

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 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 22-2343568  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)330 SOUTH SERVICE ROAD, SUITE 120, MELVILLE, NEW YORK 11747  
(Address of principal executive offices) (zip code)

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

(Former name, former address and former fiscal year,  
if changed since last report)Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes X No \_\_\_Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act of 1934). Yes \_\_\_ No X

51,747,321 SHARES, \$.001 PAR VALUE, AS OF AUGUST 12, 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

	June 30, 2005	December 31, 2004
Current assets:		
Cash and cash equivalents	\$ 260	\$ 27,868
Prepaid expenses and other current assets	19,923	21,233
	-----	-----
Total current assets	20,183	49,101
Property and equipment, net	2,467	3,446
Deferred acquisition costs	29,877	43,897
Other assets	3,000	3,000
	-----	-----
	\$ 55,527	\$ 99,444
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Interest and dividends payable - preferred stock	\$ 504,722	\$ 480,880
Accounts payable	213,897	149,169
Accrued liabilities	281,084	88,883
Notes payable	420,000	390,000
Notes payable, related parties	108,000	85,000
Convertible debentures, related party - net of debt discount of \$0 and \$5,882	100,000	94,118
	-----	-----
Total current liabilities	1,627,703	1,288,050
Unearned revenues	42,024	62,007
Series A mandatorily redeemable convertible preferred stock	681,174	681,174
	-----	-----
Total Liabilities	2,350,901	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, 500,000,000 shares; issued and outstanding, 46,399,566 shares at June 30, 2005 and 41,029,552 shares at December 31, 2004	46,400	41,031
Additional paid-in capital	10,811,188	10,537,408
Accumulated deficit	(13,153,062)	(12,510,326)
	-----	-----
Total stockholders' deficit	(2,295,374)	(1,931,787)
	-----	-----
	\$ 55,527	\$ 99,444
	=====	=====

See accompanying notes to financial statements

PHASE III MEDICAL, INC.

STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	----	----	----	----
Earned revenues	\$ 9,448	\$ 7,073	\$ 19,983	\$ 34,415
Direct costs	(6,603)	(4,871)	(14,020)	(24,144)
Gross profit	2,845	2,202	5,963	10,271
Selling, general and administrative	(358,760)	(175,532)	(574,261)	(324,611)
Purchase of medical royalty stream	-	(240,000)	-	(480,000)
Operating loss	(355,915)	(413,330)	(568,298)	(794,340)
Other income (expense):				
Interest income	-	4	-	159
Interest expense	(25,230)	(66,933)	(50,596)	(130,363)
Interest expense - Series A mandatorily redeemable convertible preferred stock	(11,921)	(11,921)	(23,842)	(23,842)
Net loss attributable to common stockholders	\$ (393,066)	\$(492,180)	\$(642,736)	\$(948,386)
Net loss per common share	\$ (.01)	\$ (.02)	\$ (.02)	\$ (.03)
Weighted average common shares outstanding	43,647,024	29,501,515	43,726,123	28,076,075

See accompanying notes to financial statements.

PHASE III MEDICAL, INC.

STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
	2005	2004
	----	----
Cash flows from operating activities:		
Net loss	\$(642,736)	\$(948,386)
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	27,149	115,708
Depreciation	979	798
Amortization of debt discount	5,882	-
Series A mandatorily redeemable preferred stock dividends	23,842	-
Deferred acquisition costs	14,020	24,144
Changes in operating asset and liabilities:		
Prepaid expenses and other current assets	1,310	10,006
Unearned revenues	(19,983)	(34,415)
Accounts payable, accrued expenses, and other current liabilities	256,929	66,999
	-----	-----
Net cash used in operating activities	(332,608)	(765,146)
	-----	-----
Cash flows from investing activities:		
Acquisition of property and equipment	-	(3,288)
	-----	-----
Net cash used in investing activities	-	(3,288)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of common stock	152,000	428,750
Net proceeds from advances on notes payable	155,000	140,000
Net proceeds from advances on notes payable - related party	23,000	-
Repayment of notes payable	(25,000)	-
Repayment of long-term debt	-	(9,513)
	-----	-----
Net cash provided by financing activities	305,000	559,237
	-----	-----
Net decrease in cash and cash equivalents	(27,608)	(209,197)
Cash and cash equivalents at beginning of period	27,868	210,947
	-----	-----
Cash and cash equivalents at end of period	\$260	\$1,750
	=====	=====
	2005	2004
	----	----
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 41,011	\$ 22,254
	=====	=====
Supplemental Schedule of Non-cash Financing Activities:		
Net accrual of dividends on Series A Preferred Stock	\$ 23,842	\$ 23,842
	=====	=====
Issuance of common stock for services rendered	\$ 26,275	\$ -
	=====	=====
Compensatory element of stock options	\$ 874	\$ 96,508
	=====	=====

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 June 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](http://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 June 30, 2005 and December 31, 2004, the results of operations for the three and six months ended June 30, 2005 and 2004 and the cash flows for the six months ended June 30, 2005 and 2004. The results of operations for the three and six months ended June 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. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

NOTE 3 - STOCK OPTIONS

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss as reported	\$ (393,066)	\$ (492,180)	\$ (642,736)	\$ (948,386)
Additional compensation	(17,726)	(10,985)	(35,452)	(157,785)
Adjusted net loss	\$ (410,792)	\$ (503,165)	\$ (678,188)	\$ (1,106,171)
Net loss per share as reported	\$ (.01)	\$ (.02)	\$ (.02)	\$ (.03)
Adjusted net loss per share	\$ (.01)	\$ (.02)	\$ (.02)	\$ (.04)

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement are effective for small business filers the first interim reporting period that begins after December 31, 2005.

#### NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2005, FASB issued SFAS No. 154 - Accounting Changes and Error Corrections, which replaces APB Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This pronouncement is effective for fiscal years beginning after December 15, 2005. The Company does not believe that this statement will have a material effect on its financial statements.

#### NOTE 5 - 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 June 30, 2005, \$170,000 remains unpaid and the due date of these notes has been extended until August 31, 2005. 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 is due on August 31, 2005 together with the accrued interest.

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 of the notes remain unpaid. As of June 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 June 30, 2005, the \$25,000 note has been repaid together with accrued interest and all interest payments are current and the due dates have been extended until August 31, 2005 on the other two notes. 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 June 30, 2005, \$25,000 of these notes remains unpaid. All interest payments are current and the due date has been extended until August 31, 2005. 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 and a 90 day 8% note in the amount of \$25,000 to a Director, all accredited investors, totaling \$100,000. As of June 30, 2005, these notes remain unpaid. All interest payments are current and the due dates have been extended until August 31, 2005 except for the \$15,000 note which has been extended until September 15, 2005.



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. 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 has been extended until September 30, 2005. In March 2005, the Company sold a 30 day 8% note (for which the due date has been extended to August 31, 2005) 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.

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 are current.

In June 2005, the Company sold an 8% note in the amount of \$6,000 to its President and CEO, an accredited investor which is due on demand.

A summary of the above transactions is as follows:

	December 31, 2004 -----	Proceeds -----	Repayments/ Conversions to Common Stock -----	June 30, 2005 -----
March 2003 Notes	\$ 170,000	\$ -	\$ -	\$ 170,000
Consultant Note	75,000	-	-	75,000
February - August 2004 Notes	230,000	-	(25,000)	205,000
2005 Notes	-	55,000	-	55,000
2005 Notes - Related Parties	-	23,000	-	23,000
Convertible Debt - Related Parties	94,118	100,000	(94,118)	100,000
	-----	-----	-----	-----
Total	\$ 569,118	\$ 178,000	\$ (119,118)	\$ 628,000
	=====	=====	=====	=====

On June 28, 2005, the Company 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 Notes 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 will expire on August 31, 2005 unless extended by the Company and the placement agent. As of August 11, 2005, the placement agent has not closed nor remitted any funds to the Company. Sale of these securities is not being registered under the Securities Act and the securities may not be resold absent registration or an applicable exemption from registration.

#### NOTE 6 - SERIES "A" MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Certificate of Designation for the Company's Series A Preferred Stock provides that at any time after December 1, 1999 any holder of Series A Preferred Stock may require the Company to redeem his shares of Series A Preferred Stock (if there are funds with which the Company may legally do so) at a price of \$1.00 per share. Notwithstanding the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. The holders of Series A Preferred Stock may convert their Series A Preferred Stock into shares of Common Stock of the Company at a price of \$5.20 per share. At June 30, 2005 and December 31, 2004, 681,174 shares of Series A Preferred Stock were outstanding.

NOTE 7 - STOCKHOLDERS' EQUITY

(a) Common Stock:

On each of January and February 20, 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.

(b) Warrants:

The Company has issued Common Stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company. A total of 432,500 shares of Common Stock are reserved for issuance upon exercise of outstanding warrants as of June 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.

(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.

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

		For the Six Months Ended June 30, 2005	
		Shares	Prices
Outstanding at beginning of period	of	6,685,000	\$0.03 to \$0.18
Granted		350,000	\$ 0.07 to \$.10
Expired		-	-
Cancelled		-	-
Outstanding at end of period		7,035,000	\$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 six months ended June 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 were granted to the Executive Vice President and General Counsel.

#### NOTE 8 - 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. (See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS). The agreement provides for the issuance of options to purchase 300,000 shares of the Company's Common Stock at an exercise price of \$.10 per share. This option is immediately vested and expires ten years from the date of issue. The agreement also provides for the payment of \$2,500 per month for each month after the Company has received capital contributions of \$1,000,000 from the date of the agreement. If certain performance levels are met, the Company is obligated to issue an additional option to purchase 500,000 shares of the Company's Common Stock for an exercise price of \$.10 per share.

On December 12, 2003, the Company signed a royalty agreement with Parallel Solutions, Inc. ("PSI") to develop a new bioshielding platform technology for the delivery of therapeutic proteins and small molecule drugs in order to extend circulating half-life to improve bioavailability and dosing regimen, while maintaining or improving pharmacologic activity. The agreement provides for PSI to pay the Company a percentage of the revenue received from the sale of certain specified products or licensing activity. The Company is providing capital and guidance to PSI to conduct a proof of concept study to improve an existing therapeutic protein with the goal of validating the bioshielding technology for further development and licensing the technology. 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 June 30, 2005, the Company paid \$74,060 of such expenses.

#### NOTE 9 - 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 will be 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 and 800,898 shares on April 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 June 30, 2005, Mr. Marasco has accrued \$96,500 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 will be 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 will serve 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 S-8.

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.

#### NOTE 10 - 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 by providing 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. To date, the company has not realized any revenue from its purchase of those interests. The Company's operations are conducted entirely in the United States.

#### NOTE 11 - SUBSEQUENT EVENTS

On July 1, 2005, 668,750 shares of the Company's Common Stock were issued to Robert Aholt based on the formula in his employment agreement in partial payment of salary.

On July 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 July 2005.

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.

In July 2005, the President and CEO advanced the Company \$19,000 which bears interest at 8% per annum and is due on demand.

On July 20, 2005, at the Company's Annual Meeting of Stockholders, the Company's stockholders approved the issuance of 3,000,000 shares of the Company's Common Stock to Mark Weinreb, President and CEO under the 2003 Equity Participation Plan, of which 1,000,000 shares vest immediately and 1,000,000 shares vest on each of the next two anniversary dates. In addition, the shareholders approved the following:



1. An increase in the number of authorized shares of Common Stock from 250,000,000 to 500,000,000
2. An amendment to the 2003 Equity Participation Plan to increase the shares of Common Stock covered by the plan from 15 million to 50 million shares
3. Granting of 8,000,000 options to purchase the Company's Common Stock to Officers, Directors and employees at an exercise price of \$.06 per share which was greater than the fair market value of one share of Common Stock on the date of grant.
4. Amendments to the employment agreements of the CEO, COO and Chief Scientific Officer
5. The appointment of Holtz Rubenstein Reminick LLP as the Company's independent certified public accountant for fiscal year 2005

There was not present at the meeting a quorum of the holders of the Series A Preferred Stock and the meeting was adjourned with respect to the proposal to approve an amendment to the certificate of designations for the Series A Preferred Stock. There were no shares of Series A Preferred Stock present, accordingly, this action was ratified by the shares of Common Stock present. Pursuant to the proposal, stockholders were asked to approve an amendment to the certificate of designations to permit the Company to issue in conversion of the outstanding shares of Series A Preferred Stock and its obligation to pay accrued dividends thereon a total of 5,449,368 shares of common stock (eight (8) shares per Series A Preferred Stock outstanding).

On August 11, 2005, at a meeting of the Board, the Board approved (i) the adoption of the Company's Amended and Restated By-laws; (ii) the issuance to Mark Weinreb, the Company's President and CEO, of a promissory note in the aggregate amount of \$25,000 bearing annual interest of 8% and payable on demand, which relates to cash advances totaling \$25,000 made by Mr. Weinreb to the Company during July and August 2005; (iii) the approval of the sale to Wayne Marasco, the Company's Chief Scientific Officer, of 833,333 shares of Common Stock at a per share purchase price of \$.06, for an aggregate purchase price of \$50,000; and (iv) the approval of an agreement with Catherine Vaczy, the Company's Executive Vice President and General Counsel, pursuant to which (A) on August 12, 2005 Ms. Vaczy was issued 412,339 shares of Common Stock in payment of \$24,740 in salary accrued during the period April 20, 2005 through August 12 2005, based on a per share purchase price of \$.06, the closing price of the Common Stock on August 12, 2005; (B) Ms. Vaczy will continue to accrue her salary as to 50% through September 30, 2005 at which time she will be issued shares of Common Stock in payment therefor based on the closing price of the Common Stock on September 30, 2005; and (C) commencing on October 1, 2005, Ms. Vaczy will be paid her salary solely in cash in accordance with the Company's standard payroll practice.



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

### Disclosure Regarding Forward Looking Statements

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

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 June 30, 2005, the Company paid \$74,060 of such expenses.

On June 28, 2005, the Company 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 will expire on August 31, 2005 unless extended by the Company and the placement agent. As of August 11, 2005, the placement agent has not closed nor remitted any funds to the Company.

### 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 June 30, 2005 Compared To Three Months Ended June 30, 2004.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$9,448 for the three months ended June 30, 2005 as compared to \$7,073 for the three months ended June 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 \$6,603 and \$4,871 for the three months ended June 30, 2005 and 2004, respectively. In addition, the Company paid \$0 and \$240,000 respectively for the three months ended June 30, 2005 and 2004 towards the purchase of royalty interests as per its agreement with PSI. Due to the uncertainty of the future revenues, the amounts paid have been charged to current operations.

General and administration expenses increased approximately \$183,000 to \$358,760 for the three months ended June 30, 2005 as compared to \$175,532 for the three months ended June 30, 2004. The increase in general and administrative expenses is primarily due to increases in payroll and related expenses of \$90,000 and investor relations expenses of \$11,000, legal expenses of \$75,000, professional fees of \$40,000 partially offset by reductions in D&O insurance of \$18,000 and investment banking commissions of \$15,000.

Interest expense decreased by approximately \$42,000 for the three months ended June 30, 2005 from the three months ended June 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, including primarily that no payments were made towards royalty interests in the three months ended June 30, 2005, the net loss for the three months ended June 30, 2005 decreased to \$393,066 from \$492,180 for the three months ended June 30, 2004.

Six Months Ended June 30, 2005 Compared To Six Months Ended June 30, 2004.

The Company recognized revenues from the sale of extended warranties and service contracts via the Internet of \$19,983 for the six months ended June 30, 2005 as compared to \$34,415 for the six months ended June 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 \$14,020 and \$24,144 for the six months ended June 30, 2005 and 2004, respectively. In addition, the Company paid \$0 and \$480,000 respectively for the six months ended June 30, 2005 and 2004 towards the purchase of royalty interests as per its agreement with PSI. Due to the uncertainty of the future revenues, the amounts paid have been charged to current operations.

General and administration expenses increased approximately \$250,000 to \$574,261 for the six months ended June 30, 2005 as compared to \$324,611 for the six months ended June 30, 2004. The increase in general and administrative expenses is primarily due to increases in payroll and related expenses of \$169,000 and investor relations expenses of \$14,000, legal expenses of \$69,000, professional fees of \$21,000, travel of \$7,000, rent and other expenses of \$3,000 partially offset by reductions in D&O insurance of \$18,000 and investment banking commissions of \$15,000.

Interest expense decreased by approximately \$80,000 for the six months ended June 30, 2005 from the six months ended June 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, including primarily that no payments were made towards royalty interests in the six months ended June 30, 2005, the net loss for the six months ended June 30, 2005 decreased to \$642,736 from \$948,386 for the six months ended June 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:

	Six Months Ended	
	June 30, 2005	June 30, 2004
Cash used in Operating Activities	\$ (332,608)	\$ (765,146)
Cash used in Investing Activities	\$ -	\$ (3,288)
Cash provided by Financing Activities	\$ 305,000	\$ 559,237

The Company incurred a net loss of \$642,736 for the six months ended June 30, 2005. Such loss adjusted for non-cash items such as deferred revenues (net of deferred acquisition costs) (\$5,963) and other non-cash credits totaling \$34,010 resulted in cash used in operations totaling \$332,608 for the six months ended June 30, 2005 including working capital movements of \$258,239 which is comprised of accounts payable, accrued expenses and other liabilities of \$256,929 and prepaid expenses of \$1,310.

To meet its cash requirement for the six months ended June 30, 2005, the Company relied on the net proceeds from the issuance of Promissory Notes and Common Stock in the amount of \$305,000. 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 will expire on August 31, 2005 unless extended by the Company and the placement agent. As of August 11, 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. As of June 30, 2005, the Company had virtually no cash balances. The Company will rely on its current cash, the private placement of convertible notes and warrants and proceeds from the sale of promissory notes and 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.

#### INFLATION

The Company does not believe that its operations have been materially influenced by inflation for the six months ended June 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 1. LEGAL PROCEEDINGS

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Cumulative dividends payable on Series A Convertible Redeemable Preferred Stock totaled \$504,722 at June 30, 2005, of which \$23,842 represents dividends for the six months then ended.

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

- (a) An annual meeting of stockholders was held on July 20, 2005.
- (b) The Directors elected at the annual meeting were Mark Weinreb, Wayne A. Marasco and Joseph D. Zuckerman. Such persons are all of the Directors of the Company whose term of office continued after the annual meeting.
- (c) The matters voted upon at the annual meeting and the results of the voting, including broker non-votes where applicable, are set forth below:

(i) Election of Directors

Name	In Favor	Withheld
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Mark Weinreb	34,340,869	19,258
Wayne A. Marasco	34,340,876	19,251
Joseph D. Zuckerman	34,340,865	19,262

- (ii) The stockholders approved an amendment to the certificate of incorporation to increase the number of shares of the Company's authorized Common Stock from 250,000,000 to 500,000,000. The stockholders voted 34,185,651 shares in favor and 144,245 shares against. 30,230 shares abstained from voting.
- (iii) There was not present at the meeting a quorum of the holders of the Series A Preferred Stock and the meeting was adjourned with respect to the proposal to approve an amendment to the certificate of designations for the Series A Preferred Stock. This action was ratified by the shares of Common Stock present. There were no shares of Series A Preferred Stock present. The Common Stock holders voted 22,519,124 shares in favor and 142,119 shares against. 11,126 shares abstained from voting.
- (iv) The stockholders approved (A) an amendment to the Company's 2003 EPP and the grants of options to the Company's executive officers, controller and directors under the 2003 EPP; (B) amendments to the employment agreements of certain of the Company's executive officers; and (C) a grant of a restricted stock award under the 2003 EPP to the President and CEO. The stockholders voted 24,526,134 shares in favor and 159,038 shares against. 3,863 shares abstained from voting. There were 9,671,092 broker nonvotes.
- (v) The stockholders ratified the appointment by the Board of Holtz Rubenstein Reminick LLP as the Company's independent certified public accountants for the fiscal year ending December 31, 2005. The stockholders voted 34,342,434 shares in favor and 2,103 shares against. 15,590 shares abstained from voting.

ITEM 6. EXHIBITS

(a) Exhibits

- 3.1 Amended and Restated By-laws
- 3.2 Amendment dated July 20, 2005 to Certificate of Incorporation
- 10.1 Amendment dated July 18, 2005 to Stock Purchase Agreement with Catherine M. Vaczy dated April 20, 2005
- 10.2 Amendment dated July 20, 2005 to Employment Agreement with Mark Weinreb dated February 6, 2003
- 10.3 Amendment dated July 20, 2005 to Employment Agreement with Wayne A. Marasco dated August 12, 2004
- 10.4 Amendment dated July 20, 2005 to Employment Agreement with Robert Aholt dated September 13, 2004
- 10.5 Form of Option Agreement dated July 20, 2005
- 10.6 Form of Promissory Note Extension
- 10.7 Letter Agreement dated August 12, 2005 with Catherine M. Vaczy
- 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
- 99.1 2003 Equity Participation Plan, as amended

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  
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Mark Weinreb, President and Chief  
Executive Officer

Date: August 15, 2005

AMENDED AND RESTATED  
BY-LAWS  
OF  
PHASE III MEDICAL, INC.  
A DELAWARE CORPORATION

Dated: August 11, 2005

PHASE III MEDICAL, INC.

\* \* \* \* \*

AMENDED AND RESTATED BY-LAWS

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\* \* \* \* \*

ARTICLE I

MEETINGS OF STOCKHOLDERS

1.1 Place of Meetings. All meetings of the stockholders shall be held at such place within or without the State of Delaware as may be designated from time to time by the Chairman of the Board (if any), the board of directors of the Corporation (the "Board of Directors") or the Chief Executive Officer, or if not so designated, at the registered office of the Corporation. Notwithstanding the foregoing, the Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of Delaware. If so authorized, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication, participate in a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held, at such date (which date shall not be a legal holiday in the place where the meeting is to be held) and time and by such means of remote communication, if any, as shall be designated from time to time by the Chairman of the Board (if any), the Board of Directors or the Chief Executive Officer and stated in the notice of the meeting.

1.3 Special Meetings. Special meetings of the stockholders may, unless otherwise prescribed by law or by the certificate of incorporation, be called by the Chairman of the Board (if any), the Board of Directors or the Chief Executive Officer and shall be held at such place, on such date and at such time as shall be fixed by the Board of Directors or the person calling the meeting. Business transacted at any special meeting shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, stating the place, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each stockholder entitled to vote at such meeting.

1.5 Voting List. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) at the Corporation's principal place of business. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

1.6 Quorum. Except as otherwise required by law, the certificate of incorporation or these By-Laws, the holders of a majority of the shares of capital stock of the Corporation issued and outstanding and entitled to vote thereat, present in person or by remote communication, or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. Shares held by brokers which such brokers are prohibited from voting (pursuant to their discretionary authority on behalf of beneficial owners of such shares who have not submitted a proxy with respect to such shares) on some or all of the matters before the stockholders but which shares would otherwise be entitled to vote at the meeting ("Broker Non-Votes") shall be counted, for the purpose of determining the presence or absence of a quorum, both (a) toward the total voting power of the shares of capital stock of the Corporation and (b) as being represented by proxy. If a quorum has been established for the purpose of conducting the meeting, a quorum shall be deemed to be present for the purpose of all votes to be conducted at such meeting; provided that where a separate vote by a class or classes, or series thereof, is required, a majority of the voting power of the shares of such class or classes, or series present in person or by remote communication, or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter. If no quorum shall be present or represented at any meeting of stockholders, such meeting may be adjourned in accordance with Section 1.7 hereof, until a quorum shall be present or represented.

1.7 Adjournments. Any meeting of stockholders may be adjourned from time to time to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws, which time and place shall be announced at the meeting, by a majority of the stockholders present in person or by remote communication, or represented by proxy at the meeting and entitled to vote (whether or not a quorum is present), or, if no stockholder is present or represented by proxy, by any officer entitled to preside at or to act as secretary of such meeting, without notice other than announcement at the meeting. At such adjourned meeting, any business may be transacted which might have been transacted at the original meeting, provided that a quorum either was present at the original meeting or is present at the adjourned meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.



1.8 Voting and Proxies. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote for each share of capital stock having voting power held of record by such stockholder and a proportionate vote for each fractional share so held. Each stockholder entitled to vote at a meeting of stockholders, or to express consent or dissent to corporate action in writing without a meeting (to the extent not otherwise prohibited by the certificate of incorporation or these By-Laws), may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period.

1.9 Action at Meetings. When a quorum is present at any meeting of stockholders, the affirmative vote of the holders of a majority of the stock present in person or by remote communication, or represented by proxy, entitled to vote and voting on the matter (or where a separate vote by a class or classes, or series thereof, is required, the affirmative vote of the majority of shares of such class or classes or series present in person or represented by proxy at the meeting) shall decide any matter (other than the election of Directors) brought before such meeting, unless the matter is one upon which by express provision of law, the certificate of incorporation or these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such matter. The stock of holders who abstain from voting on any matter shall be deemed not to have been voted on such matter. Directors shall be elected by a plurality of the votes of the shares present in person or by remote communication, or represented by proxy at the meeting, entitled to vote and voting on the election of Directors, except as otherwise provided by the certificate of incorporation. For purposes of this paragraph, Broker Non-Votes represented at the meeting but not permitted to vote on a particular matter shall not be counted, with respect to the vote on such matter, in the number of (a) votes cast, (b) votes cast affirmatively, or (c) votes cast negatively.

1.10 Introduction of Business at Meetings.

A. Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Section 1.10, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 1.10.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 1.10, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the one hundred twentieth (120th) day nor earlier than the close of business on the one hundred fiftieth (150th) day prior to the first anniversary of the date of the proxy statement delivered to stockholders in connection with the preceding year's annual meeting; provided, however, that if either (i) the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such an anniversary date or (ii) no proxy statement was delivered to stockholders in connection with the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of (x) the sixtieth (60th) day prior to such annual meeting and (y) the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of capital stock of the Corporation that are owned beneficially and held of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 1.10 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least seventy (70) days prior to the first anniversary of the preceding year's annual meeting (or, if the annual meeting is held more than thirty (30) days before or sixty (60) days after such anniversary date, at least seventy (70) days prior to such annual meeting), a stockholder's notice required by this Section 1.10 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

B. Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that Directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice of the special meeting, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 1.10. If the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Section 1.10 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the ninetieth (90th) day prior to such special meeting nor later than the later of (x) the close of business on the sixtieth (60th) day prior to such special meeting or (y) the close of business on the tenth (10th) day following the day on which public announcement is first made of the date of such special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

C. General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 1.10 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.10. Except as otherwise provided by law, the certificate of incorporation or these By-Laws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 1.10 and, if any proposed nomination or business is not in compliance herewith, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Section 1.10, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth herein. Nothing in this Section 1.10 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

1.11 Action without Meeting. Stockholders of the Corporation may not take any action by written consent in lieu of a meeting. Notwithstanding any other provision of law, the certificate of incorporation or these By-Laws, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast at any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 1.11.

1.12 Inspectors. Prior to any meeting of stockholders, the Board of Directors or the President shall appoint one or more inspectors to act at such meeting and make a written report thereof and may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at the meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall ascertain the number of shares outstanding and the voting power of each, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons to assist them in the performance of their duties. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxy or vote, nor any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls. In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted therewith, any information provided by a stockholder who submits a proxy by telegram, cablegram or other electronic transmission from which it can be determined that the proxy was authorized by the stockholder, ballots and the regular books and records of the Corporation, and they may also consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for such purpose, they shall, at the time they make their certification, specify the precise information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

## ARTICLE II DIRECTORS

2.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the Corporation except as otherwise provided by law or the certificate of incorporation. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law or the certificate of incorporation, may exercise the powers of the full Board of Directors until the vacancy is filled.

2.2 Number; Election and Qualification. The number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors, but in no event shall be less than three. Subject to the preceding sentence, the number of Directors may be decreased at any time and from time to time by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The Directors shall be elected at the annual meeting of stockholders (or, if so determined by the Board of Directors pursuant to Section 2.10 hereof, at a special meeting of stockholders), by such stockholders as have the right to vote on such election. Directors need not be stockholders of the Corporation.

2.3 Tenure. Each Director shall serve for a term ending on the date of the annual meeting following the annual meeting at which such Director was elected. Notwithstanding any provisions to the contrary contained herein, each Director shall hold office until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal.

2.4 Vacancies. Unless and until filled by the stockholders, any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement thereof, may be filled only by vote of a majority of the Directors then in office, although less than a quorum, or by a sole remaining Director. A Director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office, if applicable, and a Director chosen to fill a position resulting from an increase in the number of Directors shall hold office until the next election of Directors and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal.

2.5 Resignation. Any director may resign at any time upon notice given in writing or by electronic transmission to the Corporation at its principal place of business or to the Chief Executive Officer or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

2.6 Chairman of the Board. If the Board of Directors appoints a chairman of the board, he shall, when present, preside at all meetings of the stockholders and the Board of Directors. He shall perform such duties and possess such powers as are customarily vested in the office of the Chairman of the Board or as may be vested in him by the Board of Directors.

2.7 Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware.

2.8 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors; provided that any Director who is absent when such a determination is made shall be given notice of such determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.9 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board (if any), the Chief Executive Officer, two (2) or more Directors, or by one Director in the event that there is only one Director in office. At least one (1) days' notice to each Director, either personally or by telegram, cable, telecopy, electronic mail, commercial delivery service, telex or similar means sent to his business or home address, or three (3) days' notice by written notice deposited in the mail, shall be given to each Director by the Secretary or by the officer or one of the Directors calling the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting.

2.10 Quorum, Action at Meeting, Adjournments. At all meetings of the Board of Directors a majority of Directors then in office shall constitute a quorum for the transaction of business. In the event one or more of the Directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each so disqualified; provided however, that in no case shall less than one third of the entire Board of Directors constitute a quorum for the transaction of business. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by law, the certificate of incorporation or these By-Laws. For purposes of this section, the term "entire Board of Directors" shall mean the number of Directors last fixed by the stockholders or Directors, as the case may be, in accordance with law, the certificate of incorporation and these By-Laws; provided, however, that if less than all the number so fixed of Directors were elected, the "entire Board of Directors" shall mean the greatest number of Directors so elected to hold office at any one time pursuant to such authorization. If a quorum shall not be present at any meeting of the Board of Directors, a majority of the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

2.11 Action by Consent. Unless otherwise restricted by the certificate of incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.12 Telephonic Meetings. Unless otherwise restricted by the certificate of incorporation or these By-Laws, members of the Board of Directors or of any committee thereof may participate in a meeting of the Board of Directors or of any committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

2.13 Removal. Unless otherwise provided in the certificate of incorporation, any one or more or all of the Directors may be removed without cause by the holders of at least seventy-five percent (75%) of the shares then entitled to vote at an election of Directors. Any one or more or all of the Directors may be removed with cause only by the holders of at least a majority of the shares then entitled to vote at an election of Directors.

2.14 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the General Corporation Law of Delaware, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (a) adopting, amending or repealing the By-Laws of the Corporation or any of them or (b) approving or adopting, or recommending to the stockholders any action or matter expressly required by law to be submitted to stockholders for approval. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and make such reports to the Board of Directors as the Board of Directors may request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the Directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-Laws for the conduct of its business by the Board of Directors. Adequate provisions shall be made for notice to members of all meetings of committees. One third of the members of any committee shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum, and all matters shall be determined by a majority vote of the members present.

2.15 Compensation. Unless otherwise restricted by the certificate of incorporation or these By-Laws, the Board of Directors shall have the authority to fix from time to time the compensation of Directors. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and the performance of their responsibilities as Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated salary as a Director. No such payment shall preclude any Director from serving the Corporation or its parent or subsidiary corporations in any other capacity and receiving compensation therefor. The Board of Directors may also allow compensation for members of special or standing committees for service on such committees.

2.16 Amendments to Article. Notwithstanding any other provisions of law, the certificate of incorporation or these By-Laws, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of a least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast at any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article II.

### ARTICLE III

#### OFFICERS

3.1 Enumeration. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer and such other officers with such titles, terms of office and duties as the Board of Directors may from time to time determine, including one or more Vice-Presidents, and one or more Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same person, unless the certificate of incorporation or these By-Laws otherwise provide.

3.2 Election. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a President, a Secretary and a Treasurer. Other officers may be appointed by the Board of Directors at such meeting, at any other meeting, or by written consent.

3.3 Tenure. The officers of the Corporation shall hold office until their successors are chosen and qualify, unless a different term is specified in the vote choosing or appointing them, or until their earlier death, resignation or removal. Any officer may be removed at any time, with or without cause, by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors, at its discretion. Any officer may resign by delivering his written resignation to the Chairman of the Board (if any), to the Board of Directors at a meeting thereof, to the Corporation at its principal place of business or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

3.4 President. The President shall, subject to the direction of the Board of Directors, have general and active management of the business of the Corporation. He shall also be the Chief Executive Officer unless the Board of Directors otherwise provides. If no Chief Executive Officer shall have been appointed by the Board of Directors, all references herein to the "Chief Executive Officer" shall be to the President. The President shall, unless the Board of Directors provides otherwise in a specific instance or generally and provided there is no Chairman of the Board or that the Chairman is not available, preside at all meetings of the stockholders and the Board of Directors. The President shall prepare an agenda of items to be discussed at each meeting of the Board of Directors and shall report regularly to the Board with respect to the operations of the Company. The President shall execute bonds, mortgages, and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

3.5 Vice-Presidents. In the absence of the President or in the event of his or her inability or refusal to act, the Vice-President, or if there be more than one Vice-President, the Vice-Presidents in the order designated by the Board of Directors or the Chief Executive Officer shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice-Presidents shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

3.6 Secretary. The Secretary shall have such powers and perform such duties as are incident to the office of Secretary. The Secretary shall maintain a stock ledger and prepare lists of stockholders and their addresses as required and shall be the custodian of corporate records. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be from time to time prescribed by the Board of Directors or Chief Executive Officer, under whose supervision the Secretary shall be. The Secretary shall have custody of the corporate seal of the Corporation and the Secretary, or an assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature.



3.7 Assistant Secretaries. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors, the Chief Executive Officer or the Secretary (or if there be no such determination, then in the order determined by their tenure in office), shall, in the absence of the Secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors, the Chief Executive Officer or the Secretary may from time to time prescribe. In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or Directors, the person presiding at the meeting shall designate a temporary or acting secretary to keep a record of the meeting.

3.8 Treasurer. The Treasurer shall perform such duties and shall have such powers as may be assigned to him or her by the Board of Directors or the Chief Executive Officer. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, when the Chief Executive Officer or Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation.

3.9 Assistant Treasurers. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors, the Chief Executive Officer or the Treasurer (or if there be no such determination, then in the order determined by their tenure in office), shall, in the absence of the Treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors, the Chief Executive Officer or the Treasurer may from time to time prescribe.

3.10 Bond. If required by the Board of Directors, any officer shall give the Corporation a bond in such sum and with such surety or sureties and upon such terms and conditions as shall be satisfactory to the Board of Directors, including without limitation a bond for the faithful performance of the duties of his office and for the restoration to the Corporation of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control and belonging to the Corporation.

3.11 Action with Respect to Securities of Other Corporations. The President, the Chief Executive Officer, the Treasurer or any officer of the Corporation authorized by the Board of Directors shall, unless otherwise directed by the Board of Directors, have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which the Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

## ARTICLE IV

### NOTICES

4.1 Delivery. Except as otherwise specifically provided herein or required by law or the certificate of incorporation, all notices required to be given to any person under these By-Laws, such notice may be given by mail, addressed to such person, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Unless written notice by mail is required by law, notice may also be given by telegram, cable, telecopy, commercial delivery service, telex or similar means, addressed to such person at his address as it appears on the records of the corporation, in which case such notice shall be deemed to be given when delivered into the control of the persons charged with effecting such transmission, the transmission charge to be paid by the Corporation or the person sending such notice and not by the addressee. Notice may also be given to stockholders by a form of electronic transmission in accordance with and subject to the provisions of Section 232 of the General Corporation Law of Delaware. Oral notice or other in-hand delivery (in person or by telephone) shall be deemed given at the time it is actually given.

4.2 Waiver of Notice. Whenever any notice is required to be given under the provisions of law or of the certificate of incorporation or of these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

## ARTICLE V

### CAPITAL STOCK

5.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the certificate of incorporation, the whole or any part of any unissued balance of the authorized capital stock of the Corporation or the whole or any part of any issued, authorized capital stock of the Corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

5.2 Certificates of Stock. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the chairman or Vice-chairman of the Board of Directors, or the President or a Vice-President and the Treasurer or an assistant Treasurer, or the Secretary or an assistant Secretary of the Corporation, certifying the number of shares owned by such holder in the Corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the certificate of incorporation, these By-Laws, applicable securities laws or any agreement among any number of shareholders or among any such holders and the Corporation shall have conspicuously noted on the face or back of such certificate either the full text of such restriction or a statement of the existence of such restriction.

5.3 Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors or the Chief Executive Officer may, in their discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give reasonable evidence of such loss, theft or destruction, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate.

5.4 Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which shall not precede the date upon which the resolution fixing the record date is adopted, and which shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

5.5 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## ARTICLE VI

### CERTAIN TRANSACTIONS

6.1 Transactions with Interested Parties. No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or officers are Directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction or solely because his, her or their votes are counted for such purpose, if:

(a) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; or

(b) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the stockholders.

6.2 Quorum. Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

## ARTICLE VII

### GENERAL PROVISIONS

7.1 Fiscal Year. The fiscal year of the Corporation shall be the calendar year unless otherwise fixed by resolution of the Board of Directors.

7.2 Seal. The Board of Directors may, by resolution, adopt a corporate seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the word "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. The seal may be altered from time to time by the Board of Directors.

7.3 Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized by these By-Laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

7.4 Time Periods. In applying any provision of these By-Laws that requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, unless otherwise required by law or the certificate of incorporation, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

7.5 Certificate of Incorporation. All references in these By-Laws to the certificate of incorporation shall be deemed to refer to the certificate of incorporation of the Corporation, as amended and restated and in effect from time to time.

7.6 Severability. Any determination that any provision of these By-Laws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these By-Laws.

7.7 Pronouns. All pronouns used in these By-Laws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons so designated may require.

## ARTICLE VIII

### AMENDMENTS

8.1 By the Board of Directors. Except as is otherwise set forth in these By-Laws or the certificate of incorporation, these By-Laws may be altered, amended or repealed, or new by-laws may be adopted, by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present.

8.2 By the Stockholders. Except as otherwise set forth in these By-Laws or the certificate of incorporation, these By-Laws may be altered, amended or repealed or new by-laws may be adopted by the affirmative vote of the holders of at least seventy-five percent (75%) of the voting power of all the then outstanding shares of capital stock of the Corporation entitled to vote at any regular meeting of stockholders, or at any special meeting of stockholders, voting together as a single class; provided notice of such alteration, amendment, repeal or adoption of new by-laws shall have been stated in the notice of such special meeting.

CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
PHASE III MEDICAL INC.

(Under Section 242 of the General Corporation Law)

The undersigned, being the President of Phase III Medical Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby amend and certify as follows:

1. That the name of the Corporation is PHASE III MEDICAL INC.

2. The Certificate of Incorporation of the Corporation is hereby amended to effect the following amendment which was set forth in a resolution adopted by the board of directors and adopted by the holders of a majority of the outstanding shares of common stock of the Corporation entitled to vote thereon, in accordance with the provisions of Section 242 of the Delaware General Corporation Law to increase the number of authorized shares of Common Stock.

3. To accomplish this amendment the first paragraph of Article FOURTH of the Certificate of Incorporation, as amended, is restated in its entirety as follows:

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is FIVE HUNDRED FIVE MILLION (505,000,000) shares consisting of (i) Five Hundred Million (500,000,000) shares of Common Stock of the par value of \$.001 per share and (ii) Five Million (5,000,000) shares of Preferred Stock of the par value of \$.01 per share.

4. Article FIRST of the Certificate of Incorporation, as amended, is hereby amended to change the name of the corporation as follows: "The name of the Corporation is PHASE III MEDICAL, INC."

IN WITNESS WHEREOF, the undersigned being a duly elected officer of the Corporation, has executed this Certificate of Amendment and affirms the statements herein contained on this 8th day of August 2005.

PHASE III MEDICAL INC.

By: /s/ Mark Weinreb  
Mark Weinreb, President

## PHASE III MEDICAL, INC.

## STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this "Agreement"), dated as of July 18, 2005, is by and between Phase III Medical, Inc., a Delaware corporation (the "Company"), and Catherine M. Vaczy (the "Investor").

WHEREAS, the Company and the Investor entered into a Stock Purchase Agreement (the "First Stock Purchase Agreement") dated as of April 20, 2005 pursuant to which the Investor purchased 1,666,666 shares of the Company's common stock, \$.001 par value (the "Common Stock") for \$100,000; and

WHEREAS, pursuant to the First Stock Purchase Agreement, the Investor has the right to purchase additional shares of Common Stock on the terms set forth in the First Stock Purchase Agreement; and

WHEREAS, the Investor, who is now employed as the Company's Executive Vice President and General Counsel, desires to exercise this right and purchase from the Company additional shares of Common Stock pursuant to the First Stock Purchase Agreement, upon and subject to the terms and conditions hereinafter set forth.

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

1. Purchase and Sale of the Shares.

1.1. Agreement to Sell and Purchase Shares. Subject to the terms and conditions hereof, the Company agrees to issue and sell to the Investor and the Investor agrees to purchase from the Company, at the Closing (as defined below), an aggregate of 1,250,000 shares of Common Stock (the "Shares"), at a per share purchase price (the "Per Share Purchase Price") equal to \$.06 for an aggregate purchase price of \$75,000 (the "Purchase Price"), payable by check or bank wire at the Closing.

1.2. Delivery of Shares; Legend.

(a) As soon as reasonably practicable after the Closing, the Company shall deliver to the Investor one or more certificates, registered in the name of the Investor, representing the Shares.

(b) The certificates representing the Shares delivered pursuant to Section 1.2(a), and any securities and any shares issued pursuant to Section 1.4 hereof, shall bear a legend in substantially the following form:

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended. The securities may not be sold, transferred or assigned in the absence of an effective registration statement for the securities under said Act, or an opinion of counsel, in form, substance and scope reasonably acceptable to the Company, that registration is not required under said Act or unless sold pursuant to Rule 144 under said Act."

1.3. Closing. The closing (the "Closing") of the transactions contemplated by this Agreement shall take place on the date hereof at the offices of the Company or such other place as the parties may agree.

2. Representations, Warranties and Covenants of the Investor.

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

2.2. No Conflict. The execution, delivery and performance by the Investor of this Agreement will not result in the violation by the Investor of any law, statute, rule, regulation, order, writ, injunction, judgment or decree of any court or governmental authority to or by which the Investor is bound, and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute (with due notice or lapse of time or both) a default under, any lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Investor is a party or by which she is bound or to which any of her properties or assets is subject.

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

#### 2.4. Investment Representations.

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

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

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

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

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

(c) The Investor will not sell or otherwise transfer the Shares without registration under the Securities Act or an exemption therefrom, and fully understands and agrees that she must bear the economic risk of her investment for an indefinite period of time because, among other reasons, the Shares have not been registered under the Securities Act or under the securities laws of certain states and, therefore, cannot be resold, pledged, assigned or otherwise disposed of unless they are subsequently registered under the Securities Act and under applicable securities laws of such states or an exemption from such registration is available. The Investor understands that, except as provided herein, the Company is under no obligation to register the Shares on her behalf or to assist her in complying with any exemption from such registration under the Securities Act, except that if any sale proposed by the Investor is exempt from registration, the Company will cause its counsel, at the Company's expense, to provide an appropriate opinion to that effect to the Company's transfer agent. It also understands that sales or transfers of the Shares are further restricted by state securities laws. The Investor further understands that the Company is not registered as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act").



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

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

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

(g) The Investor can afford a complete loss of the investment in the Shares.

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

(i) The Investor agrees and is aware that:

- (1) the Company has a limited operating history under its current business plan;
- (2) no federal or state agency has passed upon the Shares or made any findings or determination as to the fairness of this investment; and
- (3) there are substantial risks of loss of investment incidental to the purchase of the Shares.

(j) The Investor and her advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares, which have been requested by the Investor. The Investor and her advisors, if any, have been afforded the opportunity to ask questions of the Company and have received satisfactory answers to any such inquiries. Except as set forth in this Agreement, the Company has made no representation or warranty on which the Investor has relied to enter into this Agreement and acquire the Shares.

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

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

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

### 3. Representations, Warranties and Covenants of the Company

3.1 Organization and Qualification. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not reasonably be expected to have a material adverse effect upon the business, financial condition, properties, or operations of the Company taken as a whole (a "Material Adverse Effect").

3.2 Shares. All of the issued and outstanding shares of the Company's Common Stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in material compliance with all federal and state securities laws, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities. The Shares to be sold pursuant to this Agreement and issued upon exercise of the option granted to Investor in connection with Investor's employment with the Company have been duly and validly authorized, and when issued and paid for in accordance with the terms of this Agreement and the applicable option agreement, will be duly and validly issued, fully paid and non-assessable.

3.3 Corporate Authority. The Company has all the requisite power and authority to carry on its business as now conducted.

3.4 Authorization; Enforceability. This Agreement has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery of this Agreement by the other party hereto, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the effects of any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or general laws of applicability affecting creditors' rights generally and to general equitable principles.

3.5 No Conflict. The execution, delivery and performance by the Company of this Agreement (i) will not result in the violation by the Company of any law, statute, rule, regulation, order, writ, injunction, judgment or decree of any court or governmental authority to or by which the Company is bound, and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute (with due notice or lapse of time or both) a default under, any lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the Company's properties or assets are subject, and (ii) will not violate any provision of the certificate of incorporation, by-laws or other organizational documents of the Company.

3.6 Consents. No consent, approval, authorization or other order of any governmental authority or other third party is required to be obtained by the Company in connection with the authorization, execution, delivery and performance by the Company of this Agreement, including without limitation, the issue and sale of the Shares, except filings as may be required to be made by the Company with: (i) the Securities and Exchange Commission (the "Commission"), (ii) state blue sky or other securities regulatory authorities, and (iii) such other consents that have been obtained.

3.7 No Actions. There are no judicial, administrative or governmental actions, suits, investigations or proceedings (collectively, "Legal Proceedings") pending or to the knowledge of the Company, threatened to which the Company is or may be a party or which property owned or leased by the Company is or may be the subject, which, individually or in the aggregate, which are reasonably likely to result in a Material Adverse Effect. The Company is not a party to or subject to the provisions of any material injunction, judgment, decree or order of any court, regulatory body, administrative agency or other governmental body.

3.8 No Material Change. Since the filing with the Commission of the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and any amendment thereto (the "2004 Form 10-K"), except as disclosed in subsequent filings made with the Commission, the Company has not incurred or sustained any event or change that has had a Material Adverse Effect.

3.9 Investment Company Act. The Company does not believe, after reasonable inquiry, that it is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act, and neither the sale of the Shares nor the transactions contemplated herein will cause the Company to become an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act.

3.10 Accuracy of Disclosure. The information contained in the Company's 2004 Form 10-K, as of the date of the Form 10-K, and in all subsequent filings made with the Commission, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

4. Indemnification. The Investor agrees to indemnify and hold harmless the Company, and its managers, officers, directors, employees, agents and shareholders, and each other person, if any, who controls or is controlled by the Company, within the meaning of Section 15 of the Securities Act, against any and all loss, liability, claim, damage, cost and expense whatsoever (including, but not limited to, legal fees and disbursements and any and all other expenses whatsoever incurred in investigating, preparing for or defending against any litigation, arbitration proceeding, or other action or proceeding, commenced or threatened, or any claim whatsoever) arising out of or in connection with, or based upon or resulting from the inaccuracy of any representation or warranty made by Investor herein. The Company agrees to indemnify and hold harmless the Investor, against any and all loss, liability, claim, damage, cost and expense whatsoever (including, but not limited to, legal fees and disbursements and any and all other expenses whatsoever incurred in investigating, preparing for or defending against any litigation, arbitration proceeding, or other action or proceeding, commenced or threatened, or any claim whatsoever) arising out of or in connection with, or based upon or resulting from the inaccuracy of any representation or warranty made by the Company herein.

5. Registration Rights. The Company agrees that the registration rights contained in the First Stock Purchase Agreement shall apply to the Shares.

6. Miscellaneous.

6.1. Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally or when mailed by certified or registered mail, return receipt requested and postage prepaid, and addressed to the address of such party set forth below or to such changed address as such party may have fixed by written notice to the other given in accordance with this Section 6.1; provided, however, that any notice of change of address shall be effective only upon receipt:

If to the Company:

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

If to the Investor:

Catherine M. Vaczy  
140 East 28th Street  
Apartment #11C  
New York, New York 10016

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

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

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

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

6.6. Additional Information and Subsequent Changes to Representations.

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

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

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

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

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

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

COMPANY:

PHASE III MEDICAL, INC.

By: /s/ Mark Weinreb  
Name: Mark Weinreb  
Title: President and CEO

INVESTOR:

/s/ Catherine M. Vaczy  
Catherine M. Vaczy

Address: 140 East 28th Street  
Apartment #11C  
New York, New York 10016

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

August 12, 2005

Mr. Marrk Weinreb  
c/o Phase III Medical, Inc.  
330 South Service Road  
Suite 120  
Melville, NY 11747

Dear Mr. Weinreb:

This letter agreement shall serve as an amendment (the "Amendment") to your employment agreement (the "Agreement") with Phase III Medical, Inc. (the "Company") dated February 6, 2003 to serve as the Company's President and Chief Executive Officer. The terms of this Amendment were unanimously approved by the Board of Directors of the Company on May 4, 2005, subject to the approval of the Company's shareholders, which was obtained on July 20, 2005.

The Agreement is hereby amended as follows:

1. Section 1.1 of the Agreement is amended to provide that the termination of the Initial Term of the Agreement shall be December 31, 2008.
2. Section 4.2 of the Agreement is amended to provide that commencing as of July 20, 2005, the Base Salary to which you are entitled under the Agreement shall be equal to the sum of \$250,000 which shall remain in effect throughout the term of the Agreement without adjustment.
3. You are hereby granted as of July 20, 2005, under the Company's 2003 Equity Participation Plan (the "2003 EPP"), 3,000,000 shares of Common Stock which shall vest as to 1,000,000 shares on each of July 20, 2005, July 20, 2006 and July 20, 2007 and shall otherwise be subject to all the terms and conditions of the 2003 EPP.
4. The second sentence of paragraph 1.3 is hereby deleted and replaced in its entirety as follows: "In the event of termination without cause (other than pursuant to Paragraph 6.1 hereof), as liquidated damages and as the sole and exclusive remedy of the Employee, the Employee shall be entitled to (a) a lump sum payment equal to his then Base Salary and Automobile Allowance (each as hereinafter defined) for one year, and (b) be reimbursed for the remainder of the Term pursuant to Paragraphs 9.2 and 9.3 hereof".
5. Section 4.3 of the Agreement is amended to provide that commencing in August 2006, you shall be entitled to an annual minimum bonus amount of \$25,000 (not \$20,000).
6. A new Section 4.5 is hereby added providing that in August 2005 you shall be paid the sum of \$15,000 to cover costs incurred by you on behalf of the Company.
7. A new Section 9.5 is hereby added providing that, commencing in 2006, the Company shall pay for the reimbursement of all premiums in an annual aggregate amount of up to \$18,000 payable by you for life and long term care insurance covering each year during the Term of the Agreement.

Except as provided herein, the Agreement shall remain unchanged. All terms not otherwise defined herein shall have the meaning set forth in the Agreement. For our records, I would appreciate your countersigning the attached copy of this Amendment and returning the same to me at your earliest convenience.

Sincerely,  
/s/ Catherine M. Vaczy  
Catherine M. Vaczy  
Executive Vice President and General Counsel

Accepted and agreed to:  
/s/ Mark Weinreb  
Mark Weinreb

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

August 12, 2005

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

Dear Dr. Marasco:

This letter agreement shall serve as an amendment (the "Amendment") to your letter agreement (the "Letter Agreement") with Phase III Medical, Inc. (the "Company") dated August 12, 2004 to serve as the Company's Senior Scientific Advisor. The terms of this Amendment were unanimously approved by the Board of Directors of the Company on May 4, 2005, subject to the approval of the Company's shareholders, which was obtained on July 20, 2005.

The Letter Agreement is hereby amended as follows:

1. The Term is hereby extended from August 11, 2007 to August 11, 2008.
2. The annual salary to which you are entitled under the Letter Agreement during the Term shall be equal to \$110,000, \$125,000 and \$150,000, respectively, for each of the years ended August 11, 2006, August 11, 2007 and August 11, 2008.
3. Under the Letter Agreement, you shall be entitled to an annual minimum bonus of \$12,000 during the Term, payable in January of each year during the Term, commencing in January 2006.
4. Eliminated in its entirety is your right to receive 5% of all collected revenues derived from the Company's royalty or other revenue sharing agreements (which right was subject to the limitation that the amount of such additional cash compensation and your annual salary do not exceed, in the aggregate, \$200,000 per year).
5. Your right to begin receiving all accrued but unpaid cash compensation under the Letter Agreement shall commence upon the Company's consummation of any financing, whether equity or otherwise, pursuant to which the Company raises a minimum of \$1,500,000 after the Commencement Date.

Except as provided herein, the Letter Agreement shall remain unchanged. Unless otherwise defined herein, initially capitalized terms used herein shall have the meaning set forth in the Letter Agreement. For our records, I would appreciate your countersigning the attached copy of this Amendment and returning the same to me at your earliest convenience.

Sincerely,  
/s/ Mark Weinreb  
Mark Weinreb, President & CEO

Accepted and agreed to:  
/s/ Wayne A. Marasco  
Wayne A. Marasco, M.D., Ph.D.

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

August 12, 2005

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

Dear Mr. Aholt:

This letter agreement shall serve as an amendment (the "Amendment") to your letter agreement (the "Letter Agreement") with Phase III Medical, Inc. (the "Company") dated September 13, 2004 to serve as the Company's Chief Operating Officer. The terms of this Amendment were unanimously approved by the Board of Directors of the Company on May 4, 2005, subject to the approval of the Company's shareholders, which was obtained on July 20, 2005.

The Letter Agreement is hereby amended as follows:

1. Effective as of September 30, 2005, the annual salary to which you are entitled during the Term, which you shall receive as full consideration for your services thereunder, shall be equal to the sum of \$170,500 and \$187,550, respectively, for each of the years ended September 12, 2006 and September 12, 2007, which shall be paid to you in accordance with the Company's normal payroll practices.
2. Under the Letter Agreement, you shall be entitled to an annual minimum bonus of \$12,000 during the Term, payable in January of each year during the Term, commencing in January 2006.

For purposes of clarification, we acknowledge that the foregoing does not affect the Company's obligation to pay to you on October 1, 2005 Common Stock with a value of \$26,750 and your monthly cash salary payable through September 30, 2005, all on the terms and conditions set forth in the Letter Agreement.

Except as provided herein, the Letter Agreement shall remain unchanged. Unless otherwise defined herein, initially capitalized terms used herein shall have the meaning set forth in the Letter Agreement. For our records, I would appreciate your countersigning the attached copy of this Amendment and returning the same to me at your earliest convenience.

Sincerely,  
/s/ Mark Weinreb  
Mark Weinreb, President & CEO

Accepted and agreed to:  
/s/ Robert Aholt, Jr.  
Robert Aholt, Jr.



STOCK OPTION AGREEMENT, made as of the 20th day of July 2005 (the "Agreement"), between Phase III Medical, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Optionee").

WHEREAS, the Company has adopted the 2003 Equity Participation Plan, as amended (the "Plan").

WHEREAS, Optionee serves as the Company's \_\_\_\_\_.

NOW, THEREFORE, in consideration of the foregoing, the Company hereby grants to the Optionee the right and option to purchase Common Shares under and pursuant to the terms and conditions of the Plan and upon and subject to the following terms and conditions:

1. GRANT OF OPTION; VESTING. The Company hereby grants to the Optionee the right and option (the "Option") to purchase up to \_\_\_\_\_ (\_\_\_\_\_) Common Shares of the Company (the "Option Shares") during the period commencing on the date hereof and terminating at 5:00 P.M. on July 19, 2015 (the "Expiration Date"). The Option shall vest and become exercisable as to \_\_\_\_\_ shares on the date hereof; as to an additional \_\_\_\_\_ shares on July 20, 2006 and as to the remaining \_\_\_\_\_ shares on July 20, 2007.

2. NATURE OF OPTION. The Option is [not] intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, relating to "incentive stock options".

3. EXERCISE PRICE. The exercise price of each of the Option Shares shall be six cents (\$.06) (the "Exercise Price"). The Company shall pay all original issue or transfer taxes on the exercise of the Option.

4. EXERCISE OF OPTIONS. The Option shall be exercised in accordance with the provisions of the Plan. In addition to the permissible methods of exercise provided for in the Plan, the Optionee may elect to have the Company reduce the number of shares otherwise issuable to him upon exercise of the Option by a number of shares having a fair market value (determined in accordance with the provisions of the Plan) equal to the Exercise Price of the Option being exercised (a "Net Exercise"). As soon as practicable after the receipt of notice of exercise and payment of the Option Price as provided for in the Plan, or upon a Net Exercise, the Company shall tender to the Optionee certificates issued in the Optionee's name evidencing the number of Option Shares covered thereby.

5. RELOAD OPTIONS. In the event the Exercise Price is paid by delivery of Common Shares (as provided for in Section 13(b)(ii) of the Plan) or through a Net Exercise, the Optionee shall receive, contemporaneously with the payment of the Exercise Price in such manner, and in accordance with the provisions of the Plan, a reload stock option to purchase that number of Common Shares equal to the sum of (i) the number of Common Shares used to exercise the Option (or not issued in the case of a Net Exercise) and (ii) the number of Common Shares used to satisfy any tax withholding incident to the exercise of the Option, as provided for in the Plan.

6. TERMINATION OF EMPLOYMENT. The Option shall remain exercisable until the Expiration Date notwithstanding any termination or cessation of employment with the Company or its subsidiaries for any reason whatsoever.

7. INCORPORATION BY REFERENCE. The terms and conditions of the Plan are hereby incorporated by reference and made a part hereof.

8. NOTICES. Any notice or other communication given hereunder shall be deemed sufficient if in writing and hand delivered or sent by registered or certified mail, return receipt requested, addressed to the Company, c/o Lowenstein Sandler PC, 65 Livingston Avenue, Roseland, New Jersey 07068-1791, Attention Alan Wovsaniker, Esq. and to the Optionee at the address indicated below. Notices shall be deemed to have been given on the date of hand delivery or mailing, except notices of change of address, which shall be deemed to have been given when received.

9. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

10. ENTIRE AGREEMENT. This Agreement, together with the Plan, contains the entire understanding of the parties hereto with respect to the subject matter hereof and may be modified only by an instrument executed by the party sought to be charged.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

PHASE III MEDICAL, INC.

By:

-----  
Mark Weinreb  
President and CEO

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Signature of Optionee

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Name of Optionee

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Address of Optionee

NOTE EXTENSION AGREEMENT

Dated: \_\_\_\_\_, 2005

This Note Extension Agreement ("Agreement") is made as of \_\_\_\_\_, 2005 between Phase III Medical, Inc. (formerly Corniche Group Incorporated) (the "Company") and \_\_\_\_\_ (the "Lender").

1. Background. On \_\_\_\_\_, 200\_\_ the Lender advanced to the Company the principal sum of \$\_\_\_\_\_, which loan was evidenced by a promissory note dated that date (the "Note"). The Note was originally due \_\_\_ days after the date of issuance. Principal payments of \$\_\_\_\_\_ have been made to date, so that the principal sum of \$\_\_\_\_\_ remains due and owing.

2. Extension. Notwithstanding the original term of the Note, and notwithstanding any defaults prior to the date hereof, the Lender agrees that no further payments shall be due on the Note until \_\_\_\_\_, 2005 (the "Maturity Date"), when all principal and accrued interest shall be due and payable. Interest on the unpaid principal amount shall be payable monthly in arrears on the last day of each calendar month.

3. Other Modifications. Notwithstanding any interest term in the Note, interest shall accrue from the date hereof through the Maturity Date at a rate of \_\_\_% per annum. All interest has been paid through \_\_\_\_\_, 2005. The Lender shall have no further rights to acquire any securities of the Company by reason of this Note and/or by reason of any default or delay in payment hereunder. This Note shall not be deemed in default so long as payment is made on the Maturity Date.

4. Attachment to Note. The Lender agrees to attach an original of this Agreement to the original Note.

5. Representations by Lender. The Lender represents and warrants that it remains the owner of the Note, and that it has never endorsed, assigned, transferred, encumbered or otherwise disposed of the Note to any other person or persons or to any other firm, corporation, or partnership. The Lender agrees not to transfer the Note prior to the Maturity Date. The Lender agrees to indemnify the Company against any loss, damage, or liability (including reasonable attorneys' fees) resulting from or arising out of any breach of the representations and agreements made by the Lender, including without limitation any claims, suits, or actions by any person or entity that it is the lawful holder or owner of the Note.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

PHASE III MEDICAL, INC.

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(Lender)  
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Catherine M. Vaczy  
140 East 28th Street #11C  
New York, New York 10016

Phase III Medical, Inc.  
330 South Service Road  
Suite 120  
Melville, New York 11747  
Attention: Mark Weinreb, President & CEO

August 12, 2005

Dear Mark:

As you know, pursuant to the terms of my employment agreement with Phase III Medical, Inc. (the "Company") dated April 20, 2005 (the "Employment Agreement"), I have been accruing my salary as to 50% since April 20, 2005. This letter is being written to confirm our agreement, as approved by the Board at their meeting yesterday, that (i) I will cease to accrue salary as of October 1, 2005 and will as of that date begin to receive payment of my salary solely in cash in accordance with the Company's standard payroll practices, and (ii) I will accept in payment of my salary accruing during the period that commenced on April 20, 2005 and will end on September 30, 2005, shares (the "Shares") of the common stock, \$.001 par value (the "Common Stock") of the Company. With respect to the portion of my salary that has accrued from April 20, 2005 through August 12, 2005, the price per share will be \$.06, the closing price of the Common Stock today. For the portion of my salary that will accrue 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.

By signing this agreement, you and I each reaffirm the representations made by each of us in the Stock Purchase Agreement dated April 20, 2005 and agree that the Shares are being sold pursuant to the rights and conditions contained therein, including the right to registration of the Shares.

Please acknowledge your agreement with the foregoing by countersigning this letter agreement as provided below.

Very truly yours,

/s/ Catherine M. Vaczy  
Catherine M. Vaczy

Accepted and agreed:

Phase III Medical, Inc.  
By: /s/ Mark Weinreb  
Mark Weinreb, President and CEO

## 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: August 15, 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 June 30, 2005 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: August 15, 2005

/s/Mark Weinreb

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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.

## 2003 Equity Participation Plan (1)

1. Purpose of the Plan. The Phase III Medical, Inc. 2003 Equity Participation Plan (the "Plan") is intended to advance the interests of Phase III Medical, Inc. (the "Company") by inducing individuals or entities of outstanding ability and potential to join and remain with, or provide consulting or advisory services to, the Company, by encouraging and enabling eligible employees, non-employee Directors, consultants and advisors to acquire proprietary interests in the Company, and by providing the participating employees, non-employee Directors, consultants and advisors with an additional incentive to promote the success of the Company. This is accomplished by providing for the granting of "Options," which term as used herein includes both "Incentive Stock Options" and "Nonstatutory Stock Options," as later defined, and "Restricted Stock," to employees, non-employee Directors, consultants and advisors.

2. Administration. The Plan shall be administered by the Board of Directors of the Company (the "Board" or "Board of Directors") or by a committee (the "Committee") consisting of at least two (2) persons chosen by the Board of Directors. Except as herein specifically provided, the interpretation and construction by the Board of Directors or the Committee of any provision of the Plan or of any Option, or with respect to any Restricted Stock, granted under it shall be final and conclusive. The receipt of Options or Restricted Stock by Directors, or any members of the Committee, shall not preclude their vote on any matters in connection with the administration or interpretation of the Plan.

3. Shares Subject to the Plan. The shares subject to Options granted under the Plan, and shares granted as Restricted Stock under the Plan, shall be shares of the Company's common stock, par value \$.001 per share (the "Common Stock"), whether authorized but unissued or held in the Company's treasury, or shares purchased from stockholders expressly for use under the Plan. The maximum number of shares of Common Stock which may be issued pursuant to Options or as Restricted Stock granted under the Plan shall not exceed in the aggregate fifty million (50,000,000) shares. The Company shall at all times while the Plan is in force reserve such number of shares of Common Stock as will be sufficient to satisfy the requirements of all outstanding Options granted under the Plan. In the event any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, the unpurchased shares subject thereto shall again be available for Options and grants of Restricted Stock under the Plan. In the event any shares of Restricted Stock are forfeited for any reason, the shares forfeited shall again be available for Options and grants of Restricted Stock under the Plan. In the event shares of Common Stock are delivered to, or withheld by, the Company pursuant to Sections 14(b) or 27 hereof, only the net number of shares issued, i.e., net of the shares so delivered or withheld, shall be considered to have been issued pursuant to the Plan.

4. Participation. The class of individuals that shall be eligible to receive Options ("Optionees") and Restricted Stock ("Grantees") under the Plan shall be (a) with respect to Incentive Stock Options described in Section 6 hereof, all employees of either the Company or any parent or subsidiary corporation of the Company, and (b) with respect to Nonstatutory Stock Options described in Section 7 hereof and Restricted Stock described in Section 18 hereof, all employees, and non-employee Directors of, or consultants and advisors to, either the Company or any parent or subsidiary corporation of the Company; provided, however, neither nonstatutory Stock Options nor Restricted Stock shall be granted to any such consultant or advisor unless (i) the consultant or advisor is a natural person (or an entity wholly-owned by the consultant or advisor), (ii) bona fide services have been or are to be rendered by such consultant or advisor and (iii) such services are not in connection with the offer or sale of securities in a capital raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities. The Board of Directors or the Committee, in its sole discretion, but subject to the provisions of the Plan, shall determine the employees and non-employee Directors of, and the consultants and advisors to, the Company and its parent and subsidiary corporations to whom Options and Restricted Stock shall be granted, and the number of shares to be covered by each Option and each Restricted Stock grant, taking into account the nature of the employment or services rendered by the individuals or entities being considered, their annual compensation, their present and potential contributions to the success of the Company, and such other factors as the Board of Directors or the Committee may deem relevant. Notwithstanding the foregoing, the selection of non-employee Directors whom Options are to be granted, the number of shares subject to the Option, and the exercise price of any Option shall be as set forth in Section 8 hereof and the Committee shall have no discretion as to such matters. For purposes hereof, a non-employee to whom an offer of employment has been extended shall be considered an employee, provided that the Options granted to such individual shall not be exercisable, and the Restricted Stock granted shall not vest, in whole or in part, for a period of at least one year from the date of grant and in the event the individual does not commence employment with the Company, the Options and/or Restricted Stock granted shall be considered null and void.

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 (1) On February 6, 2003 this Plan was adopted by the Board and on July 24, 2005 approved by the shareholders; on May 4, 2005 this Plan was amended by the Board and on July 20, 2005 the amendment was approved by the shareholders.

5. Stock Option Agreement. Each Option granted under the Plan shall be authorized by the Board of Directors or the Committee, and shall be evidenced by a Stock Option Agreement which shall be executed by the Company and by the individual or entity to whom such Option is granted. The Stock Option Agreement shall specify the number of shares of Common Stock as to which any Option is granted, the period during which the Option is exercisable, and the option price per share thereof, and such other terms and provisions as the Board of Directors or the Committee may deem necessary or appropriate.

6. Incentive Stock Options. The Board of Directors or the Committee may grant Options under the Plan which are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to "incentive stock options," and which are subject to the following terms and conditions and any other terms and conditions as may at any time be required by Section 422 of the Code (referred to herein as an "Incentive Stock Option"):

(a) No Incentive Stock Option shall be granted to individuals other than employees of the Company or of a parent or subsidiary corporation of the Company.

(b) Each Incentive Stock Option under the Plan must be granted prior to February 6, 2013, which is within ten (10) years from the date the Plan was adopted by the Board of Directors.

(c) The option price of the shares subject to any Incentive Stock Option shall not be less than the fair market value (as defined in subsection (f) of this Section 6) of the Common Stock at the time such Incentive Stock Option is granted; provided, however, if an Incentive Stock Option is granted to an individual who owns, at the time the Incentive Stock Option is granted, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of a parent or subsidiary corporation of the Company (a "10% Stockholder"), the option price of the shares subject to the Incentive Stock Option shall be at least one hundred ten percent (110%) of the fair market value of the Common Stock at the time such Incentive Stock Option is granted.

(d) No Incentive Stock Option granted under the Plan shall be exercisable after the expiration of ten (10) years from the date of its grant. However, if an Incentive Stock Option is granted to a 10% Stockholder, such Incentive Stock Option shall not be exercisable after the expiration of five (5) years from the date of its grant. Every Incentive Stock Option granted under the Plan shall be subject to earlier termination as expressly provided in Section 13 hereof.

(e) For purposes of determining stock ownership under this Section 6, the attribution rules of Section 424(d) of the Code shall apply.

(f) For purposes of the Plan, fair market value shall be determined by the Board of Directors or the Committee. If the Common Stock is listed or traded on a national securities exchange, The Nasdaq Stock Market ("Nasdaq"), the National Association of Securities Dealers OTC Electronic Bulletin Board (the "Bulletin Board"), the Bulletin Board Exchange (the "BBX") or the Pink Sheets (or any successor organization), fair market value shall be the closing selling price or, if not available, the closing bid price or, if not available, the high bid price of the Common Stock quoted on such exchange, Nasdaq, the Bulletin Board, the BBX or the Pink Sheets (or any successor organization), as reported thereby, as the case may be, on the day immediately preceding the day on which the Option is granted (or, if granted after the close of business for trading, then on the day on which the Option is granted), or, if there is no selling or bid price on that day, the closing selling price, closing bid price or high bid price, as the case may be, on the most recent day which precedes that day and for which such prices are available. If there is no selling or bid price for the ninety (90) day period preceding the date of grant of an Option hereunder, fair market value shall be determined in good faith by the Board of Directors or the Committee.



7. Nonstatutory Stock Options. The Board of Directors or the Committee may grant Options under the Plan which are not intended to meet the requirements of Section 422 of the Code, as well as Options which are intended to meet the requirements of Section 422 of the Code but the terms of which provide that they will not be treated as Incentive Stock Options (referred to herein as a "Nonstatutory Stock Option"). Nonstatutory Stock Options shall be subject to the following terms and conditions:

(a) A Nonstatutory Stock Option may be granted to any individual or entity eligible to receive an Option under the Plan pursuant to clause (b) of Section 4 hereof.

(b) The option price of the shares subject to a Nonstatutory Stock Option shall be determined by the Board of Directors or the Committee, in its sole discretion, at the time of the grant of the Nonstatutory Stock Option.

(c) A Nonstatutory Stock Option granted under the Plan may be of such duration as shall be determined by the Board of Directors or the Committee (subject to earlier termination as expressly provided in Section 13 hereof).

#### 8. Grant of Options to Non-Employee Directors.

(a) Subject to the provisions of Section 3 hereof, for so long as this Plan is in effect and shares are available for the grant of Options hereunder, each person who shall become a non-employee Director after the effective date of this Plan shall be granted, on the date of his initial election by stockholders or initial appointment by the Board of Directors of the Company, an Option to purchase 300,000 shares of Common Stock at a per share option price equal to the fair market value of a share of Common Stock on such date (such number of shares being subject to the adjustments provided in Section 15 of the Plan).

(b) For so long as this Plan is in effect and shares are available for the grant of options hereunder, on the date of the Company's annual meeting of stockholders, there shall be granted to each person who is a non-employee Director on the date of such annual meeting an Option to purchase 50,000 shares of Common Stock at a per share option price equal to the fair market value of a share of Common Stock on such date (such number of shares being subject to the adjustments provided in Section 15 of the Plan); provided, however, that any non-employee Director who received an Option grant pursuant to Section 8(a) above shall not be entitled to receive an Option grant pursuant to this Section 8(b) in the same calendar year.

9. Reload Options. The Board of Directors or the Committee may grant Options with a reload feature. A reload feature shall only apply when the option price is paid by delivery of Common Stock (as set forth in Section 14(b)(ii)) or by having the Company reduce the number of shares otherwise issuable to an Optionee (as provided for in the last sentence of Section 14(b)) (a "Net Exercise"). The Stock Option Agreement for the Options containing the reload feature shall provide that the Option holder shall receive, contemporaneously with the payment of the option price in shares of Common Stock or in the event of a Net Exercise, a reload stock option (the "Reload Option") to purchase that number of shares of Common Stock equal to the sum of (i) the number of shares of Common Stock used to exercise the Option (or not issued in the case of a Net Exercise), and (ii) with respect to Nonstatutory Stock Options, the number of shares of Common Stock used to satisfy any tax withholding requirement incident to the exercise of such Nonstatutory Stock Option. The terms of the Plan applicable to the Option shall be equally applicable to the Reload Option with the following exceptions: (i) the option price per share of Common Stock deliverable upon the exercise of the Reload Option, (A) in the case of a Reload Option which is an Incentive Stock Option being granted to a 10% Stockholder, shall be one hundred ten percent (110%) of the fair market value of a share of Common Stock on the date of grant of the Reload Option and (B) in the case of a Reload Option which is an Incentive Stock Option being granted to a person other than a 10% Stockholder or is a Nonstatutory Stock Option, shall be the fair market value of a share of Common Stock on the date of grant of the Reload Option; and (ii) the term of the Reload Option shall be equal to the remaining option term of the Option (including a Reload Option) which gave rise to the Reload Option. The Reload Option shall be evidenced by an appropriate amendment to the Stock Option Agreement for the Option which gave rise to the Reload Option. In the event the exercise price of an Option containing a reload feature is paid by check and not in shares of Common Stock, the reload feature shall have no application with respect to such exercise.

10. Rights of Option Holders. The holder of an Option granted under the Plan shall have none of the rights of a stockholder with respect to the stock covered by his Option until such stock shall be transferred to him upon the exercise of his Option.

11. Alternate Stock Appreciation Rights.

(a) Concurrently with, or subsequent to, the award of any Option to purchase one or more shares of Common Stock, the Board of Directors or the Committee may, in its sole discretion, subject to the provisions of the Plan and such other terms and conditions as the Board of Directors or the Committee may prescribe, award to the Optionee with respect to each share of Common Stock covered by an Option ("Related Option"), a related alternate stock appreciation right ("SAR"), permitting the Optionee to be paid the appreciation on the Related Option in lieu of exercising the Related Option. A SAR granted with respect to an Incentive Stock Option must be granted together with the Related Option. A SAR granted with respect to a Nonstatutory Stock Option may be granted together with, or subsequent to, the grant of such Related Option.

(b) Each SAR granted under the Plan shall be authorized by the Board of Directors or the Committee, and shall be evidenced by a SAR Agreement which shall be executed by the Company and by the individual or entity to whom such SAR is granted. The SAR Agreement shall specify the period during which the SAR is exercisable, and such other terms and provisions not inconsistent with the Plan.

(c) A SAR may be exercised only if and to the extent that its Related Option is eligible to be exercised on the date of exercise of the SAR. To the extent that a holder of a SAR has a current right to exercise, the SAR may be exercised from time to time by delivery by the holder thereof to the Company at its principal office (attention: Secretary) of a written notice of the number of shares with respect to which it is being exercised. Such notice shall be accompanied by the agreements evidencing the SAR and the Related Option. In the event the SAR shall not be exercised in full, the Secretary of the Company shall endorse or cause to be endorsed on the SAR Agreement and the Related Option Agreement the number of shares which have been exercised thereunder and the number of shares that remain exercisable under the SAR and the Related Option and return such SAR and Related Option to the holder thereof.

(d) The amount of payment to which an Optionee shall be entitled upon the exercise of each SAR shall be equal to one hundred percent (100%) of the amount, if any, by which the fair market value of a share of Common Stock on the exercise date exceeds the exercise price per share of the Related Option; provided, however, the Company may, in its sole discretion, withhold from any such cash payment any amount necessary to satisfy the Company's obligation for withholding taxes with respect to such payment.

(e) The amount payable by the Company to an Optionee upon exercise of a SAR may, in the sole determination of the Company, be paid in shares of Common Stock, cash or a combination thereof, as set forth in the SAR Agreement. In the case of a payment in shares, the number of shares of Common Stock to be paid to an Optionee upon such Optionee's exercise of a SAR shall be determined by dividing the amount of payment determined pursuant to Section 11(d) hereof by the fair market value of a share of Common Stock on the exercise date of such SAR. For purposes of the Plan, the exercise date of a SAR shall be the date the Company receives written notification from the Optionee of the exercise of the SAR in accordance with the provisions of Section 11(c) hereof. As soon as practicable after exercise, the Company shall either deliver to the Optionee the amount of cash due such Optionee or a certificate or certificates for such shares of Common Stock. All such shares shall be issued with the rights and restrictions specified herein.

(f) SARs shall terminate or expire upon the same conditions and in the same manner as the Related Options, and as set forth in Section 13 hereof.

(g) The exercise of any SAR shall cancel and terminate the right to purchase an equal number of shares covered by the Related Option.

(h) Upon the exercise or termination of any Related Option, the SAR with respect to such Related Option shall terminate to the extent of the number of shares of Common Stock as to which the Related Option was exercised or terminated.

(i) A SAR granted pursuant to the Plan shall be transferable to the same extent as the Related Option.

(j) All references in this Plan to "Options" shall be deemed to include "SARs" where applicable.

#### 12. Transferability of Options.

(a) No Option granted under the Plan shall be transferable by the individual or entity to whom it was granted other than by will or the laws of descent and distribution, and, during the lifetime of an individual, shall not be exercisable by any other person, but only by him.

(b) Notwithstanding Section 12(a) above, a Nonstatutory Stock Option granted under the Plan may be transferred in whole or in part during an Optionee's lifetime, upon the approval of the Board of Directors or the Committee, to an Optionee's "family members" (as such term is defined in Rule 701(c)(3) of the Securities Act of 1933, as amended, and General Instruction A(1)(a)(5) to Form S-8) through a gift or domestic relations order. The transferred portion of a Nonstatutory Stock Option may only be exercised by the person or entity who acquires a proprietary interest in such option pursuant to the transfer. The terms applicable to the transferred portion shall be the same as those in effect for the Option immediately prior to such transfer and shall be set forth in such documents issued to the transferee as the Board of Directors or the Committee may deem appropriate. As used in this Plan the terms "Optionee" and "holder of an Option" shall refer to the grantee of the Option and not any transferee thereof.

#### 13. Effect of Termination of Employment or Death on Options.

(a) Unless otherwise provided in the Stock Option Agreement, if the employment of an employee by, or the services of a non-employee Director for, or consultant or advisor to, the Company or a parent or subsidiary corporation of the Company shall be terminated for cause or voluntarily by the employee, non-employee Director, consultant or advisor, then his Option shall expire forthwith. Unless otherwise provided in the Stock Option Agreement, and except as provided in subsections (b) and (c) of this Section 13, if such employment or services shall terminate for any other reason, then such Option may be exercised at any time within three (3) months after such termination, subject to the provisions of subsection (d) of this Section 13. For purposes of the Plan, the retirement of an individual either pursuant to a pension or retirement plan adopted by the Company or at the normal retirement date prescribed from time to time by the Company shall be deemed to be termination of such individual's employment other than voluntarily or for cause. For purposes of this subsection (a), an employee, non-employee Director, consultant or advisor who leaves the employ or services of the Company to become an employee or non-employee Director of, or a consultant or advisor to, a parent or subsidiary corporation of the Company or a corporation (or subsidiary or parent corporation of the corporation) which has assumed the Option of the Company as a result of a corporate reorganization or like event shall not be considered to have terminated his employment or services.

(b) Unless otherwise provided in the Stock Option Agreement, if the holder of an Option under the Plan dies (i) while employed by, or while serving as a non-employee Director for or a consultant or advisor to, the Company or a parent or subsidiary corporation of the Company, or (ii) within three (3) months after the termination of his employment or services other than voluntarily or for cause, then such Option may, subject to the provisions of subsection (d) of this Section 12, be exercised by the estate of the employee or non-employee Director, consultant or advisor, or by a person who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of such employee or non-employee Director, consultant or advisor, at any time within one (1) year after such death.

(c) Unless otherwise provided in the Stock Option Agreement, if the holder of an Option under the Plan ceases employment or services because of permanent and total disability (within the meaning of Section 22(e)(3) of the Code) ("Permanent Disability") while employed by, or while serving as a non-employee Director for or consultant or advisor to, the Company or a parent or subsidiary corporation of the Company, then such Option may, subject to the provisions of subsection (d) of this Section 13, be exercised at any time within one (1) year after his termination of employment, termination of Directorship or termination of consulting or advisory services, as the case may be, due to the disability.

(d) An Option may not be exercised pursuant to this Section 13 except to the extent that the holder was entitled to exercise the Option at the time of termination of employment, termination of Directorship, termination of consulting or advisory services, or death, and in any event may not be exercised after the expiration of the Option.

(e) For purposes of this Section 13, the employment relationship of an employee of the Company or of a parent or subsidiary corporation of the Company will be treated as continuing intact while he is on military or sick leave or other bona fide leave of absence (such as temporary employment by the Government) if such leave does not exceed ninety (90) days, or, if longer, so long as his right to reemployment is guaranteed either by statute or by contract.

#### 14. Exercise of Options.

(a) Unless otherwise provided in the Stock Option Agreement, any Option granted under the Plan shall be exercisable in whole at any time, or in part from time to time, prior to expiration. The Board of Directors or the Committee, in its absolute discretion, may provide in any Stock Option Agreement that the exercise of any Options granted under the Plan shall be subject (i) to such condition or conditions as it may impose, including, but not limited to, a condition that the holder thereof remain in the employ or service of, or continue to provide consulting or advisory services to, the Company or a parent or subsidiary corporation of the Company for such period or periods from the date of grant of the Option as the Board of Directors or the Committee, in its absolute discretion, shall determine; and (ii) to such limitations as it may impose, including, but not limited to, a limitation that the aggregate fair market value (determined at the time the Option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any employee during any calendar year (under all plans of the Company and its parent and subsidiary corporations) shall not exceed one hundred thousand dollars (\$100,000). In addition, in the event that under any Stock Option Agreement the aggregate fair market value (determined at the time the Option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any employee during any calendar year (under all plans of the Company and its parent and subsidiary corporations) exceeds one hundred thousand dollars (\$100,000), the Board of Directors or the Committee may, when shares are transferred upon exercise of such Options, designate those shares which shall be treated as transferred upon exercise of an Incentive Stock Option and those shares which shall be treated as transferred upon exercise of a Nonstatutory Stock Option.

(b) An Option granted under the Plan shall be exercised by the delivery by the holder thereof to the Company at its principal office (attention of the Secretary) of written notice of the number of shares with respect to which the Option is being exercised. Such notice shall be accompanied, or followed within ten (10) days of delivery thereof, by payment of the full option price of such shares, and payment of such option price shall be made by the holder's delivery of (i) his check payable to the order of the Company, or (ii) previously acquired Common Stock, the fair market value of which shall be determined as of the date of exercise (provided that the shares delivered pursuant hereto are acceptable to the Board of Directors or the Committee in its sole discretion) or (iii) if provided for in the Stock Option Agreement, his check payable to the order of the Company in an amount at least equal to the par value of the Common Stock being acquired, together with a promissory note, in form and upon such terms as are acceptable to the Board or the Committee, made payable to the order of the Company in an amount equal to the balance of the exercise price, or (iv) by the holder's delivery of any combination of the foregoing (i), (ii) and (iii). Alternatively, if provided for in the Stock Option Agreement, the holder may elect to have the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the Option being exercised.

#### 15. Adjustment Upon Change in Capitalization.

(a) In the event that the outstanding Common Stock is hereafter changed by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, combination of shares, reverse split, stock dividend or the like, an appropriate adjustment shall be made by the Board of Directors or the Committee in the aggregate number of shares available under the Plan, in the number of shares and option price per share subject to outstanding Options, and in any limitation on exerciseability referred to in Section 14(a)(ii) hereof which is set forth in outstanding Incentive Stock Options. If the Company shall be reorganized, consolidated, or merged with another corporation, subject to the provisions of Section 19 hereof, the holder of an Option shall be entitled to receive upon the exercise of his Option the same number and kind of shares of stock or the same amount of property, cash or securities as he would have been entitled to receive upon the happening of any such corporate event as if he had been, immediately prior to such event, the holder of the number of shares covered by his Option; provided, however, that in such event the Board of Directors or the Committee shall have the discretionary power to take any action necessary or appropriate to prevent any Incentive Stock Option granted hereunder which is intended to be an "incentive stock option" from being disqualified as such under the then existing provisions of the Code or any law amendatory thereof or supplemental thereto; and provided, further, however, that in such event the Board of Directors or the Committee shall have the discretionary power to take any action necessary or appropriate to prevent such adjustment from being deemed or considered as the adoption of a new plan requiring shareholder approval under Section 422 of the Code and the regulations promulgated thereunder.

(b) Any adjustment in the number of shares shall apply proportionately to only the unexercised portion of the Option granted hereunder. If fractions of a share would result from any such adjustment, the adjustment shall be revised to the next lower whole number of shares.

#### 16. Further Conditions of Exercise of Options.

(a) Unless prior to the exercise of the Option the shares issuable upon such exercise have been registered with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, the notice of exercise shall be accompanied by a representation or agreement of the person or estate exercising the Option to the Company to the effect that such shares are being acquired for investment purposes and not with a view to the distribution thereof, and such other documentation as may be required by the Company, unless in the opinion of counsel to the Company such representation, agreement or documentation is not necessary to comply with such Act.

(b) If the Common Stock is listed on any securities exchange, including, without limitation, Nasdaq, the Company shall not be obligated to deliver any Common Stock pursuant to this Plan until it has been listed on each such exchange. In addition, the Company shall not be obligated to deliver any Common Stock pursuant to this Plan until there has been qualification under or compliance with such federal or state laws, rules or regulations as the Company may deem applicable. The Company shall use reasonable efforts to obtain such listing, qualification and compliance.

17. Restricted Stock Grant Agreement. Each Restricted Stock grant under the Plan shall be authorized by the Board of Directors or the Committee, and shall be evidenced by a Restricted Stock Grant Agreement which shall be executed by the Company and by the individual or entity to whom such Restricted Stock is granted. The Restricted Stock Grant Agreement shall specify the number of shares of Restricted Stock granted, the vesting periods and such other terms and provisions as the Board of Directors or the Committee may deem necessary or appropriate.

#### 18. Restricted Stock Grants.

(a) The Board of Directors or the Committee may grant Restricted Stock under the Plan to any individual or entity eligible to receive Restricted Stock pursuant to clause (b) of Section 4 hereof.

(b) In addition to any other applicable provisions hereof and except as may otherwise be specifically provided in a Restricted Stock Grant Agreement, the following restrictions in this Section 18(b) shall apply to grants of Restricted Stock made by the Board or the Committee:

(i) No shares granted pursuant to a grant of Restricted Stock may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until, and to the extent that, such shares are vested.

(ii) Shares granted pursuant to a grant of Restricted Stock shall vest as determined by the Board or the Committee, as provided for in the Restricted Stock Grant Agreement. The foregoing notwithstanding (but subject to the provisions of (iii) hereof and subject to the discretion of the Board or the Committee), a Grantee shall forfeit all shares not previously vested, if any, at such time as the Grantee is no longer employed by, or serving as a Director of, or rendering consulting or advisory services to, the Company or a parent or subsidiary corporation of the Company. All forfeited shares shall be returned to the Company.

(iii) Notwithstanding the provisions of (ii) hereof, non-vested Restricted Stock shall automatically vest to the same extent as non-vested options as provided for in Section 19 hereof.

(c) In determining the vesting requirements with respect to a grant of Restricted Stock, the Board or the Committee may impose such restrictions on any shares granted as it may deem advisable including, without limitation, restrictions relating to length of service, corporate performance, attainment of individual or group performance objectives, and federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. Any such restrictions shall be specifically set forth in the Restricted Stock Grant Agreement.

(d) Certificates representing shares granted that are subject to restrictions shall be held by the Company or, if the Board or the Committee so specifies, deposited with a third-party custodian or trustee until lapse of all restrictions on the shares. After such lapse, certificates for such shares (or the vested percentage of such shares) shall be delivered by the Company to the Grantee; provided, however, that the Company need not issue fractional shares.

(e) During any applicable period of restriction, the Grantee shall be the record owner of the Restricted Stock and shall be entitled to vote such shares and receive all dividends and other distributions paid with respect to such shares while they are so restricted. However, if any such dividends or distributions are paid in shares of Company stock or cash or other property during an applicable period of restriction, the shares, cash and/or other property deliverable shall be held by the Company or third party custodian or trustee and be subject to the same restrictions as the shares with respect to which they were issued. Moreover, the Board or the Committee may provide in each grant such other restrictions, terms and conditions as it may deem advisable with respect to the treatment and holding of any stock, cash or property that is received in exchange for Restricted Stock granted pursuant to the Plan.

(f) Each Grantee making an election pursuant to Section 83(b) of the Code shall, upon making such election, promptly provide a copy thereof to the Company.

19. Liquidation, Merger or Consolidation. Notwithstanding Section 14(a) hereof, if the Board of Directors approves a plan of complete liquidation or a merger or consolidation (other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), at least fifty percent (50%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger or consolidation), the Board of Directors or the Committee may, in its sole discretion, upon written notice to the holder of an Option, provide that the Option must be exercised within twenty (20) days following the date of such notice or it will be terminated. In the event such notice is given, the Option shall become immediately exercisable in full.

20. Effectiveness of the Plan. The Plan was adopted by the Board of Directors and is effective on February 6, 2003.

21. Termination, Modification and Amendment.

(a) The Plan (but not Options previously granted under the Plan) shall terminate on February 6, 2013, which is within ten (10) years from the date of its adoption by the Board of Directors, or sooner as hereinafter provided, and no Option or Restricted Stock shall be granted after termination of the Plan. The foregoing shall not be deemed to limit the vesting period for Restricted Stock granted pursuant to the Plan.

(b) The Board of Directors may at any time, on or before the termination date referred to in Section 21(a) hereof, without stockholder approval, terminate the Plan, or from time to time make such modifications or amendments to the Plan as it may deem advisable.

(c) No termination, modification, or amendment of the Plan may, without the consent of the individual or entity to whom any Option or Restricted Stock shall have been granted, adversely affect the rights conferred by such Option or Restricted Stock grant.

22. Not a Contract of Employment. Nothing contained in the Plan or in any Stock Option Agreement or Restricted Stock Grant Agreement executed pursuant hereto shall be deemed to confer upon any individual or entity to whom an Option or Restricted Stock is or may be granted hereunder any right to remain in the employ or service of the Company or a parent or subsidiary corporation of the Company or any entitlement to any remuneration or other benefit pursuant to any consulting or advisory arrangement.

23. Use of Proceeds. The proceeds from the sale of shares pursuant to Options or Restricted Stock granted under the Plan shall constitute general funds of the Company.

24. Indemnification of Board of Directors or Committee. In addition to such other rights of indemnification as they may have, the members of the Board of Directors or the Committee, as the case may be, shall be indemnified by the Company to the extent permitted under applicable law against all costs and expenses reasonably incurred by them in connection with any action, suit, or proceeding to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any rights granted thereunder and against all amounts paid by them in settlement thereof or paid by them in satisfaction of a judgment of any such action, suit or proceeding, except a judgment based upon a finding of bad faith. Upon the institution of any such action, suit, or proceeding, the member or members of the Board of Directors or the Committee, as the case may be, shall notify the Company in writing, giving the Company an opportunity at its own cost to defend the same before such member or members undertake to defend the same on his or their own behalf.

25. Captions. The use of captions in the Plan is for convenience. The captions are not intended to provide substantive rights.

26. Disqualifying Dispositions. If Common Stock acquired upon exercise of an Incentive Stock Option granted under the Plan is disposed of within two years following the date of grant of the Incentive Stock Option or one year following the issuance of the Common Stock to the Optionee, or is otherwise disposed of in a manner that results in the Optionee being required to recognize ordinary income, rather than capital gain, from the disposition (a "Disqualifying Disposition"), the holder of the Common Stock shall, immediately prior to such Disqualifying Disposition, notify the Company in writing of the date and terms of such Disqualifying Disposition and provide such other information regarding the Disqualifying Disposition as the Company may reasonably require.

27. Withholding Taxes.

(a) Whenever under the Plan shares of Common Stock are to be delivered to an Optionee upon exercise of a Nonstatutory Stock Option or to a Grantee of Restricted Stock, the Company shall be entitled to require as a condition of delivery that the Optionee or Grantee remit or, at the discretion of the Board or the Committee, agree to remit when due, an amount sufficient to satisfy all current or estimated future Federal, state and local income tax withholding requirements, including, without limitation, the employee's portion of any employment tax requirements relating thereto. At the time of a Disqualifying Disposition, the Optionee shall remit to the Company in cash the amount of any applicable Federal, state and local income tax withholding and the employee's portion of any employment taxes.

(b) The Board of Directors or the Committee may, in its discretion, provide any or all holders of Nonstatutory Stock Options or Grantees of Restricted Stock with the right to use shares of Common Stock in satisfaction of all or part of the withholding taxes to which such holders may become subject in connection with the exercise of their Options or their receipt of Restricted Stock. Such right may be provided to any such holder in either or both of the following formats:

(i) The election to have the Company withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Nonstatutory Stock Option or otherwise deliverable as a result of the vesting of Restricted Stock, a portion of those shares with an aggregate fair market value equal to the percentage of the withholding taxes (not to exceed one hundred percent (100%)) designated by the holder.

(ii) The election to deliver to the Company, at the time the Nonstatutory Stock Option is exercised or Restricted Stock is granted or vested, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or Restricted Stock grant triggering the withholding taxes) with an aggregate fair market value equal to the percentage of the withholding taxes (not to exceed one hundred percent (100%)) designated by the holder.

28. Other Provisions. Each Option granted, and each Restricted Stock grant, under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board or the Committee, in its sole discretion. Notwithstanding the foregoing, each Incentive Stock Option granted under the Plan shall include those terms and conditions which are necessary to qualify the Incentive Stock Option as an "incentive stock option" within the meaning of Section 422 of the Code and the regulations thereunder and shall not include any terms and conditions which are inconsistent therewith.

29. Definitions. For purposes of the Plan, the terms "parent corporation" and "subsidiary corporation" shall have the meanings set forth in Sections 424(e) and 424(f) of the Code, respectively, and the masculine shall include the feminine and the neuter as the context requires.

30. Governing Law. The Plan shall be governed by, and all questions arising hereunder shall be determined in accordance with, the laws of the State of New York, excluding choice of law principles thereof.