the foregoing intentions, the Company desires to grant the Awardee a restricted stock award of shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") pursuant to the Phase III Medical, Inc. 2003 Equity Participation Plan, as amended (the "Plan");

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. Grant. The Company hereby grants the Awardee a restricted stock award (the "Award") with respect to the number of shares of Common Stock set forth in Exhibit A (such shares being referred to herein as the "Restricted Shares"). The Award and the Restricted Shares shall be subject to the terms and conditions set forth in this Agreement and the provisions of the Plan, the terms of which are incorporated herein by reference. Capitalized terms used but not otherwise defined herein shall have the meanings as set forth in the Plan.

2. Lapsing Forfeiture Provisions. Subject to the terms of this Agreement, the Awardee shall forfeit the Restricted Shares to the extent set forth in Exhibit A immediately upon Awardee's termination of employment, directorship and/or consultancy with the Company prior to the date(s) set forth in Exhibit A. Restricted Shares, to the extent forfeited, shall be immediately returned to the Company.

3. Transfer Restrictions. Prior to the satisfaction of the conditions set forth in Exhibit A, the Awardee shall not sell, assign, pledge or otherwise transfer (voluntarily or involuntarily) any of the Restricted Shares. Upon satisfaction of the conditions set forth in Exhibit A with respect to Restricted Shares, the transfer restrictions set forth in this Section shall lapse with respect to the Restricted Shares for which such conditions are satisfied. As a condition of the grant of this award, Awardee shall be required to execute a stock power in blank in the form of Exhibit B hereto with respect to any shares issued pursuant to this Agreement.

4. Adjustment of Shares. Notwithstanding anything contained herein to the contrary, in the event of any change in the Company's Common Stock resulting from a corporate transaction including, but not limited to, a subdivision or consolidation, reorganization, recapitalization, merger, share split, reverse share split, share distribution, combination of shares or the payment of a share dividend, the Restricted Shares shall be treated in the same manner in any such transaction as other Common Stock. Any Common Stock or other securities received by the Awardee as a result of such transaction with respect to the Restricted Shares shall be subject to the restrictions and conditions set forth herein and in the attached Exhibit A.

5. Rights as Stockholder. Except as provided by Section 3 hereof, the Awardee shall be entitled to all of the rights of a stockholder with respect to the Restricted Shares as of the Award Date, including, but not limited to, the right to vote such shares and receive dividends and other distributions payable with respect to same.

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6. Escrow of Share Certificates. As soon as reasonably practicable after the Award Date, the Company shall issue stock certificates in the Awardee's name that correspond to the Restricted Shares (the "Certificates"), and shall hold such Certificates in escrow for the Awardee's benefit, properly endorsed for transfer, until such time as the Restricted Shares are forfeited to the Company or all restrictions thereon lapse. The Company shall not be liable for any act it may do or fail to do with respect to the holding of the Certificates in escrow hereunder, provided it acts or fails to act in good faith and in the exercise of its sound judgment.

7. Legend. The Certificates shall bear the following legend:

THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE CONDITIONS AND TRANSFER RESTRICTIONS) CONTAINED IN A RESTRICTED STOCK AWARD AGREEMENT BETWEEN PHASE III MEDICAL, INC. AND THE HOLDER AND THE TERMS OF THE PHASE III MEDICAL, INC. 2003 EQUITY PARTICIPATION PLAN, AS EACH MAY BE AMENDED FROM TIME TO TIME. A COPY OF SUCH AGREEMENT

8. Section 83(b) Election. The Awardee hereby acknowledges that the Awardee has been informed that, with respect to the Restricted Shares, the Awardee may file an election with the Internal Revenue Service, within 30 days of the execution of this Agreement, electing pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, (the "Code") to be taxed currently on any difference between the purchase price of the Restricted Shares and their fair market value on the date of purchase. Absent such an election, taxable income will be measured and recognized by the Awardee at the time or times at which the forfeiture restrictions on the Restricted Shares lapse. The Awardee is strongly encouraged to seek the advice of his own tax consultants in connection with the issuance of the Restricted Shares and the advisability of filing an election under Section 83(b) of the Code. Upon filing an election under Section 83(b) of the Code, Awardee shall promptly provide a copy of such election to the Company. A form of Election under Section 83(b) is attached hereto as Exhibit C for reference.

THE AWARDEE ACKNOWLEDGES THAT IT IS NOT THE COMPANY'S, BUT RATHER THE AWARDEE'S SOLE RESPONSIBILITY TO FILE THE ELECTION UNDER SECTION 83(b) TIMELY.

Circular 230 Disclaimer: To ensure compliance with requirements imposed by the IRS, any U.S. federal tax advice contained in this Agreement (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or tax-related matter(s) addressed herein.

9. Government Regulations. Notwithstanding anything contained herein to the contrary, the Company's obligation to issue or deliver certificates evidencing the Restricted Shares shall be subject to the terms of all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

10. Withholding Taxes. The Company shall have the right to require the Awardee to remit to the Company, or to withhold from amounts payable to the Awardee, as compensation or otherwise, an amount sufficient to satisfy all federal, state and local withholding tax requirements (including, without limitation, any tax resulting from (i) the expiration of restrictions set forth hereunder that are applicable to any particular Restricted Shares or (ii) an election made by the Awardee under Section 83(b) of the Code).

11. Investment Purpose. The Awardee agrees not to sell, transfer or otherwise dispose of such shares unless they are either (1) registered under the Securities Act of 1933 and all applicable state securities laws, or (2) exempt from such registration in the opinion of Company counsel, and consents to the Company's placing of the legend set forth in Section 7 above on the certificates summarizing such securities law restrictions.

12. Awardee Representations. The Awardee has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement. The Awardee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents, if any, made to the Awardee. The Awardee understands that the Awardee (and not the Company) shall be responsible for the Awardee's own tax liability arising as a result of the transactions contemplated by this Agreement.

13. Employment. Neither this Agreement nor any action taken hereunder shall be construed as giving the Awardee any right of continuing employment by the Company.

14. Notices. Notices or communications to be made hereunder shall be in writing and shall be delivered in person, by registered mail, by confirmed facsimile or by a reputable overnight courier service to the Company at its principal office or to the Awardee at his address contained in the records of the Company.

15. Governing Law. This Agreement shall be construed under the laws of the State of New Jersey, without regard to conflict of laws principles.

16. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings relating to the subject matter of this Agreement.

17. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and the Awardee and their respective permitted successors, assigns, heirs, beneficiaries and representatives. This Agreement is personal to the Awardee and may not be assigned by the Awardee without the prior consent of the Company. Any attempted assignment in violation of this Section shall be null and void.

18. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Awardee.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement or caused their duly authorized officer to execute this Agreement as of the date first written above.

PHASE III MEDICAL, INC.

By: /S/ Catherine Vaczy

Name: Catherine Vaczy
Title: EVP

AWARDEE

/S/ Mark Weinreb

Mark Weinreb

EXHIBIT A

1. (a). Awardee's Name: Mark Weinreb

(b). Awardee's Social Security Number: -----
(c). Award Date: July 20, 2005

(d). Number of Restricted Shares Granted: 3,000,000

(e). Vesting Requirements: The Restricted Shares shall become vested, and the restrictions applicable to Restricted Shares shall lapse over a period of two years, as follows:

Restrictions applicable to the following Number of Restricted Shares:	Shall lapse on the following date; provided that the Awardee is in the employ of, is a director of, or is a consultant to, the Company on such date:
1,000,000	July 20, 2005
1,000,000	July 20, 2006
1,000,000	July 20, 2007

Notwithstanding the foregoing, in the event of a complete liquidation or a merger or consolidation (as set forth in Section 19 of the Plan) while the Awardee is in the employ of, a director of, or is a consultant to, the Company, the Board of Directors of the Company may provide written notice to the Awardee that all non-vested options and Restricted Shares granted under the Plan shall thereupon be vested and the restrictions applicable to all Restricted Shares shall thereupon lapse.

EXHIBIT B

STOCK POWER

FOR VALUE RECEIVED, Mark Weinreb hereby sells, assigns, and transfers unto Phase III Medical, Inc. 2,000,000 shares of common stock of Phase III Medical, Inc. issued pursuant to, and subject to the terms of, that certain Restricted Stock Grant Agreement by and between the Company and Mark Weinreb, dated July 20, 2005, standing in his/her name on the books of said corporation represented by Certificate No. ___ herewith, and does hereby irrevocably constitute and appoint _____ as his attorney to transfer the said stock on the books of said corporation with full power of substitution in the premises.

Dated: _____

Mark Weinreb

In the presence of:

- _____

EXHIBIT C

ELECTION UNDER SECTION 83(b)
OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby makes an election pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the "Regulations"), and in connection with this election supplies the following information:

1. The name, address and taxpayer identification number of the undersigned are:

Name: -----
Address: -----
Social Security Number: - - -

2. The election is being made with respect to _____ shares of common stock (the "Stock") of Phase III Medical, Inc., a Delaware corporation (the "Company").

3. The date on which the Stock was transferred to the undersigned was _____, 200__. The taxable year for which this election is being made is calendar year 200__.

4. The property is subject to the following restrictions:

The above-mentioned shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions contained in such agreement.

Disposition of the Stock is also subject to restrictions imposed under applicable federal and state securities laws regulating the transfer of unregistered securities.

5. The fair market value of the Stock at the time of transfer (determined without regard to any lapse restriction, as defined in ss.1.83-3(i) of the Regulations) was \$_____.

6. The undersigned did not pay any amount for the Stock. Therefore, \$_____ (the full fair market value of the Stock stated above) is includible in the undersigned's gross income as compensation for services.

7. A copy of this election has been furnished to the Company as required by ss.1.83-2(d) of the Regulations.

Dated: -----
----- Taxpayer signature

INSTRUCTIONS FOR FILING SECTION 83(B) ELECTION

Attached is a form of election under section 83(b) of the Internal Revenue Code. If you wish to make such an election, you should complete, sign and date the election and then proceed as follows:

1. Execute three counterparts of your completed election (plus one extra counterpart for each person other than you, if any who receives property that is the subject of your election), retaining at least one photocopy for your records.
2. Send one counterpart to the Internal Revenue Service Center with which you will file your Federal income tax return for the current year (e.g., Holtsville, New York for New Jersey residents) via certified mail, return receipt requested. THE ELECTION SHOULD BE SENT IMMEDIATELY, AS YOU ONLY HAVE 30 DAYS FROM THE ISSUANCE/PURCHASE/GRANT DATE WITHIN WHICH TO MAKE THE ELECTION - NO WAIVERS, LATE FILINGS OR EXTENSIONS ARE PERMITTED.
3. Deliver one counterpart of the completed election to the Company for its files.
4. If anyone other than you (e.g., one of your family members) will receive property that is the subject of your election, deliver one counterpart of the completed election to each such person.
5. Attach one counterpart of the completed election to your Federal income tax return for this year when you file that return next.