FORM 10-K

Caladrius Biosciences, Inc. - CLBS

Filed: March 30, 2004 (period: December 31, 2003)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

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 incorporation or organization)	(I.R.S. Employer Identification No.)
330 South Service Road Suite 120 Melville, New York	11747
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the Registrant as of June 30, 2003 was approximately $ 3.1 million. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates).

On March 8, 2004, 26,926,460 shares of the Registrant's common stock, par value $0.001 per share, were outstanding.

Documents incorporated by reference: None

This Annual Report on Form 10-K 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 Annual 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.

PART I

ITEM 1. BUSINESS

Phase III Medical, Inc. ("Phase III" or the "Company") (formerly known as Corniche Group Incorporated) provides capital and guidance to companies, within the medical sector, in exchange for revenues, royalties and other contractual rights known as "royalty interests", that entitle it to receive a portion of revenue from the sale of pharmaceuticals, medical devices and biotechnology products. Previously, the Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com through June 30, 2002. The business of the Company today comprises the "run off" of its sale of extended warranties and service contracts via the Internet and the new business opportunity it is pursuing in the medical/bio-tech sector.

HISTORY

The Company was incorporated under the laws of the State of Delaware in September 1980 under the name Fidelity Medical Services, Inc. On July 28, 1983 the Company changed its name to Fidelity Medical, Inc. From its inception through March 1995, the Company was engaged in the development and sale of medical imaging products through a wholly owned subsidiary. As a result of a reverse merger on March 2, 1995 with Corniche Distribution Limited and its subsidiaries, the Company was engaged in the retail sale and wholesale distribution of stationery and related office products in the United Kingdom. Effective March 25, 1995 the Company sold its medical imaging products subsidiary. On September 28, 1995 the Company changed its name to Corniche Group Incorporated. In February 1996, the Company's United Kingdom operations were placed in receivership by their creditors. Thereafter through March 1998 the Company was inactive. On March 4, 1998, the Company entered into a Stock Purchase Agreement with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired in aggregate 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock. Thereafter the Initial Purchasers endeavored to establish for the Company new business operations in the property and casualty specialty insurance and warranty/service contracts markets. On September 30, 1998 the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford"). On April 30, 2001 the Company sold Stamford and is no longer involved in property and casualty specialty insurance.

On January 7, 2002, the Company entered into a Stock Contribution Exchange Agreement, as amended (the "Exchange Agreement"), with StrandTek International, Inc., a Delaware corporation ("StrandTek"), certain of StrandTek's principal shareholders and certain non-shareholder loan holders of StrandTek (the "StrandTek Transaction"). Consummation of the StrandTek Transaction was

conditioned upon a number of closing conditions, including the Company obtaining financing via an equity private placement, which ultimately could not be met and as a result, the Exchange Agreement was formally terminated by the Company and StrandTek in June 2002. In January 2002, the Company advanced to StrandTek a loan of $1,000,000 on an unsecured basis, which was personally guaranteed by certain of the principal shareholders of StrandTek and a further loan of $250,000 on February 19, 2002 on an unsecured basis. Such loans bore interest at 7% per annum and were due on July 31, 2002 following termination of the Exchange Agreement in June 2002.

StrandTek defaulted on the payment of $1,250,000 plus accrued interest due to the Company on July 31, 2002. As a result, on August 6, 2002, the Company filed a complaint in the Superior Court of New Jersey entitled Corniche Group Incorporated v StrandTek International, Inc., a Delaware corporation, StrandTek International, Inc., a Florida corporation, David M. Veltman, William G. Buckles Jr., Jerome Bauman and Jan Arnett. The complaint sought recovery of the

$1,250,000 loans, plus interest, costs and fees, and sought recovery against the individual defendants pursuant to their partial guarantees. On May 9, 2003, the Company was granted a final judgment in the amount of $1,415,622 from each corporate defendant, in the amount of $291,405 against each individual defendant and dismissing defendants' counterclaims.

Because the February 2002 $250,000 loan was unsecured and not guaranteed, the Company established an allowance of $250,000 at December 31, 2002. The Company was informed that on April 16, 2003, StrandTek made an assignment for the benefit of its creditors, so that any collection on its judgment other than on the personal guarantees is highly unlikely.

Between July 2003 and December 2003, guarantors Veltman, Buckles and Arnett paid their judgments in full, with payments totaling approximately $295,000, $295,000 and $297,000 respectively. In December 2003, the Company settled with defendant Bauman for a payment of $100,000. These payments, totaling approximately $987,000, complete the transaction.

On July 24, 2003, the Company changed its name to Phase III Medical, Inc., which better describes the Company's current business plan. In connection with the change of name, the Company changed its trading symbol to "PHSM" from "CNGI".

DISCONTINUED OPERATIONS

Through April 2001 the Company operated a property and casualty reinsurance business through its wholly owned subsidiary, Stamford Insurance Company, Ltd. ("Stamford"). Stamford is chartered under the laws of, and is licensed to conduct business as an insurance company by, the Cayman Islands. Stamford provided reinsurance coverage for one domestic insurance company until the fourth quarter of 2000 when the relationship with the carrier was terminated. Stamford was not able to obtain any additional reinsurance relationships. In light of the inability of Stamford to write new business and difficulty in forecasting future claims losses in the run off of its prior reinsurance contract, on April 30, 2001, the Board of Directors of the Company approved the sale of Stamford to Butler Financial Solutions, LLC for consideration totaling $372,000. In the six months ended June 30, 2001, the Company recorded a loss of approximately $479,000 on the sale of Stamford. The closing and transfer of funds was completed on July 6, 2001.

CURRENT BUSINESS OPERATIONS

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 as described below under the sub-heading "Recent Developments".

WarrantySuperstore.com Internet Business

The Company's primary business focus, through June 2002, was the sale of

extended warranties and service contracts over the Internet covering automotive, home, office, personal electronics, home appliances, computers and garden equipment. The Company offered its products and services in the United States in states that permit program marketers to be the obligor on service contracts. This represented approximately 38 states for automobile service contracts and most states for other product categories. While the Company managed most functions relating to its extended warranty and service contracts, it did not bear the economic risk to repair or replace products nor did it administer the claims function. The obligation to repair or replace products rested with the Company's appointed insurance carriers, Great American Insurance Company and American Home Shield. Great American Insurance Company provided contractual liability insurance covering the obligation to repair or replace products under the Company's automobile and consumer products extended warranties and service contracts and American Home Shield covered all home warranty contracts. The Company was responsible for the marketing, recording sales, collecting payment and reporting contract details and paying premiums to the insurance carriers. In addition, the Company provided information to the insurance carriers' appointed claims administrators who handle all claims under the Company's contracts, including the payment of claims.

The Company commenced operations initially by marketing its extended warranty products directly to the consumer through its web site. During fiscal 2000 the Company developed enhanced proprietary software to facilitate more efficient processing and tracking of online warranty transactions. This provided the

Company with the ability to deliver its products over the Internet through a number of distribution channels by enabling it to supply a number of different extended warranty service contracts on a co-branded or private label basis to corporations, by embedding the Company's suite of products on such corporation's web sites. This new capability was launched in January 2001. It was anticipated that this would result in substantially reduced direct marketing costs for the years ending December 31, 2001 and thereafter. As a result the Company had four distinct distribution channels: (i) direct sales to consumers, (ii) co-branded distribution, (iii) private label distribution and (iv) manufacturer/retailer partnerships.

During the first half of fiscal 2001, management became concerned by the slow progress being made by its warrantysuperstore.com business. Accordingly, alternative strategies for the Company were evaluated by the Board of Directors, including the acquisition of new business operations. As a result, the Company entered into the StrandTek Transaction but, as previously reported, the closing conditions were not met and the Exchange Agreement was terminated by written agreement between the parties. In June 2002, management determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company.

RECENT DEVELOPMENTS

On February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. The Company and Mr. Weinreb had been exploring business plans for the Company that would involve entering the medical sector by acquiring or participating in one or more biotech and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the public, or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom. Mr. Weinreb was appointed to finalize and execute the Company's new business plan. The Company will need to recruit management, business development and technical personnel, and develop its business model. Accordingly, it will be necessary for the Company to raise new capital. In accordance with its business plan, the Company raised $514,781 of capital, including $214,781, net of expenses of $67,719, through the sale of Common Stock, and $295,000, net of commissions of $30,000, from the sale of notes. In addition, the Company received a total of approximately $987,000 from the settlement with the StrandTek guarantors. A significant portion of the Standtek proceeds was used to pay outstanding liabilities for legal expenses, employment terminations, travel and entertainment expenses and consultants. The balance of the proceeds was used for operating expenses and the retirement of certain debt.

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 will provide 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. As of December 31, 2003, the Company has provided $80,000 to PSI pursuant to the royalty agreement.

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

RISK FACTORS

The risks described below are not the only risks facing the Company. Additional risks that the Company does not yet know of or that it currently thinks are immaterial may also impair its business operations. If any of the risks occur, its business strategy, financial condition or operating results could be

adversely affected.

PHASE III HAS A HISTORY OF OPERATING LOSSES AND A SUBSTANTIAL ACCUMULATED EARNINGS DEFICIT AND IT MAY CONTINUE TO INCUR LOSSES.

Since its inception in 1980, the Company has generated only limited revenues from sales and has incurred substantial net losses of approximately $1,000,000, $1,200,000 and $2,100,000 for the years ended December 31, 2003, 2002 and 2001, respectively. At December 31, 2003, the Company had a stockholders' deficit of approximately $1,500,000. The Company expects to incur additional operating losses as well as negative cash flow from its new business operations until revenues from the purchase of royalty interests are received.

THE COMPANY HAS LIQUIDITY PROBLEMS.

At December 31, 2003, the Company had a cash balance of $210,947, deficit working capital of $793,749 and a stockholders' deficit of $1,502,774. In addition, the Company sustained losses of $1,044,145, $1,159,838 and $2,033,030 for the three fiscal years ended December 31, 2003, 2002 and 2001, respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. The financial statements of the Company do not reflect any adjustments relating to the doubt of its ability to continue as a going concern. On September 22, 2003, the Company commenced an equity private placement pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Such shares will not be registered and will be subject to restrictions on resale. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these shares. Through December 31, 2003, the Company sold 2,825,000 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719. The Company continues to offer these securities without the assistance of an investment banker and will collect the full proceeds from any sale. From January 1, 2004 to March 8, 2004, the Company sold an additional 400,000 shares

of its Common Stock with proceeds to the Company of $40,000 from the amended private placement. Such shares will not be registered and will be subject to restrictions on resale. There can be no assurance that the Company will be able to sell sufficient quantities of these securities and may have to rely on its ability to borrow money from new and/or existing investors. Management has sold promissory notes in the aggregate principal amount of $75,000 which bear interest at 20% per annum to fund the Company until such time as sufficient proceeds are received from the private placement of its Common Stock.

THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN IS QUESTIONABLE.

At December 31, 2003, the Company's auditors, Holtz Rubenstein & Co., LLP, qualified its opinion as to the Company's ability to continue as a going concern. This qualification will make it more difficult for the Company to raise capital on favorable terms and fund the agreements currently in place.

THE COMPANY WILL CONTINUE TO EXPERIENCE CASH OUTFLOWS.

The Company continues to incur expenses, including the salary of its new president, rent, legal and accounting fees, insurance and general administrative expenses. The Company's new business activities are in the development stage and will therefore result in additional cash outflows in the coming period. The Company commenced an amended private placement of its Common Stock to raise additional equity to fund its current liabilities and its on-going cash needs for working capital, its remaining obligation to PSI of $680,000, as of March 19, 2004 and to develop its planned business operations. There can be no assurance that it will be successful in such Common Stock offering or in raising additional funds through the issuance of notes, to satisfy the Company's needs. Additionally, it is not possible at this time to state when the Company will achieve a positive cash position, if at all.

THE COMPANY'S LIMITED OPERATING HISTORY MAY IMPAIR ITS ABILITY TO PLAN.

The Company's limited operating history in its planned business activities may hinder its ability to evaluate its business and entails risks that the Company may fail to adequately address business issues with which it has limited experience. There is no way to predict when, if ever, the Company will achieve

profitability or positive cash flow.

BECAUSE OF ITS FINANCIAL POSITION, THERE IS SUBSTANTIAL DOUBT ABOUT ITS ABILITY TO OPERATE AS A GOING CONCERN.

The Company has no cash generating revenues. As of December 31, 2003, the Company had a stockholders' deficit of $1,502,774 and had a working capital deficiency of $793,749. Although the Company recently raised $254,781 in a Common Stock private placement offering and $75,000 from the issuance of promissory notes to date, those funds have been substantially spent and the Company's financial condition still raises substantial doubt about its ability to operate as a going concern.

THE COMPANY WILL NEED ADDITIONAL FINANCING AND IS UNCERTAIN OF ITS ACCESS TO CAPITAL FUNDING.

The Company's proposed new business will require substantial capital to identify and make alliances with one or more pharmaceutical and/or biotechnology companies based on the Company's current operating plan for its new business. In addition, the Company's cash requirements may vary materially from those now planned because of results in research, consulting with experts and modeling sales forecasts for the potential products of potential business partners.

RISKS RELATING TO THE COMPANY'S PROPOSED NEW BUSINESS

THE COMPANY HAS ONLY ONE BUSINESS PARTNER TO DATE AND IS UNCERTAIN OF ITS FUTURE PROFITABILITY WITH ITS INTENDED VENTURE TO GENERATE REVENUES FROM SUCH RELATIONSHIPS.

The Company's ability to achieve profitability in its new business is dependent in part on the agreements, if any, entered into with business partners. Currently the Company has entered into one agreement with PSI, and since the agreement is in its early stages, it is premature to predict any favorable outcome. There can be no assurance that any additional agreements will be entered into. The failure to enter into any such necessary agreements could delay or prevent the Company's new business from achieving profitability and would have a material adverse effect on the business, financial position and results of operations of the Company. Further, there can be no assurance that the Company's operations will become profitable even if the Company enters into agreements with business partners.

THE PSI ARRANGEMENT MAY NOT BE SUCCESSFUL.

The Company's contract with its first business partner, PSI, demonstrates certain of the risks of the Company's business. PSI is attempting 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 Company is providing funding and consulting services for PSI to conduct a proof of concept study. No assurances can be given that the proof of concept program will be successful, that any viable technology will arise from that program, that the Company or PSI will be able to commercialize any product or technology that is successfully developed, or that there will be market acceptance of any such product or technology sufficient to generate any material revenues for the Company. Even if everything is successful, it will be a long time before the Company receives any royalty revenues from the PSI project.

THERE ARE RISKS RELATING TO POTENTIAL CORPORATE COLLABORATIONS.

The Company's new business strategy includes identifying and partnering with various pharmaceutical and/or biotechnology companies that are developing a drug or medical device. There can be no assurance the Company will enter into any additional relationships with these business partners and, even if the Company does enter into such relationships, that the arrangements will be on favorable terms or that the Company's relationship will be successful. In some cases, the Company will generate income from its relationship with these companies only after its potential business partners' product has achieved significant pre-clinical and/or clinical development, has procured requisite regulatory approvals and/or has established its manufacturing capabilities.

The Company's potential business partners' business strategy may include

entering into collaborations or marketing and distribution arrangements with corporate partners for the development (including clinical development), commercialization, marketing and distribution of certain of their product candidates. The Company's potential business partners may be dependent on such corporate collaborations to fund clinical testing, to make certain regulatory filings and to manufacture and market products resulting from the collaboration. There can be no assurance that such arrangements with a corporate collaboration will be scientifically, clinically or commercially successful. In the event that any such arrangements are made and then terminated, such actions could adversely affect the Company's business partners' ability to develop, commercialize, market and distribute certain of their product candidates.

If the Company's potential business partners breach or terminate their agreements with the Company, or fail to develop or commercialize their products

or fail to develop or commercialize their products in a timely manner, the development of their products may be adversely affected, and thus not create an economic benefit for the Company.

There can be no assurance that the Company's potential business partners will not change their strategic focus or pursue alternative technologies or develop alternative products either on their own or in collaboration with others. The Company's business will also be affected by the effectiveness of its potential business partners' corporate partners in marketing their products.

THERE ARE COMPANIES, UNIVERSITIES AND RESEARCH INSTITUTIONS THAT MAY BE RESEARCHING AND TRYING TO DEVELOP PRODUCTS THAT ARE SIMILAR TO THE PRODUCTS OF THE COMPANY'S POTENTIAL BUSINESS PARTNERS.

Competition in the medical, pharmaceutical and biotechnology industries, the sector in which the Company plans to establish new business operations, is intense. The Company's potential business partners may face competition from companies with far greater financial, marketing, technical and research resources, name recognition, distribution channels and market presence than the Company's potential business partners who are marketing existing products or developing new products that are similar to the products developed by the Company's potential business partners. There can be no assurance that the Company's potential business partners' products will be able to compete successfully with existing products or products under development by other companies, universities and other institutions.

THE COMPANY'S POTENTIAL BUSINESS PARTNERS MAY DEPEND ON THIRD PARTIES.

The Company's potential business partners may rely entirely on third parties for a variety of functions, including certain functions relating to research and development, manufacturing, clinical trials management, regulatory affairs and sales, marketing and distribution. There can be no assurance that the Company's potential business partners will be able to establish and maintain any of these relationships on acceptable terms or enter into these arrangements without undue delays or expenditures. In addition, the business partners may require, and seek to raise, additional capital with third parties in order to develop products and meet their working capital needs. There is no guarantee that the business partners will be able to raise such additional capital, and any agreements previously made between the business partners and the Company may make the business partners less attractive to third parties in this regard.

THERE ARE UNCERTAINTIES ASSOCIATED WITH PRE-CLINICAL AND CLINICAL TESTING.

The grant of regulatory approvals for the commercial sale of any of the Company's potential business partners' potential products will depend in part on the Company's potential business partners and/or their collaborators successfully conducting extensive pre-clinical and clinical testing to demonstrate their products safety and efficacy in humans. The results of pre-clinical studies by the Company's potential business partners and/or their collaborators may be inconclusive and may not be indicative of results that will be obtained in human clinical trials. In addition, results attained in early human clinical trials relating to the products under development by the Company's potential business partners may not be indicative of results that will be obtained in later clinical trials. As results of particular pre-clinical studies and clinical trials are received, the Company's potential business partners and/or their collaborators may abandon projects with which the Company assisted in developing which they might otherwise have believed to be promising.

The Company's potential business partners may be involved in developing drugs on

which they plan to file investigational new drug applications ("INDs") with the FDA or make equivalent filings outside of the United States. There can be no assurance that necessary pre-clinical studies on these products will be completed satisfactorily, if at all, or that the Company's potential business

partners otherwise will be able to make their intended filings. Clinical testing is very expensive, and the Company's potential business partners and/or their collaborators will have to devote substantial resources for the cost of clinical trials.

The Company's potential business partners may have no experience in conducting clinical trials and may have to rely, in part, on academic institutions and on clinical research organizations to conduct and monitor certain clinical trials. There can be no assurance that such entities will conduct the clinical trials successfully.

Failure to commence or complete any planned clinical trials by the Company's potential business partners would have a material adverse effect on the Company's new business.

THE COMPANY'S POTENTIAL BUSINESS PARTNERS AND THEIR PRODUCTS WILL BE SUBJECT TO GOVERNMENT REGULATIONS AND THERE IS NO ASSURANCE OF REGULATORY APPROVAL.

The Company's potential business partners and their products will be subject to comprehensive regulation by the FDA in the United States and by comparable authorities in other countries. These national agencies and other federal, state, and local entities regulate, among other things, the pre-clinical and clinical testing, safety, effectiveness, approval, manufacture, labeling, marketing, export, storage, record keeping, advertising, and promotion of the Company's potential business partners' products.

The process of obtaining FDA approvals can be costly, time consuming, and subject to unanticipated delays and the Company's potential business partners may have had only limited experience in filing and pursuing applications necessary to gain regulatory approvals. There can be no assurance that such approvals will be granted on a timely basis, or at all.

The Company's potential business partners may also be subject to numerous and varying foreign regulatory requirements governing the design and conduct of clinical trials and the managing and marketing of their products. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval.

There can be no assurance that the Company's potential business partners or their partners will qualify for regulatory approvals or receive necessary approvals to commercialize product candidates in any market. Delays in receipt of or failure to receive regulatory approvals, or the loss of previously received approvals, would have a material adverse effect on the Company's potential business partners' business, and therefore, on the Company's business.

THE COMPANY'S NEW VENTURE MAY REQUIRE IT TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940.

The Company is not registered as an investment company under the Investment Company Act of 1940, as amended (or any similar state laws) (the "Company Act"). The Company does not believe (i) it is an "investment company" pursuant to the Company Act, or (ii) that it will hold "securities" pursuant to the Company Act or the Securities Act of 1933, as amended. However, the Securities and Exchange Commission ("SEC") may disagree with the Company's position and deem the Company to be an "investment company" under the Company Act and require the Company to register as an investment company. If this were to occur, the Company's day-to-day operations would become subject to the regulatory and disclosure requirements imposed by the Company Act. The Company does not have the infrastructure to operate as an investment company. The Company has sought guidance from the SEC staff with respect to this issue. No assurance can be given that the staff will respond favorably.

RISKS RELATING TO INTELLECTUAL PROPERTY

IF THE COMPANY OR ITS BUSINESS PARTNERS ARE UNABLE TO OBTAIN PATENT PROTECTION FOR THE PRODUCTS THAT RESULT FROM THE MEDICAL DEVELOPMENT BUSINESS, THE VALUE OF THE MEDICAL DEVELOPMENT BUSINESS WILL BE ADVERSELY AFFECTED. IF THE COMPANY OR

ITS BUSINESS PARTNERS INFRINGE PATENT OR OTHER INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES, THEY MAY NOT BE ABLE TO DEVELOP AND COMMERCIALIZE THE PRODUCTS AND SERVICES THAT WILL COMPRISE THE MEDICAL DEVELOPMENT BUSINESS OR THE COST OF DOING SO MAY INCREASE.

Patent positions of pharmaceutical and biotechnology companies are generally uncertain and involve complex legal, scientific and factual questions. The ability of the Company or its business partners to develop and commercialize products and services depends in significant part on the Company's or its business partners' ability to (i) obtain patents, (ii) obtain licenses to the proprietary rights of others on commercially reasonable terms, (iii) operate without infringing upon the proprietary rights of others, (iv) prevent others from infringing on the Company's or its business partners' proprietary rights, and (v) protect trade secrets.

THERE IS SIGNIFICANT UNCERTAINTY ABOUT THE VALIDITY AND PERMISSIBLE SCOPE OF PATENTS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY INDUSTRY, WHICH MAY MAKE IT DIFFICULT FOR THE COMPANY OR ITS BUSINESS PARTNERS TO OBTAIN PATENT PROTECTION FOR DISCOVERIES.

The validity and permissible scope of patent claims in the pharmaceutical and biotechnology fields, including the genomics field, involve important unresolved legal principles and are the subject of public policy debate in the United States and abroad. There is also some uncertainty as to whether human clinical data will be required for issuance of patents for human therapeutics. If the Company is involved in a project in this field and if such data are required, the Company's or its business partners' ability to obtain patent protection could be delayed or otherwise adversely affected.

THIRD PARTIES MAY OWN OR CONTROL PATENTS OR PATENT APPLICATIONS AND REQUIRE THE COMPANY OR ITS BUSINESS PARTNERS TO SEEK LICENSES, WHICH COULD INCREASE THE COMPANY'S OR ITS BUSINESS PARTNERS' DEVELOPMENT AND COMMERCIALIZATION COSTS, OR PREVENT THE COMPANY OR ITS BUSINESS PARTNERS FROM DEVELOPING OR MARKETING THE COMPANY'S OR ITS BUSINESS PARTNERS' PRODUCTS OR SERVICES.

The Company or its business partners may not have rights under some patents or patent applications related to some of their existing or proposed products, processes or services. Third parties may own or control these patents and patent applications in the United States and abroad. Therefore, in some cases, in order to develop, manufacture, sell or import some of the Company's or its business partners' existing and proposed products, processes or services, the Company or its business partners may choose to seek, or be required to seek, licenses under third-party patents issued in the United States and abroad or those that might issue from United States and foreign patent applications. In such event, the Company or its business partners would be required to pay license fees or royalties or both to the licensor. If licenses are not available to the Company or its business partners on acceptable terms, the Company or its business partners may not be able to develop, manufacture, sell or import these products, processes or services.

THE COMPANY OR ITS BUSINESS PARTNERS MAY BECOME INVOLVED IN EXPENSIVE PATENT LITIGATION OR OTHER PROCEEDINGS, WHICH COULD RESULT IN THE COMPANY OR ITS BUSINESS PARTNERS INCURRING SUBSTANTIAL COSTS AND EXPENSES OR SUBSTANTIAL LIABILITY FOR DAMAGES OR REQUIRE THE COMPANY OR ITS BUSINESS PARTNERS TO STOP THEIR DEVELOPMENT AND COMMERCIALIZATION EFFORTS.

There has been substantial litigation and other proceedings regarding the patent and other intellectual property rights in the pharmaceutical and biotechnology industries. The Company or its business partners may become a party to patent litigation or other proceedings regarding intellectual property rights.

The cost to the Company or its business partners of any patent litigation or other proceeding, even if resolved in the Company's or its business partners' favor, could be substantial. Some of the Company's or its business partners' competitors may be able to sustain the cost of such litigation or proceedings more effectively than the Company or its business partners because of their substantially greater financial resources. If a patent litigation or other proceeding is resolved against the Company or its business partners, the Company or its business partners may be enjoined from developing, manufacturing, selling or importing their products, processes or services without a license from the other party and the Company or its business partners may be held liable for significant damages. The Company or its business partners may not be able to obtain any required license on commercially acceptable terms or at all.

Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on the Company's or its business partners' ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

COMPETITION

Competition in the medical, pharmaceutical and biotechnology industries, the sector in which the Company plans to establish new business operations, is intense. The Company's potential business partners may face competition from companies with far greater financial, marketing, technical and research resources, name recognition, distribution channels and market presence than the Company's potential business partners who are marketing existing products or developing new products that are similar to the products developed by the Company's potential business partners. There can be no assurance that the Company's potential business partners' products will be able to compete successfully with existing products or products under development by other companies, universities and other institutions.

EMPLOYEES

As of December 31, 2003, the Company had one employee.

ITEM 2. PROPERTIES

On February 21, 2003 the Company leased office space in Melville, New York at an original annual rental of $18,000. The lease has been extended for an additional twelve months and expires on March 31, 2005. The annual rental increases to approximately $19,200 on April 1, 2004 and continues until the expiration date. This space will be sufficient for the Company's needs until the business plan of the Company has been successfully executed.

ITEM 3. LEGAL PROCEEDINGS

As discussed in Note 3 of the accompanying notes to the financial statements, StrandTek defaulted on the payment of $1,250,000 plus accrued interest due to the Company on July 31, 2002. The Company ceased accruing interest as of July 31, 2002 for financial statement purposes. As a result, on August 6, 2002, the Company filed a complaint in the Superior Court of New Jersey entitled Corniche Group Incorporated v StrandTek International, Inc., a Delaware corporation, StrandTek International, Inc., a Florida corporation, David M. Veltman, William G. Buckles Jr., Jerome Bauman and Jan Arnett. The complaint sought recovery of the $1,250,000 loan, plus interest, costs and fees, and sought recovery against the individual defendants pursuant to their partial guarantees.

Between July 2003 and December 2003, guarantors Veltman, Buckles and Arnett paid their judgments in full, with payments totaling approximately $295,000, $295,000 and $297,000 respectively. In December 2003, the Company settled with defendant Bauman for a payment of $100,000. These payments, totaling approximately $987,000, complete the transaction.

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

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

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Company's Common Stock is traded on the OTC Bulletin Board under the symbol "PHSM" since July 24, 2003. Prior to that date, the Company's Common Stock traded under the symbol "CNGI." The following table sets forth the high and low bid prices of the

Company's Common Stock for each quarterly period within the two most recent fiscal years and the most recent quarter, as reported by Nasdaq Trading and Market Services. On March 8, 2004, the closing bid price for the Company's Common Stock was $0.14. Information set forth in the table below represents inter-dealer prices without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

2003	High	Low
First Quarter	$ 0.13	$ 0.03
Second Quarter	0.15	0.06
Third Quarter	0.31	0.08
Fourth Quarter	0.31	0.11

2002	High	Low
First Quarter	$ 0.68	$ 0.35
Second Quarter	0.37	0.06
Third Quarter	0.09	0.05
Fourth Quarter	0.10	0.04

(b) Holders. As of March 8, 2004, there were approximately 1,068 holders of record of the Company's Common Stock. -------

(c) Dividends. Holders of Common Stock are entitled to dividends when, as, and if declared by the Board of Directors out of funds legally available therefor. The Company has not paid any cash dividends on its Common Stock and, for the foreseeable future, intends to retain future earnings, if any, to finance the operations, development and expansion of its business. Future dividend policy is subject to the discretion of the Board of Directors.

SERIES A 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.

On January 29, 2002 notice was given that, pursuant to the Company's Restated Certificate of Incorporation, as amended, the Company has called for redemption and will redeem (the "Redemption") on the date of the closing of the StrandTek Transaction (the "Redemption Date"), all shares of the Company's Series A Convertible Preferred Stock outstanding on that date at a redemption price of $1.05, plus accrued and unpaid dividends from July 1, 1995 through and including the Redemption Date of approximately $0.47 per share. The Redemption, among other financial, legal and business conditions, was a condition precedent to the closing of the StrandTek Transaction. Similarly, completion of the Redemption was subject to closing the StrandTek Transaction. Upon termination of the StrandTek Transaction, the Company rescinded the Notice of Redemption.

At December 31, 2003, 681,174 shares of Series A Preferred Stock were outstanding. If the preferred shareholders do not convert their shares into Common Stock, and if the Company were required to redeem any significant number of shares of Series A Preferred Stock, the Company's financial condition may be materially affected.

RECENT SALES OF UNREGISTERED SECURITIES

In September 2002, the Company sold to accredited investors, pursuant to Regulation D, five 60-day promissory notes in the principal sum of $25,000 each, resulting in net proceeds to the Company of $117,500, net of offering costs. The notes bear interest at 15% per annum payable at maturity. The terms of the notes include a default penalty pursuant to which if the notes are not paid on the due date, the holder shall have the option to purchase 25,000 shares of the Company's Common Stock for an aggregate purchase price of $125. If the non payment continues for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note is paid in full, the holder has the option to purchase an additional 25,000 shares of the Company's Common Stock for an aggregate purchase price of $125. As of December 31, 2003 a total of 1,000,000 of such shares resulting in net proceeds to the Company of $5,000 were exercised because the notes remain unpaid. Options to purchase an additional 650,000 shares of Common Stock at an aggregate purchase price of $3,250 have been granted pursuant to the default penalty. Subsequent to December 31, 2003, 200,000 shares of Common Stock were purchased resulting in net proceeds to the Company of $1,000.

In February 2003, the Company sold to accredited investors, pursuant to Regulation D, a series of 30-day promissory notes in the aggregate principal sum of $50,000. The notes bear interest at 20% per annum payable at maturity. In November 2003, the Company repaid all $50,000 of such promissory notes together with all accrued interest of $6,854.

On March 17, 2003, the Company commenced a private placement offering, pursuant to Regulation D, to raise up to $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, were eligible to purchase these promissory notes. The Company raised the full $250,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $225,000, net of offering costs. The note contains a default provision which raises the interest rate to 20% if the notes are not paid when due. The Company issued $250,000 of these notes and as of December 31, 2003, $60,000 of the principle amount of these notes was in default. All interest payments have been made and are current.

On September 22, 2003, the Company commenced an equity private placement pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Such shares will not be registered and will be subject to restrictions on resale. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these shares. The placement closed on December 31, 2003 upon the sale of 2,825,000 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719.

The Company amended its equity private placement (see Note 7) pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of Common Stock in increments of $5,000 or 50,000 shares. Such shares will not be registered and will be subject to restrictions on resale. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these shares. The initial placement closed on December 31, 2003. The amended private placement does not include any investment banking fees and therefore all proceeds, less expenses such as printing, transfer fees, etc., will be paid directly to the Company. The previous investment banker, Robert M. Cohen & Company, has been fully paid for its efforts. As of March 8, 2004, 400,000 shares have been sold with proceeds to the Company of $40,000.

In February 2004, the Company sold 30 day 20% notes pursuant to Regulation D in the amount of $75,000 to two accredited investors to fund current operations. It is anticipated that these notes will be repaid from the proceeds of the amended equity private placement. These notes have a default provision that if they are not paid within 30 days, there is an additional interest payment of $250 per $25,000 for each 30 day period or part thereof.

In March 2004, the Company sold a 30 day 20% note pursuant to Regulation D in the amount of $50,000 to a director who qualifies as an accredited investor to fund current operations. It is anticipated that this note will be repaid when sufficient proceeds of the amended equity private placement are received.

ITEM 6...SELECTED FINANCIAL DATA

The selected statements of operations and balance sheet data set forth below are derived from audited financial statements of the Company. The information set forth below should be read in conjunction with the Company's audited financial statements and notes thereto. See Item 8 "Financial Statements and Supplementary Data" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation". On February 4, 1999 the Company changed its fiscal year-end from March 31 each year to December 31 each year. The selected financial data set out below has not been retroactively restated to reflect such change in fiscal year-end date and accordingly is presented as historically reported in the financial statements of the Company.

Statement of Operations: ($'000 except net loss per share which is stated in $)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Earned revenues	$ 65	$ 81	$ 107	$ 27	$ -
Direct costs	44	60	70	33	-
Gross profit	21	21	37	(6)	-
Operating (loss)	(894)	(1,149)	(1,606)	(2,516)	(1,023)
Loss before discontinued operations and preferred dividends	(1,044)	(1,160)	(1,792)	(2,296)	(1,084)
Net loss attributable to common stockholders	(1,068)	(1,208)	(2,081)	(2,075)	(1,170)
Basic and diluted earnings per share:					
Loss from continuing operations	(0.05)	(0.05)	(0.08)	(0.16)	(0.16)
Income (loss) from discontinued operations	-	-	(0.01)	(0.02)	-
Net loss attributable to common shareholders	(0.05)	(0.05)	(0.09)	(0.14)	(0.17)
Weighted average number of shares outstanding	23,509,343	22,344,769	22,284,417	14,902,184	6,905,073

Balance Sheet Data: $'000	As of December 31, 2003	As of December 31, 2002	As of December 31, 2001	As of December 31, 2000	As of December 31, 1999
Working Capital (Deficiency)	$ (794)	$ (82)	$ 1,085	$ 2,079	$ 3,192
Total Assets	312	1,183	1,836	3,757	4,905
Current Liabilities	1,023	1,141	489	458	868
(Accumulated Deficit)	(10,762)	(9,694)	(8,486)	(6,406)	(4,302)
Total Stockholders' (Deficit)/Equity	(1,503)	(824)	373	2,450	3,140

Selected Quarterly Financial Data

$'000 (except net loss per share which is stated in $)	Quarter Ended 12/31/03	Quarter Ended 9/30/03	Quarter Ended 6/30/03	Quarter Ended 3/31/03	Quarter Ended 12/31/02	Quarter Ended 9/30/02	Quarter Ended 6/30/02	Quarter Ended 3/31/02	Quarter Ended 12/31/01
Earned Revenues	$ 15	$ 15	$ 17	$ 18	$ 19	$ 20	$ 18	$ 24	$ 42
Direct Costs	8	11	12	13	13	14	14	19	17
Gross profit	7	4	5	5	5	6	5	5	25
Operating Loss	(369)	(197)	(205)	(123)	(357)	(225)	(201)	(366)	(449)
Net Loss Attributable to Common Stockholders	(437)	(216)	(260)	(155)	(389)	(231)	* (246)	(342)	* (725)
Net loss per share	(0.02)	(0.01)	(0.01)	(0.01)	-	(0.01)	(0.01)	(0.02)	(0.03)

$'000 (except net loss per share which is stated in $)	Quarter Ended 9/30/01	Quarter Ended 6/30/01	Quarter Ended 3/31/01
Earned Revenues	$ 33	$ 21	$ 11
Direct Costs	31	15	7
Gross profit	2	6	4
Operating Loss	(386)	(353)	(418)
Net Loss Attributable to Common Stockholders	(374)	(329)	(653)
Net loss per share	(0.02)	(0.01)	(0.03)

* Includes write-off of unamortized capitalized software in fiscal 2001 of $305,333 and property and equipment impairment charges of $54,732 in fiscal 2002.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with the audited financial statements and notes thereto, included in Item 8 of this report, and is qualified in its entirety by reference thereto.

GENERAL

During the first half of fiscal 2001, management became concerned by the slow progress being made by its warrantysuperstore.com business. Accordingly, alternative strategies for the Company were evaluated by the Board of Directors, including the acquisition of new business operations. As a result, on January 7, 2002 the Company entered into the StrandTek Transaction as previously reported. Consummation of the StrandTek Transaction was conditioned upon certain closing conditions, including the Company obtaining financing via an equity private placement, which ultimately could not be met and as a result in June 2002, the Exchange Agreement was formally terminated by written agreement between the Company and StrandTek. In June 2002, management also determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company.

NEW BUSINESS OPPORTUNITIES

Management had been exploring new business opportunities for the Company and on February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. The Company and Mr. Weinreb had been exploring business plans for the Company that may involve, under the name "Phase III Medical, Inc.", entering the medical sector by acquiring or participating in one or more biotech and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the public, or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom. Mr. Weinreb was appointed to finalize and execute the Company's new business plan. The Company will need to recruit management, business development and technical personnel, and develop its business model. Accordingly, it will be necessary for the Company to raise new capital. There can be no assurance that any such business plan developed by the Company will be successful, that the Company will be able to acquire such new business or rights or raise new capital, or that the terms of any transaction will be favorable to the Company.

RESULTS OF CONTINUING OPERATIONS

The Company's "Significant Accounting Policies" are described in Note 2 to the audited financial statements and notes thereto, included in Item 8 of this report. The Company recognizes revenue from its warranty service contracts ratably over the length of the 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.

FISCAL 2003 COMPARED TO FISCAL 2002

The Company generated recognized revenues from the sale of extended warranties and service contracts via the Internet of $65,000 in fiscal 2003. The revenues generated in the year were derived almost entirely from revenues deferred over the life of the contracts sold in prior years. Similarly, direct costs of $44,000 incurred in fiscal 2003, relate to costs previously deferred over the life of such contracts.

General and administrative expenses totaled $685,000 during the year ended December 31, 2003 as compared to $912,000 for fiscal 2002, a decrease of $227,000 or 24.9%. The decrease was primarily attributable to decreases in employee termination costs ($145,000), legal ($86,000), travel and entertainment

($65,000), directors fees ($25,000), rents ($33,000) and depreciation ($16,000) partially offset by increases in insurance ($66,000) and salaries as a result of the employment agreement by and between the Company and Mark Weinreb ($41,000). Costs generally were significantly lower as the Company wound down its operations and closed its office facilities in Texas in July 2002.

The Company realized a loss from the unsecured, un-guaranteed note receivable from StrandTek of $150,000 in fiscal 2003. Through March 1, 2004, the Company made payments to PSI of $240,000. The Company's minimum commitment to PSI pursuant to the royalty agreement with PSI is $1,000,000.

Interest income increased by $18,000 to $89,000 in fiscal 2003 as compared to fiscal 2002 due to the collection of the StrandTek note receivable and the additional funds received from the sale of Common Stock and notes. Interest expense increased in fiscal 2003 to $215,000 from $23,000 in fiscal 2002 due to the higher level of debt and certain debt being in default and therefore subject to a higher interest rate. In addition, the Company recorded interest expense in fiscal 2003 relating to the Series A preferred in the amount of approximately $24,000 due to a recent accounting pronouncement.

For the reasons cited above, the net loss before preferred stock dividend decreased to $1,044,000 in fiscal 2003 from the comparable loss of $1,160,000 for fiscal 2002.

FISCAL 2002 COMPARED TO FISCAL 2001

The Company generated recognized revenues from the sale of extended warranties and service contracts via the Internet of $81,000 in fiscal 2002. The revenues generated in the year were derived almost entirely from revenues deferred over the life of the contracts sold in prior years. Similarly, direct costs of $61,000 incurred in fiscal 2002, relate to costs previously deferred over the life of such contracts. Revenues in fiscal 2001 totaled $225,000 of which $107,000 were recognized as earned revenues, the balance deferred over the life of the contracts sold. Direct costs in fiscal 2001 totaled $71,000.

General and administrative expenses totaled $912,000 during the year ended December 31, 2002 as compared to $1,643,000 for fiscal 2001, a decrease of $731,000 or 44.5%. Costs generally were significantly lower as the Company wound down its operations and closed its office facilities in Texas in July 2002. As a result, selling, general and administrative expenses in fiscal 2002 are not comparable to fiscal 2001 when the Company incurred operating expenses such as advertising and significantly higher payroll costs. One time employee termination and general closure costs totaling approximately $150,000 were incurred in fiscal 2002 and an impairment charge of $55,000 was recorded in June 2002 to adjust property and equipment to its net realizable value.

In the year ended December 31, 2002, the Company provided an allowance for the unsecured, un-guaranteed note receivable from StrandTek of $250,000 plus accrued interest of $8,103.

Interest income decreased by $36,000 to $71,000 in fiscal 2002 as compared to

fiscal 2001 because interest income from the StrandTek loans, accrued through July 31, 2002 was less than interest earned from investments in marketable securities in fiscal 2001. Interest expense increased from $6,000 in the year ended December 31, 2001 to $23,000 in fiscal 2002 primarily due to the short-term loans secured in September 2002 to fund the Company's operating expenses.

For the reasons cited above, net loss before preferred stock dividend decreased by 35.3% to $1,160,000 in 2002 from the comparable loss of $1,792,000 for fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

	Twelve Months Ended	
	December 31, 2003	December 31, 2002
Cash provided by (used in) operating activities	$ (1,021,913)	$ 1,005,376
Cash provided by (used in) investing activities	847,419	(1,247,338)
Cash provided by (used in) financing activities	366,186	209,949

At December 31, 2003, the Company had a cash balance of $210,947, deficit working capital of $793,749 and a stockholders' deficit of $1,502,774. In addition, the Company sustained losses of $1,044,145, $1,159,838 and $2,033,030 for the three fiscal years ended December 31, 2003, 2002 and 2001, respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. On September 22, 2003 the Company commenced an equity private placement pursuant to Regulation D to raise up to $4,000,000 through the sale of up to 40,000,000 shares of its Common Stock in increments of $5,000 or 50,000 shares. Such shares will not be registered and will be subject to restrictions on resale. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these shares. Through December 31, 2003, the Company sold 2,825,000 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719. The Company continues to offer these securities without the assistance of an investment banker and will collect the full proceeds from any sale. As of March 8, 2004, the Company has sold 400,000 shares of its Common Stock with proceeds to the Company of $40,000 from the amended private placement. There can be no assurance that the Company will be able to sell sufficient quantities of these securities and may have to rely on its ability to borrow money from new and/or existing investors. Management has sold promissory notes which bear interest at 20% per annum to fund the Company until such time as sufficient proceeds are received from the private placement of its Common Stock.

The following table reflects a summary of the Company's contractual cash obligations as of December 31, 2003:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$ 9,513	$ 9,513	$ 0	$ 0	$ 0
Notes payable	400,000	400,000	0	0	0
Operating leases	23,700	18,900	4,800	0	0
Employment agreement	438,846	199,500	239,346	0	0

Purchase obligations	920,000	920,000	0	0	0
Total	$1,792,059	$1,547,913	$244,146	$ 0	$ 0

INFLATION

The Company does not believe that its operations have been materially influenced by inflation in the fiscal year ended December 31, 2003, a situation which is expected to continue for the foreseeable future.

SEASONALITY

The Company does not believe that its operations are seasonal in nature.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary financial information required to be filed under this Item are presented commencing on page F-1 of the Annual Report on Form 10-K, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported on the Company's Form 8-K filed January 8, 2004, as amended on February 3, 2004, on January 6, 2004, upon recommendation and approval of the Company's and Board of Directors, the Company dismissed Travis, Wolff & Company, LLP ("Travis Wolff") and engaged Holtz Rubenstein & Co., LLP ("Holtz") as the Company's independent auditors for the fiscal year ended December 31, 2003.

Travis Wolff's reports on the Company's financial statements for each of the years ended December 31, 2002 and 2001 contained a qualified opinion as to the uncertainty of the Company's ability to continue as a going concern. No modifications were made to the financial statements as a result of this uncertainty.

During the years ended December 31, 2002 and 2001 and through January 6, 2004, there were no disagreements with Travis Wolff on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which if not resolved to Travis Wolff's satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company's financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2002 and 2001 and through January 6, 2004, the Company did not consult Holtz with respect to the application of accounting principles as to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

ITEM. 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the Company's most recently completed fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) covered by this report, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to

be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the directors and executive officers of the Company as of March 8, 2004:

Name	Age	Position
Mark Weinreb	51	Director, President & Chief Executive Officer
Wayne Marasco	50	Director
Joseph Zuckerman	52	Director
Michael Lax	50	Director

Mark Weinreb
Chief Executive Officer

Mr. Weinreb joined the Company on February 6, 2003 as a Director, Chief Executive Officer and President. In 1976, Mr. Weinreb joined Bio Health Laboratories, Inc., a state-of-the-art medical diagnostic laboratory providing clinical testing services for physicians, hospitals, and other medical laboratories. He progressed to become the laboratory administrator in 1978 and then an owner and the laboratory's Chief Operating Officer in 1982. Here he oversaw all technical and business facets, including finance, laboratory science technology and all the additional support departments. He left Bio Health Labs in 1989 when he sold the business to a biotechnology company listed on the New York Stock Exchange. In 1992, Mr. Weinreb founded Big City Bagels, Inc., a national chain of franchised upscale bagel bakeries and became Chairman and Chief Executive Officer of such entity. The company went public in 1995 and in 1999 he redirected the company and completed a merger with an Internet service provider. In 2000, Mr. Weinreb became the Chief Executive Officer of Jestertek, Inc., a 12-year old software development company pioneering gesture recognition and control using advanced inter-active proprietary video technology. In 2002, he left Jestertek after arranging additional financing. Mr. Weinreb received a Bachelor of Arts degree in 1975 from Northwestern University and a Master of Science degree in 1982 in Medical Biology, from C.W. Post, Long Island University.

Wayne Marasco, M.D., Ph.D.
Director

Dr. Marasco joined the Board of Directors of the Company in June 2003. Dr. Marasco is an Associate Professor in the Department of Cancer Immunology & AIDS at the Dana-Farber Cancer Institute and Associate Professor of Medicine in the Department of Medicine, Harvard Medical School. Dr. Marasco is a board-certified physician specializing in the treatment of infectious diseases. His clinical sub-specialty is in the treatment of immunocompromised (cancer, bone marrow and solid organ transplants) and HIV-1 infected patients.

The Marasco research laboratories are primarily focused on the areas of antibody engineering and gene therapy. New immuno- and genetic- therapies for HIV-1 infection / AIDS, HTLV-1, the etiologic agent in Adult T-cell Leukemia, and other emerging infectious diseases are being studied. Dr. Marasco's laboratory is recognized internationally for its pioneering development of intracellular antibodies (sFv) or "intrabodies" as a new class of molecules for research and gene therapy applications. He is the author of more than 70 peer reviewed research publications, numerous chapters, books and monographs and has been an

invited speaker at many national and international conferences in the areas of antibody engineering, gene therapy and AIDS. Dr. Marasco is also the Scientific Director of the National Foundation for Cancer Research (NFCR) Center for Therapeutic Antibody Engineering. The NFCR Center is located at the Dana-Faber Cancer Institute and will work with investigators globally to develop new human monoclonal antibody drugs for the treatment of human cancers.

In 1995, Dr. Marasco founded IntraImmune Therapies, Inc., a gene therapy and antibody engineering company. He served as the Chairman of the Scientific Advisory Board until the company was acquired by Abgenix in 2000. He has also served as a scientific advisor to several biotechnology companies working in the field of antibody engineering, gene discovery and gene therapy. He is an inventor on numerous issued and pending patent applications.

Joseph Zuckerman, M.D.
Director

Joseph D. Zuckerman joined the Board of Directors of the Company in January 2004. Since 1997, Dr. Zuckerman has been Chairman of the NYU-Hospital for Joint Diseases Department of Orthopaedic Surgery and the Walter A. L. Thompson Professor of Orthopaedic Surgery at the New York University School of Medicine. He is responsible for one of the largest departments of orthopaedic surgery in the country, providing orthopaedic care at five different hospitals including Tisch Hospital, the Hospital for Joint Diseases, Bellevue Hospital Center, the Manhattan Veteran's Administration Medical Center and Jamaica Hospital. He is also the Director of the Orthopaedic Surgery Residency Program, which trains more than 60 residents in a five year program.

Dr. Zuckerman holds leadership positions in national organizations and is President of the American Shoulder and Elbow Surgeons and Chair of the Council on Education for the American Academy of Orthopaedic Surgeons. He recently developed and successfully implemented a sponsorship program between the hospital and the New York Mets. His clinical practice is focused on shoulder surgery and hip and knee replacement and he is the author or editor of ten textbooks, 60 chapters and more than 200 articles in the orthopaedic and scientific literature.

Michael Lax
Director

Michael Lax joined the Board of Directors of the Company in March 2004 and graduated from the University of Rochester with degrees in Chemical and Mechanical Engineering. Upon his graduation in 1975, Mr. Lax went to work for Kodak as a Process and Product Development Engineer. Since 1988, Mr. Lax has been the President and Chief Executive Officer of Autronic Plastics, Inc. and its subsidiaries, a plastic manufacturing concern specializing in plastic product design, mold construction and manufacturing of industrial and precision components such as medical devices, office products, life safety products and entertainment packaging. Autronic Plastics, Inc.'s clients include Pfizer, Borders Books & Music, Blockbuster, Circuit City, Nintendo, and Cooper Lighting Company. Mr. Lax's 28 years of experience at Autronic Plastics, Inc. have centered on creative ideation, concept development and managing executions to ensure that the integrity of the initial designs come alive. Taking the company in a new direction, Mr. Lax founded Clear-Vu Products in 1990 to further specialize in the entertainment-packaging sector.

Mr. Lax has been awarded numerous patents for packaging designs, solid state illumination, and life safety products. In addition, his work and collaborations have received numerous design awards including a Gold Industrial Design Excellence Award from the Industrial Designers Society of America.

COMMITTEES OF THE BOARD OF DIRECTORS

Composition of the Board of Directors. Because of the Company's recent reorganization and implementation of its new business plan, and its ongoing efforts to engage qualified board members under its new business plan, the Company does not have a separately designated audit committee or compensation committee at this time. Accordingly, the Company's Board of Directors has determined that the Company does not have an audit committee financial expert.

The Company continues to seek new board members in order to implement its reorganization and new business plan, and appoint a separately designated audit

committee.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These persons are required by the Securities and Exchange Commission to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on the Company's review of these reports and written representations furnished to the Company, the Company believes that in 2003 each of the reporting persons complied with these filing requirements, except that a report on Form 4 reporting one transaction in February 2003 with respect to Mark Weinreb due on February 8, 2003 was not filed until February 17, 2003, a report on Form 5 reporting four transactions for the year ended December 31, 2002 with respect to James J. Fyfe due on February 14, 2003 was not filed until June 10, 2003 and a report on Form 5 reporting four transactions for the year ended December 31, 2002 with respect to Paul L. Harrison due on February 14, 2003 was not filed until June 10, 2003. These late filings were inadvertent and required filings were made promptly after noting the failures to file.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions). A copy of such Code of Ethics has been filed as Exhibit 14.1 to this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation paid during the three years ended December 31, 2003 to the Company's Chief Executive Officer. No other executive officer of the Company earned in excess of $100,000 for services rendered during fiscal 2003.

Summary Compensation Table

			Annual Compensation	Long-Term Compensation	
Name and Principal Position	Notes	Year	Salary	Securities Underlying Options/SAR's	All Other Compensation
Mark Weinreb Chief Executive Officer (Appointed February 6, 2003)	(1)	2003	$ 157,154	2,500,000	$ 11,000

Notes:
(1) All other compensation comprises monthly automobile allowances.

OPTION GRANTS IN 2003

The following table provides certain information with respect to options granted to the Company's chief executive officer during the fiscal year ended December 31, 2003:

Option Grants in Last Fiscal Year

						Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
Name	Number of Securities Underlying Options Granted(2)	Percent of Total Options Granted to Employees In Fiscal Year	Exercise Price per Share ($)	Market Price on Date of Grant ($)	Expiration Date	5%	10%

Mark Weinreb	2,500,000	100%	$0.03	$0.03	2/6/13	$128,275	$204,257

(1) The Securities and Exchange Commission (the "SEC") requires disclosure of the potential realizable value or present value of each grant. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the SEC and do not represent the Company's estimate or projection of the Company's future Common Stock prices. The disclosure assumes the options will be held for the full ten-year term prior to exercise. Such options may be exercised prior to the end of such ten-year term. The actual value, if any, an executive officer may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised. There can be no assurance that the stock price will appreciate at the rates shown in the table.

(2) These options vested immediately.

OPTION EXERCISES AND HOLDINGS

The following table provides information concerning options exercised during 2003 and the value of unexercised options held by each of the executive officers named in the Summary Compensation Table at December 31, 2003.

Option Values at December 31, 2003

Name	Shares Acquired On Exercise (# shares)	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2003 (# of shares) Exercisable	Unexercisable	Value of In-the-Money Options at December 31, 2003 ($)(1) Exercisable	Unexercisable
Mark Weinreb	--	--	2,500,000	--	$300,000	--

(1) Based on $0.15 per share, the closing price of the Company's Common Stock, as reported by the OTC Bulletin Board, on December 31, 2003.

EMPLOYMENT AGREEMENTS

On February 6, 2003, Mr. Weinreb was appointed President and Chief Executive Officer of the Company and the Company entered into an employment agreement with Mr. Weinreb. The employment agreement has an initial term of three years, with automatic annual extensions unless terminated by the Company or Mr. Weinreb at least 90 days prior to an applicable anniversary date. The Company has agreed to pay Mr. Weinreb an annual salary of $180,000 for the initial year of the term, $198,000 for the second year of the term, and $217,800 for the third year of the term. In addition, he is entitled to an annual bonus in the amount of $20,000 for the initial year in the event, and concurrently on the date, that the Company has received debt and/or equity financing in the aggregate amount of at least $1,000,000 since the beginning of his service, and $20,000 for each subsequent year of the term, without condition.

In addition, the Company, pursuant to its newly adopted 2003 Equity Participation Plan, entered into a Stock Option Agreement with Mr. Weinreb (the "Initial Option Agreement"). Under the Initial Option Agreement, the Company granted Mr. Weinreb the right and option, exercisable for 10 years, to purchase up to 2,500,000 shares of the Company's Common Stock at an exercise price of $0.03 per share and otherwise upon the terms set forth in the Initial Option Agreement. In addition, in the event that the closing price of the Company's Common Stock equals or exceeds $0.50 per share for any five consecutive trading days during the term of the employment agreement (whether during the initial term or an annual extension), the Company has agreed to grant to Mr. Weinreb, on the day immediately following the end of the five day period, an option for the purchase of an additional 2,500,000 shares of the Company's Common Stock for an exercise price of $0.50 per share, pursuant to the 2003 Equity Participation Plan and a Stock Option Agreement to be entered into between the Company and Mr. Weinreb containing substantially the same terms as the Initial Option Agreement, except for the exercise price and that the option would be treated as an "incentive stock option" for tax purposes only to the maximum extent permitted by law (the "Additional Option Agreement"). The Company has agreed to promptly

file with the Securities and Exchange Commission a Registration Statement on Form S-8 (the "Registration Statement") pursuant to which the issuance of the shares covered by the 2003 Equity Participation Plan, as well as the resale of the Common Stock issuable upon exercise of the Initial Option Agreement, are registered. Additionally, the Company has agreed, following any grant under the Additional Option Agreement, to promptly file a post-effective amendment to the Registration Statement pursuant to which the Common Stock issuable upon exercise thereof shall be registered for resale. Mr. Weinreb has agreed that he will not resell publicly any shares of the Company's Common Stock obtained upon exercise

of any Initial Agreement or the Additional Option Agreement prior to the first anniversary of the date of the employment agreement.

In connection with the hiring of Mr. Weinreb and in anticipation of its new business line, on July 24, 2003, the Company held a meeting of stockholders to elect two directors, to approve and ratify the Company's 2003 Equity Participation Plan pursuant to which 15,000,000 shares of the Company's Common Stock are authorized to be issued, approve an amendment to the Company's Certificate of Incorporation to increase the authorized number of shares of Common Stock to 250,000,000, and approve a change of the Company's name to "Phase III Medical, Inc."

Director Compensation

All current independent directors have individually received options to purchase 300,000 shares of the Company's Common Stock pursuant to the Company's 2003 Equity Participation Plan at prices ranging from $0.05 to $0.15. In addition to these options, all independent directors are reimbursed for out of pocket travel expenses and will receive an annual option grant to purchase 50,000 shares of the Company's Common Stock on the date of the Company's annual stockholder's meeting; provided; however, that no director may receive more than one grant of these options in any calendar year. Upon achieving certain target increases in stock price for a defined period of time during an existing independent directors tenure, the Company has agreed to grant each director an additional option to purchase 100,000 shares of the Company's Common Stock substantially upon the same terms of the options to purchase 300,000 shares of the Company's Common Stock previously granted, except for the exercise price of such options.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as to the number of shares of the Company's Common Stock beneficially owned, as of March 8, 2004, by (i) each beneficial owner of more than five percent of the outstanding Common Stock, (ii) each current named executive officer and director and (iii) all current executive officers and directors of the Company as a group. All shares are owned both beneficially and of record unless otherwise indicated. Unless otherwise indicated, the address of each beneficial owner is c/o Phase III Medical, Inc., 330 South Service Road, Suite 120, Melville, New York 11747.

		Number and Percentage of Shares of Common Stock Owned	
Name and Address of Beneficial Owner	Notes	# of Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned (See Note 1)
Joel San Antonio 56 North Stanwich Road Greenwich, CT 06831		3,752,500	13.9%
Mark Weinreb	(2)	2,540,000	9.4%
Wayne Marasco	(3)	800,000	3.0%
Michael Lax	(3)	300,000	1.1%
Joseph Zuckerman, M.D.	(3)	550,000	2.0%
All current directors and officers as a group (four persons)	(2) (3)	4,190,000	15.6%

Notes:
(1) Based on 26,926,460 shares of Common Stock outstanding on March 8, 2004.

(2) Includes 2,500,000 currently exercisable options to purchase Common Stock.
(3) Includes 300,000 currently exercisable options to purchase Common Stock.

EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under the Company's 2003 Equity Participation Plan as of December 31, 2003. This plan was the Company's only equity compensation plan in existence as of December 31, 2003

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected In Column(a))
Equity Compensation Plans Approved by Shareholders.....	3,700,000	$0.05	11,300,000
Equity Compensation Plans Not Approved by Shareholders	0	0	0
TOTAL	3,700,000	$0.05	11,300,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

All audit and audit-related work and all non-audit work performed by the Company's independent accountants is approved in advance by the Board of Directors of the Company, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered.

Audit Fees. Audit fees billed or expected to be billed to the Company by the Company's principal accountant for the audit of the financial statements included in the Company's Annual Reports on Form 10-K, and reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, for the years ended December 31, 2003 and 2002 totaled approximately $48,185 and $48,228, respectively.

Audit-Related Fees. The Company was billed $0 and $0 by the Company's principal accountant for the fiscal years ended December 31, 2003 and 2002, respectively, for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under the caption Audit Fees above.

Tax Fees. The Company was billed or expected to be billed an aggregate of $5,072 and $2,900 by the Company's principal accountant for the fiscal years ended December 31, 2003 and 2002, respectively, for tax services, principally advice regarding the preparation of income tax returns.

All Other Fees. The Company incurred fees for the fiscal years ended December 31, 2003 and 2002, respectively, for permitted non-audit services of $3,230 and $0, respectively.

The Company's Board of Directors pre-approved the Company's engagement of Holtz Rubenstein & Co., LLP to act as the Company's independent auditor for the fiscal year ended December 31, 2003. The Company's Board of Directors pre-approved Travis Wolff & Company, L.L.P. to act as the Company's independent auditor for the fiscal years ended December 31, 2002 and December 31, 2001. The Company's independent auditors performed all work only with its full time permanent employees.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are being filed as part of this Report:

(a)(1) Financial Statements:

Reference is made to the Index to Financial Statements and Financial Statement Schedule on Page F-1.

(a)(2) Financial Statement Schedule.

Reference is made to the Index to Financial Statements and Financial Statement Schedule on Page F-1.

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Financial Statements or Notes thereto.

(a)(3) Exhibits:

3	(a)	Certificate of Incorporation filed September 18, 1980 (1)	3
	(b)	Amendment to Certificate of Incorporation filed September 29, 1980 (1)	3
	(c)	Amendment to Certificate of Incorporation filed July 28, 1983 (2)	3(b)
	(d)	Amendment to Certificate of Incorporation filed February 10, 1984 (2)	3(d)
	(e)	Amendment to Certificate of Incorporation filed March 31, 1986 (3)	3(e)
	(f)	Amendment to Certificate of Incorporation filed March 23, 1987 (4)	3(g)
	(g)	Amendment to Certificate of Incorporation filed June 12, 1990 (5)	3.8
	(h)	Amendment to Certificate of Incorporation filed September 27, 1991 (6)	3.9
	(i)	Certificate of Designation filed November 12, 1994 (7)	3.8
	(j)	Amendment to Certificate of Incorporation filed September 28, 1995 (9)	3(j)
	(k)	Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (10)	C 3(f)
	(l)	Amendment to Certificate of Incorporation dated May 18, 1998 (10)	A
	(m)	Amendment to Certificate of Incorporation filed July 24, 2003 (15)	3.1
	(n)	By-laws of the Corporation, as amended on April 25, 1991 (6)	
4	(a)	Form of Underwriter's Warrant (6)	4.9.1
	(b)	Form of Promissory Note - 1996 Offering (9)	4(b)
	(c)	Form of Promissory Note - 1997 Offering (9)	4(c)
	(d)	Form of Common Stock Purchase Warrant - 1996 Offering (9)	4(d)
	(e)	Form of Common Stock Purchase Warrant - 1997 Offering (9)	4(e)
	(f)	Form of Promissory Note - September 2002 Offering (13)	4.1
	(g)	Form of Promissory Note - February 2003 Offering (13)	4.2
	(h)	Form of Promissory Note - March 2003 Offering (13)	4.3
10	(a)	1992 Stock Option Plan (8)	B
	(b)	Stock Purchase Agreement, dated as of March 4, 1998, between the Company and the Initial Purchasers named therein (10)	B
	(c)	1998 Employee Stock Option Plan (10)	D
	(d)	Stock Contribution Exchange Agreement with StrandTek International, Inc. dated January 7, 2002, as amended on February 11, 2002 (11)	10(o)
	(e)	Supplemental Disclosure Agreement to Stock Contribution Exchange Agreement with StrandTek International, Inc. dated January 7, 2002 (11)	10(p)
	(f)	Employment Agreement dated as of February 6, 2003 by and between Corniche Group Incorporated and Mark Weinreb (12)	99.2
	(g)	Stock Option Agreement dated as of February 6, 2003 between Corniche Group Incorporated and Mark Weinreb (12)	99.3
	(h)	Corniche Group Incorporated 2003 Equity Participation Plan (12)	99.4

	(i)	Royalty Agreement, dated as of December 5, 2003, by and between Parallel Solutions, Inc. and Phase III Medical, Inc. (13)(14)	10.1
	(j)	Form of Stock Option Agreement (13)	10.2
14	(a)	Code of Ethics for Senior Financial Officers (13)	14.1
23	(a)	Consent of Holtz Rubenstein & Co., LLP (13)	23.1
31	(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (13)	31.1
32	(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)	32.1

Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-18, File No. 2-69627, which exhibit is incorporated here by reference.

(2) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-2, File No. 2-88712, which exhibit is incorporated here by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-2, File No. 33-4458, which exhibit is incorporated here by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended September 30, 1987, which exhibit is incorporated here by reference.

(5) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's registration statement on Form S-3, File No. 33-42154, which exhibit is incorporated here by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit to the Company's registration statement on Form S-1, File No. 33-42154, which exhibit is incorporated here by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended September 30, 1994, which exhibit is incorporated here by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit, as indicated above, to the Company's proxy statement dated March 30, 1992, which exhibit is incorporated here by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended March 31, 1996, which exhibit is incorporated here by reference.

(10) Filed with the Securities and Exchange Commission as an exhibit, as indicated above, to the Company's proxy statement dated April 23, 1998, which exhibit is incorporated here by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the Company's annual report on Form 10-K for the year ended December 31, 2001, which exhibit is incorporated here by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated February 6, 2003, which exhibit is incorporated here by reference.

(13) Filed herewith.

(14) Certain portions of this exhibit have been omitted based upon a request for confidential treatment. The omitted portions of this exhibit have been filed separately with the Securities and Exchange Commission on a confidential basis.

(15) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of the Company on Form 8-K, dated July 24, 2003, which exhibit is incorporated here by reference.

(b) Reports on Form 8-K

On December 12, 2003, the Company filed a Current Report on Form 8-K (under Items 5 and 7) regarding the Royalty Agreement, dated as of December 5, 2003, by and between Parallel Solutions, Inc. and Phase III Medical, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Phase III Medical, Inc.

By: /s/ Mark Weinreb
Mark Weinreb, President

Dated: March 30, 2004.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Mark Weinreb Mark Weinreb	Director, President and Chief Executive Officer	March 30, 2004
/s/ Wayne Marasco Wayne Marasco	Director	March 30, 2004
/s/ Joseph Zuckerman Joseph Zuckerman	Director	March 30, 2004
/s/ Michael Lax Michael Lax	Director	March 30, 2004

PHASE III MEDICAL, INC.

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Independent Auditors' Report

Board of Directors and Stockholders
Phase III Medical, Inc.
Melville, New York

We have audited the accompanying consolidated balance sheet of Phase III Medical, Inc. as of December 31, 2003 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phase III Medical, Inc. as of December 31, 2003 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HOLTZ RUBENSTEIN & CO., LLP

Melville, New York
February 3, 2004

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Phase III Medical, Inc.

We have audited the accompanying consolidated balance sheet of Phase III Medical, Inc. (the "Company") as of December 31, 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phase III Medical, Inc. as of December 31, 2002 and the consolidated results of their operations and their cash flows for the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming Phase III Medical, Inc. will continue as a going concern. As discussed in the accompanying notes to the consolidated financial statements, the Company sold its insurance subsidiary in July 2001. Additionally, the Company discontinued sales of its extended warranty service contracts through its website in December 2001. Accordingly, the Company has no operations nor available means to finance its current expenses and with which to pay its current liabilities. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 13. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/TRAVIS, WOLFF & COMPANY, L.L.P.

Dallas, Texas
March 11, 2003

PHASE III MEDICAL, INC.

Consolidated Balance Sheets

	December 31,	
	2003	2002
ASSETS		
Current assets:		

Cash and cash equivalents	$ 210,947	$ 19,255
Notes receivable, net of allowance of $250,000 in 2002	-	1,000,000
Prepaid expenses and other current assets, net of allowance of $8,103 in 2002	18,024	40,094
Total current assets	228,971	1,059,349
Property and equipment, net	1,935	-
Deferred acquisition costs	77,782	123,835
Other assets	3,000	-
	$ 311,688	$ 1,183,184
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Interest and dividends payable - preferred stock	$ 433,196	$ 385,512
Accounts payable	87,896	344,279
Accrued liabilities	92,115	157,806
Stockholder advances	-	106,000
Notes payable	400,000	125,000
Current portion of long-term debt	9,513	22,595
Total current liabilities	1,022,720	1,141,192
Unearned revenues	110,568	175,200
Series A mandatorily redeemable convertible preferred stock	681,174	681,174
Long-term debt	-	9,513
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity (deficit):		
Preferred stock; authorized, 5,000,000 shares Series B convertible redeemable preferred stock, liquidation value, 10 shares of common stock per share, $.01 par value; authorized, 825,000 shares; issued and outstanding, 10,000 shares at December 31, 2003 and at December 31, 2002	100	100
Common stock, $.001par value; authorized, 250,000,000 shares; issued and outstanding, 26,326,460 at December 31, 2003 and 22,398,710 shares at December 31, 2002	26,327	22,399
Additional paid-in capital	9,232,753	8,847,573
Accumulated deficit	(10,761,954)	(9,693,967)
Total stockholders' equity (deficit)	(1,502,774)	(823,895)
	$ 311,688	$ 1,183,184

The accompanying notes are an integral part of the consolidated financial statements

PHASE III MEDICAL, INC.

Consolidated Statements of Operations

	Years ended December 31,		
	2003	2002	2001
Earned revenues	$ 64,632	$ 81,348	$ 107,447
Direct Costs	(43,608)	(60,565)	(70,674)
Gross Profit	21,024	20,783	36,773
Selling, general and administrative	(685,353)	(911,950)	(1,642,874)

Purchase of medical royalty stream	(80,000)	-	-
Realized loss on note receivable	(150,000)	-	-
Provision for uncollectible note receivable and accrued interest	-	(258,103)	-
Operating loss	(894,329)	(1,149,270)	(1,606,101)
Other income (expense):			
Unrealized gain on marketable securities	-	-	18,779
Realized loss on marketable securities	-	(3,490)	-
Property and equipment impairment charge	-	(54,732)	-
Capitalized software impairment charge	-	-	(305,333)
Interest income	88,923	70,676	107,183
Interest expense - Series A mandatorily redeemable convertible preferred stock	(23,842)	-	-
Interest expense	(214,897)	(23,022)	(6,212)
	(149,816)	(10,568)	(185,583)
Loss before discontinued operations and preferred dividend	(1,044,145)	(1,159,838)	(1,791,684)
Discontinued operations:			
Income from operations	-	-	237,898
Loss on disposal	-	-	(479,244)
	-	-	(241,346)
Net loss	(1,044,145)	(1,159,838)	(2,033,030)
Preferred dividend	(23,842)	(47,684)	(47,684)
Net Loss attributable to common stockholders	$ (1,067,987)	$ (1,207,522)	$ (2,080,714)
Basic earnings per share			
Loss before discontinued operations	(0.05)	(0.05)	(0.08)
Loss from discontinued operations	$ -	$ -	$ (0.01)
Net loss attributable to common stockholders	$ (0.05)	$ (0.05)	$ (0.09)
Weighted average common shares outstanding	23,509,343	22,344,769	22,284,417

The accompanying notes are an integral part of the consolidated financial statements

PHASE III MEDICAL, INC.

Consolidated Statements of Stockholders' Equity (Deficit)

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Capitol	Deficit	Total
Balance at December 31, 2000	20,000	$ 200	22,280,210	$22,280	$8,833,156	$ (6,405,731)	$ 2,449,905
Issuance of common stock to directors	-	-	10,500	11	4,531	-	4,542
Series A convertible stock dividends	-	-	-	-	-	(47,684)	(47,684)
Net loss	-	-	-	-	-	(2,033,030)	(2,033,030)
Balance at December 31, 2001	20,000	200	22,290,710	22,291	8,837,687	(8,486,445)	373,733
Issuance of common stock to directors	-	-	8,000	8	1,113	-	1,121
Conversion of Series B convertible preferred stock into common stock	(10,000)	(100)	100,000	100	-	-	-
Series A convertible stock dividends	-	-	-	-	-	(47,684)	(47,684)
Stock options granted with debt	-	-	-	-	8,773	-	8,773
Net loss	-	-	-	-	-	(1,159,838)	(1,159,838)

Balance at December 31, 2002	10,000	100	22,398,710	22,399	8,847,573	(9,693,967)	(823,895)
Issuance of common stock for cash, net of offering costs	-	-	2,825,000	2,825	211,956	-	214,781
Issuance of common stock upon exercise of common stock options	-	-	1,000,000	1,000	4,000	-	5,000
Issuance of common stock for services	-	-	100,000	100	2,900	-	3,000
Issuance of common stock to directors	-	-	2,750	3	300	-	303
Series A convertible stock dividends	-	-	-	-	-	(23,842)	(23,842)
Stock options granted with debt	-	-	-	-	166,024	-	166,024
Net loss	-	-	-	-	-	(1,044,145)	(1,044,145)
Balance at December 31, 2003	10,000	$ 100	26,326,460	$26,327	$9,232,753	$(10,761,954)	$(1,502,774)

The accompanying notes are an integral part of the consolidated financial statements

PHASE III MEDICAL, INC.

Consolidated Statements of Cash Flows

	Years ended December 31,		
	2003	2002	2001
Cash flows from operating activities:	$(1,044,145)	$(1,159,838)	$(2,033,030)
Net loss			
Adjustments to reconcile net loss to net cash (used in)			
Provided by operating activities:			
Net income from discontinued operations	-	-	(237,898)
Loss on sale of subsidiary	-	-	479,244
Property and equipment impairment charge	-	54,732	-
Capitalized software impairment charge	-	-	305,333
Common shares issued and stock options granted for interest expense and for services rendered	169,327	9,894	4,542
Depreciation	646	16,766	155,436
Series A mandatorily redeemable convertible preferred stock	23,842	-	-
Unearned revenues	(64,632)	(84,579)	144,971
Deferred acquisition costs	46,053	59,744	(106,629)
Realized loss on note receivable	150,000	-	-
Provision for uncollectible note receivable and accrued interest	-	258,103	-
Changes in operating assets and liabilities :			
Marketable securities	-	1,503,374	872,840
Prepaid expenses and other current assets	22,070	(28,463)	55,557
Other assets	(3,000)	4,175	-
Accounts payable, accrued expenses and other current liabilities	(322,074)	371,468	(14,209)
Net cash (used in) provided by operating activities	(1,021,913)	1,005,376	(373,843)
Cash flows from investing activities:			
Acquisition of property and equipment	(2,581)	(1,133)	(9,061)
Notes receivable	850,000	(1,250,000)	-
Proceeds from sale of property and equipment	-	3,795	-
Proceeds from sale of subsidiary	-	-	372,000
Net cash provided by (used in) investing activities	847,419	(1,247,338)	362,939
Cash flows from financing activities:			
Net proceeds from issuance of capital stock	219,781	-	-
Stockholder advances	(106,000)	106,000	-
Net proceeds from notes payable	275,000	125,000	-
Repayment of long-term debt	(22,595)	(21,051)	(23,432)
Net cash provided by (used in) financing activities	366,186	209,949	(23,432)
Net increase (decrease) in cash and cash equivalents	191,692	(32,013)	(34,336)
Cash and cash equivalents at beginning of year	19,255	51,268	85,604
Cash and cash equivalents at end of year	$ 210,947	$ 19,255	$ 51,268

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The accompanying notes are an integral part of the consolidated financial statements

PHASE III MEDICAL, INC.

Consolidated Statements of Cash Flows - continued

	Years ended December 31,		
	2003	2002	2001
Supplemental disclosures of cash flow information: Cash paid during the year for:			
Interest	$ 26,483	$ 8,804	$ 6,212
Supplemental schedule of non-cash investing and financing activities			
Issuance of common stock for services rendered	$ 3,303	$ 1,121	$ 4,542
Compensatory element of stock options	$ 166,024	$ 8,773	$ -
Net accrual of dividends on Series A preferred stock	$ 23,842	$ 47,684	$ 47,684

The accompanying notes are an integral part of the consolidated financial statements

PHASE III MEDICAL, INC.
Notes to the Consolidated Financial Statements

Note 1 - The Company

Phase III Medical, Inc. (hereinafter referred to as the "Company") was known as Corniche Group Incorporated until it changed its name on July 24, 2003. The Company was incorporated in Delaware on September 18, 1980 under the name Fidelity Medical Services, Inc. From its inception through March 1995, the Company was engaged in the development, design, assembly, marketing, and sale of medical imaging products. As a result of a reverse merger with Corniche Distribution Limited and its Subsidiaries ("Corniche") the Company was engaged in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. Effective March 25, 1995, the Company sold its wholly-owned medical imaging products subsidiary. On September 28, 1995 the Company changed its name to Corniche Group Incorporated. In February 1996, the Company's United Kingdom operations were placed in receivership by their creditors. Thereafter, through May 1998, the

Company had no activity. On March 4, 1998, the Company entered into a Stock Purchase Agreement ("Agreement"), approved by the Company's stockholders on May 18, 1998, with certain individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value $0.01 per share. Thereafter the Initial Purchasers endeavored to establish for the Company new business operations in the property and casualty specialty insurance and the service contract markets. On September 30, 1998, the Company acquired all of the capital stock of Stamford Insurance Company, Ltd. ("Stamford") from Warrantech Corporation ("Warrantech") for $37,000 in cash in a transaction accounted for as a purchase. On April 30, 2001, the Company sold Stamford for a consideration of $372,000. During 2001, the Company recorded a loss of approximately $479,000 on the sale of Stamford. The closing was effective May 1, 2001 and transfer of funds was completed on July 6, 2001.

On January 7, 2002, the Company entered into a Stock Contribution Exchange Agreement (the "Exchange Agreement") and a Supplemental Disclosure Agreement (together with the Exchange Agreement, the "Agreements") with Strandtek International, Inc., a Delaware corporation ("Strandtek"), certain of Strandtek's principal shareholders and certain non-shareholder loan holders of Strandtek (the "StrandTek Transaction"). The Exchange Agreement was amended on February 11, 2002. Had the transactions contemplated by the Agreements closed, StrandTek would have become a majority owned subsidiary of the Company and the former shareholders of StrandTek would have controlled the Company. Consummation of the StrandTek Transaction was conditioned upon a number of closing conditions, including the Company obtaining financing via an equity private placement, which ultimately could not be met and, as a result, the Agreements were formally terminated by the Company and StrandTek in June 2002.

The Company was a provider of extended warranties and service contracts via the Internet at warrantysuperstore.com through June 30, 2002. In June 2002, management determined, in light of continuing operating losses, to discontinue its warranty and service contract business and to seek new business opportunities for the Company. On February 6, 2003, the Company appointed Mark Weinreb as a member of the Board of Directors and as its President and Chief Executive Officer. The Company and Mr. Weinreb have been exploring business plans for the Company that involve entering the medical sector by acquiring or participating in one or more biotech and/or medical companies or technologies, owning one or more drugs or medical devices that may or may not yet be available to the public, or acquiring rights to one or more of such drugs or medical devices or the royalty streams therefrom. Mr. Weinreb was appointed to finalize and execute the Company's new business plan.

Note 1 - The Company - (Continued)

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 will provide 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 will need to recruit management, business development and technical personnel, and develop its business model. Accordingly, it will be necessary for the Company to raise new capital. There can be no assurance that any such business plan developed by the Company will be successful, that the Company will be able to acquire such new business or rights or raise new capital, or that the terms of any transaction will be favorable to the Company.

The business of the Company today comprises the "run off" of its sale of extended warranties and service contracts via the Internet and the new business opportunity it is pursuing in the medical/bio-tech sector.

At December 31, 2003, the Company had a cash balance of $210,947, deficit working capital of $793,749 and a stockholders' deficit of $1,502,774. In addition the Company sustained losses of $1,044,145, $1,159,838 and $2,033,030 for the three fiscal years ended December 31, 2003, 2002 and 2001 respectively. The Company's lack of liquidity combined with its history of losses raises substantial doubt as to the ability of the Company to continue as a going concern. The consolidated financial statements of the Company do not reflect any adjustments relating to the doubt of its ability to continue as a going concern. Management is presently selling notes which bear interest at 20% per annum to fund the Company until such time as sufficient proceeds, if any, are received from the private placement of its common stock. On September 22, 2003 the Company commenced an equity private placement to raise up to $4 million through the sale of up to 40 million shares of its Common Stock in increments of $5,000 or 50,000 shares. Through December 31, 2003, the Company sold 2,825,000 shares, resulting in proceeds to the Company of $214,781. The Company continues to offer these securities without the assistance of an investment banker and will collect the full proceeds from any sale. There can be no assurance that the Company will be able to sell these securities and may have to rely on its ability to borrow money from new and or existing investors.

Note 2 - Summary of Significant Accounting Policies

(a) Basis of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiary through April 30, 2001. All intercompany amounts and balances have been eliminated in consolidation.

(b) Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Cash Equivalents: Short-term cash investments, which have a maturity of ninety days or less when purchased, are considered cash equivalents in the consolidated statement of cash flows.

Note 2 - Summary of Significant Accounting Policies - (Continued)

(d) Concentrations of Credit-Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company places its cash accounts with high credit quality financial institutions, which at times may be in excess of the FDIC insurance limit.

(e) Property and Equipment: The cost of property and equipment is depreciated over the estimated useful lives of the related assets of 3 to 5 years. The cost of computer software programs are amortized over their estimated useful lives of five years. Depreciation is computed on the straight-line method. Repairs and maintenance expenditures that do not extend original asset lives are charged to expense as incurred.

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

(g) Pro Forma Effect of Stock Options: Financial Accounting Standards Board Interpretation No. 44 is an interpretation of APB Opinion No. 25 and SFAS No. 123 which requires that effective July 1, 2000, all options issued to non-employees after January 12, 2000 be accounted for under the rules of SFAS No. 123. Options granted to non-employees after December 15, 1998 through January 12, 2000 are also required to follow SFAS No. 123 retrospectively from July 1, 2000. The effect of

adoption of the Interpretation was a charge to operations in 2000 of $2,667 and an increase in additional paid in capital in the same amount. Assuming the fair market value of the stock at the date of grant to be $.3125 per share in May 1996, $.40625 per share in May 1997, $.6875 in January 1999 and $1.00 per share in September 1999, $1.94 in June 2000, $1.097 in September 2000 and $.03 in February 2003, $.05 in May, June and July 2003, and $.18 in September 2003, the life of the options to be from three to ten years, the expected volatility at 200%, expected dividends are none, and the risk-free interest rate of between 4% and 10%, the Company would have recorded compensation expense of $205,760, $43,593 and $59,129, respectively, for the years ended December 31, 2003, 2002 and 2001 as calculated by the Black-Scholes option pricing model.

As such, proforma net loss and net loss per share would be as follows:

	2003	2002	2001
Net loss as reported	$ (1,067,987)	$ (1,159,838)	$ (2,033,030)
Additional compensation	(205,760)	(43,593)	(59,129)
Adjusted net loss	$ (1,273,747)	$ (1,203,431)	$ (2,092,159)
Net loss per share as reported	$ (.05)	$ (0.05)	$ (0.09)
Adjusted net loss per share	$ (.05)	$ (0.05)	$ (0.09)

Note 2 - Summary of Significant Accounting Policies - (Continued)

(h) Recent Accounting Pronouncements:

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34". FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit and warranty obligations. It also clarifies that at the time a company issues a guarantee, a company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 relating to initial recognition and measurement must be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and measurement provisions did not have a significant impact on the Company's financial condition or results of operations. The disclosure requirements of FIN 45, which were effective for both interim and annual periods that end after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities", to address perceived weaknesses in the accounting and financial reporting for investments or interests in entities commonly known as special purpose or off-balance-sheet entities. FIN 46

requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was required to be applied to preexisting entities of the Company as of the beginning of the first quarter after June 15, 2003. FIN 46 was required to be applied to all new entities with which the Company became involved beginning February 1, 2003. The adoption of FIN No. 46 did not have a material impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement clarifies accounting and reporting for derivative instruments, including certain embedded derivatives, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement was developed to respond to concerns expressed by users of financial statements about issuers' classification in the statement of financial position of certain financial instruments that have characteristics of both liabilities and equity but that have been presented either entirely as equity or between the liabilities section and the equity section of the statement of financial position "mezzanine equity"). This Statement also addresses questions about the classification of certain financial instruments that embody obligations to issue equity shares. SFAS No. 150 aims to eliminate diversity in practice by requiring certain types of

Note 2 - Summary of Significant Accounting Policies - (Continued)

"freestanding" financial instruments, such as mandatorily redeemable instruments, to be reported as liabilities. Preferred dividends on these instruments are now classified as interest expense. Retroactive reclassification of amounts reported in historical financial statements for periods prior to the effective date of SFAS No. 150 is not permitted. The provisions of SFAS No. 150, which also include a number of new disclosure requirements, was effective for instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commenced after June 15, 2003. Accordingly, the Company has classified the Series A Convertible Preferred Stock as a long-term liability in accordance with the provisions of SFAS No. 150. See Note 9 for a further discussion.

(i) Advertising Costs: The Company expenses advertising costs as incurred. Advertising costs amounted to $107,117 for the year ended December 31, 2001. There were no advertising costs in 2003 or 2002.

(j) Earnings Per Share: Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods presented.

(j) Revenue Recognition: Stamford's reinsurance premiums are recognized on

a pro rata basis over the policy term. The deferred policy acquisition costs are the net cost of acquiring new and renewal insurance contracts. These costs are charged to expense in proportion to net premium revenue recognized. The provisions for losses and loss-adjustment expenses include an amount determined from loss reports on individual cases and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

The Company had sold via the Internet through partnerships and directly to consumers, extended warranty service contracts for seven major consumer products. The Company recognizes revenue ratably over the length of the contract. The Company purchased insurance to fully cover any losses under the service contracts from a domestic carrier. The insurance premium and other costs related to the sale are amortized over the life of the contract.

(k) Purchase of Royalty Interests: The Company charges payments for the purchase of future potential royalty interests to expense as paid and will record revenues when royalty payments are received.

PHASE III MEDICAL, INC.
Notes to the Consolidated Financial Statements

Note 3 - Notes Receivable

In January 2002, the Company advanced to StrandTek a loan of $1 million on an unsecured basis, which is personally guaranteed by certain of the principal shareholders of StrandTek and a further loan of $250,000 on February 19, 2002 on an unsecured basis. Such loans bear interest at 7% per annum and were due on July 31, 2002 following termination of the Agreements (as discussed in Note 1) in June 2002. StrandTek failed to pay the notes on the due date and the Company commenced legal proceedings against StrandTek and the guarantors to recover the principal, accrued interest and costs of recovery. The Company ceased accruing interest on July 31, 2002. Subsequent to July 31, 2002, the notes accrue interest at the default rate of 12% per annum. The Company provided an allowance for the $250,000

unsecured loan and interest of $8,103 at December 31, 2002. On July 24, 2003 the Company entered into a Forbearance Agreement with personal guarantors Veltmen and Buckles pursuant to which they made payments totaling $590,640, including interest of $90,640. A similar Forbearance Agreement was reached with personal guarantor Arnett as of July 28, 2003 pursuant to which he paid $287,673, including interest of $37,673. A Settlement Agreement was reached with personal guarantor Bauman as of December 23, 2003 pursuant to which he paid $100,000 in full settlement of the judgment against him in the amount of $291,406. The payment was received on December 30, 2003 as stated in the agreement. These payments, totaling approximately $987,000 were paid as full satisfaction for the outstanding amounts owed to the Company. Accordingly, the Company recorded a realized loss on these notes of $150,000 in 2003.

Note 4 - Accrued Expenses

Accrued expenses are as follows:

	December 31,	
	2003	2002

Professional fees	$ 49,009	$ 28,500
Interest on notes payable	27,835	5,446
Employment contract termination	-	120,000
Other	15,271	3,860
	$ 92,115	$ 157,806

Note 5 - Notes Payable

In September 2002, the Company sold to accredited investors five 60-day promissory notes in the principal sum of $25,000 each, resulting in net proceeds to the Company of $117,500, net of offering costs. The notes bear interest at 15% per annum payable at maturity. The notes include a default penalty pursuant to which, if the notes are not paid on the due date, the holder shall have the option to purchase twenty five thousand shares of the Company's common stock for an aggregate purchase price of $125. If the non payment continues for 30 days, then on the 30th day, and at the end of each successive 30-day period until the note is paid in full, the holder shall have the option to purchase an

Note 5 - Notes Payable - (Continued)

additional twenty five thousand shares of the Company's common stock for an aggregate purchase price of $125. At December 31, 2003, the Company had reserved 750,000 (2002: 250,000) shares of the Company's common stock for issuance against exercise of the options granted pursuant to the default penalty and recognized $166,024 (2002: $8,773) as a charge to interest expense. See Note 7.

On February 11, 2003, the Company commenced a private placement offering to raise up to $100,000 in 30-day promissory notes in increments of $5,000 bearing interest at 20% per annum. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these promissory notes. The Company raised $50,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $45,000, net of offering costs. In November 2003, the Company repaid all $50,000 of such promissory notes together with all accrued interest of $6,854.

On March 17, 2003, the Company commenced a private placement offering to raise up to $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, were eligible to purchase these promissory notes. The Company raised the full $250,000 through the sale of such promissory notes, resulting in net proceeds to the Company of $225,000, net of offering costs. The notes contain a default provision which raises the interest rate to 20% if the notes are not paid when due. The Company issued $250,000 of these notes. As of December 31, 2003, $60,000 of the principal amount of these notes were in default. All interest payments have been made and are current. As of March 15, 2004, all of these notes are in default and bear interest at 20%.

Note 6 - Series A Mandatorily Redeemable Convertible Preferred Stock

In connection with the settlement of securities class action litigation in 1994, the Company issued 1,000,000 shares of Series A $0.07 Convertible Preferred Stock (the "Series A Preferred Stock") with an aggregate value of $1,000,000. The following summarizes the terms of Series A Preferred Stock as more fully set forth in the Certificate of Designation. The Series A Preferred Stock has a liquidation value of $1 per share, is non-voting and convertible into common stock of the Company at a price of $5.20 per share. Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends of $0.07 per share, per year, payable semi-annually. The Series A Preferred Stock is callable by the Company at a price of $1.05 per share, plus accrued and unpaid dividends. In addition, if the closing price of the Company's common stock exceeds $13.80 per share for a period of 20 consecutive trade days, the Series A Preferred Stock is callable by the Company at a price equal to $0.01 per share, plus accrued and unpaid dividends.

The Certificate of Designation for the Series A Preferred Stock also states that at any time after December 1, 1999 the holders of the Series A Preferred Stocks may require the Company to redeem their shares of Series A Preferred Stock (if there are funds with which the Company may do so) at a price of $1.00 per share.

Notwithstanding any of 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. During the years ended December 31, 2000 and 1999, 128,880 and 18,711, respectively, shares of Series A Preferred Stock were converted into 24,743 and 3,586, respectively, shares of common

Note 6 - Series A Mandatorily Redeemable Convertible Preferred Stock - (Continued)

stock. At December 31, 2003, 2002 and 2001, 681,174 shares of Series A Preferred Stock were outstanding, and accrued dividends on these outstanding shares were $433,196, $385,512 and $337,827 respectively.

On January 29, 2002, notice was given that, pursuant to the Company's Restated Certificate of Incorporation, as amended, the Company called for redemption on the date of closing the StrandTek Transaction, all shares of Series A Preferred Stock outstanding on that date at a redemption price of $1.05, plus accrued and unpaid dividends of approximately $0.47 per share. The redemption, among other financial, legal and business conditions, was a condition of closing the StrandTek Transaction. Similarly, the redemption was subject to closing the StrandTek Transaction. Upon termination of the StrandTek Transaction, the Company rescinded the notice of redemption.

Note 7 - Stockholders' Equity

(a) Series B Convertible Redeemable Preferred Stock:

The total authorized shares of Series B Convertible Redeemable Preferred Stock is 825,000. The following summarizes the terms of the Series B Stock whose terms are more fully set forth in the Certificate of Designation. The Series B Stock carries a zero coupon and each share of the Series B Stock is convertible into ten shares of the Company's common stock. The holder of a share of the Series B Stock is entitled to ten times any dividends paid on the common stock and such stock has ten votes per share and votes as one class with the common stock.

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of common stock (the "Conversion Rate"). The Conversion Rate is subject to adjustment as stipulated in the Agreement. Upon liquidation, the Series B Stock would be junior to the Company's Series A Preferred Stock and would share ratably with the common stock with respect to liquidating distributions.

During the year ended December 31, 2000, holders of 805,000 shares of the Series B Preferred Stock converted their shares into 8,050,000 shares of the Company's common stock. During the year ended December 31, 2002, the holders of 10,000 shares of the Series B Preferred Stock converted their shares into 100,000 shares of the Company's common stock.

At December 31, 2003 and 2002, 10,000 Series B Preferred Shares were issued and outstanding. The Company's right to repurchase or redeem shares of Series B Stock was eliminated in fiscal 1999 pursuant to the terms of the Agreement and the Certificate of Designation.

(b) Common Stock:

At the 2003 annual meeting, the stockholders approved an amendment increasing the authorized common stock to 250 million shares from 75 million shares.

(b) Common Stock: -continued

In 2001, the Company issued 10,500 shares of its common stock whose fair value was $4,542, in 2002 8,000 shares of its common stock whose fair value was $1,121 and in 2003 2,750 shares of its common stock whose fair value was $303 to its board members for director's fees.

In 2003, the Company issued 1,000,000 shares of its common stock, resulting in net proceeds to the Company of $5,000 as a result of the exercise of stock options granted pursuant to the default provisions of the 60 day promissory notes discussed in Note 5.

On February 6, 2003, the Company entered into a deferment agreement with three major creditors pursuant to which liabilities of approximately $523,887 in aggregate, were deferred, subject to the success of the Company's debt and equity financing efforts. In addition, in consideration for the deferral, the Company agreed to issue 100,000 restricted shares of the Company's common stock, whose fair value was $3,000. The deferred creditors were paid in full, during 2003 from the recoveries against the StrandTek (see Note 3) personal guarantors.

On September 22, 2003 the Company commenced an equity private placement to raise up to $4 million through the sale of up to 40 million shares of its Common Stock in increments of $5,000 or 50,000 shares. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, were eligible to purchase these shares. The placement closed on December 31, 2003 upon the sale of 2,825,000 shares, resulting in proceeds to the Company of $214,781, net of offering costs of $67,719.

The Company retained Robert M. Cohen & Company as placement agent, on a best efforts basis, for the offering. The Company agreed to pay the placement agent an amount equal to 10% of the proceeds of the offering as commissions for the placement agents' services in addition to reimbursement of the placement agents' expenses (by way of a 3% non-accountable expense allowance) and indemnification against customary liabilities.

(c) 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.

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 $.12 per share to its retained placement agent, Robert M. Cohen & Company. The warrant contains "piggyback registration rights. The fair value of these warrants were $13,500 at December 31, 2003.

A total of 326,500 shares of common stock are reserved for issuance upon exercise of outstanding warrants as of December 31, 2003 at prices ranging from $.12 to $8.10 and expiring through December 2008. No warrants were exercised during any of the periods presented.

(d) Stock Option Plans:

(i) The 1998 Employee Incentive Stock Option Plan provides for the granting of options to purchase shares of the Company's common stock to employees. Under the 1998 Plan, the maximum aggregate number of shares that may be issued under options is 300,000 shares of common stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under the terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed $100,000. Options are exercisable at the fair market value of the common stock on the date of grant and have five-year terms. The exercise price of each option is 100% of the fair market value of the underlying stock on the date the options are granted and are exercisable for a period of ten years, except that no option will be granted to any employee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary unless (a) at the time the options are granted, the option exercise price is at least 110% of the fair market value of the shares of common stock subject to the options and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted. The Board of Directors' Compensation Committee administers the 1998 Plan. The 1998 Employee Incentive Stock Option Plan was superceded by the 2003 Equity Participation Plan in February 2003. (see below).

(ii) In April 1992, the Company adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of the Company's common stock that may be granted under this plan is 20,000 shares. The plan expired by its own terms in 2002.

Stock option activity under the 1992 and 1998 Stock Option Plans is as follows:

	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 2000	403,000	$ 1.45
Granted	75,000	0.37
Expired	(1,500)	0.31
Cancelled	(175,000)	1.23
Balances at December 31, 2001	301,500	1.30
Granted	-	-
Expired	(1,500)	0.41
Cancelled	(300,000)	1.31
Balances at December 31, 2003 and 2002	-	$ -

(e) Stock Option Plans:- Continued

Under the 1998 and 1992 plans outstanding options expire 90 days after

termination of the holder's status as employee or director. All options were granted at an exercise price equal to the fair value of the common stock at the grant date. Therefore, in accordance with the provisions of APB Opinion No. 25 related to fixed stock options, no compensation expense is recognized with respect to options granted or exercised. Under the alternative fair-value based method defined in SFAS No. 123, the fair value of all fixed stock options on the grant date would be recognized as expense over the vesting period.

(iii) At the 2003 annual meeting, the stockholders approved the 2003 Equity Participation 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. Pursuant to such plan the Company entered into a Stock Option Agreement with Mr. Weinreb (the "Initial Option Agreement"). Under the Initial Option Agreement, the Company granted Mr. Weinreb the right and option, exercisable for 10 years, to purchase up to 2,500,000 shares of the Company's common stock at an exercise price of $0.03 per share.

Additionally, in the event that the closing price of the Company's common stock equals or exceeds $0.50 per share for any five consecutive trading days during the term of the employment agreement (whether during the initial term or an annual extension), the Company has agreed to grant Mr. Weinreb, on the day immediately following the end of the five day period, an option to purchase an additional 2,500,000 shares of the Company's common stock at an exercise price of $0.50 per share, pursuant to the 2003 Equity Participation Plan.

Mr. Weinreb has agreed that he will not sell any shares of the Company's common stock obtained upon exercise of the Initial Option Agreement or Additional Option Agreement prior to the first anniversary of the date of the employment agreement.

Additionally, the Company has granted options to purchase 1,200,000 shares of Common Stock at exercise prices ranging from $.05 to $.18 to members of its board of directors and its advisory board. All options were granted at an exercise price equal to the fair value of the common stock at the date of grant.

Stock option activity under the 2003 Equity Participation Plan is as follows:

	Number of Shares (1)	Range of Exercise Price	Weighted Average Exercise Price
Balance at December 31, 2002	-	-	-
Granted	3,700,000	$.03 - $.18	$.05
Exercised	-	-	-
Expired	-	-	-
Cancelled	-	-	-
Balance at December 31, 2003	3,700,000	$.03 - $.18	$.05

(1) All options are exercisable for a period of ten years.

Note 8 - Income Taxes

Deferred tax assets consisted of the following as of December 31:

	2002	2003	2001
Net operating loss carryforwards	$ 2,566,000	$ 2,068,000	$ 1,828,000
Depreciation and amortization	1,000	62,000	126,000
Capital loss carryforward	149,000	166,000	166,000
Deferred revenue	38,000	60,000	88,000
Deferred legal and other fees	30,000	158,000	-
Allowance for notes receivable	-	88,000	-
Other, net	-	-	-
Net deferred tax assets	2,784,000	2,602,000	2,208,000
Deferred tax asset valuation allowance	(2,784,000)	(2,602,000)	(2,208,000)
	$ -	$ -	$ -

The provision for income taxes is different than the amount computed using the applicable statutory federal income tax rate with the difference for each year summarized below:

	2003	2002	2001
Federal tax benefit at statutory rate	(34.0%)	(34.0%)	(34.0%)
Change in valuation allowance	34.0%	33.0%	33.0%
Permanent difference	-	1.0%	1.0%
Provision for income taxes	0.00%	0.00%	0.00%

The Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards to offset future taxable income following a corporate ownership change. The Company's ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points during any three-year period.

Upon receipt of the proceeds from the last foreign purchasers of the Company's common stock in January 2000, common stock ownership changed in excess of 50% during the three-year period then ended. At December 31, 2003, the Company had net operating loss carryforwards of approximately $7,547,000. Included in the net operating loss carryforward is approximately $2,121,000 that has been limited by the ownership change. The tax loss carryforwards expire at various dates through 2023. The future tax benefit of the net operating loss carryforwards aggregating approximately $2,566,000 at December 31, 2003 has been fully reserved as it is not more likely than not that the Company will be able to use the operating loss in the future.

Note 9 - Segment Information

Until April 30, 2001, the Company operated in two segments; as a reinsuror and as a seller of extended warranty service contracts through the Internet. The reinsurance segment has been discontinued with the sale of Stamford (see Note 1), and the Company's remaining revenues are derived from the run-off of its sale of extended warranties and service contracts via the Internet. Additionally, the Company is currently establishing a new business in the medical, bio-tech sector. The Company's operations are conducted entirely in the U.S. Although the Company has not realized any revenue from its purchase of royalty revenue interests, the Company will be operating in two segments until the "run-off" is completed.

Note 10 - Related Party Transactions

The Company processes claims on its warranty contracts through Warrantech Corporation (Warrantech), in which a principal shareholder of the Company is also a significant shareholder and Chief Executive Officer, President and Chairman of the Board of Directors. Warrantech receives an administration fee of $50 per contract for processing the claim. Total administrative fees paid to

Warrantech in 2003, 2002 and 2001 totaled $0, $0 and $48,506, respectively.

Note 11 - Commitments and Contingencies

On February 21, 2003 the Company leases office space in Melville, New York at an original annual rental of $18,000. The lease has been extended for an additional twelve months and expires on March 31, 2005. The annual rental increases to approximately $19,200 on April 1, 2004 and continues until the expiration date.

On February 6, 2003, the Company entered into an employment agreement with the President and CEO. The employment agreement has an initial term of three years, with automatic annual extensions unless terminated by the Company or by the President at least 90 days prior to an applicable anniversary date. The Company has agreed to pay the President an annual salary of $180,000 for the initial year of the term, $198,000 for the second year of the term, and $217,800 for the third year of the term. In addition, the Company will pay an annual bonus in the amount of $20,000 for the initial year in the event, and concurrently on the date, that the Company has received debt and/or equity financing in the aggregate amount of at least $1,000,000 since the beginning of the President's service, and $20,000 for each subsequent year of the term, without condition.

On December 5, 2003 the Company entered into 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 Royalty Agreement provides for PSI to pay Phase III a percentage of the revenue received from the sale of certain specified products or licensing activity. Phase III shall provide capital in nine monthly installments of $80,000, commencing in December 2003, for a total payment of $720,000 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 commercial development and licensing the technology. There can be no assurances that the Company will be able to raise sufficient capital to pay this obligation or if fully paid, a royalty will be paid to the Company by PSI under the terms of the agreement.

Note 12 - Subsequent Events

As described in Note 5, the Company granted purchasers of the Company's September 2002 60-day promissory notes, options to purchase shares of common stock if the Company defaulted on the payment of principal or interest on such promissory notes. For each 30 day period, the purchaser is granted the option to purchase 25,000 shares of common stock for an aggregate price of $125 on the 30th day. In January 2004, two holders of such promissory notes exercised their options and purchased 200,000 shares of common stock resulting in net proceeds to the Company of $1,000.

The Company amended its equity private placement (see Note 7) to raise up to $4 million through the sale of up to 40 million shares of Common Stock in increments of $5,000 or 50,000 shares. Only selected investors which qualify as "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933, as amended, are eligible to purchase these shares. The initial placement closed on December 31, 2003 as stated in Note 9. The amended private placement does not include any investment banking fees and therefore all proceeds, less expenses such as printing, transfer fees, etc., will be paid directly to the Company. The previous investment banker, Robert M. Cohen & Company, has been fully paid for its efforts

In February 2004, the Company sold 30 day 20% notes in the amount of $75,000 to two accredited investors to fund current operations. It is anticipated that these notes will be repaid from the proceeds of the amended equity private placement. These notes have a default provision that if they are not paid within 30 days, there is an additional interest payment of $250 per $25,000 for each 30 day period or part thereof.

EXHIBITS FORM 10-K

EXHIBIT 4.1

Form of Promissory Note September 2002

Exhibit 4.1

PROMISSORY NOTE

PRINCIPLE TERMS:

Effective Date:	
Maker:	Corniche Group Incorporated
Maker's Mailing Address:	
Payee:	
Annual Interest Rate on Unpaid Principal from Effective Date:	Fifteen percent (15%) per annum
Annual Interest Rate on Matured Unpaid Amounts:	Fifteen percent (15%) per annum
Terms of Payment (principal and interest):	The entire Principal Amount, together with accrued interest thereon, is payable in one installment 60 days from the Effective Date. Maker reserves the right to prepay this Promissory Note in any amount at any time prior to maturity without penalty

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OTHER TERMS:

1. General. Maker promises to pay to the order of Payee at the place for payment, and according to the terms of payment, the principal amount plus interest at the rates stated above under Principle Terms. All unpaid amounts shall be due by the scheduled payment date.

2. Default Penalty. If there occurs an Event of Default (as defined below in paragraph 8), then Payee shall have the option to purchase twenty-five thousand (25,000) shares of common stock of Maker par value $.0001 per share ("Common Stock") for an aggregate purchase price of one hundred and twenty five and no/100 dollars ($125.00). If the Event of Default continues for 30 days, then on the 30th day (and at the end of each successive 30-day period until this Promissory Note is paid in full), Payee shall have the option to purchase an additional twenty-five thousand (25,000) shares of common stock of Maker par value $.0001 per share ("Common Stock") for an aggregate purchase price of one hundred and twenty-five and no/100 dollars ($125.00) for each additional purchase of Common Stock.

3. Costs of Collection. If this note is given to an attorney for collection, or if suit is brought for collection, or if it is collected through probate, bankruptcy, or other judicial proceeding, then Maker shall pay Payee all costs of collection, including reasonable attorneys' fees and court costs, in addition to other amounts due.

4. Savings Clause. Interest on the debt evidenced by this note shall not exceed the maximum amount of non-usurious interest that may be contracted for, taken,

reserved, charged, or received under law, any interest in excess of that maximum amount shall be credited on the principal of the debt or, if that has been paid, refunded. On any acceleration or required or permitted prepayment, any such excess shall be canceled automatically as if the acceleration or prepayment or, if already paid, credited on the principal of the debt or, if the principal of the debt has been paid, refunded. This provision overrides other provisions in this and all other instruments concerning the debt.

5. Accredited Investor. The Payee hereby certifies that Payee is an "Accredited Investor" (as that term is defined by Regulation D under the Securities Act of 1933, as amended) by checking the following statements that are applicable to Payee:

[Please CHECK all of the following statements that are applicable to Payee. At least one of the following must be checked.]

(a) I am an "Accredited Investor" because I had individual income of more than $200,000 in each of the two prior calendar years and I reasonably expect to have individual income in excess of $200,000 during the current calendar year.

(b) I am an "Accredited Investor" because my spouse and I together had income of more than $300,000 in each of the two prior calendar years and we reasonably except to have joint income in excess of $300,000 during the current calendar year.

(c) I am an "Accredited Investor" because I have an individual net worth, or my spouse and I have a joint net worth of more than $1,000,000.

6. Representations of Payee. Payee represents and warrants to Maker as follows:

(a) Payee has received and examined all information, including financial statements, of or concerning Maker which Payee considers necessary to making an informed decision regarding an investment in the Common Stock. In addition, Payee has had the opportunity to ask questions of, and receive answers from, the officers and agents of Maker concerning Maker and to obtain such information, to the extent such persons possessed the same or could acquire it without unreasonable effort or expense, as Payee deemed necessary to verify the accuracy of the information referred to herein.

(b) Payee is acquiring the Common Stock for his own account, for investment purposes only, and not with a view to the resale or distribution of all or any part thereof.

(c) Payee acknowledges that the Common Stock (i) has not been registered under applicable securities laws, (ii) will be "restricted securities" as defined in applicable securities laws, (iii) has been issued in reliance on the statutory exemptions from registration contemplated by applicable securities laws based (in part) on the accuracy of Payee's representations contained herein, (iv) will not be transferable without registration under applicable securities laws, unless an exemption from such registration requirements is available, and (v) certificates representing the Common Stock will bear a restrictive legend evidencing such restrictions.

(d) Payee has reviewed and understands Maker's (i) Annual Report on Form 10-K for the fiscal year ended December 31, 2001; (ii) Quarterly Report on Form 10-Q for the three and six months ended June 30, 2002 and (iii) Current Report on Form 8-K dated June 18, 2002.

7. Governing Law. This Promissory Note, and all rights and remedies hereunder, will be governed by the laws of the State of New York.

8. Event of Default. An "Event of Default" shall have occurred if Maker fails to pay any payment of principal or interest on this Note when due.

MAKER:

CORNICHE GROUP INCORPORATED

By:_____
James J. Fyfe, Director

PAYEE:

EXHIBIT 4.2

Form of Promissory Note February 2003

Exhibit 4.2

PROMISSORY NOTE

PRINCIPLE TERMS:

Effective Date:	
Maker:	Corniche Group Incorporated
Maker's Mailing Address:	Corniche Group Inc. 330 South Service Road Suite 120 Melville, New York 11747
Payee:	
Place for Payment:	
Principal Amount:	
Annual Interest Rate on Unpaid Principal from Effective Date:	Twenty percent (20%) per annum
Annual Interest Rate on Matured Unpaid Amounts:	Twenty percent (20%) per annum.
Terms of Payment (principal and interest)	The entire Principal Amount, together with accrued interest thereon, is payable in one installment 30 days from the Effective Date. Maker reserves the right to prepay this Promissory Note in any amount at any time prior to maturity without penalty.

OTHER TERMS:

1. General. Maker promises to pay to the order of Payee at the place for payment, and according to the terms of payment, the principal amount plus interest at the rates stated above under Principal Terms. All unpaid amounts shall be due by the scheduled payment date.

2. Costs of Collection. If this note is given to an attorney for collection, or if suit is brought for collection, or if it is collected through probate, bankruptcy, or other judicial proceeding, then Maker shall pay Payee all costs of collection, including reasonable attorneys' fees and court costs, in addition to other amounts due.

3. Savings Clause. Interest on the debt evidenced by this note shall not exceed the maximum amount of non-usurious interest that may be contracted for, taken, reserved, charged, or received under law, any interest in excess of that maximum amount shall be credited on the

principal of the debt or, if that has been paid, refunded. On any acceleration or required or permitted prepayment, any such excess shall be canceled automatically as if the acceleration or prepayment or, if already paid, credited on the principal of the debt or, if the principal of the debt has been paid, refunded. This provision overrides other provisions in this and all other instruments concerning the debt.

4. Accredited Investor. The Payee hereby certifies that Payee is an "Accredited Investor" (as that term is defined by Regulation D under the Securities Act of 1933, as amended) by checking the following statements that are applicable to Payee:

[Please CHECK all of the following statements that are applicable to Payee. At least one of the following must be checked.]

(a) I am an "Accredited Investor" because I had individual income of more than $200,000 in each of the two prior calendar years and I reasonably expect to have individual income in excess of $200,000 during the current calendar year.

(b) I am an "Accredited Investor" because my spouse and I together had income of more than $300,000 in each of the two prior calendar years and we reasonably expect to have joint income in excess of $300,000 during the current calendar year.

(c) I am an "Accredited Investor" because I have an individual net worth, or my spouse and I have a joint net worth of more than $1,000,000.

5. Representations of Payee. Payee represents and warrants to Maker as follows:

(a) Payee has received and examined all information, including financial statements, of or concerning Maker which Payee considers necessary to making an informed decision regarding an investment in this Promissory Note. In addition, Payee has had the opportunity to ask questions of, and receive answers from, the officers and agents of Maker concerning Maker and to obtain such information, to the extent such persons possessed the same or could acquire it without unreasonable effort or expense, as Payee deemed necessary to verify the accuracy of the information referred to herein.

(b) This Promissory Note is one of a series of Promissory Notes in the aggregate principal amount of up to $100,000. Payee acknowledges and understands that: (i) Maker will use the proceeds of this Promissory Note to enable Maker to commence the establishment of new business operations; (ii) the proceeds of this Promissory Note will not be sufficient to provide Maker with the necessary funds to achieve its current business plan; (iii) Maker does not have sufficient cash available to repay this Promissory Note; and (iv) Payee bears the economic risk of never being repaid on this Promissory Note.

(c) Payee is acquiring this Promissory Note for his own account, for investment purposes only, and not with a view to the resale or distribution of all or any part thereof.

(d) Payee acknowledges that this Note (i) has not been registered under applicable securities laws, (ii) will be a "restricted security" as defined in applicable securities laws, (iii) has been issued in reliance on the statutory exemptions from registration contemplated by applicable securities laws based (in part) on the accuracy of Payee's representations contained herein, and (iv) will not be transferable without registration under applicable securities laws, unless an exemption from such registration requirements is available.

(e) Payee understands that the Maker currently has no business operations but plans to establish a business in the medical sector as more fully described in Maker's Current Report on Form 8-K dated February 6, 2003.

(f) Payee has reviewed and understands Maker's Current Report on Form 8-K dated February 6, 2003 and its quarterly report on the Form 10-Q, three and nine month ended September 30, 2002.

6. Governing Law. This Promissory Note, and all rights and remedies hereunder, will be governed by the laws of the State of New York, without regard to conflicts of law principles.

IN WITNESS WHEREOF, Maker has executed and delivered this Promissory Note as of the Effective Date first stated above.

MAKER: PAYEE:

CORNICHE GROUP INCORPORATED
NAME:_____

By:_____
_____
Name: Mark Weinreb

Title: President and Chief Executive Offic

EXHIBIT 4.3

Form of Promissory Note March 2003

Exhibit 4.3

THIS PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE NOTE HAS BEEN ACQUIRED FOR INVESTMENT AND MUST BE HELD INDEFINITELY and MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS IT IS SUBSEQUENTLY REGISTERED UNDER SAID ACT OR, IN THE OPINION OF COUNSEL TO THE COMPANY, AN EXEMPTION FROM REGISTRATION UNDER SAID ACT IS AVAIABLE.

PROMISSORY NOTE

$ _____ Date: _____ , 2003

FOR VALUE RECEIVED, Corniche Group Incorporated, a Delaware corporation, ("Maker") promises to pay to _____ ("Payee"), in lawful money of the United States of America, the principal sum of _____ ($ _____), together with interest thereon accruing at an annual rate equal to 15%, in the manner provided below. Interest shall be calculated on the basis of a year of 365 or 366 days, as applicable, and charged for the actual number of days elapsed.

1. PAYMENTS

1.1 Principal and interest.

Interest on the unpaid principal amount shall be payable monthly in arrears on the last day of each calendar month, commencing _____ , 2003 until the entire principal amount shall be paid in full. All principal and accrued interest shall be paid in full on _____ , 2003.

1.2 Manner of Payment

All payments of principal and interest on this Note shall be made by check at _____ or at such other place in the United States of America as Payee shall designate to Maker in writing. If any payment of principal or interest on this Note is due on a day which is not a Business Day, such payment shall be due on the next succeeding Business Day. "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of New York.

1.3 Prepayment

Maker may, without premium or penalty, at any time and from time to time, prepay all or any portion of the outstanding principal balance due under this Note, provided that each such prepayment is accompanied by accrued interest on the amount of principal prepaid calculated to the date of such prepayment. Any partial prepayments shall be applied first to accrued interest and then to principal.

2. DEFAULTS

2.1 Events of Default

The occurrence of any one or more of the following events with respect to Maker shall constitute an event of default hereunder ("Event of Default"):

(a) If Maker shall fail to pay when due any payment of principal or interest on this Note.

(b) If, pursuant to or within the meaning of the United States Bankruptcy Code or any other federal or state law relating to insolvency or relief of debtors (a "Bankruptcy Law"), Maker shall (i) commence a voluntary case or proceeding; (ii) consent to the entry of an order for relief against it in an involuntary case; (iii) consent to the appointment of a trustee, receiver, assignee, liquidator or similar official; (iv) make an assignment for the benefit of its creditors; or (v) admit in writing its inability to pay its debts as they become due.

(c) If a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (i) is for relief against Maker in an involuntary case; (ii) appoints of a trustee, receiver, assignee, liquidator or similar official for the Maker or substantially all of the Maker's properties; or (iii) orders the liquidation of the Maker, and in each case the order is not dismissed within 90 days.

2.2 Remedies

Upon the occurrence of an Event of Default hereunder (unless all Events of Default have been cured or waived by Payee), (a) the interest rate will increase to a default rate of 20% per annum effective upon such Event of Default, and (b) Payee may, at its option, (i) by written notice to Maker, declare the entire unpaid principal balance of this Note, together with all accrued interest thereon, immediately due and payable, and (ii) exercise all and any rights and remedies available to it under applicable law, including, without limitation, the right to collect from maker all sums due under this Note. Maker shall pay all reasonable costs and expenses incurred by or on behalf of Payee in connection with Payee's exercise of any or all of its rights and remedies under this Note, including, without limitation, reasonable attorneys' fees and expenses.

3. REPRESENTATIONS BY PAYEE

Payee represents and warrants to Maker as follows:

(a) Payee has received and examined all information, including financial statements, of or concerning Maker which Payee considers necessary to making an informed decision regarding this Note. In addition, Payee has had the opportunity to ask questions of, and receive answers from, the officers and agents of Maker concerning Maker and to obtain such information, to the extent such persons possessed the same or could acquire it without unreasonable effort or expense, as Payee deemed necessary to verify the accuracy of the information referred to herein.

(b) The Payee acknowledges and understands that (i) the Maker will use the proceeds of this Note to enable Maker to commence the establishment of new business operations; (ii) the proceeds of this Note will not be sufficient to provide Maker with the necessary funds to achieve its current business plan; (iii) the Maker does not have sufficient cash available to repay this Note; (iv) this Note will not be guaranteed nor will it be secured by any assets of Maker nor senior to any other indebtedness of Maker; (v) the Maker will pay a commission to Maker's agent, Robert M. Cohen & Company, Inc. equal to 10% of the principal amount loaned pursuant to this Note; and (v) Payee bears the economic risk of never being repaid on this Promissory Note.

(c) The Payee hereby certifies that Payee is an "Accredited Investor" (as that term is defined by Regulation D under the Securities Act of 1933, as amended) because at least one of the following statements is applicable to Payee:

(i) Payee is an Accredited Investor because the Payee had individual income of more than $200,000 in each of the two prior calendar years and reasonably expects to have individual income in excess of $200,000 during the current calendar year.

(ii) The Payee is an Accredited Investor because the Payee and his spouse together had income of more than $300,000 in each of the two prior calendar years and reasonably expect to have joint income in excess of $300,000 during the current calendar year.

(iii) The Payee is an Accredited Investor because the Payee has an individual net worth, or the Payee and his spouse have a joint net worth of more than $1,000,000.

(d) Payee is acquiring this Note for his own account, for investment purposes only, and not with a view to the resale or distribution of all or any part thereof.

(e) Payee acknowledges that this Note (i) has not been registered under applicable securities laws, (ii) will be a "restricted security" as defined in applicable securities laws, (iii) has been issued in reliance on the statutory exemptions from registration contemplated by applicable securities laws based (in part) on the accuracy of Payee's representations contained herein, and (iv) will not be transferable without registration under applicable securities laws, unless an exemption from such registration requirements is available.

(f) Payee has reviewed and understands Maker's (i) Annual Report on Form 10-K for the fiscal year ended December 31, 2001; (ii) Quarterly Report on Form10-Q for the three and nine months ended September 30, 2002; (iii) Current Report on Form 8-K dated February 6, 2003; and (iv) Current Report on Form 8-K dated February 28, 2003.

4. MISCELLANEOUS

4.1 Waiver

The rights and remedies of Payee under this Note shall be cumulative and not alternative. No waiver by Payee of any right or remedy under this Note shall be effective unless it is in writing and signed by Payee. Neither the failure nor any delay in exercising any right, power or privilege under this Note will operate as a waiver of such right, power or privilege and no single or partial exercise of any such right, power or privilege by Payee will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum amount permitted by applicable law, (i) no claim or right of Payee arising out of this Note can be discharged by Payee, in whole or in part, by a waiver or renunciation of the claim or right unless in a writing, signed by Payee; (b) no waiver that may be given by Payee will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on Maker will be deemed to be a waiver of any obligation of Maker or of the right of Payee to take further action without notice or demand as provided in this Note.

Maker acknowledges that this Note and Maker's obligations under this Note are, and shall at all times continue to be, absolute and unconditional in all respects, and shall at all times be valid and enforceable. To the extent permitted by applicable law, Maker hereby absolutely, unconditionally and irrevocably forever waives any and all right to assert any defense, set-off, off-set, counterclaim, cross-claim, or claim of any nature whatsoever with respect to this Note or Maker's obligations hereunder.

4.2 Notices

Any notice or communication to be given hereunder by any party, to the other party shall be in writing and shall be deemed to have been given when personally delivered, or one day after the date sent by recognized overnight courier or transmitted by facsimile, which transmission by facsimile has been confirmed or 3 (three) days after the date sent by registered or certified mail, postage prepaid, as follows:

If to Maker, addressed to it at:

Corniche Group Incorporated
330 South Service Road
Suite 120
Melville, NY 11747

Attn: Mark Weinreb
Facsimile Number: (631) 574 4956

If to Payee, addressed to:

Name: _____
Address: _____
_____

Or persons or addresses as may be designated in writing by the party to receive such notice.

4.3 Severability

If any provision of this Note is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Note will remain in full force and effect. Any provision of this Note held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

4.4 Governing Law.

This Promissory Note will be governed by the laws of the State of New York without regard to conflicts of laws principles.

4.5 Assignment; Parties in Interest

This Note shall bind Maker and its successors and assigns. This Note shall not be assigned or transferred by Maker, without the express prior written consent of Payee, and this Note will inure to the benefit of Payee and his heirs, estates, representatives, administrators, successors and assigns.

4.6 Section Headings, Construction

The headings of Sections in this Note are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Note unless otherwise specified.

All words used in this Note will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "hereof" and "hereunder" and similar references refer to this Note in its entirety and not to any specific section or subsection hereof.

4.7 Savings Clause

If, at any time, the rate of interest under this Note shall be deemed by any competent court of law, governmental agency or

tribunal to exceed the maximum rate of interest permitted by the laws of any applicable jurisdiction or the rules or regulations of any regulatory authority or agency, then during such time as such rate of interest would be deemed excessive, that portion of each interest payment attributable to that portion of such interest

rate that exceeds the maximum rate of interest so permitted shall be deemed a voluntary prepayment of principal or, if all principal has been paid, that portion of each interest payment attributable to that portion of such interest rate that exceeds the maximum rate of interest so permitted shall be promptly refunded to Maker.

4.8 Waiver of Jury Trial

MAKER AND PAYEE EACH HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRAIL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS NOTE, IT BEING AGREED THAT ALL SUCH TRAILS SHALL BE CONDUCTED SOLELY BY A JUDGE. MAKER AND PAYEE EACH CERTIFY THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF EITHER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE OTHER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS. MAKER AND PAYEE EACH AGREE AND ACKNOWLEDGE THAT IT HAS BEEN REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE OR BEEN ADVISED THAT IT SHOULD BE REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE. IF MAKER OR PAYEE HAS DECIDED NOT TO BE REPRESENTED BY INDEPENDENT COUNSEL IN CONNECTION WITH THIS NOTE, IT IRREVOCABLY AND FOREVER WAIVES ANY AND ALL DEFENSES OR RIGHTS ARISING OUT OF OR RELATED TO SAID DECISION.

IN WITNESS WHEREOF, Maker has executed and delivered this Note as of the date first stated above.

CORNICHE GROUP INCORPORATED

By:

_____

Name: Mark Weinreb
Title: President and Chief Executive Officer

Accepted and agreed to:

Payee

EXHIBIT 10.1

Royalty Agreement between Parallel Solutions, Inc. and Phase III Medical, Inc.

Exhibit 10.1

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. Asterisks. Denote such omissions.

ROYALTY AGREEMENT

THIS ROYALTY AGREEMENT (this "Agreement") is made as of the 5th day of December, 2003 (the "Effective Date") by and between Parallel Solutions, Inc., a Delaware corporation with offices at 763D Concord Avenue, Cambridge MA 02138 ("PSI"), and Phase III Medical, Inc., a Delaware corporation with offices at 330 South Service Road, Suite 120, Melville, New York 11747 ("Phase III") (PSI and Phase III are referred to individually as a "Party" and collectively as the "Parties").

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

Definitions.

"Affiliate".

Affiliate shall mean, with respect to any person, any other person controlling, controlled by or under common control with such person. For purposes of this Section, "control" shall mean (a) in the case of corporate entities, direct or indirect ownership of at least fifty percent (50%) of the stock or shares having the right to vote for the election of directors, and (b) in the case of non-corporate entities, direct or indirect ownership of at least fifty percent (50%) of the equity interest with the power to direct the management and policies of such non-corporate entities.

"Field". Field shall mean therapeutic protein drugs and/or small molecule drugs that have been [**] characteristics, including, without limitation, (i) [**] of the pharmaceutical substance, (ii) [**], (iii) [**], and/or (iv) [**]. The Field shall not include any other molecules, or applications of [**], including, but not limited to, [**]. For purposes of clarity, if a [**], so as to confer [**] characteristics as set forth above, subject to the terms, conditions and exceptions set forth above, such Product shall be included in the Field.

"Intellectual Property". Intellectual Property shall have the meaning set forth in Section 8(b). "Net Sales". Net Sales shall mean, with respect to a Product, the gross amount invoiced by PSI and/or its Affiliates (but not its or their licensees) on sales of Products for use in the Field by PSI and/or its Affiliates to unaffiliated third parties, less the following deductions: Trade, cash and/or quantity discounts actually allowed and taken directly with respect to such sales, as reflected in the amount invoiced;

Tariffs, duties, excises, sales taxes or other taxes imposed upon and paid directly by PSI and/or its Affiliates with respect to the production, sale or use of the Product (excluding national, state or local taxes based on income), as reflected in the amount invoiced; Amounts paid to third parties to license patents covering such third party's technology if, in the absence of such license, the sale by PSI or its Affiliates of a Product would or is likely to, in the reasonable judgment of PSI, infringe such patents;

Amounts repaid or credited by reason of rejections, defects, recalls or returns or because of chargebacks, refunds, rebates or retroactive price reductions; and Freight, insurance and other transportation charges incurred in shipping a Product, as reflected in the amount invoiced.

"Product". Product shall mean any product in the Field comprised in part of a [**] molecule.

"Program Patent Rights" shall mean all United States and/or foreign patents and patent applications, and all substitutions, divisions, continuations, continuations-in-part, reissues, reexaminations and extensions thereof that

during the term of this Agreement are owned or otherwise controlled by PSI that relate exclusively to the Field.
"POC Study". POC Study shall have the meaning set forth in Section 3(a).
"Proof of Concept Guidelines". Proof of Concept Guidelines shall mean the guidelines applicable to the POC Study and set forth in Exhibit A.
"Term". Term shall have the meaning set forth in Section 7(a).
"Valid Claim". Valid Claim means a claim (i) of any issued, unexpired United States or foreign patent that shall not have been donated to the public, disclaimed, nor held invalid or unenforceable against the other Party by a court of competent jurisdiction in an unappealed or unappealable decision, or (ii) of any United States or foreign patent application that shall not have been cancelled, withdrawn, abandoned nor been pending for more than seven (7) years.

Development Funding.

In consideration for rights received by Phase III under this Agreement and the obligations assumed by PSI hereunder with respect to the conduct of the POC Study, Phase III hereby agrees to pay PSI:
an aggregate sum of [**] Dollars (US$[**]), payable to PSI, for synthetic and in vitro work carried out by PSI ("PSI Research", which term is further defined in Exhibit A hereto), [**] Dollars (US $[**]) starting upon the Effective Date and then every thirty (30) days thereafter (collectively, the "PSI Funding" to be paid to PSI over such nine month period, hereinafter referred to as the "PSI Funding Period"); and
amounts reasonably required in order for PSI to complete the in vitro and in vivo evaluation of target molecules contemplated by the POC Study and the Proof of Concept Guidelines which are to be carried out by third party subcontractors engaged by PSI in reasonable consultation with Phase III ("Evaluation Study"), (collectively, the "Evaluation Funding", and together with the PSI Funding, the "Development Funding"). Phase III shall pay to each such third party subcontractor amounts constituting Evaluation Funding within fifteen (15) days after its receipt from time to time from PSI of a written funding request specifying the subcontractor, the purpose of the study, and amounts required to be paid to the subcontractor. So long as Phase III provides as and when required under this paragraph at least $[**] of Evaluation Funding in addition to all PSI Funding as required in Section 2.2(a)(i), any right of Phase III under Section 4(a) or Section 4(b) only that is conditioned on it providing Development Funding or Evaluation Funding shall be deemed fully satisfied. If the POC Study is successful (as defined in Exhibit A), the Parties acknowledge that funding will be necessary beyond the Development Funding in order for PSI to develop a marketable product. At PSI's request, the Parties shall negotiate in good faith the terms and conditions of an agreement or amendment hereto under which Phase III provides to PSI such additional development funding; provided that, neither Party shall be obligated to enter into any such agreement.
The Parties also acknowledge that PSI may enter into a license with a third party pharmaceutical company that relates exclusively to the Field prior to Phase III making all contemplated Development Funding payments. In such event, upon consummation of such a license, and if PSI expressly waives in a signed writing to Phase III PSI's right to further Development Funding, Phase III shall have no further obligations to make such payments hereunder, but shall nevertheless still be entitled to receive its full [**] percent ([**]%) payment as set forth in Section 4 received by PSI from such third party or otherwise. In addition to the Development Funding, Phase III shall pay [**] percent ([**]%) of all legal and regulatory costs incurred by PSI for the prosecution of patent applications and maintenance of patents related exclusively to the Field and such other patents related to the Field which Phase III shall determine in consultation with PSI.

Development Program.

POC Study. (i) Subject to the terms and conditions of this Agreement (including the payment in full of the Development Funding), PSI shall use commercially reasonable efforts to perform the activities described in the proof of concept validation study for development of the [**] therapeutic protein delivery program as set forth as Exhibit A hereto (the "POC Study") for no longer than the PSI Funding Period plus the period required to do the Evaluation Studies; provided that, PSI may elect at its discretion for the three (3) month period immediately following the PSI Funding Period to continue to conduct the POC Study. Notwithstanding the foregoing, Evaluation Studies may, subject to payment in full of Development Funding, continue until complete or otherwise mutually agreed, regardless of the period of time required to complete such studies. The POC Study shall conform to the Proof of Concept Guidelines set forth in Exhibit A. Not later than the date two (2) weeks after execution of this Agreement, PSI shall deliver to Phase III a more detailed POC Study plan with detailed monthly

benchmarks or activity goals, and PSI shall thereafter use commercially reasonable efforts to meet the goals and benchmarks in such timetable. In no event shall PSI have any obligation to conduct any activity outside the scope of the Required Research (as defined in Exhibit A hereto) of the POC Study, and, in the event that Phase III fails to pay Development Funding as and when required in Section 2(a) above, PSI shall have no further obligation to conduct the POC Study as set forth herein.

(ii) Within thirty (30) days following the conclusion of the POC Study and receipt by PSI of all relevant subcontractor reports, PSI shall deliver to Phase III a written report including all subcontractor reports summarizing the results of the POC Study.

Notice of Transfer. If PSI determines to sell, assign or otherwise transfer ownership of or title to (a "Transfer") the Program Patent Rights and/or non-patented intellectual property owned by PSI that relates exclusively to the Field (collectively, the "Program Rights"), and PSI enters into substantive negotiations regarding the material terms and conditions of such potential Transfer with a third party, then PSI shall, on a one-time basis for each such potential Transfer, provide Phase III with reasonable advance written notice of the material terms and conditions of such Transfer and reasonable updates thereto. Such information shall be deemed to be the Confidential Information of PSI.

Reports. PSI shall provide written progress reports at the completion of each phase of the POC Study (e.g. [**]). Phase III shall have reasonable access to the facilities of PSI during normal working hours to review the POC Study upon reasonable prior notice to PSI.

Researcher. [**], or another capable immunologist or scientist appropriately skilled in the execution of the listed animal studies and approved by Phase III, shall be hired or contracted as a consultant by PSI during the three (3) month evaluation phase of the POC Study to oversee the external in vitro and in vivo research of the POC Study. PSI shall pay all compensation for such immunologist or scientist during such period, at no additional cost to Phase III beyond the amounts described in Section 2 of this Agreement.

Revenue Sharing.

Licensing Income. Subject to Phase III's payment in full (to the extent then due) of the PSI Funding and, to the extent required pursuant to Section 2(a)(ii), the Evaluation Funding, PSI shall pay to Phase III an amount equal to [**] percent ([**]%) of "Licensing Income" (in each case, as defined below). The term "Licensing Income" shall mean (A) amounts received by PSI and/or its Affiliates from unaffiliated third parties in consideration for the grant of an express license to manufacture, use, sell or otherwise exploit a Product for use in the Field, or otherwise to use in the Field the Program Rights, including,

without limitation, all up-front fees, milestone payments, royalties, and other license fees, but specifically excluding (i) any payments for research and development activities or for the performance of any manufacturing or other services, to the extent reasonably related to the fair value of those services, (ii) proceeds from the purchase of any assets or equity securities of PSI and/or its Affiliates acquired by a licensee or acquiror, whether by purchase, merger, consolidation or otherwise, provided that if there is both a license and an acquisition of assets or securities, only to the extent that the proceeds from the sale of such assets or securities are reasonably related to the value of such assets or securities; and (iii) proceeds from any loan or debt transaction with a licensee, less (B) amounts paid by PSI to third parties to license patents covering such third party's technology if, in the absence of such license, the license by PSI or its Affiliates to manufacture, use, sell or otherwise exploit a Product would or is likely to, in the reasonable judgment of the Parties, infringe such patents.

Sales Income. Subject to Phase III's payment in full (to the extent then due) of the PSI Funding and, to the extent required pursuant to Section 2(a)(ii), the Evaluation Funding, PSI shall pay to Phase III an amount equal to the [**] percent ([**]%) of the "Benchmark Percentage" (as defined below) of Net Sales. As used above, the term "Benchmark Percentage" shall mean a mutually agreed percentage equal to the average percentage royalty charged by companies similar to PSI for [**] drugs similar to the Products at the time of sale of such Products; provided, however, if the Parties are unable to reach an agreement on such percentage within sixty (60) days after either Party requested in writing that the Parties negotiate concerning such percentage, then either Party may submit this dispute to a single arbitrator with relevant industry experience appointed jointly by the Parties, or failing agreement on a joint appointment, appointed by the President of the American Arbitration Association ("AAA"), and such arbitrator shall then determine the Benchmark Percentage through an arbitration conducted in Cambridge, Massachusetts in accordance with the

commercial arbitration rules of the AAA.
Payment Period. The payment obligations described in Section 4(a) and 4(b) above shall commence on the date hereof and shall continue so long as PSI is receiving any Licensing Income or Net Sales.
Actions by PSI. In the event that (i) any of the Program Patent Rights is infringed by a third party, (ii) PSI elects, at its sole discretion, to bring an action for infringement against such third party, and (iii) Phase III pays to PSI, from time to time as incurred by PSI, [**] percent ([**]%) of the out-of-pocket expenses and attorneys' fees of PSI relating to such action, then, any recovery of damages, including settlement proceeds and royalties, by PSI from any such action, shall be applied first in satisfaction of any unreimbursed out-of-pocket expenses and attorneys' fees of the Parties relating to such action, and then the remaining amounts from any such recovery shall be considered Licensing Income hereunder subject to Section 4(a) above.

Payments; Reporting

Payment. All payments hereunder (whether pursuant to Section 2 or 4) shall be made by check or wire transfer to such bank and account as the recipient may from time to time designate in writing. All payments due hereunder are expressed in and shall be paid in United States Dollars.
Foreign Exchange. If any amounts due to Phase III under Section 4 hereunder are initially stated in a currency other than United States Dollars, then, for the purpose of calculating the amount due, such amounts shall be converted into

United States Dollars at the exchange rate between those two currencies most recently quoted in the Wall Street Journal in New York as of the last business day of the calendar quarter for which such amounts are being paid.
Reports and Payments. (i) Monthly. Not later than thirty (30) days after the end of each month, PSI shall deliver to Phase III a monthly statement, setting forth the amounts due under Section 4(a) during the preceding month. Together with such report, PSI will pay Phase III payments accruing during such preceding month. (ii) Quarterly. Not later than 30 days after the end of each calendar quarter, PSI shall deliver to Phase III a quarterly statement, setting forth the amounts due under Section 4(b) during the preceding calendar quarter. Together with such report, PSI will pay Phase III payments accruing during such preceding calendar quarter. (iii) All reports and payments of amounts under this Section 5(c) not disputed as to correctness by Phase III within three (3) years after receipt thereof shall thereafter conclusively be deemed correct for all purposes.
Responsibility for Taxes. Sales, use or similar taxes now or hereafter imposed with respect to the transactions contemplated hereunder (but not income taxes or other taxes imposed upon PSI and measured by the gross or net income of PSI) shall be the responsibility of Phase III, and if paid or required to be paid by PSI, the amount thereof shall be added to and become a part of the amounts payable by Phase III hereunder.
Payable Only Once. The amounts payable under this Agreement shall be imposed only once with respect to the same unit of a Product.
Audits by Phase III of Licensing Income and Sales Income. PSI shall keep and shall require its Affiliates to keep within their control, complete and accurate records of the latest three (3) years of sales or licenses pursuant to which payments are due to Phase III under Sections 4(a) and (b) above. For the sole purpose of verifying amounts payable to Phase III, Phase III shall have the right annually at Phase III's expense to retain an independent certified public accountant selected by Phase III and reasonably acceptable to PSI, to review such records in the location(s) where such records are maintained by PSI or its Affiliates upon thirty (30) days written notice and during regular business hours. Any information made available during an audit shall be treated as the confidential information of PSI. Such review by Phase III shall be limited to one review per calendar year. If the review reflects an underpayment to Phase III, such underpayment shall be remitted to Phase III within thirty (30) days of written notice. If the underpayment is equal to or greater than seven percent (7%) of the amount that was otherwise due, PSI shall pay all of Phase III's reasonable costs of such review. If the review reflects an overpayment to Phase III, the amount of such overpayment shall be remitted to PSI within thirty (30) days of receipt of written notice thereof.
Cooperation.

Consulting Services. Phase III shall provide to PSI, without charge, consulting services in connection with and during the course of the POC Study, to be determined by the mutual consultation of the parties. During the POC Study and Post-Study Period, Phase III will be provided with reasonable access to PSI's chief scientist working on the POC Study.

Licensing. PSI and Phase III shall cooperate to identify potential licensing partners and to secure licensing or royalty agreements with third parties. PSI shall use reasonable efforts to consult with Phase III prior to making a licensing decision, and to consider Phase III's advice in good faith. PSI shall provide Phase III with reasonable notice prior to PSI entering into a license or other agreement with respect to a Product with any third party.

Board Observer Rights. During the POC Study and for a period of nine (9) months after its conclusion (but in no event after the expiration or earlier termination of the Term), Phase III shall have the right to attend the portions of convened PSI Board of Directors meetings relating to the POC Study or to

other matters related exclusively to the Field as a non-voting observer, subject to execution of an appropriate confidentiality agreement. Notwithstanding the foregoing, in no event shall Phase III have any right to observe or be present at the portion of any such meetings (i) during which PSI receives or discusses legal advice of any kind if its presence would impair or compromise attorney-client privilege or confidentiality, (ii) during discussions relating to any dispute under this Agreement, or (iii) during discussions regarding any other matter that PSI deems in the good faith exercise of its reasonable discretion to be in conflict of interest with Phase III.

Publications. To the extent permitted under publication guidelines and standards, Phase III shall be identified, either as a co-investigator or as having funded the study, as appropriate, with PSI in any publication of the results of the POC Study in peer reviewed scientific journals selected by PSI. PSI will use reasonable efforts to submit the results of the in vitro and in vivo studies for publication in a peer-reviewed journal within a reasonable period after the completion of the POC Study, subject to such delay as is deemed reasonably necessary by PSI to ensure appropriate patent filings to protect PSI's intellectual property and competitive position. PSI in good faith will attempt to have its studies published in journals identified by Phase III.

Publicity. Phase III and PSI must approve all public announcements of the relationship contemplated by this Agreement jointly, provided that neither Party's consent shall be required with respect to such announcements or disclosures that such other Party reasonably determines are necessary to comply with the federal securities laws, rules and regulations and any other legal requirements.

Term; Termination.

Term. Unless sooner terminated pursuant to this Section 7, this Agreement will be effective as of the Effective Date and will remain in effect until the last-to-expire payment obligation of the Parties hereunder (such period of time referred to as the "Term").

Termination. In the event that either Party commits a material breach of its obligations under this Agreement (including, without limitation, an obligation to make a payment when due), and such Party fails to cure such breach within thirty (30) days after written notice from the other Party (or in the case of a breach of a payment obligation with respect to PSI Funding, within fifteen (15) days), the notifying Party shall have the right to terminate this Agreement at any time thereafter upon further notice to the breaching Party.

Survival. Sections 8, 19 and 20 shall survive any expiration or earlier termination of this Agreement.

Insolvency. Each Party acknowledges and agrees that it intends that its obligations under this Agreement shall survive the insolvency of such Party. Further, to the extent applicable, all rights and licenses granted under or pursuant to any section of this Agreement are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the Bankruptcy Code licenses of rights to "intellectual property" as defined under Section 101(35A) of the Bankruptcy Code. The Parties shall retain and may fully exercise all of their respective rights and elections under the Bankruptcy Code.

Confidential Information.

Phase III and PSI each agree that all information received by one from the other pursuant to this Agreement (1) shall be received in strict confidence, (2) shall be used only for the purposes of this Agreement, and (3) shall not be disclosed by the recipient Party, its agents or employees without the prior written consent of the disclosing Party, except to the extent that the recipient Party can establish competent written proof that such information:

was in the public domain at the time of disclosure;

later became part of the public domain through no act or omission of the recipient Party, its employees, agents, successors or assigns;

was lawfully disclosed to the recipient Party by a third party having the right

to disclose it without such third party violating its confidentiality obligations to the disclosing Party; was already known by the recipient Party at the time of disclosure;
was independently developed by the recipient Party;
is required by law or regulation to be disclosed, provided however, that (a) the disclosing Party shall first give the other Party written notice and adequate opportunity to object to such order for disclosure or to request confidential treatment; and (b) information disclosed pursuant to this Section 8(a)(vi) shall otherwise remain Confidential Information for the purposes of this Agreement; or
is disclosed to potential investors or lenders on a need-to-know basis and pursuant to confidentiality agreements no less protective of such information than the terms and conditions of this Section 8.
PSI understands that Phase III is a publicly held corporation and that trading in its securities while in possession of material, non-public information related to Phase III may violate federal and state securities laws.

Intellectual Property. Each Party shall retain all rights to all inventions, patents, copyrights, trade secrets and other intellectual property ("Intellectual Property") conceived or reduced to practice by such Party prior to or during the course of this Agreement. The Parties expressly agree that all Intellectual Property conceived, reduced to practice or otherwise arising from the POC Study shall be owned exclusively by PSI. Phase III shall have no right or license implied or otherwise in or to any intellectual property or data owned or controlled or utilized by PSI, including, without limitation, any intellectual property conceived in the course of the POC Study. All inventions and results of the POC Study shall be the Confidential Information of PSI, but subject to disclosure by Phase III pursuant to 8(a) above.

Representations and Warranties.

Representations of Authority. PSI and Phase III each represents and warrants to the other that as of the Effective Date it has full right, power and authority to enter into this Agreement and to perform its respective obligations under this Agreement.
Consents. PSI and Phase III each represents and warrants that all necessary consents, approvals and authorizations of all government authorities and other persons required to be obtained by such Party in connection with execution, delivery and performance of this Agreement have been and shall be obtained.
No Conflict. PSI and Phase III each represents and warrants that the execution and delivery of this Agreement, the performance of such Party's obligations hereunder (i) do not conflict with or violate any requirement of applicable laws or regulations and (ii) do not and will not conflict with, violate or breach or constitute a default or require any consent under, any contractual obligations of such Party.
Intellectual Property. PSI represents and warrants to Phase III as of the Effective Date that: To PSI's actual knowledge, PSI has the full power and right to grant to Phase III the rights set forth in this Agreement, free of any liens, claims, fees, commissions or other encumbrances, other than pursuant to licenses and any research, development and consulting agreements that have been provided to Phase III.

To PSI's actual knowledge, without having made an investigation, the operations of PSI in the Field do not infringe upon or conflict with the Intellectual Property of any other person in the Field. [**].
To PSI's actual knowledge, all such Intellectual Property owned or licensed by PSI, has not been challenged in any judicial or administrative proceeding, and no written claim has been received by PSI, and to its actual knowledge, no claim is pending or threatened against PSI, to the effect that any such Intellectual Property owned or licensed by PSI is invalid or unenforceable by PSI.
With respect to the Field, to PSI's actual knowledge, no person nor such person's business or products has infringed or misappropriated the Intellectual Property owned or licensed by PSI or currently is infringing or misappropriating such Intellectual Property owned, purported to be owned or licensed by PSI.
Each present or past employee or officer has executed a written agreement with PSI that (a) conveys any and all right, title and interest in and to all Intellectual Property developed by such person in connection with such person's employment or contract to PSI, (b) requires such person, during and after the term of employment or contract, to cooperate with PSI in the prosecution of any patent applications filed in connection with such Intellectual Property, (c) establishes that to the extent such Person is an author of a copyrighted work created in connection with such person's employment or contract, such work is assigned to PSI, (d) includes a representation and covenant by such person that no process, technique, innovation or other work product provided to PSI is or

will be derived from or otherwise constitute the proprietary information of a prior employer or contractor, in contravention of any prior confidentiality agreement, and (e) obligates the employee or contractor to keep any confidential information, including trade secrets, of PSI confidential both during and after the term of employment or contract.

To PSI's actual knowledge, it is not necessary for the business of PSI in the Field to use any Intellectual Property owned by any present or past director, officer, or employee of PSI. Covenant. PSI shall notify Phase III of patentable inventions for which PSI files a Program Patent Right. PSI shall use commercially reasonable efforts during the POC Study and Post-Study Period (i) to evaluate potentially patentable inventions in the Field, and (ii) to determine whether to file patent applications covering such inventions, taking into account relevant factors, including, without limitation, PSI's past practices, intellectual property strategy, and PSI's financial constraints.

Assignment. Either Party may in its sole discretion assign this Agreement or any of its rights, interests or obligations hereunder with or without the prior written approval of the other Party; provided that, the assignee assumes all obligations of such Party under this Agreement; and, provided further, that if such assignment is made by PSI in connection with the transfer or sale of all or substantially all of the business of PSI to which this Agreement relates, whether by merger, sale of stock, sale of assets (including a transfer of the Program Rights), or otherwise, it is understood and agreed that (i) the products of such Acquiring Party conceived, reduced to practice, developed or independently acquired prior to such acquisition or after such acquisition without use of the technology acquired from PSI shall not be deemed Products hereunder, (ii) the intellectual property, technology and other rights of the Acquiring Party conceived, reduced to practice, developed or independently acquired prior to such acquisition or after such acquisition without use of the technology acquired from PSI shall not be deemed to be Program Patent Rights or otherwise subject to the terms or conditions of this Agreement, and (iii) following such acquisition, PSI's (or the Acquiring Party's or its successor's) obligation to pay amounts due under Section 4 hereof shall be assumed and

continue, subject to the terms of this Agreement, so long as PSI or such Acquiring Party (or its successor) is receiving any Licensing Income or Net Sales (as provided in paragraph 4(c). This Agreement shall inure to the benefit of the Parties hereto and be binding on their respective successors and permitted assigns. It is understood and agreed by the Parties that, upon the sale or assignment by PSI and/or any of its Affiliates of the Program Rights to any unaffiliated person or entity (the "Acquiring Party") (whether on a stand-alone basis or pursuant to a transaction involving the transfer or sale of all or substantially of the business of PSI to which this Agreement relates, whether by merger, sale of stock, sale of assets or otherwise), PSI shall assign this Agreement to the Acquiring Party and the Acquiring Party shall assume the rights and obligations of PSI under this Agreement.

Severability. If any provision of this Agreement is held to be invalid, illegal, or unenforceable, in whole or part, such invalidity will not affect any otherwise valid provision, and all other valid provisions will remain in full force and effect.

Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party, it being understood that all Parties need not sign the same counterpart.

Titles. The titles and headings preceding the text of the paragraphs of this Agreement have been inserted solely for convenience of reference and do not constitute a part of this Agreement or affect its meaning, interpretation or effect.

Waiver. The failure of any Party to insist in any one or more instances upon performance of any terms or conditions of this Agreement will not be construed as a waiver of future performance of any such term, covenant, or condition and the obligations of any Party with respect to such term, covenant or condition will continue in full force and effect.

Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, sent by facsimile, mailed by registered or certified mail (return receipt requested) or sent by overnight courier to the Parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to PSI, to
Parallel Solutions, Inc.
763D Concord Avenue
Cambridge MA 02138

Attention: Dermot Liddy, CEO
Telephone: 617-876-2178
Facsimile: 617-876-0728

If to Phase III, to
330 South Service Road, Suite 120
Melville, NY 11747
Attention: Mark Weinreb, President and CEO
Telephone: 631.574.4955
Facsimile: 631.574.4956

Any of the above addresses may be changed at any time by notice given as provided above; provided, that any such notice of change of address shall be effective only upon receipt. All notices, requests or instructions given in accordance herewith shall be deemed given (i) on the date of delivery, if hand delivered, (ii) on the date of receipt, if sent by facsimile, (iii) three

business days after the date of mailing, if mailed by registered or certified mail, return receipt requested, and (iv) one business day after the date of sending, if sent by Federal Express or other recognized overnight courier.
Entire Agreement. This Agreement (which term shall be deemed to include the Exhibits hereto and the other certificates, documents and instruments delivered hereunder) constitutes the entire agreement of the Parties hereto with respect to the subject matter hereof and supersedes all prior agreements, letters of intent and understandings, both written and oral, among the Parties with respect to the subject matter hereof. There are no representations or warranties, agreements, or covenants other than those expressly set forth in this Agreement.
Modification. Except as otherwise provided herein, this Agreement cannot be amended or modified except by subsequent written agreement among Phase III and PSI. Governing Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts. Each PSI and Phase III submits to the exclusive jurisdiction of the state and federal courts located in the Commonwealth of Massachusetts.
No Consequential Damages. NEITHER PARTY HERETO WILL BE LIABLE FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL, EXEMPLARY, PUNITIVE, MULTIPLE OR OTHER INDIRECT DAMAGES ARISING OUT OF THIS AGREEMENT OR THE EXERCISE OF ITS RIGHTS HEREUNDER, OR FOR LOSS OF PROFITS, LOSS OF DATA OR LOSS OF USE DAMAGES ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT WHETHER BASED UPON WARRANTY, CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE, REGARDLESS OF ANY NOTICE OF SUCH DAMAGES.
Warranty Disclaimer. Except as expressly set forth in Section 9, THE PARTIES MAKE NO REPRESENTATIONS AND EXTEND NO WARRANTIES OF ANY KIND UNDER THIS AGREEMENT, EITHER EXPRESS OR IMPLIED, AND PARTICULARLY THAT PRODUCTS WILL BE SUCCESSFULLY DEVELOPED HEREUNDER, AND IF PRODUCTS ARE DEVELOPED, WITH RESPECT TO SUCH PRODUCTS, AND THE PARTIES DISCLAIM ALL IMPLIED WARRANTIES OF NON-INFRINGEMENT, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.
[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date and year first above written.
PARALLEL SOLUTIONS, INC.
By: /s/Dermot Liddy
Name: Dermot Liddy
Title: CEO.
PHASE III MEDICAL, INC.
By: /s/Mark Weinreb
Name: Mark Weinreb
Title: President & CEO

EXHIBIT A

PROOF OF CONCEPT GUIDELINES

For the sake of clarity, both Parties agree that the POC Study shall consist of Required Research only (as defined below) and that the duration of this POC Study is no longer than nine (9) months (plus, at PSI's discretion, an additional three (3) months), absent further mutual agreement between the Parties. Both Parties also agree that potential additional research, as further described below, may be added to the POC Study by mutual agreement of both Parties. The Parties agree that both the Required Research and any such additional research shall be at the expense of Phase III Medical to the extent described herein and that such additional research may involve extending the duration of the POC Study. The compound that will be tested during the Required Research shall be [**]. [**]The definition of a successful Required Research study shall be as follows: The POC Study shall be deemed successful if the results indicate that [**] than the [**], as determined from [**] with respect to [**]; and (b) is likely to be [**]. The Parties understand and agree that there is no requirement or assurance that the Required Research will be successful.

"Required Research" shall mean PSI Research and Evaluation Study, as those terms are defined below.

PSI Research

Up to [**] during the duration of the POC Study. The Parties recognize the possibility that [**]. Both Parties agree that they will [**].

A number of lead compounds may be [**] performed by PSI. Such candidates [**]. These lead compounds will [**]. [**]

(b) Evaluation Study

[**] testing of a lead candidate or candidates as outlined above will [**]. Such testing shall be [**] to the extent described herein.

[**] testing of the lead candidates in the [**]. Such testing shall be [**] to the extent described herein.

[**] testing will also include [**]. Such testing shall be [**] to the extent described herein

[**] testing will include [**]. In this regard, [**]. Such review shall [**] to the extent described herein.

Potential Additional Research

At Phase III's request and as agreed by PSI, PSI shall [**] the lead candidate or candidates. The expense for such studies shall be as determined hereafter by the Parties.

At Phase III's request and as agreed by PSI, PSI shall [**].

Such testing shall [**] as determined hereafter by the Parties.

At Phase III's request, and as agreed by PSI, [**] shall be [**]. The expense for such studies shall be as determined hereafter by the Parties.

Exhibit 10.2

Form of Stock Option Agreement

Exhibit 10.2

STOCK OPTION AGREEMENT, made as of the 2nd day of March, 2004 (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 subject to shareholder approval (the "Plan").

WHEREAS, the Optionee has become a Director of the Company.

WHEREAS, the Company has agreed to grant to the Optionee an option to purchase Common Shares of the Company pursuant to the Plan.

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. 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 _____(the "Expiration Date").

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 _____(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. TERMINATION OF SERVICE. The Option shall remain exercisable until the Expiration Date notwithstanding any termination or cessation of service as a Director with the Company or its subsidiaries for any reason whatsoever.

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

7. 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, 330 South Service Road, Suite 120, Melville, New York 11747, Attention: President 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.

8. 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.

9. 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: _____
President

Signature of Optionee

Name of Optionee

Address of Optionee:

EXHIBIT 14.1

Code of Ethics for Senior Financial Officers

Exhibit 14.1

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

PURPOSE.

The Board of Directors (the "Board") of Phase III Medical, Inc. (the "Company") has adopted the following Code of Ethics (the "Code") to apply to the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer or Controller, or persons performing similar functions (the "Senior Financial Officers"). This Code is intended to focus Senior Financial Officers on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, foster a culture of honesty and accountability, deter wrongdoing and promote fair and accurate disclosure and financial reporting.

No code or policy can anticipate every situation that may arise. Accordingly, this Code is intended to serve as a source of guiding principles. Senior Financial Officers are encouraged to bring questions about particular circumstances that may involve one or more of the provisions of this Code to the attention of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

INTRODUCTION

Each Senior Financial Officer is expected to adhere to a high standard of ethical conduct. The good name of the Company depends on the way Senior Financial Officers conduct business and the way the public perceives that conduct. Unethical actions, or the appearance of unethical actions, are not acceptable. Senior Financial Officers are expected to be guided by the following principles in carrying out their responsibilities.

- Loyalty. Senior Financial Officers should not be, or appear to be, subject to influences, interests or relationships that conflict with the best interests of the Company.

- Compliance with Applicable Laws. Senior Financial Officers are expected to comply with all laws, rules and regulations applicable to the Company's activities.

- Observance of Ethical Standards. Senior Financial Officers must adhere to high ethical standards in the conduct of their duties. These include honesty and fairness.

INTEGRITY OF RECORDS AND FINANCIAL REPORTING.

Senior Financial Officers are responsible for the accurate and reliable preparation and maintenance of the Company's financial records. Accurate and reliable preparation of financial records is of critical importance to proper management decisions and the fulfillment of the Company's financial, legal and reporting obligations. Diligence in accurately preparing and maintaining the Company's records allows the Company to fulfill its reporting obligations and to provide stockholders, governmental authorities and the general public with full, fair, accurate, timely and understandable disclosure. Senior Financial Officers are responsible for establishing and maintaining adequate disclosure controls and procedures, and internal controls and procedures, including procedures that are designed to enable the Company to: (a) accurately document and account for transactions on the books and records of the Company; and (b) maintain reports, vouchers, bills, invoices, payroll and service records, business measurement and performance records and other essential data with care and honesty.

Senior Financial Officers shall immediately bring to the attention of the Audit Committee any information they may have concerning:

Defects, deficiencies, or discrepancies related to the design or operation of internal controls which may affect the Company's ability to accurately record, process, summarize, report and disclose its financial data; or Any fraud, whether or not material, that involves management or other employees who have roles in the Company's financial reporting, disclosures or internal controls.

CONFLICT OF INTEREST.

Senior Financial Officers must avoid any conflicts of interest between themselves and the Company. Any situation that involves, or may involve, a conflict of interest with the Company, should be disclosed promptly to the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

A "conflict of interest" can occur when an individual's personal interest is adverse to - or may appear to be adverse to - the interests of the Company as a whole. Conflicts of interest also arise when an individual, or a member of his or her family, receives improper personal benefits as a result of his or her position with the Company.

This Code does not attempt to describe all possible conflicts of interest which could develop. Some of the more common conflicts from which Senior Financial Officers must refrain, however, are set forth below:

- Improper conduct and activities. Senior Financial Officers may not engage in any conduct or activities that are inconsistent with the Company's best interests or that disrupt or impair the Company's relationship with any person or entity with which the Company has, or proposes to enter into, a business or contractual relationship.

- Compensation from non-Company sources. Senior Financial Officers may not accept compensation for services performed for the Company from any source other than the Company.

- Gifts. Senior Financial Officers and members of their immediate families may not accept gifts from persons or entities where any such gift is being made in order to influence their actions in their position with the Company, or where acceptance of the gifts could create the appearance of a conflict of interest.

- Personal use of Company assets. Senior Financial Officers may not use Company assets, labor or information for personal use, other than incidental personal use, unless approved by the Audit Committee or as part of a compensation or expense reimbursement program.

- Financial Interests in other Businesses. Senior Financial Officers should avoid having an ownership interest in any other enterprises, such as a customer, supplier or competitor, if that interest compromises the officer's loyalty to the Company.

CORPORATE OPPORTUNITIES.

Senior Financial Officers are prohibited from: (a) taking for themselves personally opportunities related to the Company's business without first presenting those opportunities to the Company and obtaining approval from the Board; (b) using the Company's property, information, or position for personal gain; or (c) competing with the Company for business opportunities.

CONFIDENTIALITY.

Senior Financial Officers should maintain the confidentiality of information entrusted to them by the Company and any other confidential information about the Company, its business or finances, customers or suppliers, that comes to them, from whatever source, except when disclosure is authorized or legally mandated. For purposes of this Code, "confidential information" includes all non-public information relating to the Company, its business or finances, customers or suppliers.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS.

Senior Financial Officers shall comply with laws, rules and regulations applicable to the Company, including insider trading laws, and all other Company policies.

ENCOURAGING THE REPORTING OF ANY ILLEGAL OR UNETHICAL BEHAVIOR.

Senior Financial Officers must promote ethical behavior and create a culture of

ethical compliance. Senior Financial Officers should foster an environment in which the Company: (a) encourages employees to talk to supervisors, managers and other appropriate personnel when in doubt about the best course of action in a particular situation; (b) encourages employees to report violations of laws, rules and regulations to appropriate personnel; and (c) informs employees that the Company will not allow retaliation for reports made in good faith.

CONCLUSION.

Senior Financial Officers should communicate any suspected violations of this Code promptly to the Audit Committee. The Board or a person or persons designated by the Board will investigate violations, and appropriate disciplinary action will be taken in the event of any violation of this Code, up to and including termination. Only the Audit Committee may grant any waivers of this policy.

EXHIBIT 23.1

Consent of Holtz Rubenstein & Co., LLP

Exhibit 23.1

Consent of Independent Auditors

We hereby consent to the incorporation by reference into the Registration Statement on Form S-8 (Registration No. 0-10909) of Phase III Medical, Inc. of our report dated February 3, 2004 with respect to the consolidated financial statements of Phase III Medical, Inc. appearing in this Annual Report on Form 10-K of Phase III Medical, Inc. for the year ended December 31, 2003.

/s/ Holtz Rubenstein & Co., LLP
Melville, New York
March 30, 2004

EXHIBIT 31.1

302 Certification

Exhibit 31.1

CERTIFICATION

I, Mark Weinreb, certify that:

1. I have reviewed this Annual Report on Form 10-K of Phase III Medical, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's board of directors 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 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 report based on such evaluation; and

(c) Disclosed in this 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; and

5. The registrant's board of directors and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: March 30, 2004

/s/ Mark Weinreb
Mark Weinreb
Chief Executive Officer

EXHIBIT 32.1

906 Certification

Exhibit 32.1

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 annual report of Phase III Medical, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission (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) 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 results of operations of the Company for the periods presented.

Dated: March 30, 2004

/s/ Mark Weinreb
Mark Weinreb
Chief Executive Officer

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.