AETHLON MEDICAL INC
Form 10-K
July 02, 2010

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 March 31, 2010

OR

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

For transition period from _____ to _____

COMMISSION FILE NUMBER 000-21846

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

| NEVADA | 13-3632859 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 8910 University Center Lane, Suite 660, San Diego, California | 92122 |
| (Address of principal executive office) | (Zip Code) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (858) 459-7800

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| NONE | NONE |

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE ACT:

COMMON STOCK--$.001 PAR VALUE
(TITLE OF CLASS)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [_] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [_] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and

posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [_] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | [_] | Accelerated filer | [_] |
| Non accelerated filer | [_] | Smaller reporting company | [X] |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company. Yes [_] No [X]

The registrant had no revenue for the fiscal year ended March 31, 2010.

The aggregate market value of the common stock held by non-affiliates of the Registrant as of September 30, 2009 was approximately $14.9 million, computed by reference to the closing sale price of the common stock of $0.28 per share on the OTC Bulletin Board on September 30, 2009. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Common Stock of the registrant outstanding as of June 22, 2010 was 66,975,522.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL OVERVIEW

We are a developmental stage company focused on creating medical devices that address infectious disease and cancer. Our devices are designed to be novel platform solutions that fill significant therapeutic voids or aid in disease diagnosis and monitoring. We believe that our Hemopurifier(R) is the first medical device to selectively target the removal of infectious viruses and immunosuppressive proteins from the entire circulatory system. We have also discovered that our Hemopurifier(R) captures tumor-secreted exosomes, known to kill off the immune cells of those afflicted with cancer. Currently, a therapeutic strategy to directly inhibit or reverse the immunosuppressive destruction caused by exosomes does not exist in cancer care but we believe the Hemopurifier can be developed for that use. By eliminating this mechanism deployed by all cancers to survive, we believe our Hemopurifier(R) could fill an unmet clinical need that offers the potential benefit of an immune-based therapy without adding drug toxicity or interaction risks to established and emerging

treatment strategies. Through in vitro studies we have demonstrated that our Hemopurifier(R) captures exosomes underlying ovarian cancer and have since initiated collaborations with universities and research institutes to determine if the Hemopurifier(R) has broad-spectrum capability to address exosomes underlying other types of cancers. Upon the completion of in vitro studies, we also hope to initiate human pilot studies to demonstrate the clinical effect of removing exosomes from cancer patients.

In previously conducted human studies, we have documented the ability of the Hemopurifier(R) to safely reduce viral load in both Hepatitis-C virus (HCV) and Human Immunodeficiency Virus (HIV) infected patients without the administration of antiviral drugs. However, our initial clinical and commercialization focus is to establish the Hemopurifier(R) as an adjunct therapy to enhance the benefit of both infectious disease and cancer treatment regimens. Earlier this year, we established "good manufacturing practice" (GMP) manufacturing of the Hemopurifier(R) in an FDA-approved facility in San Diego, California. We now plan to initialize commercialization in India as we advance clinical strategies in the United States and the European Union.

Our Hemopurifier(R) is a multi-patented platform technology whose mechanism of action can be leveraged to provide therapeutic, diagnostic, and biomarker discovery solutions. As a therapeutic candidate, the Hemopurifier(R) is a single-use disposable cartridge designed for implementation within the established infrastructure of dialysis machines and other blood circulatory pumps already located in hospitals and clinics worldwide. In design, our Hemopurifier(R) is a selective filtration device containing affinity agents that tightly bind to high-mannose structures unique to the surface of exosomes produced by cancer and glycoproteins residing on the envelope of viruses. These agents are immobilized around approximately 2800 porous hollow fibers that run the interior length of our device. The resulting design provides us the novel ability to separate both exosome and viral targets away from blood cells so they can then be selectively and permanently removed from the circulatory system. In application, blood circulation is established into the Hemopurifier(R) via a catheter or other blood access device. Once blood flow has been established, treatment benefit is immediate as the entire circulatory system can pass through the Hemopurifier(R) in as little as 15 minutes.

We believe our Hemopurifier(R) provides us a future pipeline into four significant market opportunities:

1.) Cancer:

Provides a broad-spectrum cancer treatment strategy to improve patient responsiveness to established cancer therapies by removing immunosuppressive exosomes from circulation.

2.) Hepatitis-C Virus (HCV):

Based on clinical evidence that therapeutic filtration can improve patient cure rates, the Hemopurifier(R) is positioned as an adjunct therapy to accelerate viral load reduction at the outset of standard of care drug regimens.

3.) Human Immunodeficiency Virus (HIV):

Provides a potential therapeutic option for HIV-infected individuals to manage disease progression once they become resistant to antiviral drug regimens.

4.) Bioterror and Pandemic Threats:

Based on human safety data and pre-clinical studies conducted with leading government and non-government research institutes, the Hemopurifier(R) provides the most advanced broad-spectrum treatment strategy against untreatable

bioterror and emerging pandemic threats.

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Summary highlights of the Hemopurifier(R) include:

- Multi-patented first-in-class medical device that selectively capture viruses and immunosuppressive toxins from the entire circulatory system.
- Preserves immune cells needed to combat cancer and viral infections.
- Inhibits viral replication by clearing circulating viruses prior to cell and organ infection.
- Provides expansive treatment pipeline into both cancer and infectious disease.
- Establishes a possible therapeutic strategy to address immunosuppressive particles released by cancer.
- Initial safety of the device has been demonstrated in 68 human treatment experiences conducted at research hospitals in Delhi, India.
- Significant reduction of viral load demonstrated in HCV infected patients and also observed in our first HIV proof of principal study, which also documented an improved immune function in a clinically defined AIDS patient.
- Presently working to establish the commercialization opportunity in India.
- GMP manufacturing has been established.
- Treatment mechanism is being leveraged to create high-sensitivity diagnostic and biomarker discovery products through our wholly-owned subsidiary Exosome Sciences, Inc.

CANCER RESEARCH

We have licensed an invention and related patent rights for a method to treat cancer under an assignment agreement with the London Health Science Center Research, Inc. The invention provides for the "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" (including exosomes) for which patent applications have been filed in the United States and abroad. The agreement provides that we are responsible for paying certain patent application and filing costs as well as a 2% royalty on any future net sales. Under the license agreement, we will not own the patents outright, but will continue to have the right to utilize them in our research and device development.

Related to these patent submissions, we recently initiated in vitro studies to document our ability to remove immunosuppressive exosomes that are found in the blood and fluids of cancer patients. In a study led by Dr. Douglas Taylor at the University of Louisville, it was demonstrated that the capture of tumor secreted exosomes by the Hemopurifier(R) does result in reversing immunosuppressive activity. Dr. Taylor is a recognized authority on the causative effects of immune suppression in cancer patients. He is credited with the initial characterization of exosomes and is a leading peer-reviewed author on the subject.

In the studies, our Hemopurifier(R) removed the immunosuppressive activity

normally found in the ascites fluid of ovarian cancer patients. Immunosuppressive activity in ovarian cancer patients is known to correlate with disease progression and long-term survival. The studies measured the expression of two biological markers required for T-cell activation. The markers, Jak-3 kinase and CD3-zeta chain expression are respectively required for interleukin (cytokine) activation of cell proliferation and T-cell receptor mediated activation. Both markers are highly expressed in T-cell lines. When cells were subjected to ovarian cancer ascites fluid, both markers were consistently absent. However, the circulation of the same ascites fluid through the Hemopurifier(R) allowed the expression of both biological markers necessary to activate the immune response.

Previously, Dr. Taylor documented that 60% of circulating exosomes were removed from the blood of ovarian cancer patients during first pass (approximately 10 minutes) through a small scale Hemopurifier(R). The capture data was consistent over the course of five different studies. Exosomes, are released by solid tumors, lymphomas, and leukemia. They induce T-cell apoptosis (programmed cell death), and block T-cell signaling, proliferation, and cytokine production. High concentrations of circulating exosomes correlate with reduced T-cell production and tumor progression in cancer patients. The ability to reduce the presence of circulating exosomes would likely reverse immune suppression and increase patient responsiveness to both immunotherapy and chemotherapy. For this reason, we believe the Hemopurifier(R) can address a significant unmet medical need in cancer care.



We have also exercised an option to exclusively license a pending patent entitled, "Method to Inhibit Proliferation and Growth of Metastases" from The Trustees of Boston University. The license provides a rapid development strategy for new cancer therapies by uniting drug agents that inhibit the spread of cancer-related metastases, with filtration techniques already proven in the Aethlon Hemopurifier(R). The resulting devices would inhibit tumor growth by reducing the presence of circulating growth factors without interfering with surgical wound healing or the recovery of tissue injured by radiation therapy. While the market for anti-growth factor drug agents exceeds $5 billion, there remains a significant unmet clinical need, as these drug agents may not be indicated for use in conjunction with surgical procedures or radiation treatment as they inhibit wound healing and tissue recovery. Depending on the applications, if we commercialize a product based upon this license, we will pay royalties up to a maximum of 3.5 percent of net sales.

HEPATITIS-C VIRUS (HCV) RESEARCH

In HCV care, we believe the Hemopurifier(R) can inhibit viral replication through selective adsorption of circulating HCV and augment the immune response by removing toxic proteins shed from HCV to kill-off immune cells. HCV represents our initial treatment focus based on our human treatment outcomes in India, the magnitude of the HCV market opportunity, and previous clinical validations that HCV viral filtration can increase cure rates. Our treatment goal in HCV is to increase patient cure rates by implementing our Hemopurifier(R) as an adjunct treatment to enhance the benefit of the standard of care drug therapy administered to HCV infected patients.

HUMAN IMMUNODEFICIENCY VIRUS (HIV) RESEARCH

Antiviral drug regimens provide HIV infected patients with an effective tool to inhibit disease progression. However, many patients inevitably become resistant to their drug therapies and are left with limited treatment options.

We believe our Hemopurifier(R) provides a device-based antiviral and immunotherapeutic mechanism to inhibit the spread of all HIV strains, thus providing fully drug resistant patients with a treatment strategy to inhibit disease progression.

BIOLOGICAL WEAPONS AND PANDEMIC THREAT RESEARCH

The Hemopurifier(R) is also a broad-spectrum treatment candidate against drug and vaccine resistant bioterror and pandemic threats. These threats include viral pathogens known as "Category A" agents, which are considered by the Centers for Disease Control ("CDC") to pose a threat through natural emergence or if weaponized as an agent of bioterrorism. Pre-clinical in vitro studies have demonstrated the ability of our Hemopurifier(R) to capture Ebola Virus, Dengue Virus, Lassa Virus, West Nile Virus, Monkeypox Virus, H5N1 Avian Influenza Virus, the 2009 H1N1 Swine Flu Virus, and the reconstructed H1N1 Spanish Flu of 1918 virus. In March 2007, we submitted an Investigational Device Exemption ("IDE") with the FDA related to a proposed human safety study of the Hemopurifier(R) in the United States related to such bioterror and pandemic threats.

CORPORATE HISTORY

On March 10, 1999, Aethlon, Inc., a California corporation ("Aethlon"), Hemex, Inc., a Delaware corporation ("Hemex"), the accounting predecessor to the Company and Bishop, Inc. ("Bishop"), a publicly traded "shell" company completed an Agreement and Plan of Reorganization (the "Plan") structured to result in Bishop's acquisition of all of the outstanding common shares of Aethlon and Hemex (the "Reorganization"). The Reorganization was intended to qualify as a tax-free transaction under Section 368(a)(1)(B) of the 1986 Internal Revenue Code, as amended. Under the Plan's terms Bishop issued 733,500 and 1,350,000 shares of its common stock to the common stock shareholders of Aethlon and Hemex, respectively, such that Bishop then owned 100% of each company. Upon completion of the transaction, Bishop was renamed Aethlon Medical, Inc.

On January 10, 2000, we acquired all of the outstanding common stock of Syngen Research, Inc. ("Syngen") in exchange for 65,000 shares of our common stock in order to establish research facilities in San Diego, California, as well as to employ Dr. Richard Tullis, the founder of Syngen. Dr. Tullis is a recognized research scientist in the area of DNA synthesis and antisense. Syngen has no significant assets, liabilities or operations and primarily served as the entity through which Dr. Tullis performed research consulting services. As such, the acquisition was accounted for as an acquisition of assets in the form of an employment contract with Dr. Tullis and not as a business combination. Dr. Tullis is presently the chief scientific officer and board member of Aethlon Medical, Inc.



On April 6, 2000, we completed the acquisition of Cell Activation, Inc. ("Cell"). In accordance with the Purchase Agreement, we issued 99,152 shares of restricted common stock and 50,148 options to purchase common stock in exchange for all of the outstanding common shares and options to purchase common stock of Cell. After the transaction, Cell became a wholly-owned subsidiary of the Company. The acquisition was accounted for as a purchase. At March 31, 2001, we determined that goodwill recorded during the acquisition of Cell was impaired due to the permanent suspension of operations by Cell and, accordingly, treated the related goodwill as fully impaired.

RESEARCH AND DEVELOPMENT

The cost of research and development, all of which has been charged to operations, amounted to approximately $1,173,000 over the last two fiscal years.

PATENTS

We currently own or have license rights to a number of U.S. and foreign patents and patent applications and endeavor to continually improve our intellectual property position. We consider the protection of our technology, whether owned or licensed, to the exclusion of use by others, to be vital to our business. While we intend to focus primarily on patented or patentable technology, we may also rely on trade secrets, unpatented property, know-how, regulatory exclusivity, patent extensions and continuing technological innovation to develop our competitive position.

The following table lists our issued patents and patent applications, including their ownership status:

PATENT ISSUED IN THE UNITED STATES

| PATENT # | PATENT NAME | ISSUANCE DATE | O L |
|---|---|---|---|
| 7,226,429 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| 6,528,057 | Method for removal of HIV and other viruses from blood | 03/04/03 | L |
| 6,071,412 | Extracorporeal device containing immobilized chelator on silica substrate and use thereof | 06/06/00 | |

INTERNATIONAL PATENTS ISSUED

| PATENT # | PATENT NAME | ISSUANCE DATE | O L |
|---|---|---|---|
| 2,353,399 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| 770,344 | Method for removal of HIV and other viruses from blood | 06/03/04 | L |
| 69929986.1-08 | Method for removal of HIV and other viruses from blood | 02/22/06 | L |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | L |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | L |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | L |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | L |

PATENT APPLICATIONS IN THE UNITED STATES

| APPLICATION # | APPLICATION NAME | FILING DATE | O L |
|---|---|---|---|
| 11/756543 | Method for removal of viruses from blood by lectin affinity hemodialysis | 05/31/07 | |

| | | | |
|---|---|---|---|
| 12/600236 | Device and method for purifying virally infected blood | 11/13/09 | |
| 60/989043 | Affinity capture of circulating cancer biomarkers | 12/20/08 | |
| 12/282152 | Extracorporeal removal of microvesicular particles (exosomes) | 05/26/09 | L |
| PCT/US2006/027746 | Removal of growth factors during surgery | 07/20/08 | L |

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INTERNATIONAL PATENT APPLICATIONS (SOME MAY MOVE TO THE US DURING NATIONAL PHASE OF APPLICATION P

| APPLICATION # | APPLICATION NAME | FILING DATE | O L |
|---|---|---|---|
| 4,703,673 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| 2,516,403 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| 200,480,006,996 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| 0 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/00/00 | |
| 2006-501076 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | |
| PCT/US2008/063946 | Method for removal of viruses from blood by lectin affinity hemodialysis | 05/16/08 | |
| 8201/DELNP/2009 | Method for removal of viruses from blood by lectin affinity hemodialysis | 05/16/08 | |
| PCT/US2009/066626 | Affinity capture of circulating cancer biomarkers | 12/03/09 | |
| PCT/US2008/016922 | Method and apparatus for increasing containment clearance rates during extracorporeal fluid treatment | 12/19/08 | |
| 2,342,203 | Method for removal of HIV and other viruses from blood | 08/30/99 | L |
| PCT/US2007/006101 | Extracorporeal removal of microvesicular particles (exosomes) | 03/09/07 | L |
| 7,752,779 | Extracorporeal removal of microvesicular particles (exosomes) | 03/09/07 | L |
| 9,104,741 | Extracorporeal removal of microvesicular particles (exosomes) | 03/09/07 | L |
| PCT/US2007/006101 | Extracorporeal removal of microvesicular particles (exosomes) | 08/12/08 | L |
| 8139/DELNP/2008 | Extracorporeal removal of microvesicular particles (exosomes) | 03/09/07 | L |
| PCT/US2009/046123 | Device and method for purifying virally infected blood in combination with antiviral therapies | 06/03/09 | |
| PCT/US2009/057013 | Methods and systems for reducing viral load of hepatitis C virus in hemodialysis patients | 09/15/09 | |
| PCT/US2006/027746 | Removal of growth factors during surgery | 07/18/06 | L |
| 6,787,633 | Removal of growth factors during surgery | 05/27/08 | L |
| PCT/US2006/027746 | Removal of growth factors during surgery | 07/20/08 | L |
| PCT/US2006/027746 | Removal of growth factors during surgery | 07/31/08 | L |

In certain countries, medical devices are not patentable or only recently have become patentable, and enforcement of intellectual property rights in some countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries can be expected to be problematic or unpredictable. We cannot guarantee that any patents issued or licensed to us

will provide us with competitive advantages or will not be challenged by others. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

INDUSTRY

The industry for treating infectious disease and cancer is extremely competitive, and companies developing new treatment procedures face significant capital and regulatory challenges. Additionally, as the Hemopurifier(R) is a first-in-class device, we have the additional challenge of establishing medical industry support for our technology in the marketplace.



COMPETITION

We are advancing our Hemopurifier(R) as a treatment strategy to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. We are also advancing the Hemopurifier as a tool for cancer treatment in conjunction with existing, and to be developed, cancer therapies. The Hemopurifier(R) also may prolong life for infected patients who have become drug resistant or have been infected with a viral pathogen for which there is no drug or vaccine therapy. We believe our Hemopurifier(R) augments the benefit of drug therapies and should not be considered a competitor to such treatments. However, if the industry considered the Hemopurifier(R) to be a potential replacement for drug therapy, or a device that limited the need or volume of existing drug therapies, then the marketplace for the Hemopurifier(R) would be extremely competitive. We believe our Hemopurifier(R) is the sole therapeutic device able to selectively remove viruses and immunosuppressive proteins from circulation. However, we are aware that Asahi Kasei Kurary Medical (Asahi) based in Japan has created a double filtration plasmapheresis system that indiscriminately removes particles from blood in a certain molecule range that includes HCV. Asahi is now marketing this device in Japan as an adjunct therapy for HCV. We may also face competition from producers of antiviral drugs and vaccines.

LICENSING AGREEMENTS

Effective January 1, 2000, we entered into an agreement with a related party under which an invention and related patent rights for a method of removing HIV and other viruses from the blood using the Hemopurifier(R) were assigned to us by the inventors in exchange for a royalty to be paid on future sales of the patented product or process and shares of our common stock. On March 4, 2003, the related patent was issued and we issued 196,078 shares of restricted common stock.

On February 9, 2006, we entered into an option agreement with the Trustees of Boston University which provides for the right to negotiate an exclusive

license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." On February 8, 2007 we entered into an amendment to this agreement to extend its term until August 9, 2007. On April 22, 2008, we entered into the actual license agreement for this patent and as the initial payment under this license we issued shares of our common stock equivalent to 115% of $5,000.

This license agreement with the Trustees of Boston University calls for annual license fees in the amount of $5,000 (or 115% of $5,000 if paid in our common stock) until products utilizing the license are commercialized. In January 2009, we issued 23,566 shares of our common stock to Boston University, which was equivalent to 115% of the $5,000 annual license fee, for the second year of the license.

On November 7, 2006 we entered into an assignment agreement with the London Health Science Center Research, Inc. and Thomas Ichim under which an invention and related patent rights for a method to treat cancer were assigned to the Company. The invention provides for the "Extracorporeal removal of Microvesicular Particles" for which a patent application was filed in the United States by the licensor. The agreement provides that the Company will pay certain patent application and filing costs as well as a 2% royalty on any future net sales.

GOVERNMENT REGULATION

The Hemopurifier(R) is a medical device subject to extensive and rigorous regulation by FDA, as well as other federal and state regulatory bodies in the United States and comparable authorities in other countries. Therefore, we cannot assure that our technology will successfully complete any regulatory clinical trial for any of our proposed applications.

We intend to update our IDE with the FDA in order to address our primary intended device applications of infectious disease and cancer.



CLINICAL TRIALS.

Clinical trials are almost always required to support an FDA premarket application. In the United States, these trials generally require submission of an application for an Investigational Device Exemption, or IDE, to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by the FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may not be equivocal or may otherwise not be

sufficient to obtain approval of the product.

PERVASIVE AND CONTINUING U.S. REGULATION.

Should our device be cleared for market use in the United States by the FDA, numerous regulatory requirements continue to apply. These include:

- FDA's Quality System Regulation, or QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;

- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses;

- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;

- medical device reporting, or MDR, regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and

- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

After a device receives a PMA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The FDA requires each manufacturer to make this determination initially, but FDA can review any such decision and can disagree with a manufacturer's determination.

The regulations also require that we report to FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.



FRAUD AND ABUSE.

We may also directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector

General ("OIG") has issued a series of regulations, known as the "safe harbors." These safe harbors set forth provisions that, if met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

INTERNATIONAL

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

With respect to our efforts in India, we have been informed that since our device has successfully completed safety studies in India and based on current Indian regulations on medical devices; we will be able to commercialize our product as a medical device in India on a hospital by hospital basis with approval of the institutional review boards of such hospitals.

If we receive such approval by one or more hospitals, we initially plan to export Hemopurifiers(R) produced under GMP by our contract manufacturer in San Diego, California. We will also be required to obtain an export license from the FDA to export our products for commercial purposes. We have registered our contract manufacturing arrangement with the FDA and are in the process of applying for such an export license.

The primary regulatory environment in Europe is that of the European Union, which has adopted numerous directives and has promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. Such an assessment is required in order for a manufacturer to commercially distribute the product throughout these countries. ISO 9001 and ISO 13845 certifications are voluntary harmonized standards. Compliance establishes the presumption of conformity with the essential requirements for a CE Marking.

PRODUCT LIABILITY

The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have limited clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative

publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

SUBSIDIARIES

We have one wholly-owned subsidiary, Exosome Sciences, Inc.



EMPLOYEES

At June 23, 2010, we had four full-time employees, comprised of our Chief Executive Officer, our Chief Science Officer, a research scientist and an executive assistant. We utilize, whenever appropriate, contract and part-time professionals in order to conserve cash and resources. We currently contract a Senior Vice President of Finance on a part-time basis, a Director of Business Development and a Director of Corporate Communications on a contract basis. We believe our employee relations are good. None of our employees are represented by a collective bargaining unit.

ITEM 1A. RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this annual report in its entirety and consider all of the information and advisements contained in this annual report, including the following risk factors and uncertainties.

RISKS RELATING TO OUR BUSINESS

WE HAVE INCURRED SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE.

We have yet to establish any history of profitable operations. We have not had any significant revenues from our principal operations. We have incurred annual operating losses of $2,848,892 and $2,923,254, for the fiscal years ended March 31, 2010 and 2009, respectively. At March 31, 2010 and 2009, we had an accumulated deficit of $(42,760,510) and $(38,311,414), respectively. We have incurred net losses of $4,573,315 and $6,084,158 for the fiscal years ended March 31, 2010 and 2009. We have not had revenues to date. We expect that our revenues, if any, will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Hemopurifier(R) technology. No assurances can be given when or if this will occur or that we will ever generate revenues or be profitable.

WE HAVE RECEIVED AN EXPLANATORY PARAGRAPH FROM OUR AUDITORS REGARDING OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our independent registered public accounting firm noted in their report accompanying our financial statements for our fiscal year ended March 31, 2010 that we had a significant deficit accumulated during the development stage, had a working capital deficit and that a significant amount of additional capital will be necessary to advance the development of our products to the point at

which we may become commercially viable and stated that those conditions raised substantial doubt about our ability to continue as a going concern. Note 1 to our financial statements for the year ended March 31, 2010 describes management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This explanatory paragraph about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as it may cause investors to lose faith in our long-term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

WE WILL REQUIRE ADDITIONAL FINANCING TO SUSTAIN OUR OPERATIONS AND WITHOUT IT WE WILL NOT BE ABLE TO CONTINUE OPERATIONS.

Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms when we require it, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects. If we cannot raise operating capital, we may be forced to cease operations.



WE ARE RELIANT UPON LICENSES OF PATENTS AND TECHNOLOGIES FROM THIRD PARTIES FOR THE DEVELOPMENT OF CERTAIN APPLICATIONS AND USES OF OUR DEVICES; THE TERMINATION OF ANY SUCH LICENSE, OR A CHALLENGE TO THE PATENT AND INTELLECTUAL PROPERTY UNDERLYING SUCH LICENSE COULD HAVE A MATERIAL AND ADVERSE EFFECT UPON OUR ABILITY TO CONTINUE THE DEVELOPMENT OF OUR DEVICES IN CERTAIN FIELDS OF USE, WHICH WOULD ADVERSELY AFFECT OUR BUSINESS PROSPECTS AND THE VALUE OF YOUR INVESTMENT IN OUR SECURITIES.

We rely upon third party licenses for the development of specific uses for our Hemopurifer devices, including in the area of cancer treatment. Specifically, we are researching, developing and testing cancer-related applications for our devices under a license with Boston University and with the London Health Science Center Research, Inc. and Mr. Thomas Ichim. Should either of these licenses be prematurely terminated for any reason, or if the patents and intellectual property owned by such entities that we have licensed are be challenged or defeated by third parties, our research efforts could be materially and adversely effected. There can be no assurances that these licenses will continue in force for as long as we require for our research, development and testing of cancer treatments. There can be no assurances that should these licenses terminate, or should the underlying patents and intellectual property be challenged or defeated, that suitable replacements can be obtained or developed on terms acceptable to the Company, if at all.

WE WILL FACE INTENSE COMPETITION FROM COMPANIES THAT HAVE GREATER FINANCIAL, PERSONNEL AND RESEARCH AND DEVELOPMENT RESOURCES THAN OURS. THESE COMPETITIVE FORCES MAY IMPACT OUR PROJECTED GROWTH AND ABILITY TO GENERATE REVENUES AND PROFITS, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

Our competitors are developing vaccine candidates, which could compete with the Hemopurifier(R) medical device candidates we are developing. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases we target that:

- are more effective;

- have fewer or less severe adverse side effects;
- are better tolerated;
- are more adaptable to various modes of dosing;
- are easier to administer; or
- are less expensive than the products or product candidates we are developing.

Even if we are successful in developing effective Hemopurifier(R) products, and obtain FDA and other regulatory approvals necessary for commercializing them, our products may not compete effectively with other successful products. Researchers are continually learning more about diseases, which may lead to new technologies for treatment. Our competitors may succeed in developing and marketing products that are either more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed.

The Congress' passage of the Project BioShield Bill, a comprehensive effort to develop and make available modern, effective drugs and vaccines to protect against attack by biological and chemical weapons or other dangerous pathogens, may encourage competitors to develop their own product candidates. We cannot predict the decisions that will be made in the future by the various government agencies as a result of such legislation.

Our competitors include fully integrated pharmaceutical companies and biotechnology companies as well as universities and public and private research institutions. Many of the organizations competing with us, have substantially greater capital resources, larger research and development staffs and facilities, greater experience in product development and in obtaining regulatory approvals, and greater marketing capabilities than we do.

The market for medical devices is intensely competitive. Many of our potential competitors have longer operating histories, greater name recognition, more employees, and significantly greater financial, technical, marketing, public relations, and distribution resources than we have. This intense competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to develop, maintain and extend our current technology. Price concessions or the emergence of other pricing or distribution strategies of competitors may diminish our revenues (if any), adversely impact our margins or lead to a reduction in our market share (if any), any of which may harm our business.



WE HAVE LIMITED MANUFACTURING EXPERIENCE.

To achieve the levels of production necessary to commercialize our Hemopurifier(R) products, we will need to secure manufacturing agreements with contract manufacturers which comply with good manufacturing practice standards and other standards prescribed by various federal, state and local regulatory agencies in the U.S. and any other country of use.

We have limited experience manufacturing products for testing purposes and no experience manufacturing products for large scale commercial purposes. We will likely outsource the manufacture of our Hemopurifier(R) products to third parties operating FDA-certified facilities. To date, we have manufactured

devices on a small scale for testing purposes and have begun to utilize the services of a contract manufacturer. There can be no assurance that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. Any failure to address such problems could delay or prevent commercialization of our products and would have a material adverse effect on us.

OUR HEMOPURIFIER(R) TECHNOLOGY MAY BECOME OBSOLETE.

Our Hemopurifier(R) products may be made unmarketable by new scientific or technological developments where new treatment modalities are introduced that are more efficacious and/or more economical than our Hemopurifier(R) products. The Homeland Security industry is growing rapidly with many competitors trying to develop products or vaccines to protect against infectious disease. Any one of our competitors could develop a more effective product which would render our technology obsolete.

OUR USE OF HAZARDOUS MATERIALS, CHEMICALS AND VIRUSES REQUIRE US TO COMPLY WITH REGULATORY REQUIREMENTS AND EXPOSES US TO POTENTIAL LIABILITIES.

Our research and development involves the controlled use of hazardous materials, chemicals and viruses. The primary hazardous materials include chemicals needed to construct the Hemopurifier(R) cartridges and the infected plasma samples used in preclinical testing of the Hemopurifier(R). All other chemicals are fully inventoried and reported to the appropriate authorities, such as the fire department, who inspect the facility on a regular basis. We are subject to federal, state, local and foreign laws governing the use, manufacture, storage, handling and disposal of such materials. Although we believe that our safety procedures for the use, manufacture, storage, handling and disposal of such materials comply with the standards prescribed by federal, state, local and foreign regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have had no incidents or problems involving hazardous chemicals or biological samples. In the event of such an accident, we could be held liable for significant damages or fines. We currently carry a limited amount of insurance to protect us from these damages. In addition, we may be required to incur significant costs to comply with regulatory requirements in the future.

WE ARE DEPENDENT FOR OUR SUCCESS ON A FEW KEY EXECUTIVE OFFICERS. OUR INABILITY TO RETAIN THOSE OFFICERS WOULD IMPEDE OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce and our Chief Science Officer, Richard H. Tullis. Were we to lose one or both of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The loss of Dr. Tullis would harm the clinical development of our products due to his unique experience with the Hemopurifier(R) technology. The loss of Dr. Tullis and/or Mr. Joyce would be detrimental to our growth as they possess unique knowledge of our business model and infectious disease which would be difficult to replace within the biotechnology field. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although Mr. Joyce and Mr. Tullis have signed employment agreements providing for their continued service to our company, these agreements will not preclude them from leaving our company. We do not currently carry key man life insurance policies on any of our key executive officers which would assist us in recouping our costs in the event of the loss of those officers.

OUR INABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL COULD IMPEDE OUR ABILITY TO GENERATE REVENUES AND PROFITS AND TO OTHERWISE IMPLEMENT OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND COULD ADVERSELY AFFECT THE VALUE OF YOUR INVESTMENT.

We currently have an extremely small staff comprised of four full time employees consisting of our Chief Executive Officer, our Chief Science Officer, a research scientist and an executive assistant. We also employ a Senior Vice President - Finance, a Director of Business Development and a Director of Corporate Communications on a contract basis. Although we believe that these employees and consultants will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer-term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified scientific, technical and managerial personal. Competition for these individuals, especially in San Diego where many biotechnology companies are located, is intense and we may not be able to attract, assimilate or retain additional highly qualified personnel in the future. We cannot assure you that we will be able to engage the services of such qualified personnel at competitive prices or at all, particularly given the risks of employment attributable to our limited financial resources and lack of an established track record.

WE PLAN TO GROW RAPIDLY, WHICH WILL PLACE STRAINS ON OUR MANAGEMENT TEAM AND OTHER COMPANY RESOURCES TO BOTH IMPLEMENT MORE SOPHISTICATED MANAGERIAL, OPERATIONAL AND FINANCIAL SYSTEMS, PROCEDURES AND CONTROLS AND TO TRAIN AND MANAGE THE PERSONNEL NECESSARY TO IMPLEMENT THOSE FUNCTIONS. OUR INABILITY TO MANAGE OUR GROWTH COULD IMPEDE OUR ABILITY TO GENERATE REVENUES AND PROFITS AND TO OTHERWISE IMPLEMENT OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

We will need to significantly expand our operations to implement our longer-term business plan and growth strategies. We will also be required to manage multiple relationships with various strategic partners, technology licensors, customers, manufacturers and suppliers, consultants and other third parties. This expansion and these expanded relationships will require us to significantly improve or replace our existing managerial, operational and financial systems, procedures and controls; to improve the coordination between our various corporate functions; and to manage, train, motivate and maintain a growing employee base. The time and costs to effectuate these steps may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. We cannot assure you that we will institute, in a timely manner or at all, the improvements to our managerial, operational and financial systems, procedures and controls necessary to support our anticipated increased levels of operations and to coordinate our various corporate functions, or that we will be able to properly manage, train, motivate and retain our anticipated increased employee base.

WE MAY HAVE DIFFICULTY IN ATTRACTING AND RETAINING MANAGEMENT AND OUTSIDE INDEPENDENT MEMBERS TO OUR BOARD OF DIRECTORS AS A RESULT OF THEIR CONCERNS RELATING TO THEIR INCREASED PERSONAL EXPOSURE TO LAWSUITS AND SHAREHOLDER CLAIMS BY VIRTUE OF HOLDING THESE POSITIONS IN A PUBLICLY-HELD COMPANY.

The directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and shareholder claims, as well as governmental and creditor claims which may be made against them, particularly in view of recent changes in securities laws imposing additional duties, obligations and liabilities on management and directors. Due to these perceived risks, directors and management are also becoming increasingly concerned with the availability of directors and officers liability insurance to pay on a timely basis the costs incurred in defending such claims. We currently do carry limited directors and officers liability insurance. Directors and officers liability insurance is expensive and difficult to obtain. If we are unable to continue or provide directors and officers liability insurance at affordable rates or at all, it may become increasingly more difficult to attract and retain qualified outside directors to serve on our board of directors. We may lose potential independent board members and management candidates to other companies in the biotechnology field that have greater directors and officers liability insurance to insure them from liability or to biotechnology companies that have revenues or have received greater funding to date which can offer greater compensation packages. The fees of directors are also rising in response to their increased duties, obligations and liabilities as well as increased exposure to such risks. As a company with a limited operating history and limited resources, we will have a more difficult time attracting and retaining management and outside independent directors than a more established company due to these enhanced duties, obligations and liabilities.



OUR INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, INCLUDING OUR U.S. AND INTERNATIONAL PATENTS COULD NEGATIVELY IMPACT OUR PROJECTED GROWTH AND ABILITY TO GENERATE REVENUES AND PROFITS, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

We rely on a combination of patents, patents pending, copyrights, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties.

In the case of patents, we cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial. We believe that certain patent applications filed and/or other patents issued more recently will help to protect the proprietary nature of the Hemopurifier(R) treatment technology.

The Hemopurifier(R) and related treatment approaches are protected by three issued U.S. patents and seven issued international patents. We have also applied for five additional U.S. patents and twenty one additional international

patents.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

IF WE FAIL TO COMPLY WITH EXTENSIVE REGULATIONS OF DOMESTIC AND FOREIGN REGULATORY AUTHORITIES, THE COMMERCIALIZATION OF OUR PRODUCT CANDIDATES COULD BE PREVENTED OR DELAYED.

Our pathogen filtration devices, or Hemopurifier(R) products, are subject to extensive government regulations related to development, testing, manufacturing and commercialization in the U.S. and other countries. The determination of when and whether a product is ready for large-scale purchase and potential use will be made by the U.S. government through consultation with a number of governmental agencies, including the FDA, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the FDA to be commercially marketed and sold. The process of obtaining and complying with FDA and other governmental regulatory approvals and regulations is costly, time consuming, uncertain and subject to unanticipated delays. Such regulatory approval (if any) and product development requires several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others.

- The FDA may refuse to approve an application if they believe that applicable regulatory criteria are not satisfied.
- The FDA may require additional testing for safety and effectiveness.
- The FDA may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them.
- If regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution.
- The FDA may change their approval policies and/or adopt new regulations.



Failure to comply with these or other regulatory requirements of the FDA may subject us to administrative or judicially imposed sanctions, including:

- warning letters;
- civil penalties;
- criminal penalties;

- injunctions;
- product seizure or detention;
- product recalls; and
- total or partial suspension of productions.

DELAYS IN SUCCESSFULLY COMPLETING OUR CLINICAL TRIALS COULD JEOPARDIZE OUR ABILITY TO OBTAIN REGULATORY APPROVAL OR MARKET OUR HEMOPURIFIER(R) PRODUCT CANDIDATES ON A TIMELY BASIS.

Our business prospects will depend on our ability to complete clinical trials, obtain satisfactory results, obtain required regulatory approvals and successfully commercialize our Hemopurifier(R) product candidates. Completion of our clinical trials, announcement of results of the trials and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- serious adverse events related to our medical device candidates;
- unsatisfactory results of any clinical trial;
- the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and/or
- different interpretations of our pre-clinical and clinical data, which could initially lead to inconclusive results.

Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our Hemopurifier(R) product candidates do not prove to be safe or effective or do not receive required regulatory approvals, our financial results and the commercial prospects for our product candidates will be harmed. Furthermore, our inability to complete our clinical trials in a timely manner could jeopardize our ability to obtain regulatory approval.

THE INDEPENDENT CLINICAL INVESTIGATORS THAT WE RELY UPON TO CONDUCT OUR CLINICAL TRIALS MAY NOT BE DILIGENT, CAREFUL OR TIMELY, AND MAY MAKE MISTAKES, IN THE CONDUCT OF OUR CLINICAL TRIALS.

We depend on independent clinical investigators to conduct our clinical trials. The investigators are not our employees, and we cannot control the amount or timing of resources that they devote to our product development programs. If independent investigators fail to devote sufficient time and resources to our product development programs, or if their performance is substandard, it may delay FDA approval of our medical device candidates. These independent investigators may also have relationships with other commercial entities, some of which may compete with us. If these independent investigators assist our competitors at our expense, it could harm our competitive position.

WE MAY FAIL TO OBTAIN GOVERNMENT CONTRACTS TO DEVELOP OUR HEMOPURIFIER(R) TECHNOLOGY FOR BIODEFENSE APPLICATIONS.

The U.S. Government has undertaken commitments to help secure improved countermeasures against bioterrorism. To date, we have been unsuccessful in obtaining grant income. As a result, future attempts to obtain grant income from the Federal Government will be sought through direct communication to government health and military agencies, and may include unsolicited proposals to provide the Hemopurifier(R) as a treatment countermeasure.

At present, the Hemopurifier(R) has not been approved for use by any U.S. Government agency, nor have we received any contracts to purchase the Hemopurifier(R). Since inception, we have not generated revenues from the sale of any product based on our Hemopurifier(R) technology platform. The process of obtaining government contracts is lengthy with the uncertainty that we will be successful in obtaining announced grants or contracts for therapeutics as a medical device technology. Accordingly, we cannot be certain that we will be awarded any U.S. Government grants or contracts utilizing our Hemopurifier(R) platform technology.



U.S. GOVERNMENT AGENCIES HAVE SPECIAL CONTRACTING REQUIREMENTS, WHICH CREATE ADDITIONAL RISKS.

Our business plan to provide biodefense product candidates may involve contracts with the U.S. Government. U.S. Government contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S. Government to unilaterally:

- suspend or prevent us for a period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- audit and object to our contract-related costs and fees, including allocated indirect costs;
- control and potentially prohibit the export of our products; and
- change certain terms and conditions in our contracts.

If we were to become a U.S. Government contractor, we would be required to comply with applicable laws, regulations and standards relating to our accounting practices and would be subject to periodic audits and reviews. As part of any such audit or review, the U.S. Government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, estimating, compensation and management information systems. Based on the results of its audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, if an audit or review uncovers any improper or illegal activity, we would possibly be subject to civil and criminal penalties and administrative sanctions, including termination of our contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. We could also suffer serious harm to our reputation if allegations of impropriety were made against us. Although adjustments arising from government audits and reviews have not seriously harmed our business in the past, future audits and reviews could cause adverse effects. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our research and development costs, and some marketing expenses, would possibly not be reimbursable or allowed under such contracts. Further, as a U.S. Government contractor, we would be subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not.

THE APPROVAL REQUIREMENTS FOR MEDICAL PRODUCTS USED TO FIGHT BIOTERRORISM ARE STILL EVOLVING, AND WE CANNOT BE CERTAIN THAT ANY PRODUCTS WE DEVELOP, IF EFFECTIVE, WOULD MEET THESE REQUIREMENTS.

We are developing product candidates based upon current governmental policies regulating these medical countermeasure treatments. For instance, we intend to pursue FDA approval of our proprietary pathogen filtration devices to treat infectious agents under requirements published by the FDA that allow the FDA to approve certain medical devices used to reduce or prevent the toxicity of chemical, biological, radiological or nuclear substances based on human clinical data to demonstrate safety and immune response, and evidence of effectiveness derived from appropriate animal studies and any additional supporting data. Our business is subject to substantial risk because these policies may change suddenly and unpredictably and in ways that could impair our ability to obtain regulatory approval of these products, and we cannot guarantee that the FDA will approve our proprietary pathogen filtration devices.



OUR PRODUCT DEVELOPMENT EFFORTS MAY NOT YIELD MARKETABLE PRODUCTS DUE TO RESULTS OF STUDIES OR TRIALS, FAILURE TO ACHIEVE REGULATORY APPROVALS OR MARKET ACCEPTANCE, PROPRIETARY RIGHTS OF OTHERS OR MANUFACTURING ISSUES.

Our success depends on our ability to successfully develop and obtain regulatory approval to market new filtration devices. We expect that a significant portion of the research that we will conduct will involve new and unproven technologies. Development of a product requires substantial technical, financial and human resources even if the product is not successfully completed.

Our previously planned products have not become marketable products due in part to our transition in 2001 from a focus on utilizing our Hemopurifier(R) technology on treating harmful metals to treating infectious diseases prior to our having completed the FDA approval process. Our transition was made in order to focus on larger markets with an urgent need for new treatment and to take advantage of the greater sense of urgency surrounding acute and chronic infectious diseases. Prior to initiating the development of infectious disease Hemopurifiers(R), we successfully completed an FDA approved Phase I human safety trial of a Hemopurifier(R) to treat aluminum and iron intoxication. Since changing the focus to infectious disease research, we have not initiated an FDA approved human clinical trial as the development of the technology is still continuing and will require both significant capital and scientific resources. Our pending products face similar challenges of obtaining successful clinical trials in route to gaining FDA approval prior to commercialization. Additionally, our limited financial resources hinder the speed of our product development due to personnel constraints.

Our potential products may appear to be promising at various stages of development yet fail to reach the market for a number of reasons, including the:

- lack of adequate quality or sufficient prevention benefit, or unacceptable safety during pre-clinical studies or clinical trials;
- failure to receive necessary regulatory approvals;
- existence of proprietary rights of third parties; and/or
- inability to develop manufacturing methods that are efficient, cost-effective and capable of meeting stringent regulatory standards.

THE PATENTS WE OWN COMPRISE A MAJORITY OF OUR ASSETS WHICH COULD LIMIT OUR FINANCIAL VIABILITY.

The Hemopurifier(R) is protected by three issued U.S. patents and seven issued international patents. One of the U.S. patents is covered via an exclusive license. Our exclusive license expires March 2020 and is subject to termination if the inventors have not received a minimum of $15,000 in any year during the term beginning in the second year after the FDA approves the Hemopurifier(R). These patents comprise a majority of our assets. At March 31, 2010, our intellectual property assets comprise 31% of our non-current assets, and 22% of total assets. If our existing patents are invalidated or if they fail to provide significant commercial benefits, it will severely hurt our financial condition as a majority of our assets would lose their value. Further, since the financial value of our patents is written down for accounting purposes over the course of their term until they expire, our assets comprised of patents will continually be written down until they lose value altogether.

LEGISLATIVE ACTIONS AND POTENTIAL NEW ACCOUNTING PRONOUNCEMENTS ARE LIKELY TO IMPACT OUR FUTURE FINANCIAL POSITION AND RESULTS OF OPERATIONS.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings which will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes as well as proposed legislative initiatives following the Enron bankruptcy have increased our general and administrative costs as we have incurred increased legal and accounting fees to comply with such rule changes. Further, proposed initiatives are expected to result in changes in certain accounting rules, including legislative and other proposals to account for financial instruments at fair value. These and other potential changes could materially increase the expenses we report under accounting principles generally accepted in the United States of America, and adversely affect our operating results.



OUR PRODUCTS MAY BE SUBJECT TO RECALL OR PRODUCT LIABILITY CLAIMS.

Our Hemopurifier(R) products may be used in connection with medical procedures in which it is important that those products function with precision and accuracy. If our products do not function as designed, or are designed improperly, we may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of our products to function as designed, or our products are designed inappropriately, we may be subject to lawsuits seeking significant compensatory and punitive damages. The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We do not have general clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will to be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any product recall or lawsuit seeking significant monetary damages may have a material affect on our business and financial condition. Any liability for mandatory damages could exceed the amount of our coverage. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

POLITICAL OR SOCIAL FACTORS MAY DELAY OR IMPAIR OUR ABILITY TO MARKET OUR

PRODUCTS.

Products developed to treat diseases caused by or to combat the threat of bioterrorism will be subject to changing political and social environments. The political and social responses to bioterrorism have been highly charged and unpredictable. Political or social pressures may delay or cause resistance to bringing our products to market or limit pricing of our products, which would harm our business. Bioterrorism has become the focus of political debates both in terms of how to approach bioterrorism and the amount of funding the government should provide for any programs involving homeland protection. Government funding for products on bioterrorism could be reduced which would hinder our ability to obtain governmental grants.

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

TO DATE, WE HAVE NOT PAID ANY CASH DIVIDENDS AND NO CASH DIVIDENDS WILL BE PAID IN THE FORESEEABLE FUTURE.

We do not anticipate paying cash dividends on our common shares in the foreseeable future, and we cannot assure an investor that funds will be legally available to pay dividends, or that even if the funds are legally available, that the dividends will be paid.

THE APPLICATION OF THE "PENNY STOCK" RULES COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON SHARES AND INCREASE YOUR TRANSACTION COSTS TO SELL THOSE SHARES.

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.



OUR COMMON SHARES ARE THINLY TRADED, SO YOU MAY BE UNABLE TO SELL AT OR NEAR ASK PRICES OR AT ALL IF YOU NEED TO SELL YOUR SHARES TO RAISE MONEY OR OTHERWISE DESIRE TO LIQUIDATE YOUR SHARES.

Our common shares have historically been sporadically or "thinly-traded" on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock

analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

THE MARKET PRICE FOR OUR COMMON SHARES IS PARTICULARLY VOLATILE GIVEN OUR STATUS AS A RELATIVELY UNKNOWN COMPANY WITH A SMALL AND THINLY-TRADED PUBLIC FLOAT, LIMITED OPERATING HISTORY AND LACK OF REVENUE WHICH COULD LEAD TO WIDE FLUCTUATIONS IN OUR SHARE PRICE. THE PRICE AT WHICH YOU PURCHASE OUR COMMON SHARES MAY NOT BE INDICATIVE OF THE PRICE THAT WILL PREVAIL IN THE TRADING MARKET. YOU MAY BE UNABLE TO SELL YOUR COMMON SHARES AT OR ABOVE YOUR PURCHASE PRICE, WHICH MAY RESULT IN SUBSTANTIAL LOSSES TO YOU.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended March 31, 2010, the high and low closing sale prices of a share of our common stock were $0.64 and $0.20, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of revenue or profit to date, and the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as a viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced

sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.



VOLATILITY IN OUR COMMON SHARE PRICE MAY SUBJECT US TO SECURITIES LITIGATION.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN OR CONTROL APPROXIMATELY 17.5% OF OUR OUTSTANDING COMMON SHARES AS OF JUNE 24, 2010, WHICH MAY LIMIT YOUR ABILITY OR THAT OF OTHER SHAREHOLDERS, WHETHER ACTING INDIVIDUALLY OR TOGETHER, TO PROPOSE OR DIRECT THE MANAGEMENT OR OVERALL DIRECTION OF OUR COMPANY. ADDITIONALLY, THIS CONCENTRATION OF OWNERSHIP COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN YOU RECEIVING A PREMIUM OVER THE MARKET PRICE FOR YOUR COMMON SHARES.

As of June 24, 2010, our officers and directors beneficially own or control approximately 17.5% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). In addition, our Board has approved the grant of 4,000,000 shares of restricted stock to our Chief Executive Officer, and upon such issuance in full of such shares, the beneficial ownership of our officers and directors will increase to 21.2%. These persons will have the ability to substantially influence all matters submitted to our shareholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

A LARGE NUMBER OF COMMON SHARES ARE ISSUABLE UPON EXERCISE OF OUTSTANDING COMMON SHARE PURCHASE OPTIONS, WARRANTS AND CONVERTIBLE PROMISSORY NOTES. THE EXERCISE OR CONVERSION OF THESE SECURITIES COULD RESULT IN THE SUBSTANTIAL DILUTION OF YOUR INVESTMENT IN TERMS OF YOUR PERCENTAGE OWNERSHIP IN THE COMPANY AS WELL AS THE BOOK VALUE OF YOUR COMMON SHARES. THE SALE OF A LARGE AMOUNT OF COMMON SHARES RECEIVED UPON EXERCISE OF THESE OPTIONS OR WARRANTS ON THE PUBLIC MARKET TO FINANCE THE EXERCISE PRICE OR TO PAY ASSOCIATED INCOME TAXES, OR THE PERCEPTION THAT SUCH SALES COULD OCCUR, COULD SUBSTANTIALLY DEPRESS THE PREVAILING MARKET PRICES FOR OUR SHARES.

As of March 31, 2010, there are outstanding purchase options and warrants entitling the holders to purchase 38,776,526 common shares at a weighted average

exercise price of $0.33 per share. That figure includes 3,980,021 warrants that are conditional upon the exercise of other warrants or conversion of certain convertible debt instruments. There are 14,265,999 shares underlying promissory notes convertible into common stock at a weighted average exercise price of $0.20. The exercise price for all of the aforesaid warrants may be less than your cost to acquire our common shares. In the event of the exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants.

OUR ISSUANCE OF ADDITIONAL COMMON SHARES, OR OPTIONS OR WARRANTS TO PURCHASE THOSE SHARES, WOULD DILUTE YOUR PROPORTIONATE OWNERSHIP AND VOTING RIGHTS.

We are entitled under our certificate of incorporation to issue up to 250,000,000 shares of common stock. We have reserved for issuance 53,669,525 shares of common stock for existing options, warrants and convertible notes. We have issued and outstanding, as of March 31, 2010, 61,913,508 shares of common stock. As a result, as of March 31, 2010 we have 134,416,967 common shares available for issuance to new investors. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.



OUR ISSUANCE OF ADDITIONAL COMMON SHARES IN EXCHANGE FOR SERVICES OR TO REPAY DEBT, WOULD DILUTE YOUR PROPORTIONATE OWNERSHIP AND VOTING RIGHTS AND COULD HAVE A NEGATIVE IMPACT ON THE MARKET PRICE OF OUR COMMON STOCK.

Our board may generally issue shares of common stock to pay for debt or services, without further approval by our shareholders based upon such factors that our board of directors may deem relevant at that time. For the past four years, we issued a total of 12,704,767 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period was 40.0% and 35.7% for the years ended March 31, 2010 and 2009, respectively.

For the past four fiscal years we issued a total of 5,343,758 shares as payment for services. The average price discount of common stock issued for services during this period, weighted by the number of shares issued was 6.0% and 4.3% for the years ended March 31, 2010 and 2009, respectively. It is likely that we will issue additional securities to pay for services and reduce debt in the future. We cannot give you any assurance that we will not issue additional shares of common stock under circumstances we may deem appropriate at the time.

THE ELIMINATION OF MONETARY LIABILITY AGAINST OUR DIRECTORS, OFFICERS AND EMPLOYEES UNDER OUR CERTIFICATE OF INCORPORATION AND THE EXISTENCE OF INDEMNIFICATION RIGHTS TO OUR DIRECTORS, OFFICERS AND EMPLOYEES MAY RESULT IN SUBSTANTIAL EXPENDITURES BY OUR COMPANY AND MAY DISCOURAGE LAWSUITS AGAINST OUR DIRECTORS, OFFICERS AND EMPLOYEES.

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders. Our bylaws also require us to indemnify our officers and directors. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, that we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

ANTI-TAKEOVER PROVISIONS MAY IMPEDE THE ACQUISITION OF OUR COMPANY.

Certain provisions of the Nevada General Corporation Law have anti-takeover effects and may inhibit a non-negotiated merger or other business combination. These provisions are intended to encourage any person interested in acquiring us to negotiate with, and to obtain the approval of, our Board of Directors in connection with such a transaction. However, certain of these provisions may discourage a future acquisition of us, including an acquisition in which the shareholders might otherwise receive a premium for their shares. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

As a Smaller Reporting Company, we are not required to furnish information under this Item 1B.

## ITEM 2. PROPERTIES

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of $6,045 per month on a four year lease that expires in September 2013. We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of $1,667 per month on a two year lease that expires in October 2011.

## ITEM 3. LEGAL PROCEEDINGS

We may be involved from time to time in various claims, lawsuits, disputes with third parties or breach of contract actions incidental to the normal course of business operations. We are currently not involved in any such litigation or any pending legal proceedings that we believe could have a material adverse effect on our financial position or results of operations.

## ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is quoted on the Over-The-Counter Bulletin Board (OTCBB).Our trading symbol is "AEMD."

Our Common Stock has had a limited and sporadic trading history.

The following table sets forth for the calendar period indicated the quarterly high and low bid prices for our Common Stock as reported by the OTCBB. The prices represent quotations between dealers, without adjustment for retail markup, mark down or commission, and do not necessarily represent actual transactions.

| | BID PRICE | |
|---|---|---|
| PERIOD | HIGH | LOW |
| Calendar 2010: | | |
| First Quarter | $ 0.48 | $ 0.29 |
| Calendar 2009: | | |
| Fourth Quarter | 0.73 | 0.23 |
| Third Quarter | 0.36 | 0.23 |
| Second Quarter | 0.36 | 0.19 |
| First Quarter | 0.27 | 0.12 |
| Calendar 2008: | | |
| Fourth Quarter | 0.45 | 0.19 |
| Third Quarter | 0.50 | 0.25 |
| Second Quarter | 0.61 | 0.38 |
| First Quarter | 0.75 | 0.45 |

There were approximately 144 record holders of our common stock at June 23, 2010. The number of registered shareholders includes any beneficial owners of common shares held in street name.

We have not declared any cash dividends on our common stock since inception and do not anticipate any in the future. Our current business plan is to retain any future earnings to finance the expansion and development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors our board may deem relevant at that time.

The transfer agent and registrar for our common stock is Computershare Investor Services, located at 350 Indiana Street, Suite 800, Golden, Colorado 80401; 303-262-0600.

RECENT SALES OF UNREGISTERED SECURITIES

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act or Regulation D of the Securities Act during the fiscal year ended March 31, 2010 Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

COMMON STOCK AND WARRANTS

In April 2009, we issued 1,688,211 shares of common stock as a result of conversions of $263,478 of convertible notes payable and related accrued interest. The shares were issued to accredited investors. The range of conversion prices was between $0.15 and $0.16 per share.

In April 2009, an accredited investor exercised a warrant to purchase 555,556 shares of our common stock at the agreed strike price of $0.18 per share for cash proceeds of $100,000. We issued that investor a five year warrant to purchase 555,556 shares at $0.18 per share and a conditional warrant to purchase a like number of shares at the same strike price if that warrant is exercised.

In April 2009, we issued 490,000 shares of restricted common stock valued at the closing price to two investor relations firms in payment for investor relations services with an aggregate value of $108,700.

In April 2009, we issued 80,000 shares of restricted common stock and warrants to purchase 80,000 shares of common stock in exchange for $15,200. The shares were issued to an accredited investor.

In May 2009, holders of certain convertible notes converted $139,256 of principal and accrued interest into 878,059 shares of our common stock pursuant to the terms of the notes at an average conversion rate of approximately $0.16 per share.

In May 2009, we issued 40,104 shares of restricted common stock at a price of $0.24 per share to an investment banking firm in payment for financial advisory services valued at $9,625 based on the value of the services provided.

In June 2009, we issued 779,956 shares of common stock as a result of conversions of $143,512 of convertible notes payable and related accrued interest at a conversion price per share of $0.18. The shares were issued to accredited investors.

On June 29, 2009, we committed to issue 4,000,000 shares of restricted common stock to Mr. Joyce, our Chief Executive Officer, at a price per share of $0.24, which shall vest in equal installments over a thirty six month period commencing June 30, 2010.

In July 2009, we issued 518,649 shares of common stock as a result of conversions of $100,566 of convertible notes payable and related accrued interest at a conversion price per share of $0.19. The shares were issued to accredited investors.

In October 2009, we issued 100,000 shares of restricted common stock as a donation to a scientific research foundation valued at $25,000 based on the closing price of $0.25.

In October 2009, we issued 2,511,264 shares of common stock as a result of conversions of $481,297 of convertible notes payable and related accrued interest at a conversion price per share of $0.19. The shares were issued to accredited investors.

In October and November 2009, we raised $430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of $0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at $0.25 per share. We also issued to a finder as deferred offering costs a convertible note for $20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling $70,000 to 280,000 shares of our common stock per the conversion formula in the notes.

In November 2009, we issued 117,759 shares of common stock as a result of conversions of $38,595 of notes payable and related accrued interest ($12,500 in a 12% Note Payable at a conversion price per share of $0.43 and $10,000 in a May & June 2009 10% Convertible Note at a conversion price per share of $0.20. The shares were issued to accredited investors.

In December 2009, we issued 211,665 shares of common stock as a result of the conversion of a $40,000 convertible note payable and related accrued interest at a conversion price per share of $0.20. The shares were issued to an accredited investor.

In January 2010, we issued 36,683 shares of restricted common stock to a patent licensor as a patent license payment valued at $11,500 at a price per share of $0.31.



In January 2010, we issued to the holders of certain convertible debentures 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at $0.20 per share to repay $146,250 of interest on those debentures accrued through January 31, 2010.

In February 2010, we issued 29,878 shares of restricted common stock to a law firm as a result of the conversion of $8,963 of accrued legal expenses based on the value of the services provided.

In March 2010, we issued 1,444,185 shares of common stock as a result of the conversion of a $330,000 convertible note payable and related accrued interest. The range of conversion prices was between $0.24 and $0.25 per share. The shares were issued to an accredited investor.

In March 2010, we issued 10,895 shares of restricted common stock at $0.34 to a consultant in payment for investor relations services valued at $3,750 based on the value of the services provided.

## EQUITY COMPENSATION PLANS

### SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth March 31, 2010 information on our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

(c)

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2) | (b) Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 32,500 | $ 2.65 | 457,500 |
| Equity compensation plans not approved by security holders (1)(3) | 13,383,560 | $ 0.36 | N/A |
| Totals | 13,416,060 | $ 0.37 | 457,500 |

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Note 6 to the accompanying consolidated financial statements.

(2) Net of equity instruments forfeited, exercised or expired.

(3) On June 8, 2009, our board of directors approved the grant to Mr. Joyce of 4,000,000 shares of restricted common stock at a price per share of $0.24, the vesting and issuance of which will occur in equal installments over a thirty-six-month period commencing June 30, 2010. Mr. Joyce may, from time to time, defer acceptance of the shares. However, all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six-month vesting period.



2000 STOCK OPTION PLAN

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 32,500 | $ 2.65 | 457,500 |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 32,500 | $ 2.65 | 457,500 |

Our 2000 Stock Option Plan (the "Plan"), adopted by us in August 2000,

provides for the grant of incentive stock options ("ISOs") to our full-time employees (who may also be directors) and nonstatutory stock options ("NSOs") to non-employee directors, consultants, customers, vendors or providers of significant services. The exercise price of any ISO may not be less than the fair market value of the Common Stock on the date of grant or, in the case of an optionee who owns more than 10% of the total combined voting power of all classes of our outstanding stock, not be less than 110% of the fair market value on the date of grant. The exercise price, in the case of any NSO, must not be less than 75% of the fair market value of the Common Stock on the date of grant. The amount reserved under the Plan is 500,000 options.

At March 31, 2010, we had granted 32,500 options and 10,000 restricted shares under the 2000 Stock Option Plan, with 457,500 available for future issuance.

2003 CONSULTANT STOCK PLAN

| Plan Category | Number of shares of common stock available for issuance under the plan | Weighted average price of shares issued under the plan | Number of common shares remaining available for future issuance |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | -- | -- | -- |
| Equity compensation plans not approved by security holders | 7,500,000 | $ 0.29 | 1,250,649 |
| Total | 7,500,000 | $ 0.29 | 1,250,649 |

Our 2003 Consultant Stock Plan, as amended from time to time (the "Stock Plan"), adopted by us in August 2003, advances our interests by helping us obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Consultants or advisors are eligible to receive grants under the plan program only if they are natural persons providing bona fide consulting services to us, with the exception of any services they may render in connection with the offer and sale of our securities in a capital-raising transaction, or which may directly or indirectly promote or maintain a market for our securities. The Stock Plan provides for the grants of common stock. No awards may be issued after the ten-year anniversary of the date we adopted the Stock Plan, the termination date for the plan. We have periodically amended the Stock Plan to increase the number of shares available for issuance under the Stock Plan with the approval of our Board of Directors.



On March 29, 2004, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the

Stock Plan under the Securities Act of 1933.

On August 29, 2005, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 2,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

On August 9, 2007, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 2,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

On July 10, 2009, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

On February 17, 2010, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 1,500,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

At March 31, 2010, 1,250,649 shares of common stock remain to be issued under the 2003 Consultant Stock Plan.

2005 DIRECTORS COMPENSATION PROGRAM

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our interests by helping us to obtain and retain the services of outside directors upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording them an opportunity to become owners of our capital stock.

Under the Directors Compensation Program, a newly elected director will receive a one-time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the Board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

At March 31, 2010 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

STAND-ALONE GRANTS

From time to time our Board of Directors grants restricted stock or common share purchase options or warrants to selected directors, officers, employees and consultants as equity compensation to such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

On June 8, 2009, our board of directors approved the grant to Mr. Joyce of 4,000,000 shares of restricted common stock at a price per share of $0.24, the vesting and issuance of which will occur in equal installments over a thirty-six-month period commencing June 30, 2010. Mr. Joyce may, from time to

time, defer acceptance of the shares. However, all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six-month vetsing period.

To date we have issued 12,393,158 options (of which 4,985,025 have been exercised or cancelled) and authorized the issuance of 4,000,000 shares of restricted stock outside of the 2005 Directors Compensation Plan, 2000 Stock Option Plan and the 2003 Consultant Stock Plan.

ITEM 6. SELECTED FINANCIAL DATA

As a Smaller Reporting Company, we are not required to furnish information under this Item 6.

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

The following discussion and analysis should be read in conjunction with the consolidated Financial Statements and Notes thereto appearing elsewhere in this report.



SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this document we make a number of statements, referred to as "FORWARD-LOOKING STATEMENTS" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), that are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. The safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995 does not apply to us. We note, however, that these forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as "SEEK", "ANTICIPATE", "BELIEVE", "ESTIMATE", "EXPECT", "INTEND", "PLAN", "BUDGET", "PROJECT", "MAY BE", "MAY CONTINUE", "MAY LIKELY RESULT", and similar expressions. When reading any forward looking statement you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, including those relating to:

- whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- our ability to attract and retain the qualified personnel to implement our growth strategies;
- our ability to obtain approval from the Food and Drug Administration for our products;
- our ability to protect the patents on our proprietary technology;

- our ability to fund our short-term and long-term operating needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned

"RISK FACTORS" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS".

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus as well as other pubic reports filed with the United States Securities and Exchange Commission (the "SEC"). You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

Overview

We are a development stage medical device company focused primarily on the advancement of our proprietary Hemopurifier(R) platform treatment technology, which is designed to rapidly reduce the presence of infectious viruses and toxins in human blood. Our focus is to prepare our Hemopurifier(R) to treat chronic viral conditions, acute viral conditions and viral-based bioterror threats in human clinical trials. Our Hemopurifier(R)is not yet approved for use in humans, and to date we have not generated any revenues from product sales.



Results of Operations

Operating Expenses

Consolidated operating expenses were $2,848,892 for the fiscal year ended March 31, 2010, versus $2,923,254 for the comparable period one year ago. The net decrease of $74,362 was due to a decrease in payroll expense of $368,007, which was partially offset by increases in professional fees of $238,917 and in general and administrative expense of $54,728.

Payroll and related expenses decreased by $368,007 as compared to the prior fiscal year. The decrease was principally driven by a decrease in stock compensation expense of $174,887 largely because there were no new stock option grants during the fiscal year ended March 31, 2010. Additionally, due to headcount reductions, our general and administrative payroll decreased by $42,153 and our research and development payroll decreased by $126,170

The $238,917 increase in our professional fees arose from a number of factors, including $100,864 in charges by a contract manufacturer for establishing the systems to manufacture our product under the FDA's good manufacturing practices and also to produce both a trial product manufacturing run and to produce our first commercial batch of products. Other factors included a $78,824 increase in fees related to business development work, a $89,557 increase in our investor relations-related expenses and a $20,000 increase in director's fees. The above-noted increases were partially offset by a $5,436 decrease in our accounting and financial consulting fees and a $54,515

reduction in our scientific consulting fees. $337,328, or approximately 31%, of our professional fees for the fiscal year ended March 31, 2010 were paid for through issuances of our common stock.

The $54,728 increase in general and administrative expenses arose from a number of factors, including a $25,000 stock-based contribution to a scientific research institute, a $24,245 increase in investor relations and travel expense which were partially offset by a $51,490 reduction in lab supplies.

Other Expenses

In the fiscal year ended March 31, 2009, we recognized $1,604,715 in non-cash losses on extinguishment of debt. $1,380,772 of that loss arose out of the restructuring of $715,000 in notes and the remainder related to the value of warrants issued as part of interest payments. In the fiscal year ended March 31, 2010, we recognized $341,984 in losses on settlement of accrued interest and damages.

Both periods include changes in the fair value of derivative liability. For the fiscal year ended March 31, 2010, the change in the estimated fair value of derivative liability was a gain of $178,723 and for the fiscal year ended March 31, 2009, the change in estimated fair value was a gain of $213,903.



The combination of interest expenses and other expenses decreased by $208,562. The following table breaks out the various components of our interest expense over the fiscal years ended March 31, 2010 and 2009:

| | Components of Interest Expense in Fiscal Year Ended | | |
|---|---|---|---|
| | March 31, 2010 | March 31, 2009 | Change |
| ACTUAL INTEREST EXPENSE | 329,038 | 302,679 | 26,359 |
| AMORTIZATION OF DEFERRED OFFERING COSTS | 61,313 | 110,851 | (49,538) |
| AMORTIZATION OF NOTE DISCOUNTS | 638,505 | 1,376,465 | (737,960) |
| AMORTIZATION OF DISCOUNT ASSOCIATED WITH WARRANTS ISSUED UPON CONVERSION OF DEBT | 31,549 | -- | 31,549 |
| FINANCE CHARGES FROM VENDORS | 10,896 | 21,518 | (10,622) |
| LIQUIDATED DAMAGES | 493,000 | (38,651) | 531,651 |
| TOTAL INTEREST EXPENSE | $ 1,564,301 | $ 1,772,862 | $ (208,561) |

As a result of the above factors, our net loss decreased from $(6,084,158) for the fiscal year ended March 31, 2009 to $(4,573,315) for the fiscal year ended March 31, 2010.

Liquidity and Capital Resources

At March 31, 2010, we had a cash balance of $67,950 and a working capital deficit of $4,868,542. This compares to a cash balance of $6,157 and a working capital deficit of $4,103,520 at March 31, 2009. Between April 1, 2010 and June 24, 2010, we raised aggregate proceeds of $358,600 through the exercise of previously outstanding warrants and through private debt financing transactions. Our cash at March 31, 2010 plus additional funds raised subsequent to March 31, 2010 are not sufficient to meet our funding requirements during the next twelve months. Significant additional financing must be obtained in order to provide a sufficient source of operating capital and to allow the Company to continue to operate as a going concern.

We do not expect to generate revenue from operations for the foreseeable future, and our ability to continue operations and meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Cash Flows

Cash flows from operating, investing and financing activities, as reflected in the accompanying Consolidated Statements of Cash Flows, are summarized as follows (in thousands):

| | (In thousands) For the year ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| Cash (used in) provided by: | | |
| Operating activities | $ (1,978) | $ (1,777) |
| Investing activities | (30) | (12) |
| Financing activities | 2,070 | 1,541 |
| Net (decrease) increase in cash | $ 62 | $ (248) |



NET CASH FROM OPERATING ACTIVITIES. We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $1,978,000 in fiscal 2010 compared to net cash used in operating activities of approximately $1,777,000 in fiscal 2009.

NET CASH FROM INVESTING ACTIVITIES. During the fiscal year ended March 31,

2010, Our investing activities consisted of using approximately $17,000 in cash for purchases of equipment and $13,000 in cash in patents and patents pending. During the fiscal year ended March 31, 2009, we used approximately $10,000 in patents and patents pending and approximately $1,000 in purchases of equipment.

NET CASH FROM FINANCING ACTIVITIES. Net cash generated from financing activities Increased from approximately $1,541,000 the fiscal year ended March 31, 2009 to approximately $2,070,000 in the fiscal year ended March 31, 2010. Included in net cash provided by financing activities in fiscal 2010 were $1,978,000 in proceeds from the issuance of convertible notes payable and approximately $115,000 from the issuance of common stock. In fiscal 2009, we received approximately $1,111,000 in net proceeds from the issuance of common stock and $430,000 from the issuance of convertible notes payable.

CONVERTIBLE NOTES PAYABLE AND WARRANTS

MAY & JUNE 2009 10% CONVERTIBLE NOTES

In May and June 2009, we raised an aggregate amount of $350,000 from the sale to accredited investors of 10% convertible notes ("May & June 2009 10% Convertible Notes"). The May & June 2009 10% Convertible Notes mature at various dates between November 2010 through December 2010 and are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the investors opt to convert their convertible debt to our common stock, then they will receive a matching three year warrant to purchase unregistered shares of our common stock at a price of $0.20 per share. We have measured the warrants but did not record them given their contingent terms.

After consideration of the warrants, we recorded a discount associated with the beneficial conversion feature of $233,735 related to the May & June 2009 10% Convertible Notes and we are amortizing that discount over the terms of the May & June 2009 10% Convertible Notes using the effective interest method.

During the three months ended December 31, 2009, the holders of two of the May & June 2009 10% Convertible Notes converted a total of $50,000 in notes to 250,000 shares of our common stock under the conversion feature of the notes. Due to these conversions, we accelerated the remaining discount of $15,928 associated with those two converted notes and recorded that amount as interest expense in the three months ended December 31, 2009. We also issued 250,000 warrants as a result of those conversions, the fair value of which had been measured on the issuance dates of the relevant convertible notes using the Binomial lattice method at $31,550. We recorded that $31,550 amount as interest expense in the three months ended December 31, 2009.

At March 31, 2010, $300,000 of the May & June 2009 10% Convertible Notes remained outstanding. At March 31, 2010, interest payable on those notes totaled $20,269.

JULY & AUGUST 2009 10% CONVERTIBLE NOTES

In July and August 2009, we raised an aggregate amount of $668,250 from the sale to three investment funds of 10% convertible notes ("July & August 2009 10% Convertible Notes"), of which $338,250 remain outstanding at March 31, 2010. Each note carries a one-year term and is convertible into our common stock at 80% of market with a floor of $0.15 cents and a ceiling of $0.25 cents per share. As additional consideration, the investors also received 1,336,500 three year warrants to purchase our common stock at $0.50 per share, although that exercise price is subject to change based on certain conditions. The conversion feature may additionally be adjusted in the event of future financing by the Company. Because the conversion feature and warrant exercise price each can be reset based on future events, they are considered derivatives.

We commissioned a valuation study on this transaction from a third party valuation firm and based on the results of that study, we recorded a discount associated with the derivative liability of $475,762 associated with the conversion feature. We commissioned a valuation of the derivative liability to measure the fair value of the derivative liability at March 31, 2010 and based on the results of that study, we recorded a fair value at March 31, 2010 of $482,451. As a result of this fair value change, we recorded a loss of $6,689 in the fiscal year ended March 31, 2010.



We are amortizing the discount associated with the July & August 2009 10% Convertible Notes and associated warrants using the effective interest method. Deferred financing costs incurred in connection with this financing totaled $60,750, which were capitalized and are being amortized using the effective interest method.

During the March 2010, one of the investors converted $330,000 of principal and $22,559 of accrued interest into common stock. We accelerated the remaining discount associated with that portion of the principal balance of the July & August 2009 10% Convertible Notes.

At March 31, 2010, interest payable on those notes totaled $20,338.

OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible Notes mature at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investors also received matching three year warrants to purchase 1,720,000 unregistered shares of our common stock at a price of $0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing the discount associated with the October & November 2009 10% Convertible Notes and associated warrants using the effective interest method.

Three of the investors immediately converted their convertible notes totaling $70,000 into 280,000 shares of our common stock under the conversion formula. As a result, we accelerated the discount of $70,000 associated with their notes and recorded that amount as interest expense in the three months ended December 31, 2009.

Deferred financing costs of $20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the $20,250 of deferred financing costs and are amortizing them over the term of the notes using the effective interest method.

At March 31, 2010, interest payable on these notes totaled $19,013.

JANUARY 2010 10% CONVERTIBLE NOTES

In January 2010, we raised $250,000 from the sale to an accredited investor of two 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share

prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing the discount associated with the January 2010 10% Convertible Notes and associated warrants using the effective interest method.

At March 31, 2010, interest payable on these notes totaled $5,645.

FEBRUARY 2010 10% CONVERTIBLE NOTE

On February 12, 2010, we raised $280,015 in cash and received a secured promissory note in the amount of $300,000 in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The Note included an original issue discount of ten percent, or $60,000, and an origination fee of three percent, or $9,000. We also paid legal fees of $10,985. The Note matures in February 2011. The Note was issued in a private placement.



The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of $0.30 and a minimum price per share of $0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of $0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at $0.50 per share, although that exercise price is subject to change based on certain conditions. The conversion feature may additionally be adjusted in the event of future financing by the Company. Because the conversion feature and warrant exercise price each can be reset based on future events, they are considered derivatives and accounted for as derivative liabilities.

We commissioned a valuation study on this transaction from a third party valuation firm and based on the results of that study, we recorded a discount associated with the derivative liability of $478,476 associated with the conversion feature. We commissioned a valuation of the derivative liability to measure the fair value of the derivative liability at March 31, 2010 and based on the results of that study, we recorded a fair value at March 31, 2010 of $572,165. As a result of this fair value change we recorded a charge of $93,689 in the fiscal year ended March 31, 2010.

SECURITIES ISSUED FOR SERVICES

We have issued securities in payment of services to reduce our obligations and to avoid using our cash resources. In the year ended March 31, 2010 we issued 2,456,157 common shares for services of which 500,895 were restricted and were for investor relations services. We also issued 8,429,748 common shares for the retirement or conversion of notes payable and convertible notes payable, 100,000 common shares as a grant to a research institute and 36,683 for licensing rights. Included in the 2,456,157 common shares issued for services are 1,035,124 shares, registered under a Form S-8 registration statement, which were issued as follows: 206,025 for regulatory consulting, 1,018,742 for

financial and scientific consulting, 444,122 for business development consulting, 28,249 for administration and corporate communications services and 258,124 for legal expenses. The average price discount of common shares issued for these services, weighted by the number of shares issued for services in this period, was approximately 5.95%.

SECURITIES ISSUED FOR DEBT

We have also issued securities for debt to reduce our obligations to avoid using our cash resources. In the fiscal year ended March 31, 2010 we issued 8,429,748 restricted common shares for repayment in full of notes, including accrued interest, in the aggregate amount of $1,640,559. The price discount of the common stock issued for debt was approximately 40.0%. We recorded a loss on extinguishment of debt totaling $1,604,715 in the fiscal year ended March 31, 2009.

PROSPECTS FOR DEBT CONVERSION

We seek, where possible, to convert our debt and accounts payable to stock and/or warrants in order to reduce our cash liabilities. Our success at accomplishing this depends on several factors including market conditions, investor acceptance and other factors, including our business prospects.

GOING CONCERN

Our independent registered public accounting firm has stated in their audit report on our March 31, 2010 consolidated financial statements that our working capital deficiency and significant deficiency accumulated during the development stage are conditions that, among others, raise substantial doubt about our ability to continue as a going concern.



CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes the Company's estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions. We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, contingencies and litigation. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations.

Fair Value Measurements

Effective April 1, 2008, we began measuring the fair value of applicable financial and non-financial assets based on the following levels of inputs:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

The fair value of derivative liabilities is determined based on unobservable inputs that are corroborated by market data, which is a Level 3 classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to warrants utilizing the Binomial Lattice option pricing model:

| | Fiscal Year Ended March 31, 2010 |
|---|---|
| Risk free interest rate | 1.28% - 2.58% |
| Average expected life | 3 - 5 years |
| Expected volatility | 78.8% - 96.3% |
| Expected dividends | None |

We did not make any changes to our valuation techniques compared to the prior fiscal year.

We also obtained a third party valuation, which is a Level 3 classification as it was based on unobservable inputs that are not corroborated by market data, in connection with our December 2008 note restructuring, our July and August 2009 convertible notes and February convertible note. That valuation firm used a binomial lattice pricing model to calculate the estimated fair value of embedded derivatives in those transactions and a Black-Scholes pricing model to calculate the estimated fair value of the warrants in those transactions.



Long-Lived Assets

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This accounting guidance requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. This guidance also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity

that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. Management noted no indicators requiring review for impairment during the fiscal year ended March 31, 2010.

Stock Purchase Warrants Issued with Notes Payable

We granted warrants in connection with the issuance of certain notes payable. We measure the relative estimated fair value of such warrants which represents a discount from the face amount of the notes payable. Such discounts are amortized to interest expense over the term of the notes.

Beneficial Conversion Feature of Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We measure the estimated fair value of the BCF and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

Share-based Compensation

We account for share-based compensation awards using the fair-value method and record such expense in the consolidated financial statements over the requisite service period. For the fiscal year ended March 31, 2010, we recognized $504,933 of share-based compensation expense.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a Smaller Reporting Company, we are not required to furnish information under this Item 7A.



ITEM 8. FINANCIAL STATEMENTS

The financial statements listed in the accompanying Index to Financial Statements are attached hereto and filed as a part of this Report under Item 15.

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

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO"), who is also our acting Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of a date (the "Evaluation Date") within 90 days prior to filing the Company's March 31, 2010 Form 10-K.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

(a) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's management, with the participation of its Chief Executive Officer, assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2010. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of The Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment under such criteria, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2010 due to control deficiencies that constituted material weaknesses.

Management in assessing its internal controls and procedures for fiscal 2010 identified a lack of sufficient segregation of duties, particularly in cash disbursements. Specifically, this material weakness is such that the design of controls over the area of cash disbursements relies primarily on detective controls and could be strengthened by adding preventative controls to properly safeguard company assets.

Management has identified a lack of sufficient personnel in the accounting function due to the limited resources of the Company with appropriate skills, training and experience to perform the review processes to ensure the complete and proper application of generally accepted accounting principles, particularly as it relates to taxes. Specifically, this material weakness led to segregation of duties issues and resulted in audit adjustments to the annual consolidated financial statements and revisions to related disclosures, including tax reporting.

The Company is in the process of developing and implementing remediation

plans to address its material weaknesses.



Management has identified specific remedial actions to address the material weaknesses described above:

- Improve the effectiveness of the accounting group by continuing to augment existing Company resources with additional consultants or employees to improve segregation procedures and to assist in the analysis and recording of complex accounting transactions and preparation of tax disclosures. The Company plans to mitigate the segregation of duties issues by hiring additional personnel in the accounting department once the Company has achieved commercialization of its products and is generating revenue, or has raised significant additional working capital.

- Improve segregation procedures by strengthening cross approval of various functions including cash disbursements and quarterly internal audit procedures where appropriate.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to a attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes made in our internal controls over financial reporting during the quarter ended March 31, 2010 that have materially affected or are reasonably likely to materially affect these controls.

ITEM 9B. OTHER INFORMATION

During the period December 31, 2009 through March 31, 2010, the Company issued restricted securities totaling 2,252,892 shares or 3.64% of the Company's issued and outstanding Common Stock, based on the number of shares of Common Stock outstanding and reported on the Company's Form 10-Q for the quarter ended December 31, 2009. Such securities included shares of restricted Common Stock issued upon the conversion of outstanding debt securities and shares issued for cash investment, services, interest payable and professional services.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on our review of copies of the Section 16(a) reports filed for the fiscal year ended March 31, 2010, we believe that all filing requirements applicable to our officers, directors, and greater than 10% beneficial owners were complied with except that Mr. Edward G. Broenniman, one of our directors, did not timely file one report on Form 4 pertaining to one transaction effected by him on November 25, 2009. The relevant report was filed on December 3, 2009.



DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS

The names, ages and positions of our directors and executive officers as of June 23, 2010 are listed below:

| NAMES | TITLE OR POSITION | AGE |
|---|---|---|
| James A. Joyce (1) | Chairman, Chief Executive Officer, Principal Accounting Officer and Secretary | 47 |
| Richard H. Tullis, PhD (2) | Vice President, Chief Science Officer and Director | 65 |
| Franklyn S. Barry, Jr. | Director | 70 |
| Edward G. Broenniman | Director | 74 |

(1) Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer, replacing Mr. Barry, who continues as a member of the board of directors.

(2) Effective June 1, 2001, Dr. Tullis was appointed as our Chief Science Officer.

Certain additional information concerning the individuals named above is set forth below. This information is based on information furnished us by each individual noted.

Resumes of Management:

James A. Joyce, Chairman, CEO, President, Principal Accounting Officer and Secretary.

Mr. Joyce is the founder of Aethlon Medical, and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce with the additional role of CEO. During the quarter ended December 31, 2007, our chief financial officer resigned and Mr. Joyce assumed the role of principal accounting officer. In 1992, Mr. Joyce founded and was the sole shareholder of James Joyce & Associates, an organization that provided management consulting and corporate finance advisory

services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate of the University of Maryland.

Richard H. Tullis, Ph.D., Vice President, Chief Science Officer

Dr. Tullis has been Vice President and a director of the Company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen Research, a wholly-owned subsidiary of Aethlon Medical, Inc. Previously, Dr. Tullis co-founded Molecular Biosystems, Inc., a former NYSE company. At Molecular Biosystems, Dr. Tullis was Director of Oligonucleotide Hybridization, Senior Research Scientist and Member of the Board of Directors. In research, Dr. Tullis developed and patented the first application of oligonucleotides to antisense antibiotics and developed new methods for the chemical synthesis of DNA via methoxy-hosphorochloridites. Dr. Tullis also co-developed the first applications of covalently coupled DNA-enzyme conjugates using synthetic oligonucleotides during his tenure at Molecular Biosystems. In 1985, Dr. Tullis founded, and served as President and CEO of Synthetic Genetics, Inc., a pioneer in custom DNA synthesis, which was sold to Molecular Biology Resources in 1991. Dr. Tullis also served as interim-CEO of Genetic Vectors, Inc., which completed its IPO under his management, and was co-founder of DNA Sciences, Inc., a company that was eventually acquired by Genetic Vectors. Dr. Tullis received his Ph.D. in Biochemistry and Cell Biology from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and the University of Hawaii.

Franklyn S. Barry, Jr.

Mr. Barry has over 30 years of experience in managing and building companies. He was President and Chief Executive Officer of Hemex from April 1997 through May 31, 2001 and our President and CEO from March 10, 1999 to May 31, 2001. He became a director of Aethlon Medical on March 10, 1999. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro-D, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of Merchants Mutual Insurance Company.



Edward G. Broenniman

Mr. Broenniman became a director of Aethlon Medical on March 10, 1999. Mr. Broenniman has 30 years of management and executive experience with high-tech, privately-held growth companies where he has served as a CEO, COO, or corporate advisor, using his expertise to focus management on increasing profitability and stockholder value. He is the Managing Director of The Piedmont Group, LLC, a venture advisory firm. Mr. Broenniman recently served on the Board of Directors of publicly-traded QuesTech (acquired by CACI International), and currently serves on the Boards of four privately-held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter.

Our Board of Directors has the responsibility for establishing broad corporate policies and for overseeing our overall performance. Members of the

Board are kept informed of our business activities through discussions with the President and other officers, by reviewing analyses and reports sent to them, and by participating in Board and committee meetings. Our bylaws provide that each of the directors serves for a term that extends to the next Annual Meeting of Shareholders of the Company. Our Board of Directors presently has an Audit Committee and a Compensation Committee on each of which Messrs. Barry and Broenniman serve. Mr. Barry is Chairman of the Audit Committee, and Mr. Broenniman is Chairman of the Compensation Committee.

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our interests by helping us to obtain and retain the services of outside directors upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording them an opportunity to become owners of our capital stock.

Under the Directors Compensation Program, a newly elected director will receive a one-time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the Board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

At March 31, 2010 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

FAMILY RELATIONSHIPS.

There are no family relationships between or among the directors, executive officers or persons nominated or charged by us to become directors or executive officers.

There are no arrangements or understandings between any two or more of our directors or executive officers. There is no arrangement or understanding between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current Board of Directors. There are also no arrangements, agreements or understanding between non-management shareholders that may directly or indirectly participate in or influence the management of our affairs.

SCIENCE ADVISORY BOARD

Each person listed below is a current member of our Science Advisory Board. The role of the Science Advisory Board is to provide scientific guidance related to the development of our Hemopurifier(R) technology. Unlike the members of our Board of Directors, the Science Advisory Board members are not involved in the management or operations of our company. Members of the Science Advisory Board are paid $500 per day for services rendered either on-site or at a mutually agreeable location.

Ken Alibek, M.D., Ph.D., D.Sc.

Dr. Alibek is the Executive Director of Education at the National Center for Biodefense at George Mason University (GMU), and is a Distinguished Professor at GMU as well. Dr. Alibek specializes in medical and scientific research dedicated to developing new forms of protection against biological weapons and other infectious diseases.

Formerly, Dr. Alibek was a Soviet Army Colonel, and served as First Deputy Chief of the civilian branch of the Soviet Union's biological weapons program until he defected to the United States in 1992 and subsequently served as a consultant to numerous U.S. government agencies in the areas of medical microbiology, biological weapons defense, and biological weapons nonproliferation. Dr. Alibek has worked with the National Institutes of Health, testified extensively before the U.S. Congress on nonproliferation of biological weapons and is the author of Biohazard: The Chilling True Story of the Largest Covert Biological Weapons Program in the World--Told from Inside by the Man Who Ran It, published by Random House Books. He holds numerous patents, is widely published in science journals, and has provided over 300 lectures and presentations to military and civilian universities, as well as foreign governments. The December 2003 issue of the Acumen Journal of Life Sciences named Dr. Alibek as one of the top five biological warfare experts in the nation.

Charles Bailey, Ph.D.

Dr. Bailey is the former commander of the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID). Dr. Bailey has 25 years U.S. Army experience in R&D and management in infectious diseases and biological warfare defense. As an officer of the Defense Intelligence Agency, Dr. Bailey wrote extensively on foreign biological warfare capabilities. Dr. Bailey is currently the Executive Director for Research & International Relations at the National Center for Biodefense at George Mason University (GMU), and is a Distinguished Professor of Biology at GMU as well. The Acumen Journal of Life Sciences named Dr. Bailey as one of the top five biological warfare experts in the nation.

Larry Cowgill, D.V.M., Ph.D.

Dr. Cowgill is a Professor in the Department of Medicine and Epidemiology at the School of Veterinary Medicine, University of California at Davis and has nearly 30 years of experience as a clinical instructor in small animal internal medicine, nephrology and hemodialysis. He currently Heads the Companion Animal Hemodialysis Units at the Veterinary Medical Teaching Hospital at UC Davis and the UC Veterinary Medical Center at San Diego. Dr. Cowgill is also Associate Dean for Southern California Clinical Programs and is Co-Director of the University of California Veterinary Medical Center at San Diego. Prior to his appointment at the University of California, he was a National Institutes of Health (NIH) Special Research Fellow at the University of Pennsylvania School of Veterinary Medicine and at the Renal Electrolyte Section at the University of Pennsylvania School of Medicine, where he conducted research in basic renal physiology and clinical nephrology. Dr. Cowgill received his D.V.M. from the University of California at Davis School of Veterinary Medicine and his Ph.D. in Comparative Medical Sciences from the University of Pennsylvania, where he also completed his internship and Residency training in Small Animal Internal

Medicine. He became a Diplomate of the American College of Veterinary Internal Medicine in 1977. Dr. Cowgill has published extensively in the area of veterinary nephrology and has established a Clinical Fellowship in Renal Medicine and Hemodialysis, which is the first of its kind in veterinary Medicine.

Pedro Cuatrecasas, M.D.

Dr. Cuatrecasas was President of the Pharmaceutical Research Division of Parke-Davis Co., and Corporate Vice President for Warner Lambert Company from 1989 until his retirement in 1997. From 1986 to 1989, he served as SVP and Director of Glaxo Inc. For the prior ten years, he was VP/R&D and Director, of the Burroughs Wellcome Company. During his career in pharmaceutical research, he was involved in the discovery, development and marketing registration of more than 40 novel medicines. Dr. Cuatrecasas is widely recognized for the invention and development of affinity chromatography which is a method for the selective capture of proteins, sugars, fats and inorganic compounds. He is a member of the National Academy of Sciences, The Institute of Medicine, and the American Academy of Arts & Sciences, and he has authored more than 400 original publications.



Nathan W. Levin, M.D.

Dr. Levin is recognized as a leading authority within the hemodialysis industry. He is the Medical and Research Director of the Renal Research Institute, LLC, a joint venture between Fresenius Medical Care - North America and Beth Israel Medical Center, New York. Dr. Levin also serves as Professor of Clinical Medicine at the Albert Einstein College of Medicine.

Raveendran (Ravi) Pottathil, Ph.D.

Dr. Pottathil was the Section Manager for Retroviruses (focus on HIV and HCV) and tumor markers and PCR diagnostics at Hoffman La Roche from 1985 to 1992. He then co-founded Specialty Biosystems, Inc, a venture of Specialty Labs, one of the largest independent reference laboratories in California. Dr. Pottathil has also advised the World Health Organization's Sexually Transmitted Diseases and Global Vaccination Program. Dr. Pottathil has worked with Dr. Robert Huebner of the NIH in immunology and virology at The Jackson Laboratory, and with Drs. David Lang and Wolfgang Joklik at Duke University on interferons, anti-tumor RNAs and antigenic suppression of tumorigenic retroviruses. Academic positions include: Assistant Professor at the University of Maryland School of Medicine; Associate Professor at the City of Hope Medical Center in Duarte, California where he published extensively with Dr. Pedro Cuatrecasas (one of developers of affinity chromatography); and Adjunct Professor in Cellular and Molecular Biology at Down State Medical Center and Rutgers University. As a virologist and molecular biologist, Dr. Pottathil has over 40 refereed publications to his credit and has been a Director of OncQuest, Inc., GeneQuest,

Inc., Specialty Laboratories Asia in Singapore and Specialty Ranbaxy in India. Currently, Dr. Pottathil is the President of AccuDx, Inc. a pharmaceutical diagnostics company he founded in 1996.

Claudio Ronco, M.D.

Dr. Ronco is the Director of the Dialysis and Renal Transplantation Programs of St. Bartolo Hospital in Vicenza, Italy. He has published 17 books on nephrology and dialysis and has written or co-authored over 350 scientific articles. Dr. Ronco also serves on the editorial board of 12 scientific journals, is a director of three international scientific societies, and is recognized as being instrumental in the introduction of continuous hemofiltration and high flux dialysis in Europe.

Members of the Scientific Advisory Board do not receive any monetary compensation for service on the Board, however, on occasion, the members may be awarded stock options.

INVOLVEMENT IN LEGAL PROCEEDINGS.

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; and (5) being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, law or regulation respecting financial institutions or insurance companies or law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or associated persons.

CODE OF ETHICS.

On February 23, 2005, the Board of Directors approved a "Code of Business Conduct and Ethics, which applies to our principal executive officer, our principal financial officer, our principal accounting officer and persons performing similar tasks. Our Code of Business Conduct and Ethics is available on our company website at www.aethlonmedical.com.



AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors formed an audit committee in May of 1999 (the "Audit Committee"). Mr. Franklyn S. Barry, Jr. (the Chairman of the Committee) and Mr. Edward Broenniman serve as members of the Committee. We believe that each of Mr. Broenniman and Mr. Barry is an "audit committee financial expert" as that term is defined by Item 407 of Regulation S-K.

The Audit Committee assists the Board of Directors in its oversight of the quality and integrity of our accounting, auditing, and reporting practices. The Audit Committee's role includes overseeing the work of our internal accounting and financial reporting and auditing processes and discussing with management our processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor engaged to prepare or issue audit reports on our financial statements and internal control over financial reporting. The Audit Committee relies on the expertise and knowledge of management and the independent auditor in carrying out its oversight responsibilities. The Committee's specific responsibilities are delineated in its charter.

COMPENSATION COMMITTEE

Our Board of Directors formed a Compensation Committee in May of 1999 (the "Compensation Committee"). Mr. Franklyn S. Barry, Jr. and Mr. Edward Broenniman (the Chairman of the Committee) serve as members of the Committee. Our Board of Directors has delegated to the Compensation Committee strategic and administrative responsibility on a broad range of issues. The Compensation Committee's basic responsibility is to assure that the Chief Executive Officer, other officers, and key management are compensated effectively in a manner consistent with our compensation strategy and competitive practice. In addition, the Compensation Committee is responsible for establishing general compensation guidelines for non-management employees.

The Compensation Committee will be responsible for overseeing and, as appropriate, making recommendations to the Board regarding the annual salaries and other compensation of our executive officers, our general employee compensation and other policies and providing assistance and recommendations with respect to our compensation policies and practices. The Compensation Committee is authorized to carry out these activities and other actions reasonably related to the Compensation Committee's purposes or assigned by the Board from time to time. The Committee's specific responsibilities are delineated in its charter.



ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following executive compensation disclosure reflects all compensation awarded to, earned by or paid to the executive officers below for the fiscal year ended March 31, 2010 and March 31, 2009. The following table summarizes all compensation for fiscal year 2010 and 2009 received by our Chief Executive Officer, and the Company's two most highly compensated executive officers who earned more than $100,000 in fiscal year 2010.

SUMMARY COMPENSATION TABLE FOR 2010 AND 2009 FISCAL YEARS

| NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION | YEAR | SALARY ($) | BONUS ($) | STOCK AWARDS ($) | OPTION AWARDS ($) | NON-EQUITY INCENTIVE PLAN COMPENSATION ($) |
|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| James A. Joyce (1) | | | | | | | |
| CHIEF EXECUTIVE OFFICER | 2010 | $ 290,000 | $ -- | $960,000(3) | $ -- | $ | -- |
| AND PRINCIPAL ACCOUNTING | 2009 | 290,000 | -- | -- | 424,528(4) | | -- |
| OFFICER | | | | | | | |
| Richard H. Tullis, Ph.D (2) | 2010 | $ 175,000 | $ -- | $ -- | $ -- | $ | -- |
| VICE PRESIDENT AND CHIEF | 2009 | 175,000 | -- | -- | 154,025(5) | | -- |
| SCIENCE OFFICER | | | | | | | |

(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2010 is zero and 9,588,243.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2010 is zero and 1,897,175.

(3) This award of 4,000,000 shares of restricted common stock was valued at the grant date price of $0.24 per share.

(4) This option award to purchase 2,000,000 shares at $0.25 per share was for service was an officer and the fair value on the grant date of December 15, 2008 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 112%, risk free interest rate of 1.02% and a ten year life.

(5) This option award to purchase 750,000 shares at $0.41 per share was for service was an officer and the fair value on the grant date of December 15, 2008 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 112%, risk free interest rate of 1.02% and a 9.5 year life.

On June 29, 2009, Mr. Joyce, our Chief Executive Officer, entered into an Option Suspension Agreement, whereby Mr. Joyce agreed to not exercise his stock options pending the filing of amended articles of incorporation of the Company increasing the Company's authorized capital. Accordingly of Mr. Joyce's total options, 2,857,143 cannot be exercised until the amended articles of incorporation are filed, and 6,731,090 cannot be exercised until the later of June 9, 2010 or the filing of the amended articles of incorporation. The Agreement also provides Mr. Joyce certain protections in the event the Company shall undergo a Change of Control Transaction while his options are suspended. Such protections include the right to receive, in the form of cash payments, the positive value of his options (which remain subject to suspension) at the time of such transaction.

In addition, Mr. Joyce was granted 4,000,000 shares of restricted common stock, at a price per share of $0.24, which shall vest in equal installments over a thirty-six month period commencing June 30, 2010; however Mr. Joyce may, from time to time, defer acceptance of the shares. All shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period.

Therefore, we will record the stock-based compensation expense associated with this grant beginning in June 2010.



EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Mr. Joyce effective April 1, 1999. Effective June 1, 2001, Mr. Joyce was appointed President and Chief Executive Officer and his base annual salary was increased from $120,000 to $180,000. Effective January 1, 2005, Mr. Joyce's salary was increased from $180,000 to $205,000 per year. Under the terms of the agreement, his employment continues at a salary of $205,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Effective April 1, 2006. Mr. Joyce's salary was increased from $205,000 to $240,000. His salary was subsequently increased to $265,000 per year and effective May 1, 2008, his salary was increased from $265,000 to $290,000 per year. Effective April 1, 2010, his salary was increased from $290,000 to $325,000 per year.

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer of the Company. His compensation under the agreement was modified in June 2001 from $80,000 to $150,000 per year. Effective January 1, 2005, Dr. Tullis' salary was increased from $150,000 to $165,000 per year. Under the terms of the agreement, his employment continues at a salary of $165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Dr. Tullis was granted 250,000 stock options to purchase our common stock in connection the completing certain milestones, such as the initiation and completion of certain clinical trials, the submission of proposals to the FDA and the filing of a patent application. Effective April 1, 2006, Dr. Tullis salary was increased to $180,000 per year. Effective April 1, 2010, his salary was increased from $180,000 to $195,000 per year.

Both Mr. Joyce's and Dr. Tullis' agreements provide for medical insurance and disability benefits, one year of severance pay if their employment is terminated by us without cause or due to change in our control before the expiration of their agreements, and allow for bonus compensation and stock option grants as determined by our Board of Directors. Both agreements also contain restrictive covenants preventing competition with us and the use of confidential business information, except in connection with the performance of their duties for the Company, for a period of two years following the termination of their employment with us.

OUTSTANDING EQUITY AWARDS AT 2010 FISCAL YEAR-END

The following table sets forth certain information concerning stock option awards granted to our named executive officers.

OUTSTANDING EQUITY AWARDS AT 2010 FISCAL YEAR END

| | OPTIONS AWARDS | | | | |
|---|---|---|---|---|---|
| NAME | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE | EQUITY INCENTIVE PLAN AWARDS; NUMBER OF SECURITIES UNDERLYING UNEXERCISED UNEARNED OPTIONS | OPTION EXERCISE PRICE | OPTION EXPIRATION DATE |
| | (#) | (#) | (#) | ($) | |

| | | | | | | |
|---|---|---|---|---|---|---|
| James A. Joyce | 1,115,550(1) | -- | -- | $ | 0.38 | 06/03/10 |
| | 557,775(1) | -- | -- | $ | 0.38 | 04/10/11 |
| | 557,775(1) | -- | -- | $ | 0.38 | 04/09/12 |
| | 2,857,143(1) | -- | -- | $ | 0.21 | 12/18/15 |
| | 2,000,000(2) | 500,000 | -- | $ | 0.36 | 09/21/17 |
| | 1,500,000(3) | 500,000 | -- | $ | 0.25 | 02/21/19 |
| Richard H. Tullis | 30,000(4) | -- | -- | $ | 2.56 | 12/31/10 |
| | 250,000(4) | -- | -- | $ | 1.90 | 03/12/12 |
| | 433,588(5) | -- | -- | $ | 0.38 | 12/31/10 |
| | 433,587(5) | -- | -- | $ | 0.38 | 12/31/11 |
| | 250,000(6) | 500,000 | -- | $ | 0.41 | 6/14/18 |

(1) This option was fully vested as of March 31, 2010 and as a result of the Option Suspension Agreement, the expiration date was extended by 100 days. Subsequent to March 31, 2010, the expiration date of this option was extended to February 23, 2015 (see Item 13).



(2) The option vested 1,000,000 shares at grant, with 500,000 shares vesting each annual anniversary date through June 13, 2010 and as a result of the Option Suspension Agreement, the expiration date was extended by 100 days.

(3) The option vested 1,000,000 at grant, with 500,000 shares vesting on December 31, 2009 and December 31, 2010 and as a result of the Option Suspension Agreement, the expiration date was extended by 100 days.

(4) This option was fully vested as of March 31, 2010.

(5) This option was fully vested as of March 31, 2010. Subsequent to March 31, 2010, the expiration date of this option was extended to February 23, 2015 (see Item 13).

(6) The option vests 250,000 annually at June 4, 2009, June 4 2010 and June 4, 2011.

| | STOCK AWARDS | | | |
|---|---|---|---|---|
| NAME | NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED | MARKET VALUE OF SHARES OR UNITS THAT HAVE NOT VESTED | EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED | EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED |
| | (#) | ($) | (#) | ($) |
| James A. Joyce | 4,000,000(1) | $ 960,000 | -- | $ -- |
| Richard H. Tullis, PhD | -- | $ -- | -- | $ -- |

(1) On June 8, 2009, Mr. Joyce was granted 4,000,000 shares of restricted common stock, at a price per share of $0.24, which shall vest in equal installments over a thirty-six month period commencing June 30, 2010; however Mr. Joyce may, from time to time, defer acceptance of the shares. All shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period.

DIRECTOR COMPENSATION FOR 2010 FISCAL YEAR

The following director compensation disclosure reflects all compensation awarded to, earned by or paid to the directors below for the fiscal year ended March 31, 2010.

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Tot ($ |
|---|---|---|---|---|---|---|---|
| James A. Joyce (1) | -- | -- | -- | -- | -- | -- | |
| Richard H. Tullis (2) | -- | -- | -- | -- | -- | -- | |
| Edward G. Broenniman (3) | 10,000 | -- | -- | -- | -- | -- | 10, |
| Franklyn S. Barry, Jr. (4) | 10,000 | -- | -- | -- | -- | -- | 10, |

(1) All compensation received by Mr. Joyce in fiscal year 2010 is disclosed in the Summary Compensation Table above. Mr. Joyce received no compensation as a director in fiscal year 2010.



(2) All compensation received by Dr. Tullis in fiscal year 2010 is disclosed in the Summary Compensation Table above. Dr. Tullis received no compensation as a director in fiscal year 2010.

(3) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2010 are 0 and 814,225.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2010 are 0 and 766,417.

Directors Compensation Program

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our interests by helping us to obtain and retain the services of outside directors upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording them an opportunity to become

owners of our capital stock.

Under the Directors Compensation Program, a newly elected director will receive a one-time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the Board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

At March 31, 2010 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.



ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of June 23, 2010, with respect to the ownership of our common stock, by (i) each person known by us to be the beneficial owner of more than five percent (5%) of the outstanding shares of each class of our capital stock, (ii) each of our directors and director nominees (if any), (iii) each of our named executive officers and (iv) all of our executive officers and directors as a group. The term "executive officer" is defined as the President/Chief Executive Officer, Secretary, Chief Financial Officer/Treasurer, any vice-president in charge of a principal business function (such as administration or finance), or any other person who performs similar policy making functions for the Company. We believe that each individual or entity named has sole investment and voting power with respect to shares of common stock indicated as beneficially owned by them, subject to community property laws where applicable, excepted where otherwise noted:

| AMOUNT AND NATURE OF TITLE OF CLASS | NAME | BENEFICIAL OWNERSHIP(1)(2) | PERCE CLA |
|---|---|---|---|
| Common Stock | James A. Joyce, Chief Executive Officer and Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 9,710,465 shares(3) | 1 |
| Common Stock | Richard H. Tullis, Chief Scientific Officer and Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 2,165,925 shares(4) | |

| | | | |
|---|---|---|---|
| Common Stock | Edward G. Broenniman, Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 1,096,399 shares(5) | |
| Common Stock | Franklyn S. Barry, Jr., Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 873,010 shares(6) | |
| Common Stock | Ellen R. Weiner Family Revocable Trust(7)<br>10645 N. Tatum Blvd. Suite 200-166<br>Phoenix, Arizona 85028 | 6,957,770 shares(8) | 9. |
| Common Stock | Estate of Allan S. Bird(7)<br>PO Box 371179<br>Las Vegas, Nevada 89137 | 5,156,928 shares(8) | 7. |
| Common Stock | Phillip A. Ward (7)<br>P.O. Box 3322<br>Rancho Santa Fe, CA 92067 | 3,353,611 shares(9) | 4.9 |
| Common Stock | Alan R. Albrecht (7)<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 3,498,051 shares(10) | 4.9 |
| All Current Directors and Executive Officers as a Group (4 members) | | 13,845,799 shares | 1 |

* Less than 1%.

1. Based on 66,975,522 shares of Common Stock outstanding on the transfer records as of June 23, 2010.

2. Calculated pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934. Under Rule 13d-3(d)(1), shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by such person, but not deemed outstanding for the purpose of calculating the percentage owned by each other person listed. The Company believes that each individual or entity named has sole investment and voting power with respect to shares of Common Stock indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted.



3. Includes 2,231,100 stock options exercisable at $0.38 per share, 2,857,143 stock options exercisable at $0.21 per share, 2,500,000 stock options exercisable at $0.36 per share and 1,500,000 stock options exercisable at $0.25 per share. An additional 500,000 stock options (exercisable at $0.25 per share) granted to Mr. Joyce are excluded from the above table as that portion will vest after 60 days from June 23, 2010.

   In addition, Mr. Joyce has been granted 4,000,000 shares of restricted common stock, which shall vest over a 36 month period commencing June 30,

2010; however, such shares will not be issued until Mr. Joyce requests delivery of such vested shares. The above table includes 222,222 shares, representing two months of vesting under the 4,000,000 share grant.

4. Includes 250,000 stock options exercisable at $1.90 per share, 30,000 stock options exercisable at $2.56 per share, 867,175 stock options exercisable at $0.38 per share and 500,000 stock options exercisable at $0.41 per share. An additional 250,000 stock options (exercisable at $0.41 per share) granted to Dr. Tullis are excluded from the table as that portion will vest after 60 days from June 23, 2010.

5. Includes 2,500 stock options exercisable at $3.75 per share, 3,000 stock options exercisable at $1.78 per share, 308,725 stock options exercisable at $0.38 per share and 500,000 stock options exercisable at $0.41 per share.

6. Includes 1,867 stock options exercisable at $1.84 per share and 264,550 stock options exercisable at $0.38 per share and 500,000 stock options exercisable at $0.41 per share.

7. More-than-5% shareholder.

8. Includes certain shares issuable upon conversion of a convertible note and exercise of warrants held by the Ellen R. Weiner Family Revocable Trust (the "Trust") and all shares issuable upon conversion of a convertible note and exercise of warrants held by the Estate of Allan S. Bird (the "Estate"). The Trust owns a convertible promissory note in the principal amount of $660,000 convertible into 3,300,000 shares at $0.20 per share and 8,769,897 warrants to purchase common shares at $0.20 per share. The Estate owns a convertible promissory note in the principal amount of $225,000 convertible into 1,125,000 shares at $0.20 per share and 2,698,070 warrants to purchase common shares at $0.20 per share. Beneficial ownership by each of the Trust and the Estate is limited contractually to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by either to exceed 9.9%. Accordingly, beneficial ownership for the Trust does not reflect 8,764,914 shares underlying the convertible notes and warrants that would cause the number of shares beneficially owned by the Trust to be 19.9% of our outstanding shares. Mr. Bird was Ms. Weiner's father-in-law. The Ellen R. Weiner Family Trust disclaims any beneficial ownership of the Estate's notes, associated warrants and underlying common stock. The Estate of Mr. Bird disclaims any beneficial ownership of such Trust's notes and associated warrants.

9. Includes certain shares issuable upon the exercise of warrants held by Phillip A. Ward. Mr. Ward owns warrants to purchase 100,000 shares of common stock at an exercise price of $0.50; warrants to purchase 100,000 shares of common stock at an exercise price of $0.17; warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; warrants to purchase 55,555 shares of common stock at an exercise price of $0.90; warrants to purchase 90,000 shares of common stock at an exercise price of $0.34; warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; warrants to purchase 194,118 shares of common stock at an exercise price of $0.17; warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; and warrants to purchase 194,118 shares of common stock at an exercise price of $0.17. Mr. Ward's beneficial ownership is limited contractually to the extent that exercise of such warrants would cause the aggregate number of shares of common stock beneficially owned by Mr. Ward to exceed 4.99% of our outstanding shares. Accordingly, beneficial ownership for Mr. Ward does not reflect 2,169,341 shares underlying such warrants that would cause the number of shares beneficially owned by Mr. Ward to be 8% of our outstanding shares.

10. Includes certain shares issuable upon the conversion of a convertible note and exercise of warrants held by Alan R. Albrecht. Mr. Albrecht owns three convertible promissory notes in the aggregate principal amount of $375,000 convertible into 1,500,000 shares at $0.25 per share and warrants to purchase 5,395,000 shares of common stock at an average exercise price of $0.26 per share. Mr. Albrecht's beneficial ownership is limited contractually to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by Mr. Albrecht to exceed 4.99% of our outstanding shares. Accordingly, beneficial ownership for Mr. Albrecht does not reflect 3,769,299 shares underlying such note and such warrants that would cause the number of shares beneficially owned by Mr. Albrecht to be 9.8% of our outstanding shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The following describes all transactions since April 1, 2008, and all proposed transactions, in which the Company was or is to be a participant and the amount involved exceeds the lesser of $120,000 or one percent of the average of the Company's total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

On May 21, 2010, the Board of Directors of the Company amended the expiration terms of certain outstanding stock options such that all outstanding stock options of the Company shall have a term that is for not less than ten (10) years following the original date of grant. No other terms or features of the stock options were modified or amended. Stock options held by Mr. James Joyce, our Chief Executive Officer and Chairman of the Board of Directors, Mr. Richard Tullis, our Chief Science Officer and member of the Board of Directors, Mr. Franklyn Barry, a member of the Board of Directors, and Mr. Edward Broenniman, a member of the Board of Directors, were modified accordingly. Of the foregoing (i) options to purchase 2,231,100 shares held by Mr. Joyce were extended to February 23, 2015; (ii) options to purchase 867,175 shares held by Mr. Tullis were extended to February 23, 2015; (iii) options to purchase 308,725 shares held by Mr. Broenniman were extended to February 23, 2015; and (iv) options to purchase 308,725 shares held by Mr. Barry were extended to February 23, 2015. All of the foregoing options are at an exercise price of $0.38 per share. The foregoing represents only a portion of the total options and shares owned by the directors and officers of the Company.

In addition, on June 8, 2009, the Board of Directors had approved the grant of 4,000,000 shares of restricted common stock, at a price per share of $0.24 to Mr. James Joyce, our Chief Executive Officer, with the shares vesting on a thirty-six month period commencing June 30, 2010. On May 21, 2010, the Board of Directors agreed that Mr. Joyce may, from time to time, defer acceptance of the shares under the vesting schedule provided that all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period.

Director Independence

Each of Mr. Barry and Mr. Broenniman is an independent director as that term is defined by NYSE Rule 303A.02(a). The Company currently has a compensation and

audit committee. Of the members of the Company's board of directors, each of Mr. Barry and Mr. Broenniman meets the NYSE's independence standards for members of such committees and Mr. Tullis and Mr. Joyce do not meet the NYSE's independence requirements for members of such committees.



ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services billed by Squar, Milner, Peterson, Miranda & Williamson LLP ("Squar Milner") for the fiscal years ended March 31, 2010 and 2009:

| | Fiscal Year Ended March 31, 2010 | 2009 |
|---|---|---|
| Audit Fees | $ 92,400 | $ 98,200 |
| Audit Related Fees | 41,600 | 32,400 |
| Tax Fees | 27,000 | 43,600 |
| All Other Fees | -- | -- |
| | $ 161,000 | $ 174,200 |

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITOR

Our audit committee of the Board of Directors is responsible for pre-approving all audit, audit-related, tax and other permitted non-audit services to be performed for us by our independent auditor.

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS

The following documents are filed as part of this report on Form 10-K:

1. Consolidated Financial Statements for the periods ended March 31, 2010 and 2009:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Cash Flows
Consolidated Statements of Stockholders' Deficit
Notes to Consolidated Financial Statements

2. Exhibits

2.1 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (1)

2.2 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (1)

2.3 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Syngen Research, Inc. (2)

2.4 Agreement and Plan of Reorganization Between Aethlon Medical, Inc.

and Cell Activation, Inc. (3)

3.1 Articles of Incorporation of Aethlon Medical, Inc., as amended (4)

3.2 Bylaws of Aethlon Medical, Inc. (4)

10.1 Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (5)++

10.2 Amended and Restated 2003 Consultant Stock Plan (6)

10.3 Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (7)

10.4 Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis (7)++

10.5 Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University (8)

10.6 Stock Option Agreement by and between Aethlon Medical, Inc. and James A Joyce (9)++



10.7 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (9)++

10.8 Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. (9)++

10.9 Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (9)++

10.10 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce(10)++

10.11 Option Agreement by and between Aethlon Medical, Inc. and Trustees of Boston University (11)

10.12 Option Suspension Agreement dated June 29, 2009 (12)++

10.13 Letter Agreement between the Company and Mr. James A. Joyce (13)++

10.14 Letter Agreement between the Company and Mr. Richard H. Tullis (14)++

10.15 Form of Class C Common Stock Purchase Warrant (15)

10.16 Form of 10% Convertible Note (15)

10.17 Stock Option Agreement of James A. Joyce (16)++

10.18 Stock Option Agreement of Franklyn S. Barry (16)++

10.19 Stock Option Agreement of Edward G. Broenniman (16)++

10.20 Stock Option Agreement of Richard H. Tullis (16)++

10.21 Modification and Amendment Agreement dated December 30, 2008 (17)

10.22 Form of Interest Note dated December 30, 2008 (17)

10.23 Form of Liquidated Damages Note dated December 30, 2008 (17)

10.24 Form of Common Stock Purchase Warrant (18)

10.25 Form of Unit Subscription Agreement (18)

10.26 Form of Amended and Restated 12% Convertible Note*

10.27 Form of Amended and Restated Warrant*

10.28 Form of Amended and Restated Warrant (QB)*

10.29 Form of Amended and Restated Registration Rights Agreement*

14 Code of Ethics (19)

21 List of subsidiaries*

23.1 Consent of Independent Registered Public Accounting Firm (Squar, Milner, Peterson, Miranda & Williamson, LLP) *

31.1 Certification of our Chief Executive Officer and Chief Accounting Officer, pursuant to Securities Exchange Act rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.*

32.1 Statement of our Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)*

* Filed herewith
++ Indicates a management contract or compensatory plan or arrangement

(1) Filed with the Company's Current Report on Form 8-K dated March 26, 1999 and incorporated by reference.

(2) Filed with the Company's Current Report on Form 8-K dated January 24, 2000 and incorporated by reference.



(3) Filed with the Company's Current Report on Form 8-K, dated April 25, 2000 and incorporated by reference.

(4) Filed with the Company's Quarterly Report on Form 10-Q filed on November 16, 2009 for the period ended September 30, 2009 and incorporated by reference.

(5) Filed with the Company's Annual Report on Form 10-KSB filed on July 15, 1999 for the year ended March 31, 1999 and incorporated by reference.

(6) Filed with the Company Registration Statement on Form S-8 (File No. 333-164939) filed on February 17, 2010 and incorporated by reference.

(7) Filed with the Company's Annual Report on Form 10-KSB/A filed on September 10, 2004 for the year ended March 31, 2004 and incorporated by reference.

(8) Filed with the Company's Amendment No.2 to Registration Statement on Form SB-2 (File No. 333-117203) filed on October 28, 2004 and incorporated by reference.

(9) Filed with the Company's Annual Report on Form 10-KSB filed on July 14, 2005 for the year ended March 31, 2005 and incorporated by reference.

(10) Filed with the Company's Current Report on Form 8-K filed on September 12, 2005 and incorporated by reference.

(11) Filed with the Company's Current Report on Form 8-K filed on February 23, 2006 and incorporated by reference.

(12) Filed with the Company's Annual Report on Form 10-K filed on July 2, 2009 for the year ended March 31, 2009 and incorporated by reference.

(13) Filed with the Company's Current Report on Form 8-K dated July 25, 2008 and incorporated by reference.

(14) Filed with the Company's Current Report on Form 8-K dated July 31, 2008 and incorporated by reference.

(15) Filed with the Company's Current Report on Form 8-K dated August 12, 2008 and incorporated by reference.

(16) Filed with the Company's Current Report on Form 8-K dated December 19, 2008 and incorporated by reference.

(17) Filed with the Company's Current Report on Form 8-K dated January 2, 2009 and incorporated by reference.

(18) Filed with the Company's Current Report on Form 8-K dated January 20, 2009 and incorporated by reference.

(19) Filed with the Company's Annual Report on Form 10-KSB filed on July 13, 2007 for the year ended March 31, 2007 and incorporated by reference.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 2nd day of July, 2010.

BY: /S/ JAMES A. JOYCE
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JAMES A. JOYCE
CHAIRMAN, CHIEF EXECUTIVE OFFICER
AND ACTING CHIEF FINANCIAL OFFICER

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 registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /S/ JAMES A. JOYCE<br>JAMES A. JOYCE | CHAIRMAN OF THE BOARD | JULY 2, 2010 |
| /S/ FRANKLYN S. BARRY, JR.<br>FRANKLYN S. BARRY, JR. | DIRECTOR | JULY 2, 2010 |
| /S/ EDWARD G. BROENNIMAN<br>EDWARD G. BROENNIMAN | DIRECTOR | JULY 2, 2010 |
| /S/ RICHARD H. TULLIS<br>RICHARD H. TULLIS | DIRECTOR | JULY 2, 2010 |



AETHLON MEDICAL, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

INDEX TO FINANCIAL STATEMENTS





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Aethlon Medical, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Aethlon Medical, Inc. and Subsidiaries (the "Company"), a development stage company, as of March 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended March 31, 2010 and for the period January 31, 1984 (Inception) through March 31, 2010. These financial statements are the responsibility of the

Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2010 and 2009 and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period ended March 31, 2010 and for the period January 31, 1984 (Inception) through March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred continuing losses from operations, is in default on certain debt agreements, has negative working capital of approximately $4,869,000 and a deficit accumulated during the development stage of approximately $42,761,000 at March 31, 2010. As discussed in Note 1 to the consolidated financial statements, a significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the accompanying consolidated financial statements, effective April 1, 2009, the Company adopted new accounting guidance as codified within ASC 815-40, "Derivatives and Hedging Instruments - Contracts in Entities' Own Equity" relating to determining whether an instrument or embedded feature is indexed to a company's own stock.

/S/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

NEWPORT BEACH, CALIFORNIA
JUNE 30, 2010



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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS

---

ASSETS

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 67,950 | $ 6,157 |
| Deferred financing costs | 99,672 | -- |
| Interest receivable | 1,932 | -- |
| Prepaid expenses | 10,139 | 37,011 |
| TOTAL CURRENT ASSETS | 179,693 | 43,168 |
| NON-CURRENT ASSETS | | |
| Note receivable | 300,000 | -- |
| Property and equipment, net | 15,182 | 2,603 |
| Patents, net | 142,340 | 138,417 |
| Deposits | 8,786 | 13,200 |
| TOTAL ASSETS | $ 646,001 | 197,388 |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 232,313 | $ 460,074 |
| Due to related parties | 579,267 | 634,896 |
| Notes payable | 290,000 | 302,500 |
| Convertible notes payable, net of discounts | 1,631,999 | 2,069,720 |
| Derivative liabilities | 1,054,716 | -- |
| Accrued liquidated damages | 493,000 | -- |
| Other current liabilities | 766,940 | 679,498 |
| TOTAL CURRENT LIABILITIES | 5,048,235 | 4,146,688 |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, par value of $0.001; 250,000,000 shares authorized; 61,913,508 and 49,454,131 issued and outstanding at March 31, 2010 and 2009, respectively | 61,914 | 49,455 |
| Additional paid-in capital | 38,296,362 | 34,312,659 |
| Deficit accumulated during the development stage | (42,760,510) | (38,311,414) |
| TOTAL STOCKHOLDERS' DEFICIT | (4,402,234) | (3,949,300) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 646,001 | $ 197,388 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | 2010 | 2009 | JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010 |
|---|---|---|---|
| Grant income | $ -- | $ -- | $ 1,424,012 |
| Subcontract income | -- | -- | 73,746 |
| Sale of research and development | -- | -- | 35,810 |
| | -- | -- | 1,533,568 |
| OPERATING EXPENSES | | | |
| Professional fees | 1,087,707 | 848,790 | 8,880,166 |
| Payroll and related | 1,258,572 | 1,626,579 | 12,384,298 |
| General and administrative | 502,613 | 447,885 | 6,400,695 |
| Impairment | -- | -- | 1,313,253 |
| | 2,848,892 | 2,923,254 | 28,978,412 |
| OPERATING LOSS | (2,848,892) | (2,923,254) | (27,444,844 |
| OTHER (INCOME) EXPENSE | | | |
| Loss on extinguishment of debt | 341,984 | 1,604,715 | 3,710,566 |
| Change in fair value of derivative liabilities | (178,723) | (213,903) | 1,318,676 |
| Interest expense | 1,564,301 | 1,772,863 | 9,919,071 |
| Interest income | (3,139) | (2,771) | (23,325 |
| Other | -- | -- | 390,678 |
| | 1,724,423 | 3,160,904 | 15,315,666 |
| NET LOSS | $ (4,573,315) | $ (6,084,158) | $ (42,760,510 |
| Basic and diluted net loss per share | $ (0.08) | $ (0.14) | |
| Weighted average number of common shares outstanding - basic and diluted | 56,618,667 | 42,948,049 | |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Balance, January 31, 1984 (Inception) | -- | $ -- | $ -- | $ -- | $ -- |
| Common stock issued for cash at $1 per share | 22,000 | 22 | 26,502 | -- | -- |
| Common stock issued for cash at $23 per share | 1,100 | 1 | 24,999 | -- | -- |
| Common stock issued for cash at $86 per share | 700 | 1 | 59,999 | -- | -- |
| Common stock issued for cash at $94 per share | 160 | 1 | 14,999 | -- | -- |
| Common stock issued for cash at $74 per share | 540 | 1 | 39,999 | -- | -- |
| Common stock issued for cash at $250 per share | 4,678 | 5 | 1,169,495 | -- | -- |
| Capital contributions | -- | -- | 521,439 | -- | -- |
| Common stock issued for compensation at $103 per share | 2,600 | 3 | 267,403 | -- | -- |
| Conversion of due to related parties to common stock at $101 per share | 1,120 | 1 | 113,574 | -- | -- |
| Conversion of due to related parties to common stock at $250 per share | 1,741 | 2 | 435,092 | -- | -- |
| Effect of reorganization | 2,560,361 | 2,558 | (2,558) | -- | -- |
| Common stock issued in connection with employment contract at $8 per share | 65,000 | 65 | 519,935 | -- | -- |
| Common stock issued in connection with the acquisition of patents at $8 per share | 12,500 | 13 | 99,987 | -- | -- |
| Warrants issued to note holders in connection with notes payable | -- | -- | 734,826 | -- | -- |
| Warrants issued for services | -- | -- | 5,000 | -- | -- |
| Net loss | -- | -- | -- | -- | (4,746,416) |

| | | | | | |
|---|---|---|---|---|---|
| BALANCE, MARCH 31, 2000 | 2,672,500 | 2,673 | 4,030,691 | -- | (4 ,746,416) |
| Common stock and options issued in connection with acquisition of Cell Activation, Inc. at $7.20 per share | 99,152 | 99 | 1,067,768 | -- | -- |
| Warrants issued to note holders in connection with notes payable | -- | -- | 218,779 | -- | -- |
| Warrants issued to promoter in connection with notes payable | -- | -- | 298,319 | -- | -- |
| Beneficial conversion feature of convertible notes payable | -- | -- | 150,000 | -- | -- |
| Warrants issued to promoter in connection with convertible notes payable | -- | -- | 299,106 | -- | -- |
| Options issued to directors for services as board members | -- | -- | 14,163 | -- | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Options and warrants issued for services | -- | -- | 505,400 | -- | - |
| Common stock issued for services at $3 per share | 5,500 | 5 | 16,495 | -- | - |
| Common stock issued for cash at $1 per share | 100,000 | 100 | 99,900 | -- | - |
| Net loss | -- | -- | -- | -- | (4,423,07 |

| | | | | | |
|---|---|---|---|---|---|
| BALANCE, MARCH 31, 2001 | 2,877,152 | $ 2,877 | $ 6,700,621 | $ -- | $ (9,169,48 |
| Common stock, warrants and options issued for accounts payable and accrued liabilities | 21,750 | 22 | 243,353 | -- | - |
| Common stock issued for services at $2.65 per share | 6,038 | 6 | 15,994 | -- | - |
| Common stock issued for cash at $1.00 per share, net of issuance costs of $41,540 paid to a related party | 730,804 | 731 | 688,533 | -- | - |
| Common stock issued for services at $2.75 per share | 10,000 | 10 | 27,490 | -- | - |
| Common stock issued in connection with license agreement at $3.00 per share | 6,000 | 6 | 17,994 | -- | - |
| Common stock issued to holder of convertible notes payable at $3.00 per share | 70,586 | 71 | 211,687 | -- | - |
| Options issued to directors for services as board members | -- | -- | 7,459 | -- | - |
| Common stock issued for cash at $1.50 per share, net of issuance costs of $2,500 | 16,667 | 17 | 22,483 | -- | - |
| Beneficial conversion feature of convertible notes payable | -- | -- | 185,000 | -- | - |
| Common stock issued for conversion of convertible notes payable and accrued interest at an average price of $1.24 per share | 134,165 | 134 | 166,352 | -- | - |
| Common stock issued for services at $2.72 per share | 9,651 | 10 | 26,240 | -- | - |
| Options issued to consultant for services | -- | -- | 562,000 | -- | - |
| Common stock and warrants for services at $1.95 per share | 62,327 | 62 | 161,475 | -- | - |
| Common stock issued for services at $1.90 per share | 9,198 | 9 | 17,491 | -- | - |
| Stock options exercised for cash | 400,000 | 400 | 199,600 | -- | - |
| Warrants issued to note holders for 90-day forebearance | -- | -- | 118,000 | -- | - |
| Common stock and warrants issued to note holders and vendors in the debt-to-equity conversion program at $1.25 per share | 816,359 | 816 | 1,623,635 | -- | - |

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SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATE DURING DEVELOPMEN |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Other warrant transactions | -- | -- | (32,715) | -- | |
| Net loss | -- | -- | -- | -- | (3,995,9 |
| BALANCE - MARCH 31, 2002 | 5,170,697 | $ 5,171 | $ 10,962,692 | $ -- | $(13,165,3 |
| Proceeds from the issuance of common stock at $0.50 per share in connection with the exercise of options | 200,000 | 200 | 99,800 | -- | |
| Interest expense related to beneficial conversion feature | -- | -- | 150,000 | -- | |
| Pro-rata value assigned to warrants issued in connection with conversion of accounts payable | -- | -- | 71,000 | -- | |
| Pro-rata value assigned to warrants issued in connection with note payable | -- | -- | 30,000 | -- | |
| Issuance of common stock at $1.25 per share in connection with the conversion of accounts payable | 150,124 | 150 | 187,505 | -- | |
| Issuance of common stock at $1.25 per share in connection with the conversion of notes payable | 420,000 | 420 | 104,580 | -- | |
| Estimated fair market value of options issued for services | -- | -- | 114,000 | -- | |
| Issuance of common stock at $0.25 per share for cash | 461,600 | 462 | 114,938 | -- | |
| Issuance of common stock at $0.26 per | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| share for cash | 19,230 | 19 | 4,981 | -- | |
| Issuance of common stock at $1.25 per share for cash | 8,000 | 8 | 9,992 | -- | |
| Issuance of common stock at $0.65 per share for services | 69,231 | 69 | 44,931 | -- | |
| Issuance of common stock at $0.51 per share for services | 196,078 | 196 | 99,804 | -- | |
| Adjustment booked | -- | -- | (100,000) | -- | 100,0 |
| Net loss | -- | -- | -- | -- | (2,461,1 |
| BALANCE - MARCH 31, 2003 | 6,694,960 | $ 6,695 | $ 11,894,223 | $ -- | $(15,526,5 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICI ACCUMULA DURING DEVELOPM |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| BALANCE - MARCH 31, 2003 | 6,694,960 | $ 6,695 | $ 11,894,223 | $ -- | $(15,526, |
| Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants | 540,000 | 540 | 134,460 | -- | |
| Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,099 | 300,397 | 300 | 74,799 | -- | |
| Issuance of common stock at $0.35 per share in connection with the conversion of notes payable, including interest of $59,827 | 813,790 | 814 | 284,013 | -- | |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.50 per share in connection with the conversion of notes payable, including interest of $509 | 11,017 | 11 | 5,498 | -- | |
| Issuance of common stock at $0.42 per share in connection with the conversion of notes payable, including interest of $696 | 13,725 | 14 | 5,682 | -- | |
| Issuance of common stock at $0.65 per share in connection with the conversion of notes payable, including interest of $5,088 | 27,059 | 27 | 17,561 | -- | |
| Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,416 | 461,667 | 462 | 114,954 | -- | |
| Issuance of common stock at $0.25 per share for cash | 1,226,000 | 1,226 | 305,274 | -- | |
| Issuance of common stock at $0.30 per share for cash | 180,000 | 180 | 53,820 | -- | |
| Issuance of common stock at $0.525 per share for cash | 40,000 | 40 | 20,960 | -- | |
| Issuance of common stock at $1.125 per share for cash | 5,000 | 5 | 5,620 | -- | |
| Issuance of common stock at $0.25 per share for services | 10,000 | 10 | 2,490 | -- | |
| Issuance of common stock at $0.34 per share for services | 73,529 | 73 | 24,927 | -- | |
| Issuance of common stock at $0.40 per share for services | 62,000 | 62 | 24,763 | -- | |
| Issuance of common stock at $0.45 per share for services | 185,185 | 185 | 83,148 | -- | |
| Issuance of common stock at $0.50 per share for services | 5,000 | 5 | 2,495 | -- | |
| Interest expense related to beneficial conversion feature | -- | -- | 324,800 | -- | |
| Net loss | -- | -- | -- | -- | (1,518, |
| BALANCE - MARCH 31, 2004 | 10,649,329 | $ 10,649 | $ 13,379,487 | $ -- | $(17,045, |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICI ACCUMULAT DURING DEVELOPME |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| BALANCE - MARCH 31, 2004 | 10,649,329 | $ 10,649 | $ 13,379,487 | $ -- | $ (17,045 |
| Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants | 1,126,564 | 1,127 | 280,515 | -- | |
| Issuance of common stock at $0.44 per share for cash | 1,415,909 | 1,416 | 621,584 | -- | |
| Issuance of common stock at $0.25 per share for cash | 40,233 | 40 | 9,960 | -- | |
| Issuance of common stock at $0.28 per share for cash | 35,947 | 36 | 9,964 | -- | |
| Issuance of common stock at $0.29 per share for cash | 69,431 | 69 | 19,931 | -- | |
| Issuance of common stock at $0.32 per share for cash | 94,449 | 94 | 29,906 | -- | |
| Issuance of common stock at $0.33 per share for cash | 60,620 | 61 | 19,939 | -- | |
| Issuance of common stock at $0.35 per share for cash | 172,824 | 173 | 59,826 | -- | |
| Issuance of common stock at $0.36 per share for cash | 223,756 | 224 | 79,776 | -- | |
| Issuance of common stock at $0.37 per share for cash | 108,079 | 108 | 39,892 | -- | |
| Issuance of common stock at $0.38 per share for cash | 26,549 | 27 | 9,973 | -- | |
| Issuance of common stock at $0.39 per share for cash | 51,748 | 52 | 19,948 | -- | |
| Issuance of common stock at $0.40 per share for cash | 25,233 | 25 | 9,975 | -- | |
| Issuance of common stock at $0.42 per share for cash | 143,885 | 144 | 59,857 | -- | |

| | | | | |
|---|---|---|---|---|
| Issuance of common stock at $0.43 per share for cash | 70,467 | 70 | 29,930 | -- |
| Issuance of common stock at $0.45 per share for cash | 22,455 | 22 | 9,978 | -- |
| Issuance of common stock at $0.46 per share for cash | 43,944 | 44 | 19,956 | -- |
| Issuance of common stock at $0.47 per share for cash | 128,836 | 129 | 59,872 | -- |
| Issuance of common stock at $0.52 per share for cash | 95,502 | 96 | 49,904 | -- |
| Issuance of common stock with warrants at $0.36 per unit for cash | 55,556 | 56 | 19,944 | -- |
| Issuance of common stock at $0.27 per share for cash | 90,000 | 90 | 24,210 | -- |
| Issuance of common stock at $0.50 per share for cash | 3,000 | 3 | 1,497 | -- |
| Issuance of common stock to Fusion Capital for "commitment" shares | 50,000 | 50 | (50) | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Issuance of common stock to Fusion Capital for fees | 418,604 | 419 | (419) | -- | -- |
| Issuance of common stock at $0.34 per share in connection with the conversion of notes payable, including interest of $38,371 | 479,513 | 480 | 162,891 | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.44 per share in connection with the conversion of notes payable | 113,636 | 114 | 49,886 | -- | -- |
| Issuance of common stock at $0.25 per share in connection with the conversion of notes payable | 80,000 | 80 | 19,920 | -- | -- |
| Issuance of common stock at $0.49 per share in connection with the conversion of notes payable | 174,606 | 175 | 85,382 | -- | -- |
| Issuance of common stock at $1.75 per share for services | 17,143 | 17 | 29,983 | -- | -- |
| Issuance of common stock at $0.44 per share for services | 265,273 | 265 | 116,455 | -- | -- |
| Issuance of common stock at $0.70 per share for services | 10,715 | 11 | 7,489 | -- | -- |
| Issuance of common stock at $0.73 per share for services | 6,850 | 7 | 4,993 | -- | -- |
| Issuance of common stock at $0.55 per share for services | 46,364 | 46 | 25,454 | -- | -- |
| Issuance of common stock at $0.25 per share for services | 165,492 | 165 | 41,208 | -- | -- |
| Issuance of common stock at $0.45 per share for services | 28,377 | 28 | 12,741 | -- | -- |
| Issuance of common stock at $0.50 per share for services for deferred consulting services | 60,000 | 60 | 29,940 | (30,000) | -- |
| Issuance of common stock at $0.49 per share for services | 25,087 | 25 | 12,318 | -- | -- |
| Issuance of common stock at $0.45 per share for services for deferred consulting services | 66,666 | 67 | 29,933 | (30,000) | -- |
| Issuance of common stock at $0.37 per share for services | 13,369 | 13 | 4,987 | -- | -- |
| Issuance of common stock at $0.42 per share for services | 19,231 | 19 | 7,981 | -- | -- |
| Issuance of common stock at $0.39 per share for services | 18,042 | 18 | 6,982 | -- | -- |
| Issuance of common stock at $0.32 per share for services | 162,678 | 163 | 52,382 | -- | -- |
| Issuance of common stock at $0.31 per share for services | 16,234 | 16 | 4,984 | -- | -- |
| Issuance of common stock at $0.39 per share for employee bonus | 22,500 | 22 | 8,754 | -- | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2109 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFI ACCUMU DUR DEVELO STA |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | |
| Debt discount on debt issued with detachable warrants | -- | -- | 84,000 | -- | |
| Amortization of deferred consulting fees | -- | -- | -- | 30,000 | |
| Intrinsic value of options issued to directors | -- | -- | 424,262 | -- | |
| Net loss | -- | -- | -- | -- | (2,0 |
| BALANCE - MARCH 31, 2005 | 17,014,696 | $ 17,015 | $ 16,088,280 | $ (30,000) | $ (19,1 |
| Issuance of common stock at $0.28 per share for cash | 35,947 | 36 | 9,964 | -- | |
| Issuance of common stock at $0.26 per share for cash | 38,256 | 38 | 9,962 | -- | |
| Issuance of common stock at $0.26 per share for cash | 38,401 | 38 | 9,962 | -- | |
| Issuance of common stock at $0.25 per share for cash | 201,165 | 201 | 49,799 | -- | |
| Issuance of common stock at $0.25 per share for cash | 80,466 | 80 | 19,920 | -- | |
| Issuance of common stock at $0.25 per share for cash | 80,466 | 80 | 19,920 | -- | |
| Issuance of common stock at $0.25 per share for cash | 80,466 | 80 | 19,920 | -- | |
| Issuance of common stock at $0.25 per share for cash | 80,466 | 80 | 19,920 | -- | |

| | | | | |
|---|---|---|---|---|
| Issuance of common stock at $0.18 per share for cash | 100,000 | 100 | 17,500 | -- |
| Issuance of common stock at $0.25 per Share for cash | 301,744 | 302 | 74,698 | -- |
| Issuance of common stock at varied prices for cash | 2,485,249 | 2,485 | 767,512 | -- |
| Issuance of common stock at $0.76 per share for cash | 568,181 | 568 | 431,249 | -- |
| Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $4,564 | 140,000 | 140 | 34,860 | -- |
| Issuance of common stock at $0.20 per share in connection with the conversion of convertible notes payable, including interest of $4,943 | 174,716 | 175 | 34,768 | -- |
| Issuance of common stock at $0.31 per share for services | 9,740 | 10 | 2,990 | -- |
| Issuance of common stock at $0.30 per share for services | 25,134 | 25 | 7,475 | -- |
| Issuance of common stock at $0.25 per share for services | 31,424 | 31 | 7,869 | -- |
| Issuance of common stock at $0.26 per share for services | 19,084 | 19 | 4,981 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.25 per share for services | 33,228 | 33 | 8,407 | -- | -- |
| Issuance of common stock at $0.25 per share for services | 24,000 | 24 | 5,976 | -- | -- |
| Issuance of common stock at $0.26 per share for services | 11,450 | 11 | 2,989 | -- | -- |
| Issuance of common stock at $0.26 per share for services | 19,084 | 19 | 4,981 | -- | -- |
| Issuance of common stock at $0.26 per share for services | 34,352 | 34 | 8,966 | -- | -- |
| Issuance of common stock at $0.26 per share for services | 11,450 | 11 | 2,989 | -- | -- |
| Loss on settlement of accrued legal liabilities | -- | -- | 142,245 | -- | -- |
| Issuance of common stock at $0.24 per share for services | 12,605 | 13 | 2,987 | -- | -- |
| Issuance of common stock at $0.24 per share for services | 21,008 | 21 | 4,979 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 21,739 | 22 | 4,978 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 21,740 | 22 | 4,978 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 2,155 | 2 | 498 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 91,739 | 92 | 21,008 | -- | -- |
| Issuance of common stock at $0.21 per share for services | 175,755 | 176 | 37,084 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 37,863 | 38 | 8,519 | -- | -- |
| Issuance of common stock at $0.23 per share for services | 21,368 | 21 | 4,979 | -- | -- |
| Issuance of common stock at $0.21 per share for services | 27,852 | 28 | 5,710 | -- | -- |
| Issuance of common stock at $0.24 per share for services | 21,186 | 21 | 4,979 | -- | -- |
| Issuance of common stock at $0.22 per share for services | 35,278 | 35 | 7,585 | -- | -- |
| Issuance of common stock at $0.38 per share for services | 13,298 | 13 | 4,987 | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.38 per share for services | 19,948 | 20 | 7,640 | -- | -- |
| Issuance of common stock at $0.37 per share for services | 97,662 | 98 | 36,037 | -- | -- |
| Issuance of common stock at $0.25 per share for services | 371,847 | 372 | 91,137 | -- | -- |
| Issuance of common stock at $0.25 per share for services | 73,964 | 74 | 18,128 | -- | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Issuance of common stock at $0.29 per share for services | 13,333 | 13 | 3,827 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 15,060 | 15 | 4,985 | -- | -- |
| Issuance of common stock at $0.24 per share for services | 579,813 | 580 | 138,575 | -- | -- |
| Issuance of common stock at $0.28 and $0.33 per share for services | 66,017 | 66 | 19,934 | -- | -- |
| Issuance of common stock at $0.36 per share for services | 13,889 | 14 | 4,986 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 9,091 | 9 | 2,989 | -- | -- |
| Issuance of common stock at $0.28 per share for services | 10,563 | 11 | 2,991 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 150,000 | 150 | 48,850 | (49,000) | -- |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.28 per share for services | 35,714 | 36 | 9,964 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 15,152 | 15 | 4,985 | -- | -- |
| Issuance of common stock at $0.28 per per share for services | 17,730 | 18 | 4,982 | -- | -- |
| Issuance of common stock at $0.20 and $0.37 per share for services | 79,255 | 79 | 19,894 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 33,333 | 33 | 9,967 | -- | -- |
| Issuance of common stock at $0.39 per share for services | 220,080 | 220 | 85,171 | -- | -- |
| Issuance of common stock at $0.49 per share for services | 7,275 | 7 | 3,543 | -- | -- |
| Issuance of common stock at $0.34 per share for services | 27,284 | 27 | 9,170 | -- | -- |
| Issuance of common stock at $0.33 per share for services | 158,046 | 158 | 51,997 | -- | -- |
| Issuance of common stock at $0.20 per share for services | 836,730 | 837 | 166,509 | -- | -- |
| Issuance of cashless warrants | 389,168 | 389 | (389) | -- | -- |
| Conversion of accrued salaries to employee stock options | -- | -- | 300,000 | -- | -- |
| Debt discount on debt issued with detachable warrants | -- | -- | 119,610 | -- | -- |
| Interest expense related to beneficial conversion feature | -- | -- | 222,375 | -- | -- |
| Professional fees related to registration statement | -- | -- | (76,732) | -- | -- |
| Amortization of deferred consulting fees | -- | -- | -- | 34,083 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATE DURING DEVELOPMEN |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Reclassification of derivative liabilities upon registration of shares underlying warrants | -- | -- | 1,090,000 | -- | |
| Net loss | -- | -- | -- | -- | (2,920, |
| BALANCE - MARCH 31, 2006 | 25,383,705 | $ 25,380 | $ 20,322,498 | $ (44,917) | $ (22,062, |
| Issuance of common stock at varied prices for cash | 2,649,773 | 2,650 | 794,097 | -- | |
| Issuance of common stock at $0.18 per share for cash | 555,556 | 556 | 99,444 | -- | |
| Issuance of common stock at $0.30 per share for cash | 1,333,333 | 1,333 | 398,667 | -- | |
| Issuance of common stock at $0.24 per share in connection with the conversion of notes payable, including interest of $18,750 | 107,759 | 108 | 43,642 | -- | |
| Issuance of common stock at $0.24 per share for services | 33,058 | 33 | 7,967 | -- | |
| Issuance of common stock at $0.25 per share for services | 126,065 | 127 | 31,858 | -- | |
| Issuance of common stock at $0.26 per share for services | 156,485 | 156 | 40,349 | -- | |
| Issuance of common stock at $0.27 per share for services | 30,075 | 30 | 7,970 | -- | |
| Issuance of common stock at $0.28 per share for services | 43,819 | 44 | 12,256 | -- | |
| Issuance of common stock at $0.29 per share for services | 14,563 | 15 | 4,150 | -- | |
| Issuance of common stock at $0.30 per share for services | 18,454 | 19 | 5,531 | -- | |
| Issuance of common stock at $0.31 per share for services | 32,984 | 33 | 10,467 | -- | |
| Issuance of common stock at $0.32 per | | | | | |

| | | | | |
|---|---|---|---|---|
| share for services | 52,722 | 53 | 17,947 | -- |
| Issuance of common stock at $0.34 per share for services | 29,965 | 30 | 9,470 | -- |
| Issuance of common stock at $0.37 per share for services | 132,765 | 133 | 48,725 | -- |
| Issuance of common stock at $0.40 per share for services | 7,813 | 8 | 2,492 | -- |
| Issuance of common stock at $0.45 per share for services | 3,363 | 3 | 1,497 | -- |
| Issuance of common stock at $0.47 per share for services | 14,535 | 15 | 4,985 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEF ACCU DU DEVE ST |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | | | |
| Issuance of common stock at $0.50 per share for services | 35,601 | 36 | 17,765 | -- | |
| Issuance of common stock at $0.51 per share for services | 21,078 | 21 | 10,728 | -- | |
| Issuance of common stock at $0.53 per share for services | 20,127 | 20 | 8,980 | -- | |
| Issuance of common stock at $0.55 per share for services | 4,545 | 5 | 2,495 | -- | |
| Issuance of common stock at $0.58 per share for services | 17,332 | 17 | 9,983 | -- | |
| Issuance of common stock at $0.59 per share for services | 8,532 | 9 | 4,991 | -- | |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock at $0.61 per share for services | 4,934 | 5 | 2,995 | -- | |
| Issuance of common stock at $0.79 per share for services | 10,095 | 9 | 7,990 | -- | |
| Issuance of common stock at $0.81 per share for services | 3,086 | 3 | 2,497 | -- | |
| Adjustment for issuance of cashless warrants | (144,099) | (140) | 140 | -- | |
| Issuance of commitment shares | 1,050,000 | 1,050 | (1,050) | -- | |
| Interest expense related to beneficial conversion feature | -- | -- | 50,000 | -- | |
| Amortization of deferred consulting fees | -- | -- | -- | 44,917 | |
| Issuance of common stock for option to obtain licensing rights to cancer patent | 40,000 | 40 | 10,760 | -- | |
| Stock compensation expense | -- | -- | 38,132 | -- | |
| Issuance of common stock at $0.20 per Share in settlement of accrued liabilities | 114,130 | 114 | 22,997 | -- | |
| Reclassification of derivative liabilities upon registration of shares underlying warrants | -- | -- | (1,090,000) | -- | |
| Net loss | -- | -- | -- | -- | (6 |
| BALANCE - MARCH 31, 2007 | 31,912,153 | $ 31,914 | $ 20,963,419 | $ -- | $ (28 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL | DEFERRED | DEFICIT ACCUMULATE DURING |
|---|---|---|---|---|---|

| | SHARES | AMOUNT | PAID IN CAPITAL | CONSULTING FEES | DEVELOPMEN STAGE |
|---|---|---|---|---|---|
| BALANCE - MARCH 31, 2007 | 31,912,153 | $ 31,914 | $ 20,963,419 | $ -- | $ (28,086, |
| Issuance of common stock at $0.50 per share for cash | 2,560,000 | 2,560 | 1,187,840 | -- | |
| Issuance of common stock at $1.00 per share for cash | 100,000 | 100 | 99,900 | -- | |
| Issuance of common stock at $0.24 per share for services | 71,045 | 71 | 16,980 | -- | |
| Issuance of common stock at $0.48 per share for services | 41,999 | 42 | 19,958 | -- | |
| Issuance of common stock at $0.49 per share for services | 13,017 | 13 | 6,399 | -- | |
| Issuance of common stock at $0.50 per share for services | 45,380 | 45 | 22,645 | -- | |
| Issuance of common stock at $0.53 per share for services | 75,000 | 75 | 39,675 | -- | |
| Issuance of common stock at $0.57 per share for services | 7,895 | 8 | 4,492 | -- | |
| Issuance of common stock at $0.58 per share for services | 36,487 | 36 | 21,164 | -- | |
| Issuance of common stock at $0.60 per share for services | 120,033 | 120 | 71,490 | -- | |
| Issuance of common stock at $0.61 per share for services | 103,106 | 103 | 62,791 | -- | |
| Issuance of common stock at $0.63 per share for services | 10,174 | 10 | 6,440 | -- | |
| Issuance of common stock at $0.65 per share for services | 4,601 | 5 | 2,995 | -- | |
| Issuance of common stock at $0.68 per share for services | 17,127 | 17 | 11,583 | -- | |
| Issuance of common stock at $0.69 per share for services | 7,246 | 7 | 4,993 | -- | |
| Issuance of common stock at $0.76 per share for services | 17,061 | 17 | 12,983 | -- | |
| Issuance of common stock at $0.78 per share for services | 19,179 | 19 | 14,981 | -- | |
| Exercise of cashless warrants | 49,414 | 49 | (49) | -- | |
| Issuance of common stock for option exercises by director | 250,000 | 250 | 94,750 | -- | |

| | | | | |
|---|---|---|---|---|
| Common stock units issued under renegotiation of convertible notes | 2,149,582 | 2,150 | 5,390,514 | -- |
| Beneficial conversion feature on convertible debt | -- | -- | 38,197 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULA DURIN |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | DEVELOPM STAGE |
| Issuance of common stock in exchange for licensing rights | 15,152 | 15 | 4,985 | -- | |
| Stock compensation expense | -- | -- | 487,093 | -- | |
| Issuance of common stock in connection with the conversion of notes payable | 1,365,500 | 1,366 | 279,782 | -- | |
| Net loss | -- | -- | -- | -- | (4,140 |
| BALANCE - MARCH 31, 2008 | 38,991,151 | $ 38,992 | $ 28,866,000 | $ -- | $ (32,227 |
| Issuance of common stock at $0.59 per share for services | 10,170 | 10 | 5,990 | -- | |
| Issuance of common stock under licensing agreement | 10,849 | 11 | 5,739 | -- | |
| Issuance of common stock at $0.45 per share for services | 6,667 | 7 | 2,993 | -- | |
| Issuance of common stock at $0.50 per share for cash | 1,000,000 | 1,000 | 499,000 | -- | |
| Issuance of common stock in connection with the conversion of notes payable | 232,033 | 232 | 39,093 | -- | |

| | | | | |
|---|---|---|---|---|
| Issuance of common stock at $0.41 per share for services | 25,610 | 26 | 10,474 | -- |
| Issuance of common stock in connection with the conversion of accounts payable due to related parties | 1,015,050 | 1,015 | 331,264 | -- |
| Issuance of common stock in connection with the payment of interest and damages to convertible noteholders | 966,750 | 967 | 472,741 | -- |
| Issuance of common stock at $0.45 per share for legal services | 110,138 | 110 | 49,452 | -- |
| Issuance of common stock at $0.40 per share for services | 38,150 | 38 | 15,222 | -- |
| Issuance of common stock at $0.50 per Share under warrant exercises | 770,000 | 770 | 191,730 | -- |
| Issuance of common stock at $0.50 per share under warrant exercises | 200,000 | 200 | 49,800 | -- |
| Issuance of common stock at $0.19 per share for legal services | 98,684 | 99 | 18,651 | -- |
| Issuance of common stock at $0.28 per share for legal services | 59,950 | 60 | 16,546 | -- |
| Issuance of common stock at $0.25 per share for cash | 700,000 | 700 | 165,550 | -- |
| Issuance of common stock at $0.25 per share for legal services | 338,099 | 338 | 83,950 | -- |
| Record warrant expense on the issuance of units for accrued interest | -- | -- | 425,680 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFIC ACCUMUL DURI DEVELOP |
|---|---|---|---|---|---|

| | SHARES | AMOUNT | CAPITAL | FEES | STAG |
|---|---|---|---|---|---|
| Record warrants and discount on Convertible notes | -- | -- | 163,402 | -- | |
| Issuance of common stock at $0.25 per share for services | 23,636 | 24 | 5,976 | -- | |
| Issuance of common stock at $0.26 per share for services | 77,192 | 77 | 19,993 | -- | |
| Issuance of common stock at $0.26 per share for services | 35,000 | 35 | 8,365 | -- | |
| Issuance of common stock at $0.33 per share for services | 15,337 | 15 | 4,985 | -- | |
| Reclass remainder of derivative liability to additional paid-in capital due to registration of warrants | -- | -- | 419,192 | -- | |
| Estimated value of equity instruments granted in debt restructuring | -- | -- | 711,541 | -- | |
| Issuance of common stock at $0.15 per share for cash | 1,320,000 | 1,320 | 200,610 | -- | |
| Issuance of common stock at $0.21 per share for services | 38,810 | 39 | 8,111 | -- | |
| Issuance of common stock at $0.17 per share for services | 67,059 | 67 | 11,333 | -- | |
| Issuance of common stock under licensing agreement | 23,566 | 24 | 5,726 | -- | |
| Issuances of common stock under conversions of notes payable | 2,569,727 | 2,570 | 680,212 | -- | |
| Issuance of common stock at $0.19 per share for services | 28,947 | 27 | 5,471 | -- | |
| Issuance of common stock at $0.17 per share for services | 78,743 | 79 | 13,701 | -- | |
| Issuance of common stock at $0.17 per share for services | 53,706 | 54 | 9,076 | -- | |
| Issuance of common stock in connection with the payment of interest to convertible noteholders | 168,750 | 169 | 30,206 | -- | |
| Issuance of common stock at $0.17 per share for services | 50,000 | 50 | 8,450 | -- | |
| Issuance of common stock at $0.17 per share for services | 33,333 | 33 | 5,467 | -- | |
| Issuance of common stock at $0.20 per | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| share for legal services | 63,369 | 63 | 12,412 | -- | |
| Issuance of common stock at $0.19 per share for services | 28,947 | 29 | 5,471 | -- | |
| Stock-based compensation expense | 204,708 | 205 | 733,084 | -- | |
| Net loss | -- | -- | -- | -- | (6,08 |
| BALANCE - MARCH 31, 2009 | 49,454,131 | $ 49,455 | $ 34,312,659 | $ -- | $ (38,31 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICI ACCUMULA DURIN DEVELOPM |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Issuance of common stock at $0.17 per Share for services | 71,519 | 72 | 12,086 | -- | |
| Issuances of common stock under conversions of notes payable | 1,688,211 | 1,688 | 261,790 | -- | |
| Issuance of common stock at $0.18 per share under warrant exercise | 555,556 | 556 | 99,444 | -- | |
| Issuance of common stock per share at $0.22 per share for investor relations services | 490,000 | 490 | 108,210 | -- | |
| Issuance of common stock at $0.22 per share for services | 25,000 | 25 | 5,475 | -- | |
| Issuance of common stock at $0.23 per share for services | 32,935 | 33 | 7,542 | -- | |
| Issuance of common stock at $0.22 per | | | | | |

| | | | | |
|---|---|---|---|---|
| share for services | 12,372 | 12 | 2,648 | -- |
| Issuance of common stock at $0.19 per share for cash | 80,000 | 80 | 15,120 | -- |
| Issuance of common stock at $0.18 per share for services | 43,021 | 43 | 7,701 | -- |
| Issuance of common stock at $0.20 per share for services | 70,870 | 71 | 14,429 | -- |
| Issuance of common stock at $0.24 per share for services | 22,817 | 23 | 5,477 | -- |
| Issuances of common stock under conversions of notes payable | 878,059 | 878 | 138,378 | -- |
| Issuance of common stock at $0.23 per share for services | 13,043 | 13 | 2,987 | -- |
| Issuance of common stock at $0.28 per share for services | 10,714 | 11 | 2,989 | -- |
| Issuance of common stock at $0.19 per share for services | 51,118 | 51 | 9,662 | -- |
| Issuance of common stock at $0.25 per share for services | 22,000 | 22 | 5,478 | -- |
| Issuance of common stock at $0.22 per share for services | 34,602 | 35 | 7,578 | -- |
| Issuance of common stock at $0.24 per share for services | 40,104 | 40 | 9,585 | -- |
| Issuance of common stock at $0.24 per share for services | 22,917 | 23 | 5,477 | -- |
| Issuance of common stock at $0.24 per share for services | 20,500 | 21 | 4,899 | -- |
| Issuance of common stock at $0.22 per share for services | 57,055 | 57 | 12,495 | -- |
| Issuance of common stock at $0.24 per share for services | 22,917 | 23 | 5,477 | -- |
| Issuance of common stock at $0.23 per share for services | 23,000 | 23 | 5,267 | -- |
| Issuance of common stock at $0.22 per share for services | 48,106 | 48 | 10,535 | -- |
| Issuance of common stock at $0.34 per share for services | 16,176 | 16 | 5,484 | -- |

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SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICI ACCUMULA DURIN DEVELOPM |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE |
| Issuances of common stock under conversions of notes payable | 779,956 | 780 | 142,732 | -- | |
| Issuances of common stock under conversions of notes payable | 518,649 | 519 | 100,047 | -- | |
| Issuance of common stock at $0.30 per share for services | 18,333 | 18 | 5,482 | -- | |
| Issuance of common stock at $0.28 per share for services | 51,971 | 52 | 14,448 | -- | |
| Issuance of common stock at $0.34 per share for services | 11,647 | 12 | 3,948 | -- | |
| Issuance of common stock at $0.28 per share for services | 19,643 | 20 | 5,480 | -- | |
| Issuance of common stock at $0.26 per share for services | 21,154 | 21 | 5,479 | -- | |
| Issuance of common stock at $0.28 per share for services | 14,143 | 14 | 3,946 | -- | |
| Issuance of common stock at $0.24 per share for services | 22,917 | 23 | 5,477 | -- | |
| Issuance of common stock at $0.22 per share for services | 36,094 | 36 | 7,905 | -- | |
| Issuance of common stock at $0.27 per share for services | 20,370 | 20 | 5,480 | -- | |
| Issuance of common stock at $0.24 per share for services | 16,000 | 16 | 3,824 | -- | |
| Issuance of common stock at $0.28 per share for services | 19,784 | 20 | 5,480 | -- | |
| Issuance of common stock at $0.25 per share for services | 12,000 | 12 | 2,988 | -- | |

| | | | | |
|---|---|---|---|---|
| Issuance of common stock at $0.25 per share as grant to research institute | 100,000 | 100 | 24,900 | -- |
| Issuance of common stock at $0.22 per share for services | 319,033 | 319 | 69,868 | -- |
| Issuance of common stock at $0.25 per share for services | 22,088 | 22 | 5,478 | -- |
| Issuance of common stock at $0.22 per share for services | 37,585 | 38 | 8,231 | -- |
| Issuances of common stock under conversions of notes payable | 2,511,264 | 2,511 | 478,786 | -- |
| Issuance of common stock at $0.26 per share for services | 15,231 | 15 | 3,945 | -- |
| Issuance of common stock at $0.47 per share for services | 11,702 | 12 | 5,488 | -- |
| Issuances of common stock under conversions of notes payable | 117,759 | 117 | 38,478 | -- |
| Issuance of common stock at $0.39 per share for services | 14,103 | 14 | 5,486 | -- |

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SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

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| | COMMON STOCK | | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICI ACCUMULA DURING DEVELOPM STAGE |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | | | |
| Issuance of common stock at $0.36 per share for services | 89,397 | 89 | 32,362 | -- | |
| Issuance of common stock at $0.35 per share for services | 19,688 | 20 | 6,871 | -- | |

| | | | | |
|---|---|---|---|---|
| Issuance of common stock at $0.37 per share for services | 15,068 | 15 | 5,485 | -- |
| Issuance of common stock at $0.40 per share for services | 9,900 | 10 | 3,950 | -- |
| Issuance of common stock at $0.30 per share for services | 50,313 | 50 | 15,044 | -- |
| Issuance of common stock at $0.30 per share for services | 114,066 | 114 | 34,106 | -- |
| Issuance of common stock at $0.32 per share for services | 17,188 | 17 | 5,483 | -- |
| Issuance of common stock at $0.35 per share for services | 11,314 | 11 | 3,949 | -- |
| Issuance of common stock at $0.30 per share for services | 18,333 | 18 | 5,482 | -- |
| Issuances of common stock under conversions of notes payable | 280,000 | 280 | 69,720 | -- |
| Issuances of common stock under conversions of notes payable | 211,665 | 212 | 42,121 | -- |
| Issuance of common stock under licensing agreement at $0.31 per share | 36,683 | 37 | 11,463 | -- |
| Issuance of common stock at $0.38 per share for services | 14,474 | 14 | 5,486 | -- |
| Issuance of common stock in connection with the payment of interest to convertible noteholders | 731,251 | 731 | 487,504 | -- |
| Issuance of common stock at $0.30 per share for services | 13,200 | 13 | 3,947 | -- |
| Issuance of common stock at $0.35 per share for services | 15,714 | 16 | 5,484 | -- |
| Issuance of common stock at $0.32 per share for services | 45,886 | 46 | 14,454 | -- |
| Issuance of common stock at $0.32 per share for services | 17,188 | 17 | 5,483 | -- |
| Issuances of common stock under conversions of accrued expenses | 29,878 | 30 | 8,933 | -- |
| Issuance of common stock at $0.35 per share for services | 11,314 | 11 | 3,949 | -- |
| Issuance of common stock at $0.33 per share for services | 16,667 | 17 | 5,483 | -- |
| Issuance of common stock at $0.32 per share for services | 9,059 | 9 | 2,908 | -- |

| | | | | |
|---|---|---|---|---|
| Issuances of common stock under conversions of notes payable | 1,444,185 | 1,445 | 351,114 | -- |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

| | COMMON STOCK | | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEF ACCUM DU DEVEL ST |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | | | |
| Issuance of common stock at $0.40 per share for services | 82,678 | 83 | 32,988 | -- | |
| Issuance of common stock at $0.42 per share for services | 13,095 | 13 | 5,487 | -- | |
| Issuance of common stock at $0.35 per share for services | 11,065 | 11 | 3,906 | -- | |
| Issuance of common stock at $0.34 per share for services | 11,647 | 12 | 3,948 | -- | |
| Issuance of common stock at $0.37 per share for services | 20,929 | 21 | 7,723 | -- | |
| Issuance of common stock at $0.38 per share for services | 14,474 | 14 | 5,486 | -- | |
| Issuance of common stock at $0.36 per share for services | 8,125 | 8 | 2,909 | -- | |
| Issuance of common stock at $0.34 per share for services | 10,895 | 11 | 3,739 | -- | |
| Issuance of warrants and recording discount on convertible notes | -- | -- | 933,985 | -- | |
| Issuance of warrants upon conversion of debt into common stock | -- | -- | 31,549 | -- | |

| | | | | | |
|---|---|---|---|---|---|
| Stock-based compensation expense | -- | -- | 504,933 | -- | |
| Cumulative effect of change in accounting principle | -- | -- | (403,320) | -- | 1 |
| Net loss | -- | -- | -- | -- | (4,5 |
| BALANCE - MARCH 31, 2010 | 61,913,508 | $ 61,914 | $ 38,296,362 | $ -- | $(42,7 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010

Ja

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (4,573,315) | $ (6,084,158) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 13,653 | 16,281 |
| Amortization of deferred consulting fees | -- | -- |
| Gain on settlement of debt | -- | -- |
| Loss on debt extinguishment and on issuance of units for accrued interest and damages | 341,984 | 1,604,715 |
| Loss on settlement of accrued legal liabilities | -- | -- |
| Gain on sale of property and equipment | -- | -- |
| Change in estimated fair value of derivative liabilities | (178,723) | (213,903) |
| Fair market value of warrants issued in connection with accounts payable and debt related costs | -- | -- |
| Fair market value of equity instruments issued for services, grants and accrued interest | 665,771 | 334,870 |
| Amortization of discount associated with warrants issued upon conversion of debt | 31,549 | -- |
| Stock based compensation | 504,933 | 733,289 |
| Amortization of debt discount and deferred financing costs | 627,060 | 1,517,132 |
| Impairment of patents and patents pending | -- | -- |
| Impairment of goodwill | -- | -- |
| Deferred compensation forgiven | -- | -- |

| | | |
|---|---|---|
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | 26,872 | (3,452) |
| Other assets | 2,483 | -- |
| Accounts payable and accrued liabilities | 615,845 | 309,695 |
| Due to related parties | (55,629) | 8,143 |
| Net cash used in operating activities | (1,977,517) | (1,777,388) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (17,068) | (1,407) |
| Patents and patents pending | (13,087) | (10,419) |
| Proceeds from the sale of property and equipment | -- | -- |
| Cash of acquired company | -- | -- |
| Net cash used in investing activities | (30,155) | (11,826) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010 (CONTINUED)

| | 2010 | 2009 | Janua (In T Marc |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net proceeds from the issuance of notes payable | -- | -- | |
| Principal repayments of notes payable | (24,000) | -- | |
| Proceeds from the issuance of convertible notes payable | 1,978,265 | 430,000 | |
| Net proceeds from the issuance of common stock | 115,200 | 1,110,680 | |
| Professional fees related to registration statements | -- | -- | |
| Net cash provided by financing activities | 2,069,465 | 1,540,680 | |
| Net increase (decrease) in cash | 61,793 | (248,534) | |
| Cash at beginning of period | 6,157 | 254,691 | |

| | | | |
|---|---|---|---|
| Cash at end of period | $ 67,950 | $ 6,157 | $ |
| Supplemental disclosure of cash flow information - Cash paid during the period for: | | | |
| Interest | $ -- | $ -- | $ |
| Income taxes | $ -- | $ -- | $ |
| Supplement schedule of noncash investing and financing activities: | | | |
| Conversion of debt, accrued liabilities and accrued interest to common stock | $ 1,640,559 | $ 722,106 | $ |
| Stock option exercise by director for accrued expenses | $ -- | $ -- | $ |
| Conversion of amounts due to officers and directors into common stock | $ -- | $ 332,279 | $ |
| Debt discount on notes payable associated with detachable warrants | $ 1,867,973 | $ 150,095 | $ |
| Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties | $ -- | $ -- | $ |
| Reclassification of derivative liability to additional paid-in capital | $ -- | $ 419,192 | $ |
| Additional convertible debt issued in connection with debt restructuring | $ -- | $ 573,211 | $ |
| Issuance of common stock in connection with license agreements | $ -- | $ -- | $ |
| Issuance of note receivable in connection with convertible debt financing | $ 300,000 | $ -- | $ |
| Net assets of entities acquired in exchange for equity securities | $ -- | $ -- | $ |
| Debt placement fees paid by issuance of warrants | $ -- | $ 13,307 | $ |
| Patent pending acquired for 12,500 shares of common stock | $ -- | $ -- | $ |
| Common stock issued for prepaid expenses | $ -- | $ -- | $ |
| Licensing rights acquired with common stock issuance | $ 11,500 | $ 11,500 | $ |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Aethlon Medical, Inc. ("Aethlon", the "Company", "we" or "us") engages in the research and development of a medical device known as the Hemopurifier(R) that removes harmful substances from the blood. Aethlon is in the development stage on the Hemopurifier(R) and significant research and testing are still needed to reach commercial viability. Any resulting medical device or process will require approval by the U.S. Food and Drug Administration ("FDA") or the regulatory agency of any foreign country where it intends to sell its device. Aethlon has submitted an Investigational Device Exemption ("IDE") to the FDA. Some of our patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, the Company believes that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(R) treatment technology.

Aethlon is classified as a development stage enterprise under accounting principles generally accepted in the United States of America ("GAAP"), and has not generated revenues from its planned principal operations.

Aethlon's common stock is quoted on the Over-the-Counter Bulletin Board administered by the Financial Industry Regulatory Authority ("OTCBB") under the symbol "AEMD.OB."

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc., Syngen Research, Inc., Cell Activation, Inc. and Exosome Sciences, Inc. (collectively hereinafter referred to as the "Company" or "Aethlon").

Hemex, Inc. is dormant and Aethlon, Inc., Syngen Research, Inc. and Cell Activation, Inc. were dormant and were dissolved effective November 25, 2009. In December 2009, we formed Exosome Sciences, Inc. to conduct our future cancer-related activities. Intercompany balances have been eliminated in consolidation.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the ordinary course of business. The Company has incurred continuing losses from operations, is in default on certain debt agreements, has negative working capital of approximately $4,869,000, recurring losses from operations and a deficit accumulated during the development stage of approximately $42,761,000 at March 31, 2010, which among other matters, raises substantial doubt about its ability to continue as a going concern. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. The Company intends to fund operations, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2011 through debt and/or equity financing arrangements.

The Company is currently addressing its liquidity issue by continually seeking investment capital through private placements of common stock and debt. The Company believes that its cash on hand and funds expected to be received from additional private investment will be sufficient to meet its liquidity needs for fiscal 2011. However, no assurance can be given that the Company will receive any funds in addition to the funds it has received to date.

The successful outcome of future activities cannot be determined at this time and there is no assurance that, if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

The consolidated financial statements do not include any adjustments related to this uncertainty and as to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

RISKS AND UNCERTAINTIES

The Company operates in an industry that is subject to intense competition, government regulation and rapid technological change. The Company's operations are subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks associated with a development stage company, including the potential risk of business failure.





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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

USE OF ESTIMATES

We prepare our consolidated financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include, among others, realization of long-lived assets, valuation of derivative liabilities, estimating fair value associated with debt and equity transactions and valuation of deferred tax assets. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Accounting standards define "cash and cash equivalents" as any short-term, highly liquid investment that is both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. For the purpose of financial statement presentation, we consider all highly liquid investment instruments with original maturities of three months or less when purchased, or any investment redeemable without penalty or loss of interest to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of our cash, accounts payable and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of the note receivable approximates its fair value due to the short maturity of the note and as the interest rate approximates current market interest rates for similar instruments. Derivative liabilities recorded in connection with the embedded conversion feature of certain convertible notes payable (See Note 5) are reported at their estimated fair value, with changes in fair value being reported in results of operations.

Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties because the transactions cannot be assumed to have been consummated at arm's length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practicable due to the lack of data regarding similar instruments, if any, and the associated potential costs.

CONCENTRATIONS OF CREDIT RISKS

Cash is maintained at two financial institutions in checking accounts and related cash management accounts. In October 2008, the Federal Deposit Insurance Corporation ("FDIC") increased the maximum level of deposit insurance at financial institutions from $100,000 to $250,000. Our cash balances were below such insured amounts at both March 31, 2010 and 2009.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to five years. Repairs and maintenance are charged to expense as incurred while improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation with any gain or loss included in the consolidated statements of operations.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. We record a valuation allowance for deferred tax assets when, based on our best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.





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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized. We believe no impairment charges were necessary during the fiscal years ended March 31, 2010 and 2009.

LOSS PER SHARE

Basic loss per share is computed by dividing net income available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued, and if the additional common shares were dilutive. As we had net losses for all periods presented, basic and diluted loss per share are the same, and additional common stock equivalents have been excluded as their effect would be antidilutive.

The potentially dilutive common shares outstanding for the fiscal years ended March 31, 2010 and 2009, which include shares underlying outstanding stock options, warrants and convertible debentures were 53,669,525 and 45,827,651, respectively.

SEGMENTS

We currently operate in one segment, and accordingly, no additional segment related disclosures are required.





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STOCK-BASED COMPENSATION

Employee stock options and rights to purchase shares under stock participation plans are accounted for under the fair value method. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the OTCBB on the date of grant. Compensation cost recognized by the Company includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of the then current accounting standards, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of subsequent accounting standards. We use a Binomial Lattice option pricing model for estimating fair value of options granted.

The following table summarizes share-based compensation expenses relating to shares and options granted and the effect on basic and diluted loss per common share during the years ended March 31, 2010 and 2009:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Stock Option Expense | $ 504,933 | $ 679,924 |
| Direct Stock Grants | -- | 53,365 |
| Total Stock-Based Compensation Expense | $ 504,933 | $ 733,289 |
| Basic and diluted loss per common share | $ (0.01) | $ (0.02) |

We account for transactions involving services provided by third parties where we issue equity instruments as part of the total consideration using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable. In transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, we use the following methodology:

a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance). b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.





1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STOCK-BASED COMPENSATION, CONTINUED

c) For any transactions not meeting the criteria in (a) or (b) above, we re-measure the consideration at each reporting date based on its then current stock value.

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 31, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the fiscal year ended March 31, 2010 was insignificant.

PATENTS

Patents include both foreign and domestic patents. There were several patents pending at March 31, 2010. We capitalize the cost of patents and patents pending, some of which were acquired, and amortize such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent. The unamortized costs of patents and patents pending is written off when we determine there is no future benefit to those assets.

STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

We granted warrants in connection with the issuance of certain notes payable. The relative estimated fair value of such warrants represents a discount from the face amount of the notes payable. Accordingly, the relative estimated fair value of the warrants in those certain transactions where the warrants qualified for equity classification has been recorded in the consolidated financial statements as a discount from the face amount of the notes. The discount is amortized using the effective interest method over the respective term of the related notes payable.

DERIVATIVE LIABILITIES AND CLASSIFICATION

We evaluate free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. Our policy is to settle instruments indexed to our common shares on a first-in-first-out basis.

The classification of a derivative instrument is reassessed at each reporting date. If the classification changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

On April 1, 2009 we adopted guidance issued by the FASB that requires us to apply a two-step model in determining whether a financial instrument or an embedded conversion feature is indexed to our own stock and thus enables it to qualify for equity classification. We have identified several convertible debt agreements in which the embedded conversion feature contains certain provisions that may result in an adjustment of the conversion price, which results in the failure of the embedded conversion feature to be considered to be indexed to our stock. As a result of the adoption of this guidance, the estimated fair value of the embedded conversion feature (See SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS section) was recorded as a derivative liability (at the date of issuance), and a cumulative effect adjustment was recorded to our accumulated deficit. In addition, we have re-measured the fair value of such derivative liability quarterly and as of March 31, 2009 and 2010 and have recorded the change in the fair value for the fiscal years ended March 31, 2009 and 2010 in other expense (income) in the accompanying consolidated statement of operations.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable (see Note 5) provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). The estimated intrinsic fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are accreted to interest expense over the term of the notes using the effective interest method.





REGISTRATION PAYMENT ARRANGEMENTS

We have registration payment arrangements associated with convertible notes related to the registration of warrants and the common stock underlying the convertible notes. These warrants have lives extending through 2016. The terms of certain of the arrangements do not provide for a maximum potential amount of consideration.

We account for contingent obligations to make future payments or otherwise transfer consideration under a registration payment arrangement separately from any related financing transaction agreements, and any such contingent obligations are recognized only when it is determined that it is probable that the Company will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated. On October 7, 2008, the SEC declared effective a registration statement that covered all of the shares and warrants that had previously been generating liquidated damages pursuant to registration rights agreements and as a result, we ceased recording such liquidated damages at that time.

However, the above referenced registration statement ceased being effective in July 2009. As a result, as of March 31, 2010, we have accrued estimated liquidated damages in the aggregate amount of $493,400, which represents amounts owed through March 31, 2010, plus the additional estimated amounts that will be owed through August 2010, at which time we expect to have an effective registration statement back on file with the Securities and Exchange Commission ("SEC"). The actual amount of liquidated damages owed may differ from our estimates. We also intend to negotiate the amount of liquidated damages due and, as such, the ultimate amounts we may actually pay may be less than the amount currently accrued.

RESEARCH AND DEVELOPMENT EXPENSES

We incurred approximately $525,000 and $648,000 of research and development expenses for the years ended March 31, 2010 and 2009, respectively, which are included in various operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidate financial statements.

CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2009, the Company adopted new accounting guidance as codified within Accounting Standards Codification ("ASC") 815-40, "Derivatives and Hedging Instruments - Contracts in Entities' Own Equity" relating to determining whether an instrument or embedded feature is indexed to a company's own stock. The adoption of this new accounting guidance standard's requirements can affect the accounting for warrants or convertible debt that contain provisions that protect holders from a decline in the stock price (or "down-round" protection). For example, warrants with such provisions will no longer be recorded in equity. Down-round protection provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise or conversion price. We evaluated whether convertible debt or warrants to acquire stock of the Company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise or conversion price and/or shares to be issued under the respective agreements based on a variable that is not an input to the fair value of a "fixed-for-fixed" option. We determined that our warrants do not contain such protective features. However, we determined that we have several convertible debt agreements in which the

terms provide for a possible adjustment to the conversion price, and as such, the embedded conversion feature fails to be indexed solely to our stock under this new accounting guidance. As a result of the adoption of this standard, we classified the estimated fair value of the embedded conversion feature of the convertible debt agreement described above, which was determined to be $279,101, as a derivative liability on April 1, 2009 and recorded a cumulative effect adjustment to retained earnings (accumulated deficit) of $124,219 based on the difference between amounts recognized at the date of issuance and April 1, 2009.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued a new accounting standard which provides guidance related to the FASB ASC and the Hierarchy of Generally Accepted Accounting Principles. The new accounting standard stipulates the FASB Accounting Standards Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The new accounting standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard during the quarter ended September 30, 2009 did not have a material impact on our statements of operations or financial position.





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In May 2008, the FASB issued a new accounting standard which provides guidance relating to accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This new standard requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The standard also requires an accretion of the resulting debt discount over the expected life of the debt. Retrospective application to all periods presented is required and a cumulative-effect adjustment is recognized as of the beginning of the first period presented. This standard was effective for us in the first quarter of fiscal year 2010. The adoption of this standard did not have a material impact on our financial statements.

In April 2009, the FASB issued an amendment to an existing standard which provides guidance relating to interim disclosures about fair value of financial instruments. This new standard requires the disclosure of the carrying amount and the fair value of all financial instruments for interim reporting periods and annual financial statements of publicly traded companies (even if the financial instrument is not recognized in the balance sheet), including the methods and significant assumptions used to estimate the fair values and any changes in such methods and assumptions. This new standard is effective for interim reporting periods ending after June 15, 2009. We adopted this pronouncement during the quarter ended June 30, 2009 without material impact to our financial statements.

In May 2009, the FASB issued a new accounting standard related to subsequent events, which provides guidance on events that occur after the balance sheet

date but prior to the issuance of the financial statements. The new accounting standard distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. The new accounting standard is effective for interim and annual periods after June 15, 2009. We adopted the new accounting standard for the quarter ended June 30, 2009.

The Sarbanes-Oxley Act of 2002 ("the Act") introduced new requirements regarding corporate governance and financial reporting. Among the many requirements of the Act is for management to annually assess and report on the effectiveness of its internal control over financial reporting under Section 404(a) and for its registered public accountant to attest to this report under Section 404(b). The SEC has modified the effective date and adoption requirements of Section 404(a) and Section 404(b) implementation for non-accelerated filers multiple times, such that we were only required to issue our management report on internal control over financial reporting in our annual report on Form 10-K for the fiscal year ended March 31, 2009. Based on current SEC requirements, we will be required to have our independent registered public accounting firm attest to the effectiveness of internal controls over financial reporting for our fiscal year ending March 31, 2011.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which was subsequently codified within ASC 825, ("ASC 825"). ASC 825 expands the scope of specific types of assets and liabilities that an entity may carry at fair value on its statement of financial position, and offers an irrevocable option to record the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. ASC 825 is effective for fiscal years beginning after November 15, 2007. We have not yet elected to use the fair value option, and as such, our adoption of ASC 825 as of April 1, 2008 did not have a material impact on our consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.





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FAIR VALUE MEASUREMENTS

We follow FASB ASC 820, "FAIR VALUE MEASUREMENTS AND DISCLOSURES" in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The guidance applies to our derivative liabilities.

FASB ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| Description | March 31, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significa Unobserva Inputs (Lev |
| Derivative Liabilities | $ -- | $ -- | $ -- | $ 1,05 |
| Total Assets | $ -- | $ -- | $ -- | $ 1,05 |

We had no derivative liabilities at March 31, 2009.

The fair value of our derivative liabilities is determined based on observable market based inputs or unobservable inputs that are corroborated by market data, which is a Level 3 classification.

The following outlines the significant weighted average assumptions we used to estimate the fair value information presented, with respect to derivative liabilities utilizing the Binomial Lattice option pricing model:

| | Fiscal Year Ended March 31, 2010 |
|---|---|
| Risk free interest rate | 1.28% - 2.58% |
| Average expected life | 3 - 5 years |
| Expected volatility | 78.8% - 96.3% |
| Expected dividends | None |

We did not make any changes to our valuation techniques compared to the prior fiscal year.





We also obtained a third party valuation in connection with our December 2008 note restructuring, our July and August 2009 convertible notes and February 2010 convertible note (see Note 5). The third party valuation firm used level 3 inputs in its measurement techniques. That valuation firm used a binomial lattice pricing model to calculate the estimated fair value of embedded derivatives in those transactions.

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the year ended March 31, 2010.

| | April 1, 2009 | Recorded New Derivative Liabilities | Change in estimated fair value recognized in results of operations | March 31, 2010 |
|---|---|---|---|---|
| Derivative liabilities | $ -- | $ 1,233,439 | ($ 178,723) | $1,054,716 |

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the year ended March 31, 2009.

| | April 1, 2008 | Transfers into Equity (See Note 6) | Change in estimated fair value recognized in results of operations | March 31, 2009 |
|---|---|---|---|---|
| Derivative Liabilities(1) | $ 633,095 | ($ 419,192) | ($ 213,903) | $ -- |



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

2. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Furniture and office equipment at cost | $ 284,755 | $ 267,687 |
| Accumulated depreciation | (269,573) | (265,084) |
| | $ 15,182 | $ 2,603 |

Depreciation expense for the years ended March 31, 2010 and 2009 approximated $4,000 and $7,000, respectively.

3. PATENTS

Patents consist of the following:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|

| | | |
|---|---|---|
| Patents | $ 157,442 | $ 157,442 |
| Patents pending and trademarks | 47,397 | 34,310 |
| Accumulated amortization | (62,499) | (53,335) |
| | $ 142,340 | $ 138,417 |

Patents represented 22% and 70% of our total assets at March 31, 2010 and 2009, respectively. Amortization of patents for the years ended March 31, 2010 and 2009 approximated $9,000. Amortization expense on patents is estimated to be approximately $9,000 per year based on the estimated life of the patents.

4. NOTES PAYABLE

Notes payable consist of the following:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| 12% Notes payable, all past due | $ 285,000 | $ 297,500 |
| 10% Note payable, all past due | 5,000 | 5,000 |
| Total Notes Payable | $ 290,000 | $ 302,500 |

12% NOTES

From August 1999 through May 2005, we entered into various borrowing arrangements for the issuance of notes payable from private placement offerings (the "12% Notes"). On November 4, 2009, a holder of $12,500 of the 12% Notes converted his principal balance and $15,625 of accrued interest to common stock at the then current market price of $0.43 per share. At March 31, 2010, 12% Notes with a principal balance of $285,000 are outstanding, all of which are past due, in default, and bearing interest at the default rate of 15%. At March 31, 2010, interest payable on the 12% Notes totaled $314,112.





4. NOTES PAYABLE (continued)

10% NOTES

From time to time, we issued notes payable ("10% Notes") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Notes required no payment of principal or interest during the term. The total amount of the original notes issued was $275,000. One 10% Note in the amount of $5,000, which is past due and in default, remains outstanding at March 31, 2010. At March 31, 2010, interest payable on this note totaled $4,375.

Management's plans to satisfy the remaining outstanding balance on these 12% and 10% Notes include, among other alternatives, converting the notes to common stock at market value or repayment with available funds.

5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consist of the following at March 31, 2010:

| | Principal | Discount | Net Amount |
|---|---|---|---|
| Amended Series A 10% Convertible Notes, past due | $ 900,000 | $ -- | $ 900, |
| 2008 10% Convertible Notes, past due | 45,000 | -- | 45, |
| December 2006 10% Convertible Notes, past due | 17,000 | -- | 17, |
| May & June 2009 10% Convertible Notes | 300,000 | (120,649) | 179, |
| July & August 2009 10% Convertible Notes | 338,250 | (98,458) | 239, |
| October & November 2009 10% Convertible Notes | 380,250 | (380,203) | |
| January 2010 10% Convertible Notes | 250,000 | (249,993) | |
| February 2010 10% Convertible Note | 660,000 | (409,198) | 250, |
| Total - Convertible Notes | $ 2,890,500 | $ (1,258,501) | $ 1,631, |

All of the Convertible Notes Payable in the above table are presently past due or will be due within one year of the March 31, 2010 balance sheet date. As a result, we expect to amortize all of the remaining discounts during the fiscal year ending March 31, 2011.

Our interest costs recognized for the fiscal year ended March 31, 2010 relating to both contractual interest coupon and amortization of the discount on convertible notes payable component were as follows:

During the fiscal year ended March 31, 2010, we recorded interest expense of $241,320 related to the contractual coupons of our convertible notes and interest expense of $565,747 related to the amortization of debt discounts on the convertible notes for a total of $807,067.





5. CONVERTIBLE NOTES PAYABLE (continued)

Convertible Notes Payable consist of the following at March 31, 2009:

| | Principal | Discount | Net Amount |
|---|---|---|---|
| Amended Series A 10% Convertible Notes | $ 900,000 | $ -- | $ 900,000 |
| 2008 10% Convertible Notes | 45,000 | (8,683) | 36,317 |
| December 2006 10% Convertible Notes | 17,000 | -- | 17,000 |
| Restructured December 2008 10% Convertible Notes and Related Convertible Notes | 1,116,403 | -- | 1,116,403 |

| | | | |
|---|---|---|---|
| Total - Convertible Notes | $ 2,078,403 | $ (8,683) | $ 2,069,720 |

Our interest costs recognized for the fiscal year ended March 31, 2009 relating to both contractual interest coupon and amortization of the discount on the convertible notes payable component were as follows:

During the fiscal year ended March 31, 2009, we recorded interest expense of $233,316 related to the contractual coupons of our convertible notes and interest expense of $803,776 related to the amortization of debt discounts on the conertible notes for a total of $1,037,092.

FEBRUARY 2010 10% CONVERTIBLE NOTE

On February 12, 2010, we raised $280,015 in cash and received a secured promissory note in the amount of $300,000 (see Note 12) in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The Note included an original issue discount of ten percent, or $60,000, and an origination fee of three percent, or $9,000. We also paid legal fees of $10,985. The Note matures in February 2011. The Note was issued in a private placement.

The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of $0.30 and a minimum price per share of $0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of $0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at $0.50 per share, although that exercise price is subject to change based on certain conditions. The conversion feature may additionally be adjusted in the event of future financing by the Company. Because the conversion feature and warrant exercise price each can be reset based on future events, they have been classified as derivative liabilities.





We commissioned a valuation study on this transaction from a third party valuation firm and based on the results of that study, we recorded a discount associated with the derivative liability of $478,476 associated with the conversion feature. We commissioned a valuation of the derivative liability to measure the fair value of the derivative liability at March 31, 2010 and based on the results of that study, we recorded a fair value at March 31, 2010 of $572,165. As a result of this fair value change we recorded a charge of $93,689 in the fiscal year ended March 31, 2010.

JANUARY 2010 10% CONVERTIBLE NOTES

In January 2010, we raised $250,000 from the sale to an accredited investor of two 10% convertible notes. The convertible notes mature in July 2011 and are

convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing the discount associated with the January 2010 10% Convertible Notes and associated warrants using the effective interest method.

At March 31, 2010, interest payable on these notes totaled $5,645.

OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible Notes mature at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investors also received matching three year warrants to purchase 1,720,000 unregistered shares of our common stock at a price of $0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing the discount associated with the October & November 2009 10% Convertible Notes and associated warrants using the effective interest method.

Three of the investors immediately converted their convertible notes totaling $70,000 into 280,000 shares of our common stock under the conversion formula. As a result, we accelerated the discount of $70,000 associated with their notes and recorded that amount as interest expense in the three months ended December 31, 2009.

Deferred financing costs of $20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the $20,250 of deferred financing costs and are amortizing them over the term of the notes using the effective interest method.

At March 31, 2010, interest payable on these notes totaled $19,013.





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5. CONVERTIBLE NOTES PAYABLE (continued)

JULY & AUGUST 2009 10% CONVERTIBLE NOTES

In July and August 2009, we raised an aggregate amount of $668,250 from the sale to three investment funds of 10% convertible notes ("July & August 2009 10% Convertible Notes"), of which $338,250 remain outstanding at March 31, 2010. Each note carries a one-year term and is convertible into our common stock at

80% of market with a floor of $0.15 cents and a ceiling of $0.25 cents per share. As additional consideration, the investors also received 1,336,500 three year warrants to purchase our common stock at $0.50 per share, although that exercise price is subject to change based on certain conditions. The conversion feature may additionally be adjusted in the event of future financing by the Company. Because the conversion feature and warrant exercise price each can be reset based on future events, they are considered derivatives.

We commissioned a valuation study on this transaction from a third party valuation firm and based on the results of that study, we recorded a discount associated with the derivative liability of $475,762 associated with the conversion feature. We commissioned a valuation of the derivative liability to measure the fair value of the derivative liability at March 31, 2010 and based on the results of that study, we recorded a fair value at March 31, 2010 of $482,451. As a result of this fair value change we recorded a charge of $6,689 in the fiscal year ended March 31, 2010.

We are amortizing the discount associated with the July & August 2009 10% Convertible Notes and associated warrants using the effective interest method. Deferred financing costs incurred in connection with this financing totaled $60,750, which were capitalized and are being amortized using the effective interest method.

During the March 2010, one of the investors converted $330,000 of principal and $22,559 of accrued interest into common stock. We accelerated and recorded as interest expense the remaining discount associated with that portion of the principal balance of the July & August 2009 10% Convertible Notes.

At March 31, 2010, interest payable on those notes totaled $20,338.

MAY & JUNE 2009 10% CONVERTIBLE NOTES

In May and June 2009, we raised an aggregate amount of $350,000 from the sale to accredited investors of 10% convertible notes ("May & June 2009 10% Convertible Notes"). The May & June 2009 10% Convertible Notes mature at various dates between November 2010 through December 2010 and are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the investors opt to convert their convertible debt to our common stock, then they will receive a matching three year warrant to purchase unregistered shares of our common stock at a price of $0.20 per share. We have measured the warrants but have not recorded them given their contingent terms.

After consideration of the warrants, we recorded a discount associated with the beneficial conversion feature of $233,735 related to the May & June 2009 10% Convertible Notes and we are amortizing that discount over the terms of the May & June 2009 10% Convertible Notes using the effective interest method.

During fiscal year ended March 31, 2010, the holders of two of the May & June 2009 10% Convertible Notes converted a total of $50,000 in notes to 250,000 shares of our common stock under the conversion feature of the notes. Due to these conversions, we accelerated the remaining discount of $15,928 associated with those two converted notes and recorded that amount as interest expense in the three months ended December 31, 2009. We also issued 250,000 warrants as a result of those conversions, the fair value of which had been measured on the issuance dates of the relevant convertible notes using the Binomial lattice method at $31,549, which we recorded as interest expense during the fiscal year ended March 31, 2010.

At March 31, 2010, $300,000 of the May & June 2009 10% Convertible Notes remain outstanding. At March 31, 2010, interest payable on these notes totaled $20,269.

RESTRUCTURED DECEMBER 2008 10% CONVERTIBLE NOTES AND RELATED CONVERTIBLE NOTES

None of the Restructured December 2008 10% Convertible Notes and Related Convertible Notes remained outstanding at March 31, 2010. All of the $1,116,403 amount outstanding at March 31, 2009 was converted into common stock at varying conversion prices between $0.15 per share and $0.19 per share during the fiscal year ended March 31, 2010.

2008 10% CONVERTIBLE NOTES

During the year ended March 31, 2009, we raised an aggregate amount of $430,000 from the sale to accredited investors of 10% convertible notes and warrants ("2008 10% Convertible Notes"). The 2008 10% Convertible Notes matured at various dates between January 2010 through March 2010 and are convertible into our common stock at a fixed conversion price of $0.50 per share prior to maturity and the warrants are exercisable at $0.50 per share for a period of three years ending between July and September 2011. In connection with this financing, we agreed to pay to the investment banking firm that arranged this sale a cash commission of seven percent of the proceeds and warrants equal to seven percent of the gross capital raised which we accounted for as deferred financing costs and which are being amortized over the terms of convertible notes using the effective interest method.

The warrants issued as part of the 2008 10% Convertible Notes can be settled in unregistered shares of our common stock. The warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $150,095, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the 2008 10% Convertible Notes. The discount associated with the warrants is amortized over the term of the notes using the effective interest method. The convertible feature of the 2008 10% Convertible Notes does not have a beneficial conversion.

During the three months ended March 31, 2009, a holder of $385,000 of the 2008 10% Convertible Notes converted his principal and $19,250 of accrued interest to common stock at $0.50 per share per the terms of the 2008 10% Convertible Notes.

2008 10% Convertible Notes in the aggregate amount of $45,000 remain outstanding at March 31, 2010. These notes matured in January and February, 2010. At March 31, 2010, interest payable on these notes totaled $7,478.



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5. CONVERTIBLE NOTES PAYABLE (continued)

AMENDED SERIES A 10% CONVERTIBLE NOTES

On November 2007, we entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Amended Notes" or " Amended Series A Convertible Notes") with the holders of certain promissory notes that we previously issued (the "Prior Notes"), and all amendments to the Prior Notes.

The Amended Notes, in the principal amount of $1,000,000, are convertible into an aggregate of 5,000,000 shares of our Common Stock and matured on February 15, 2009. The Amended Notes provided for the payment of accrued and default interest through December 31, 2007 in the aggregate amount of $295,248 paid in units ("Units") at a fixed rate of $0.20 per Unit, each Unit consisting of one share of our Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant") to purchase one share of our Common Stock at a fixed exercise price of $0.20 per share. If the Holders exercise the Class A Warrants on or before February 15, 2010, we will issue them one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. The Class B Warrants will have a fixed exercise price of $0.60 per share.

In addition, the Amended Notes provided for the issuance of Class A Principal Common Stock Purchase Warrants (the "Class A Principal Warrant") to purchase an aggregate of 5,000,000 shares of our Common Stock on the same terms as the Class A Warrants.

In January 2008, one of the holders of the Amended Series A Convertible Notes converted $100,000 of their notes into 500,000 shares of common stock at the agreed conversion rate of $0.20 per share.

To satisfy the accrued interest and damages through September 30, 2008, on September 19, 2008, we issued 966,750 shares of restricted common stock, valued at the closing price of $0.49, and 966,750 warrants with a strike price of $0.20 in payment of accrued interest of $89,500 and accrued damages of $103,850 per the payment formula in the Loan Agreement. The difference in value of equity instruments issued upon settlement and the liabilities settled resulted in a non-cash loss on settlement of $607,908.

In order to satisfy the accrued interest for the December 2008 quarter, on February 18, 2009, we issued 168,750 shares of restricted common stock, valued at the closing price of $0.18, and 168,750 warrants with a strike price of $0.20 in payment of accrued interest of $33,750 per the payment formula in the Loan Agreement. The difference in value of equity instruments issued upon settlement and the liabilities settled resulted in a non-cash loss on settlement of $19,355.

In order to satisfy the accrued interest for the period January 2009 through January 2010, on January 11, 2010, we issued 731,251 shares of restricted common stock, valued at the closing price of $0.37, and 731,251 warrants with a strike price of $0.20 in payment of accrued interest of $146,250 per the payment formula in the Loan Agreement. The difference in value of equity instruments issued upon settlement and the liabilities settled resulted in a non-cash loss on settlement of $341,984.

We have not yet paid certain legal fees, which total approximately $56,000 and are accrued in our accounts payable, associated with the amendments to the notes. We are currently in discussions with the noteholders regarding the terms of a potential extension to the notes but there can be no assurance such an extension will be finalized on terms acceptable to us or at all.

At March 31, 2010, $900,000 of the Amended Series A 10% Convertible Notes remain outstanding and in default. These notes are convertible into our common stock at

$0.20 per share. At March 31, 2010, interest payable on these notes totaled $22,500. In June 2010, we restructured and extended the Amended Series A 10% Convertible Notes (see Note 12).





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DECEMBER 2006 10% CONVERTIBLE NOTES

On December 15, 2006, we issued two 10% Convertible Notes ("December 10% Notes") totaling $50,000 to accredited investors. The December 10% Notes accrue interest at a rate of ten percent (10%) per annum and matured on March 15, 2007. Such notes are convertible into shares of restricted common stock at any time at the election of the holder at a fixed conversion price of $0.17 per share for any conversion occurring on or before the maturity date. In addition, upon issuance, we issued five-year Warrants ("December 10% Note Warrants") to purchase a number of shares equal to the number of shares into which the December 10% Notes can be converted at a fixed exercise price of $0.17. Additionally, if the December 10% Note Warrants were exercised prior to December 15, 2007, the holder would have received an additional warrant on the same terms as the December 10% Note Warrants on a one to one basis. The warrants can be settled in unregistered shares of our common stock. The December 10% Note Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $15,627, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the December 10% Notes. The convertible feature of the December 10% Notes provides for an effective conversion rate that is below market value. We estimated the fair value of such beneficial conversion feature to be $34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the beneficial conversion feature were accreted to interest expense over the term of the December 10% Notes.

On May 1, 2008, a holder of $33,000 of the December 10% Notes converted his $33,000 principal amount and accrued interest of $6,325 at the agreed conversion rate of $0.17 per share. As a result, we issued 232,033 shares of common stock under this conversion.

At March 31, 2010, $17,000 of the December 2006 10% Notes remain outstanding and in default. These notes are convertible into our common stock at $0.17 per share. At March 31, 2010, interest payable on these notes totaled $8,146.

6. EQUITY TRANSACTIONS

2003 CONSULTANT STOCK PLAN

In August 2003, we adopted the 2003 Consultant Stock Plan (the "Stock Plan"), which provides for grants of common stock through August 2013, to assist us in obtaining and retaining the services of persons providing consulting services. A total of 1,000,000 common shares were initially reserved for issuance under the Stock Plan.

On March 29, 2004, we filed a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933. On August 29, 2005, we filed a Form S-8 for the purpose

of registering an additional 2,000,000 shares, for a total of 3,000,000 common shares reserved under the Plan. On August 9, 2007, we filed a Form S-8 for the purpose of registering an additional 2,000,000 shares, for a total of 5,000,000 common shares reserved under the Plan. On July 10, 2009, we filed a Form S-8 for the purpose of registering an additional 1,000,000 shares, for a total of 6,000,000 common shares reserved under the Plan. On February 17, 2010, we filed a Form S-8 for the purpose of registering an additional 1,500,000 shares, for a total of 7,500,000 common shares reserved under the Plan.





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6. EQUITY TRANSACTIONS (continued)

2005 DIRECTORS COMPENSATION PROGRAM

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our interests by helping us to obtain and retain the services of outside directors upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording them an opportunity to become owners of our capital stock.

Under the Directors Compensation Program, a newly elected director will receive a one-time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the Board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

At March 31, 2010 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

COMMON STOCK

In April 2004, the Company issued 500,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of warrants at $0.25 per share for cash totaling $125,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In April 2004, the Company issued 17,143 shares at $1.75 per share to an accredited individual investor for investor relations services in the amount of $30,000. This transaction was exempt from registration pursuant to Section 4(2)

of the Securities Act of 1933.

In April 2004, the Company issued 50,000 shares of restricted common stock to Fusion Capital Fund II, LLC, an accredited institutional investor, for a financing commitment to provide $6,000,000 under a registered private placement. In connection with the $6,000,000 financing the Company paid a fee to Fusion Capital in the amount of 418,604 shares of common stock. The Company recorded no expense related to the issuance of these shares since they were related to equity fund raising activities. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2004, the Company issued 225,000 shares of common stock at $0.44 per share and 225,000 warrants to purchase the Company's common stock at a price of $0.76 per share to legal counsel for legal services in the amount of $99,000, which was recorded as expense in the accompanying consolidated financial statements. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

In May 2004, a $50,000 10% convertible note was converted at $0.44 per share for 113,636 shares of common stock and 113,636 warrants to purchase the Company's common stock at a price of $0.76 per share. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.





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In May 2004, the Company issued a total of 1,415,909 shares of restricted stock at a price of $0.44 per share for cash totaling $623,000 to fourteen accredited investors. In connection with the issuance of these shares, the Company granted the stockholders 1,640,908 warrants to purchase the Company's common stock at a price of $0.76 per share. The warrants vested immediately and expire on the fifth anniversary from the date when a registration statement covering the common stock underlying such warrants is declared effective. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In July 2004, the Company issued 10,715 shares of restricted common stock at $0.70 per share to an accredited individual for employee placement services in the amount of $7,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In July 2004, the Company issued 6,850 shares of restricted common stock at $0.73 per share to an accredited individual for consulting services on opportunities for the Company's Hemopurifier(R) within the biodefense marketplace in the amount of $5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2004, the Company issued 479,513 shares of restricted common stock to an accredited investor, in conjunction with the conversion of $125,000 in principal amount of notes, plus accrued interest, at $0.34 per share, in accordance with their convertible note agreement. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November and December 2004, the Company issued 80,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at $0.25 per share for consideration of a $20,000 reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 461,667 shares of restricted common stock to two accredited individual investors in connection with the exercise of 461,667 warrants at $0.25 per share for cash totaling $115,417. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company repaid two $25,000 12% promissory notes, including accrued interest of $17,778 each, through the issuance of 87,303 restricted common shares at $0.49 per share to each of two separate accredited individual investors. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 60,000 shares of restricted common stock at $0.50 per share under a consulting agreement with an accredited individual investor, for investor relations consulting services to the Company. The fair value of the transaction of $30,000 was recorded as deferred compensation and presented as an offset to additional paid-in capital in the accompanying consolidated financial statements. Such amount is being amortized to expense over the six month term of the agreement. At March 31, 2005, $15,000 of such amount remained unamortized. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The remaining $15,000 balance in deferred consulting fees were amortized during the fiscal year ended March 31, 2006.

In January 2005, the Company issued 55,556 shares of restricted common stock at $0.36 per share and a warrant to purchase 55,556 shares of common stock at $0.44 per share for cash in the amount of $20,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.





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In January 2005, the Company issued 66,666 shares of restricted common stock at $0.45 per share to an accredited individual investor under a consulting agreement for investor relations services to the Company. The fair value of the transaction of $30,000 was recorded as deferred compensation and presented as an offset to additional paid-in capital in the accompanying consolidated financial statements. Such amount is being amortized to expense over the six month term of the agreement. At March 31, 2005, $15,000 of such amount remained unamortized. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The remaining $15,000 balance in deferred consulting fees were amortized during the fiscal year ended March 31, 2006.

In January 2005, the Company issued 25,834 shares of restricted common stock to

an accredited individual investor in connection with the exercise of a warrant to purchase 25,834 shares of common stock at $0.25 per share for cash totaling $6,459. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 139,063 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 139,063 shares of common stock at $0.25 per share for cash totaling $34,766. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 90,000 shares of restricted common stock at $0.27 per share and a three-year warrant to purchase 90,000 shares of common stock at $0.34 per share for cash in the amount of $24,300 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional total of 1,416,958 shares of restricted common stock at prices ranging from $0.25 to $0.52 for total cash proceeds of approximately $541,000.

During the year ended March 31, 2005, the Company issued an additional 557,647 shares of restricted common stock at prices ranging from $0.25 to $0.55 under various consulting service agreements for total recorded value of approximately $196,000. All services on these agreements were completed and expensed during the year ended March 31, 2005.

In April 2005, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.31 per share in payment for scientific consulting services to the Company valued at $3,000.

In April 2005, the Company issued 25,134 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.30 per share in payment for regulatory affairs consulting services to the Company valued at $7,500.

In April 2005, the Company issued 31,424 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services to the Company valued at $7,900.

During the year ended March 31, 2006, the Company issued 3,990,807 shares of common stock at prices between $0.25 to and $0.76 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for cash proceeds totaling $1,436,815. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

During the quarter ended June 30, 2005, the Company issued 95,420 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.262 per share in payment for regulatory affairs consulting services to the Company valued at $25,000.

In May 2005, the Company issued 33,228 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services to the Company valued at $8,440.

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In May 2005, the Company issued 24,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for investor relations consulting services to the Company valued at $6,000.

In May 2005 the Company issued 100,000 shares of common stock and a warrant to purchase 400,000 shares of common stock at a purchase price of $0.18 per share to an accredited investor for $17,600. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2005, the Company issued 11,450 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.26 per share in payment for scientific consulting services to the Company valued at $3,000.

In June 2005, the Company issued 34,352 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.26 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In June 2005, the Company issued 34,352 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.26 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In June 2005, the Company issued 11,450 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.26 per share in payment for scientific consulting services to the Company valued at $3,000.

In June 2005, the Company issued 21,008 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In June 2005, the Company issued 836,730 shares of restricted common stock and a three-year warrant to purchase 418,365 shares of the Company's restricted common stock at an exercise price of $0.25 to legal counsel as an inducement to settle accrued past due legal services payable in the amount of $167,346 which had been expensed in the prior fiscal year. At the time of the settlement, the shares of the Company's restricted common stock were valued at $209,183 and, using a Black-Scholes option pricing model, the warrant was valued at $100,408. The non-cash additional consideration of $142,245 has been recorded as professional fees expense during the fiscal year ended March 31, 2006.



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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In June 2005, the Company issued 12,605 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.24 per share in payment for scientific consulting services to the Company valued at $3,000.

During the quarter ended June 30, 2005, the Company expensed $30,000 of deferred consulting fees, which were included in additional paid-in capital at March 31, 2005, as the related consulting services were completed.

In July 2005, the Company issued 43,479 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $10,000.

In July 2005, the Company issued 2,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $500.

In August 2005, the Company issued 37,863 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $8,557.

In August 2005, the Company issued 91,739 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $21,100.

In August 2005, the Company issued 21,368 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In August 2005, the Company issued 175,755 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.21 per share in payment for regulatory affairs consulting services to the Company valued at $37,260.

In September 2005, the Company issued 27,852 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.21 per share in payment for regulatory affairs consulting services to the Company valued at $5,738.

In October 2005, the Company issued 21,186 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In October 2005, the Company issued 35,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.22 per share in payment for regulatory affairs consulting services to the Company valued at $7,620.

In November 2005, the Company issued 19,948 shares of common stock pursuant to

the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.38 per share in payment for regulatory affairs consulting services to the Company valued at $7,660.

In November 2005, the Company issued 97,662 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.37 per share in payment for regulatory affairs consulting services to the Company valued at $36,135.

In November 2005, the Company issued 13,298 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.38 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In December 2005, the Company issued 371,847 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment of general legal fees valued at $91,509.





6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In December 2005, the Company issued 73,964 shares of restricted common stock at $0.25 per share in payment of legal fees related to capital raising transactions valued at $18,202.

In December 2005, the Company issued 13,333 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.29 per share in payment for regulatory affairs consulting services to the Company valued at $3,840.

In December 2005, the Company issued 15,060 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.33 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In January 2006, the Company issued 579,813 shares of restricted common stock at $0.24 per share in payment for patent fees valued at $139,155.

In January 2006, the Company issued 66,017 shares of restricted common stock at Prices ranging from $0.28 to $0.33 per share in payment for investor relations valued at $20,000.

In January 2006, the Company issued 9,091 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.33 per share in payment for regulatory affairs consulting services to the Company valued at $3,000.

In January 2006, the Company issued 13,889 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant

Stock Plan at $0.36 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In February 2006, the Company issued 10,563 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.28 per share in payment for regulatory affairs consulting services to the Company valued at $3,000.

In March 2006, the Company issued 17,730 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.28 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In March 2006, the Company issued 79,255 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.28 per share in payment for Corporate communications consulting services to the Company valued at $19,974.

In March 2006, the Company issued 110,040 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan and 110,040 shares of restricted stock at $0.39 per share in payment of general legal fees valued at $85,392.

In March 2006, the Company issued 7,275 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.49 per share in payment for regulatory affairs consulting services to the Company.

In March 2006, the Company issued 27,284 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.34 per share in payment of general legal fees valued at $9,197.

In March 2006, the Company issued 158,046 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.33 per share in payment for regulatory affairs consulting services to the Company valued at $52,155.





In March 2006, the Company converted a $30,000 10% promissory notes held by an accredited individual investor, including accrued interest of $4,564, through the issuance of 140,000 restricted common shares at $0.25 per share.

In March 2006, a $30,000 15% convertible note, including accrued interest of $4,943, was converted at $0.20 per share for 174,716 shares of common stock. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2006, the Company issued 150,000 shares of restricted common stock under a one year investor relations consulting agreement which was valued at $49,000 and being amortized over a one year period. Approximately $4,000 was

amortized during the year ended March 31, 2006. As a result, the remaining balance of $44,917 represents that entire balance of deferred consulting fees (contra equity) in accompanying consolidated balance sheet.

In March 2006, the Company issued 35,714 shares of restricted common stock payment of professional services related to investor relations valued at $10,000.

In March 2006, the Company issued 15,152 shares of restricted common stock at $0.33 per share in payment of professional services related to investor relations valued at $5,000.

In March 2006, the Company issued 33,333 shares of restricted common stock at $0.30 per share in payment of an option agreement valued at $10,000.

In April 2006, the Company issued 3,782 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.79 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In April 2006, the Company issued 25,601 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for past due rents owed by the Company valued at $12,801 based on the value of the services.

In April 2006, the Company issued 6,313 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.79 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In April 2006, the Company issued 10,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In April 2006, the Company issued 14,563 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.29 per share in payment for regulatory affairs consulting services to the Company valued at $4,165 based on the value of the services.

In April 2006, the Company issued 3,086 shares of restricted common stock at $0.81 per share in payment for investor relations valued at $2,500 based on the value of the services.

During April 2006, the Company issued 209,679 shares of common stock at prices between $0.57 and $0.74 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $140,002. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In April 2006, the Company repaid a $25,000 15% promissory notes, including accrued interest of $18,750, through the issuance of 107,759 restricted common shares at $0.41 per share to an accredited individual investor. There was no gain or loss on the extinguishment.

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In May 2006, the Company issued 8,532 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.59 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In May 2006, the Company issued 5,703 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.53 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In May 2006, the Company issued 4,545 shares of restricted common stock at $0.55 per share in payment for investor relations valued at $2,500 based on the value of the services.

In June 2006, the Company issued 8,681 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In June 2006, the Company issued 5,703 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.53 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2006, the Company issued 3,363 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.45 per share in payment for regulatory affairs consulting services to the Company valued at $1,500 based on the value of the services.

In July 2006, the Company issued 8,721 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.34 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In July 2006, the Company issued 10,684 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.47 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In July 2006, the Company issued 6,250 shares of restricted common stock at $0.40 per share in payment for investor relations services to the Company valued at $2,500 based on the value of the services.

In July 2006, the Company issued 7,813 shares of restricted common stock at $0.32 per share in payment for investor relations services to the Company valued at $2,500 based on the value of the services.

In July 2006, the Company issued 8,721 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.34 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In July 2006, the Company issued 132,765 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.37 per share in payment for regulatory affairs consulting services to the Company valued at $48,858 based on the value of the services.

In July 2006, the Company issued 14,535 shares of common stock pursuant to the

Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.34 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

During August 2006, the Company issued 113,235 shares of common stock at prices between $0.26 and $0.27 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $30,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.





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In August 2006, the Company issued 9,434 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.32 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In August 2006, the Company issued 86,779 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for general legal expenses to the Company valued at $22,085 based on the value of the services.

In August 2006, the Company issued 114,132 shares of restricted common stock at $0.20 per share in payment for accrued accounting consulting services provided to the Company by a third party valued at $23,111 based upon the value of the services.

During September 2006, the Company issued 439,936 shares of common stock at prices between $0.25 and $0.26 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $110,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In September 2006, the Company issued 4,808 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.31 per share in payment for regulatory affairs consulting services to the Company valued at $1,500 based on the value of the services.

In September 2006, the Company issued 15,723 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.32 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In September 2006, the Company issued 9,868 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.30 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In September 2006, the Company issued 16,447 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.32 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In September 2006, the Company issued 9,733 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.30 per share in payment for regulatory affairs consulting services to the Company valued at $2,550 based on the value of the services.

During October 2006, the Company issued 201,165 shares of common stock at $0.25 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $50,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In October 2006, the Company issued 16,994 shares of restricted common stock at $0.31 per share in payment for investor relations services to the Company valued at $2,500 based on the value of the services.

In October 2006, the Company issued 8,929 shares of restricted common stock at $0.28 per share in payment for investor relations services to the Company valued at $2,500 based on the value of the services.

In October 2006, the Company issued 18,797 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.27 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In October 2006, the Company issued 11,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.27 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.





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In October 2006, the Company issued 7,540 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services to the Company valued at $1,900 based on the value of the services.

In November 2006, the Company issued 555,556 shares of restricted common stock at $0.18 per share in exchange for an investment of $100,000. As an inducement the Company also issued five-year warrants to purchase a number of shares equal to the number of restricted shares issued converted at a fixed exercise price of $0.18. Additionally, if the warrants are exercised prior to November 14, 2007, the holder will receive an additional warrant on the same terms as the warrants.

In November 2006, the Company issued 11,905 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In November 2006, the Company issued 19,841 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In December 2006, the Company issued 12,397 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In December 2006, the Company issued 20,661 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In December 2006, the Company issued 40,000 shares of restricted common stock at $0.25 per share in exchange for license and development rights related to certain intellectual property valued at $10,800 based on the fair market value of the intellectual property license.

During December 2006, the Company issued 118,360 shares of common stock at prices between $0.25 and $0.26 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $30,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In January 2007, the Company issued 15,248 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.28 per share in payment for regulatory affairs consulting services to the Company valued at $4,300 based on the value of the services.





6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In January 2007, the Company issued 10,714 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.28 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In January 2007, the Company issued 125,091 shares of restricted common stock at between $0.24 and $0.31 per share in payment for investor relations services to the Company valued at $32,500 based on the value of the services.

In January 2007, the Company issued 17,857 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.28 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

During January 2007, the Company issued 782,268 shares of common stock at prices between $0.25 and $0.273 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $200,001. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In February 2007, the Company issued 31,394 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.255 per share in payment for general legal expenses to the Company valued at $8,005 based on the value of the services.

In February 2007, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.308 per share in payment for regulatory affairs consultant services to the Company valued at $3,000 based on the value of the services.

During February 2007, the Company issued 692,751 shares of common stock at prices between $0.28 and $0.32 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $199,998. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In March 2007, the Company issued 15,723 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.318 per share in payment for regulatory affairs consultant services to the Company valued at $5,000 based on the value of the services.

In March 2007, the Company issued 4,934 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.608 per share in payment for regulatory affairs consultant services to the Company valued at $3,000 based on the value of the services.

In March 2007, the Company issued 21,078 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.51 per share in payment for regulatory affairs consultant services to the Company valued at $10,750 based on the value of the services.

In March 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.578 per share in payment for regulatory affairs consultant services to the Company valued at $5,000 based on the value of the services.

During March 2007, the Company issued 92,379 shares of common stock at prices between $0.36 and $0.44 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $36,745. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In March 2007, the Company issued 1,333,333 shares of common stock at $0.30 per share to Fusion Capital for net cash proceeds of $400,000. In addition, the Company issued 1,050,000 of common shares as a commitment fee under a common stock purchase agreement.

In April 2007, the Company issued 30,617 shares of restricted common stock as the result of a cashless exercise of 80,000 warrants held by a former noteholder.

In April 2007, the Company issued 15,152 shares of restricted common stock at $0. 33 per share in payment of an option agreement valued at $5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In April 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In April 2007, the Company issued 3,937 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In May 2007, the Company issued 13,124 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $10,000 based on the value of the services.

In May 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2007, the Company issued 41,999 shares of restricted common stock at between $0.30 and $0.74 per share in payment for investor relations services to the Company valued at $20,000 based on the value of the services.

In June 2007, the Company issued 17,526 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $10,200 based on the value of the services.

In June 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2007, the Company issued 10,174 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.63 per share in payment for regulatory affairs consulting services to the Company valued at $6,450 based on the value of the services.

In August 2007, the Company issued 1,630,000 shares of common stock for cash proceeds of $815,000 ($757,950 net of commissions). The shares were issued to accredited investors in the form of Units comprised of two shares of common stock and one three-year warrant to acquire common stock at an exercise price of $0.50. The offering price of each Unit was $1.00.

In August 2007, the Company issued 107,153 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at an average price of $0.37 per share in payment of grant writing and regulatory consulting services to the Company valued at $39,963 based upon the value of the services.

In August of 2007, the Company issued 103,106 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant

Stock Plan at $0.59 per share in payment of legal fees related to general corporate legal services to the Company valued at $62,894 based upon the value of the services provided.

In August 2007, the Company issued 21,020 shares of restricted common stock at prices between $0.68 and $0.78 per share in payment for investor relations services to the Company valued at $15,000 based on the value of the services.

In September 2007, the Company issued 14,000 shares of common stock to an accredited investor at $0.50 per share in payment of commissions related to the August Private Placement transaction valued at $7,000 based upon the value of services provided.

In September 2007, the Company issued 5,294 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $3,600 based on the value of the services provided.

In October 2007, the Company issued 4,601 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.65 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.





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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In December 2007, the Company issued 330,000 shares of common stock for cash proceeds of $165,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In January 2008, the Company issued 21,992 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $15,000 based on the value of the services provided.

In January 2008, the Company issued 200,000 shares of common stock for cash proceeds of $100,000. The shares were issued to an accredited investor and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In January 2008, the Company issued 500,000 shares of common stock for a conversion of $100,000 of Amended Series A 10% Convertible Notes at the agreed conversion price of $0.20 per share (see Note 6).

In January 2008, the Company issued 18,797 shares of restricted common stock as the result of a cashless exercise of 55,556 warrants held by a former noteholder.

In February 2008, the Company issued 400,000 shares of common stock for cash proceeds of $200,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In February 2008, the Company issued 100,000 shares of common stock for cash proceeds of $100,000. The shares were issued to a corporate investor.

In February 2008, the Company issued 25,380 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $12,690 based on the value of the services provided.

In March 2008, the Company issued 6,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

In March 2008, the Company issued 7,895 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.57 per share in payment for regulatory affairs consulting services to the Company valued at $4,500 based on the value of the services provided.

In March 2008, the Company issued 50,000 shares of common stock to an accredited investor at $0.53 per share in payment of commissions related to the August Private Placement transaction valued at $26,500 based upon the value of services provided.

In March 2008, the Company issued 25,000 shares of common stock to an accredited investor at $0.53 per share in payment of commissions related to the August Private Placement transaction valued at $13,250 based upon the value of services provided.

In March 2008, the Company issued 92,188 shares of restricted common stock at an average price of $0.60 in payment for investor relations services to the Company valued at $55,000 based on the value of the services.

In March 2008, the Company issued 250,000 shares to a Director under a stock option exercise at a strike price of $0.38 per share through the conversion of $95,000 in accounts payable owed to such Director.

In March 2008, the Company issued 865,500 shares of common stock for a conversion of $150,000 of 9% Convertible Notes and $66,375 of accrued interest at the agreed conversion price of $0.25 per share (see Note 6).

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In April 2008, the Company issued 10,170 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.59 per share in payment for regulatory affairs consulting services to the Company valued at $6,000 based on the value of the services provided.

In April 2008, the Company entered into a license agreement with the Trustees of Boston University which provides for an exclusive license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." The agreed initial payment under this license was an issuance of 10,849 restricted shares of common stock equivalent to 115% of $5,000.

In April 2008, the Company issued 6,667 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.45 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

In May 2008, the Company issued 1,000,000 shares of restricted common stock to an institutional investor for $500,000 of cash.

In May 2008, we issued 232,033 shares of common stock to a 10% convertible noteholder in order to convert the $33,000 principal balance and $5,325 of accrued interest of the convertible note to equity.

In June 2008, the Company issued 25,610 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.41 per share in payment for regulatory affairs consulting services to the Company valued at $10,500 based on the value of the services provided.

In June 2008, we issued grants of restricted common stock to two employees of 5,000 shares each as additional compensation. Those grants were valued at $2,400 apiece based our closing stock price of $0.48 on the date of issuance.

In July 2008, our Chief Executive Officer converted $35,000 of accrued debt to 100,000 shares of unregistered common stock based upon the closing stock price of $0.35 per share on that day.

In July 2008, a board member and his spouse, both former executives at Hemex, a company we acquired in 1999, converted $147,279 of accrued debt to 446,300 shares of unregistered common stock based upon the closing stock price of $0.33 per share on that day.

In July 2008, our Chief Science Officer converted $150,000 of accrued debt to 468,750 shares of unregistered common stock based upon the closing stock price of $0.32 per share on that day.

In September 2008, we issued 966,750 shares of restricted common stock and 966,750 warrants with a strike price of $0.20 in payment of accrued interest of $89,500 and accrued damages of $103,850 per the payment formula in the Amended Series A 10% Convertible Notes(see Note 5).

In September 2008, we issued 110,138 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.45 per share in payment for legal services valued at $49,562 based on the value of the

services.

In September 2008, we issued 38,150 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.40 per share in payment for regulatory affairs consulting services valued at $15,260 based on the value of the services.

In October 2008, we issued 770,000 shares, of which 385,000 were through the exercise of registered warrants and 385,000 were issuances of restricted common stock, for gross proceeds of $192,500.

In October 2008, we issued 51,398 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.31 per share in payment for financial consulting services and research services valued at $16,080 based on the value of the services.

In November 2008, we issued 200,000 shares, of which 100,000 were through the exercise of registered warrants and 100,000 were issuances of restricted common stock, for gross proceeds of $50,000.





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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In November 2008, we issued 95,550 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for financial consulting services valued at $23,888 based on the value of the services.

In November 2008, we issued 98,684 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for legal services valued at $18,750 based on the value of the services.

In December 2008, we issued 59,950 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for legal services valued at $16,606 based on the value of the services.

In December 2008, we issued 700,000 shares of restricted common stock and 700,000 warrants with a strike price of $0.25 to an accredited investor for gross proceeds of $175,000.

In December 2008, we issued 338,099 shares of restricted common stock pursuant at $0.25 per share in payment for legal services valued at $84,288 based on the value of the services.

In December 2008, we issued 23,636 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services valued at $6,000 based on the value of the services.

In December 2008, we issued 77,192 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.26 per share in payment for regulatory affairs consulting services valued at $20,070 based on the value of the services.

In December 2008, we issued 35,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services valued at $8,400 based on the value of the services.

In December 2008, we issued 15,337 shares of restricted common stock pursuant at $0.33 per share in payment for public relations services valued at $5,000 based on the value of the services.

In January 2009, we issued 23,566 shares of restricted common stock as a patent license payment valued at $5,750.

In January 2009, we issued 1,452,926 shares of common stock as a result of conversions of $419,473 of convertible notes payable, other notes payable and related accrued interest. The shares were issued to accredited investors.

In January 2009, we issued 105,869 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at an average price of $0.19 per share in payment for regulatory affairs consulting services valued at $19,550 based on the value of the services.

In January 2009, we issued 353,000 shares of restricted common stock and warrants to purchase 353,000 shares of common stock in exchange for $55,850. The shares were issued to an accredited investor.

In February 2009, we issued 28,947 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for regulatory affairs consulting services valued at $5,500 based on the value of the services.

In February 2009, we issued 582,000 shares of restricted common stock and warrants to purchase 582,000 shares of common stock in exchange for $88,870. The shares were issued to an accredited investor.

In February 2009, we issued 78,743 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at a price of $0.18 per share in payment for regulatory affairs consulting services valued at $13,780 based on the value of the services.

In February 2009, we issued 53,706 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.17 per share in payment for regulatory affairs consulting services valued at $9,130 based on the value of the services.





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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In February 2009, we issued 168,750 shares of restricted common stock and 168,750 warrants with a strike price of $0.20 in payment of accrued interest of $53,105 per the payment formula in the Amended Series A 10% Convertible Notes(see note 5).

In February 2009, we issued 213,666 shares of common stock as a result of conversions of $83,500 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In March 2009, we issued 903,135 shares of common stock as a result of conversions of $179,808 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In March 2009, we issued 385,000 shares of restricted common stock and warrants to purchase 385,000 shares of common stock in exchange for $57,750. The shares were issued to an accredited investor.

In March 2009, we issued 50,000 shares of restricted common stock at $0.17 per share in payment for investor relations services valued at $8,500 based on the value of the shares issued for the services.

In March 2009, we issued 33,333 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.17 per share in payment for regulatory affairs consulting services valued at $5,500 based on the value of the services.

In March 2009, we issued 47,760 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.18 per share in payment for financial consulting services valued at $8,597 based on the value of the services.

In March 2009, we issued 25,674 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.20 per share in payment for legal services valued at $5,263 based on the value of the services.

In March 2009, we issued 37,695 shares of restricted common stock pursuant at $0.19 per share in payment for legal services valued at $7,275 based on the value of the services.

In March 2009, we issued 28,947 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for regulatory affairs consulting services valued at $5,500 based on the value of the services.

In April 2009, we issued 71,519 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.17 per share in payment for financial consulting services and research services valued at $12,158 based on the value of the services.

In April 2009, we issued 1,688,211 shares of common stock as a result of conversions of $263,478 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In April 2009, an accredited investor exercised a warrant to purchase 555,556 shares of our common stock at the agreed strike price of $0.18 per share for cash proceeds of $100,000. We issued that investor a five year warrant to purchase 555,556 shares at $0.18 per share and a conditional warrant to purchase a like number of shares at the same strike price if that warrant is exercised.

In April 2009, we issued 490,000 shares of restricted common stock valued at the closing price in payment for investor relations services.

In April 2009, we issued 25,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.





In April 2009, we issued 32,935 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.23 per share in payment for internal controls consulting services valued at $7,575 based on the value of the services provided.

In April 2009, we issued 12,372 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for regulatory affairs consulting services valued at $2,660 based on the value of the services provided.

In April 2009, we issued 80,000 shares of restricted common stock and warrants to purchase 80,000 shares of common stock in exchange for $15,200. The shares were issued to an accredited investor.

In April 2009, we issued 43,021 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.18 per share in payment for financial consulting services valued at $7,744 based on the value of the services provided.

In April 2009, we issued 70,870 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.20 per share in payment for legal services valued at $14,500 based on the value of the services provided.

In April 2009, we issued 22,817 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In May 2009, holders of certain convertible notes converted $139,256 of principal and accrued interest into 878,059 shares of our common stock pursuant to the terms of the notes at an average conversion rate of approximately $0.16 per share.

In May 2009, we issued 13,043 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services valued at $3,000 based on the value of the services provided.

In May 2009, we issued 10,714 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for regulatory affairs consulting services valued at $3,000

based on the value of the services provided.

In May 2009, we issued 51,118 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for financial consulting services valued at $9,713 based on the value of the services provided.

In May 2009, we issued 22,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In May 2009, we issued 34,602 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for financial consulting services valued at $7,613 based on the value of the services provided.

In May 2009, we issued 40,104 shares of restricted common stock at $0.24 in payment for financial advisory services valued at $9,625 based on the value of the services provided.

In May 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In June 2009, we issued 20,500 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services valued at $4,920 based on the value of the services provided.





In June 2009, we issued 57,055 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for scientific and financial consulting services valued at $12,552 based on the value of the services provided.

In June 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In June 2009, we issued 23,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services valued at $5,290 based on the value of the services provided.

In June 2009, we issued 48,106 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for scientific and financial consulting services valued at $10,583 based on the value of the services provided.

In June 2009, we issued 779,956 shares of common stock as a result of conversions of $143,512 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In June 2009, we issued 16,176 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.34 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

On June 29, 2009, Mr. Joyce, our Chief Executive Officer entered into an Option Suspension Agreement, whereby Mr. Joyce agreed to not exercise his stock options pending the filing of amended articles of incorporation of the Company increasing the Company's authorized capital. Accordingly of Mr. Joyce's total options, 2,857,143 could not be exercised until the amended articles of incorporation were filed, and 6,731,090 could not be exercised until the later of June 9, 2010 or the filing of the amended articles of incorporation. We filed the amendment to our articles of incorporation on September 21, 2009. The Agreement also provided Mr. Joyce certain protections in the event the Company underwent a change of control transaction while his options are suspended. Such protections include the right to receive, in the form of cash payments, the positive value of his options (which remain subject to suspension) at the time of such transaction.

In addition, we committed to issue 4,000,000 shares of restricted common stock, to Mr. Joyce at a price per share of $0.24, which shall vest in equal installments over a thirty six month period commencing June 30, 2010.

In July 2009, we registered 1,000,000 additional shares under our 2003 Consultant Stock Plan through the filing of a Form S-8 Registration Statement.

In July 2009, we issued 518,649 shares of common stock as a result of conversions of $100,566 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In July 2009, we issued 18,333 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.30 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In July 2009, we issued 51,971 shares of common stock pursuant to our S-8registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for legal services valued at $14,500 based on the value of the services provided.





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In July 2009, we issued 11,647 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.34 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In July 2009, we issued 19,643 shares of common stock pursuant to our S-8

registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In August 2009, we issued 21,154 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.26 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In August 2009, we issued 14,143 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In August 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In September 2009, we issued 36,094 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for financial consulting services valued at $7,941 based on the value of the services provided.

In September 2009, we issued 20,370 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.27 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In September 2009, we issued 16,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services valued at $3,840 based on the value of the services provided.

In September 2009, we issued 19,784 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In September 2009, we issued 12,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services valued at $3,000 based on the value of the services provided.

In October 2009, we issued 100,000 shares of restricted common stock as a donation to a scientific research foundation valued at $25,000 based on the closing price of $0.25.

In October 2009, we issued 319,033 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for financial consulting services valued at $70,187 based on the value of the services provided.

In October 2009, we issued 22,088 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In October 2009, we issued 37,585 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.22 per share in payment for financial consulting services valued at $8,269 based on the value of the services provided.

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In October 2009, we issued 2,511,264 shares of common stock as a result of conversions of $481,297 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In October 2009, we issued 15,231 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.26 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In October 2009, we issued 11,702 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.47 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In October and November 2009, we raised $430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of $0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at $0.25 per share. We also issued to a finder as deferred offering costs a convertible note for $20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling $70,000 to 280,000 shares of our common stock per the conversion formula in the notes (see Note 5).

In November 2009, we issued 117,759 shares of common stock as a result of conversions of $38,595 of notes payable ($12,500 in a 12% Note Payable, see Note 4, and $10,000 in a May & June 2009 10% Convertible Note, see Note 5) and related accrued interest. The shares were issued to accredited investors.

In November 2009, we issued 14,103 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.39 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In November 2009, we issued 89,397 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.36 per share in payment for legal services valued at $32,451 based on the value of the services provided.

In November 2009, we issued 19,688 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.35 per share in payment for financial consulting services valued at $6,891 based on the value of the services provided.

In November 2009, we issued 15,068 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.37 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In December 2009, we issued 9,900 shares of common stock pursuant to our S-8

registration statement covering our 2003 Consultant Stock Plan at $0.40 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In December 2009, we issued 50,313 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.30 per share in payment for financial consulting services valued at $15,094 based on the value of the services provided.

In December 2009, we issued 114,066 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.30 per share in payment for financial consulting services valued at $34,220 based on the value of the services provided.

In December 2009, we issued 17,188 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.32 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.





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In December 2009, we issued 11,314 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.35 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In December 2009, we issued 18,333 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.30 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In December 2009, we issued 211,665 shares of common stock as a result of the conversion of a $40,000 convertible note payable (see Note 5) and related accrued interest. The shares were issued to an accredited investor.

In January 2010, we issued 36,683 shares of restricted common stock as a patent license payment valued at $11,500.

In January 2010, we issued 14,474 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.38 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In January 2010, we issued 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at $0.20 per share to repay $146,250 of interest on certain convertible debentures accrued through January 31, 2010 (see Note 5).

In January 2010, we issued 13,200 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.30 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In January 2010, we issued 15,714 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.35 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In February 2010, we issued 45,886 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for legal services valued at $14,500 based on the value of the services provided.

In February 2010, we issued 17,188 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In February 2010, we issued 29,878 shares of restricted common stock as a result of the conversion of $8,963 of accrued legal expenses based on the value of the services provided.

In February 2010, we issued 11,314 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.35 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In February 2010, we issued 16,667 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.33 per share in payment for corporate communications and administration consulting services valued at $5,500 based on the value of the services provided.

In February 2010, we issued 9,059 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for business development consulting services valued at $2,917 based on the value of the services provided.

In March 2010, we issued 1,444,185 shares of common stock as a result of the conversion of a $330,000 convertible note payable (see Note 5) and related accrued interest. The shares were issued to an accredited investor.





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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In March 2010, we issued 82,678 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.40 per share in payment for financial consulting services valued at $33,071 based on the value of the services provided.

In March 2010, we issued 13,095 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.42 per share in payment for business development consulting services

valued at $5,500 based on the value of the services provided.

In March 2010, we issued 11,065 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.35 per share in payment for corporate communications and administration consulting services valued at $3,917 based on the value of the services provided.

In March 2010, we issued 11,647 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.34 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In March 2010, we issued 20,929 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.37 per share in payment for financial consulting services valued at $7,744 based on the value of the services provided.

In March 2010, we issued 14,474 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.38 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In March 2010, we issued 8,125 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.36 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.

In March 2010, we issued 10,895 shares of restricted common stock at $0.34 in payment for investor relations services valued at $3,750 based on the value of the services provided.

WARRANTS

During the year ended March 31, 2005, we granted 568,181 warrants to an investor in connection with a commitment fee for the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, we granted 847,727 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense was recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, we issued 113,636 warrants to purchase common stock for $0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 4 and 5). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

During the year ended March 31, 2005, we issued 225,000 warrants to purchase common stock for $0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with common stock issued for legal services expense totaling $99,000 (see "Common Stock" above).

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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

During the year ended March 31, 2005, we issued 260,000 warrants to purchase common stock for $0.50 per share, which vested upon grant and were scheduled to expire in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 4). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value is being amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, we issued 144,443 warrants to purchase common stock for $0.90 per share, which vested upon grant and expired in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 4). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, we granted 55,556 warrants to an investor in connection with the purchase of common stock. The warrants have an exercise price of $0.44 per share, vest immediately and were exercisable through January 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, we granted 90,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.34 per share, vest immediately and were exercisable through February 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

On May 16, 2005, we granted 100,000 warrants to an accredited investor in connection with the purchase of 100,000 restricted common shares for $17,600. the warrants have an exercise price of $0.176 and were exercisable through May 2008.

On May 16, 2005, we granted 300,000 warrants to Fusion Capital Fund II, LLC in connection with the issuance of a 15% Convertible Note. The warrants have an exercise price of $0.25 per share and are exercisable through May 2010.

On May 27, 2005, we granted 400,000 warrants to an accredited investor in connection with the issuance of a $100,000 12% note payable. The warrants had an exercise price of $0.25 and expired on May 27, 2006.

On June 27, 2005, we granted three-year warrants to purchase 418,365 shares of the Company's restricted common stock at an exercise price of $0.25 to legal counsel as an inducement to settle accrued past due legal services payable.

From July 11, 2006 through December 14, 2005, we granted three-year warrants to purchase 5,000,000 shares of common stock to the holders of an aggregate of $1,000,000 in 10% Series A Convertible Notes. The warrants have an exercise price of $0.20 and will be issued upon conversion of the underlying 10% Series A Convertible Notes.

On March 31, 2006, as an inducement to exercise 568,181 warrants at an exercise price of $0.76 per share, we issued five-year replacement warrants in like amount to Fusion Capital Fund II, LLC. The 568,181 replacement warrants have an exercise price of $0.76. Such warrants were valued using Binomial Option Pricing model and such incremental value was insignificant.

On November 14, 2006, in conjunction with the purchase of 555,556 shares of our restricted common stock, we granted five-year warrants to purchase 555,556 shares of restricted common stock at an exercise price of $0.18. If such warrants are exercised on or before November 14, 2007, the warrant holder will receive five-year warrants to purchase an additional 555,556 shares of restricted common stock at an exercise price of $0.18.

On December 15, 2006, as an inducement to enter into a $100,000 10% convertible note, we granted noteholders five-year warrants to purchase 294,118 shares of restricted common stock at an exercise price of $0.17. If such warrants are exercised on or before December 15, 2007, the noteholders will receive five-year warrants to purchase an additional 294,118 shares of restricted common stock at an exercise price of $0.17.

In March 2007, an investor exercised 160,000 warrants in two cashless transactions.





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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

On March 22, 2007 in effecting the Allonges, we amended our 10% Series A Convertible Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. We agreed to also pay all accrued interest, through February 15, 2007 and each calendar quarter thereafter, in the form of units (the "Units")at the rate of $0.20 per Unit (the "Interest Payment Rate"). The Notes were convertible into Units at any time prior to the Maturity Date at the conversion price of $0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expires on January 2, 2011 and is exercisable to purchase one share of Common Stock at a price of $0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, we will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant" and with the Class A Warrant, collectively, the "Warrants") for every two Class A Warrants exercised. Each Class B Warrant has a three-year term and is exercisable to purchase one share of Common Stock at a price equal to the greater of $0.20 per share or 75% of the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the date of the notice of conversion. Class A Warrants to purchase 685,328 shares of Common Stock and Class B Warrants to purchase 342,665 shares of Common Stock were granted under the Allonges.

At various points over the fiscal year ended March 31, 2007, 669,000 warrants expired.

In August 2007, as part of the purchase of 815,000 units, we issued three-year warrants to purchase 815,000 shares of our common stock at $0.50 per share to accredited investors.

At various points in the three months ended December 31, 2007, 144,443 warrants expired.

In December 2007, we issued 1,650,000 three-year warrants to purchase our common stock at $0.50 per share in association with debt and equity financings.

In January 2008, we issued 760,000 three-year warrants to purchase our common stock at $0.50 per share in association with debt and equity financings.

In February 2008, an investor exercised 55,556 warrants to receive 30,617 shares in a cashless transaction.

In February 2008, we issued 200,000 three-year warrants to purchase our common stock at $0.50 per share in connection with equity financings.

In March 2008, 90,000 warrants expired.

In the July through September 2008 period, we issued 860,000 warrants to accredited investors in connection with the issuance of the 2008 10% Convertible Notes. We also issued 60,200 warrants as a placement fee to an investment banking firm that arranged the placement of the 2008 10% Convertible Notes. The warrants had an exercise price of $0.50 and carry three year terms.

In September 2008, we issued 966,750 warrants with a strike price of $0.20 as part of a payment of accrued interest of $89,500 and accrued damages of $103,850 per the payment formula in the Amended Series A 10% Convertible Notes(see note 5).

In December 2008, we issued 700,000 warrants with a strike price of $0.25 to an accredited investor as part of the sale of units in exchange for $175,000. These warrants carry three year terms.

In the three months ended December 31, 2008, investors exercised 485,000 warrants to purchase our common stock at $0.50 per share.

In January 2009, we issued 353,000 warrants to purchase 353,000 shares of common stock as part of the sale of units to an accredited investor in exchange for $55,850. 118,000 of the warrants have a strike price of $0.16 per share and 200,000 of the warrants have a strike price of $0.15 per share. These warrants carry three year terms.

In February 2009, we issued warrants to purchase 582,000 shares of common stock as part of the sale of units to an accredited investor in exchange for $88,870. 157,000 of the warrants have a strike price of $0.16 per share and 425,000 of the warrants have a strike price of $0.15 per share. These warrants carry three year terms.





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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

In February 2009, we issued 168,750 warrants with a strike price of $0.20 as part of a payment of accrued interest of $53,105 (see note 5) per the payment formula in the Amended Series A 10% Convertible Notes(see note 5).

In March 2009, we issued warrants to purchase 385,000 shares of common stock as part of the sale of units to an accredited investor in exchange for $57,750. The warrants have a strike price of $0.15 per share and carry a three year term.

In the three months ended March 31, 2009, 418,365 warrants expired.

In April 2009, an accredited investor exercised a warrant to purchase 555,556 shares of our common stock at the agreed strike price of $0.18 per share for cash proceeds of $100,000. We issued that investor a five year warrant to purchase 555,556 shares at $0.18 per share and a conditional warrant to purchase a like number of shares at the same strike price if that warrant is exercised.

In April 2009, we issued 80,000 shares of restricted common stock and warrants to purchase 80,000 shares of common stock in exchange for $15,200. The shares were issued to an accredited investor.

In May 2009, we raised an aggregate amount of $135,000 from the sale to accredited investors of 10% convertible notes. The notes are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the noteholders exercise their conversion privilege, we agreed to issue a matching three year warrant carrying a strike price of $0.20 per share.

In June 2009, we raised an aggregate amount of $215,000 from the sale to an accredited investor of a 10% convertible note. The notes are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the noteholders exercises their conversion privilege, we agreed to issue a three year warrant carrying a strike price of $0.20 per share equal to fifty percent warrant coverage.

In July 2009, we issued a convertible promissory note in the principal amount of $330,000 to an accredited investor. The note is convertible into shares of our common stock at a price per share that is equal to the lesser of (i) $0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of $0.15 per share. The investor also received warrants to purchase 660,000 shares of our common stock at an exercise price of $0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In August 2009, we issued two convertible promissory note in the principal amount of $338,250 to two accredited investors. These notes are convertible into shares of our common stock at a price per share that is equal to the lesser of (i) $0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of $0.15 per share. The investors also received warrants to purchase 676,500 shares of our common stock at an exercise price of $0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In October and November 2009, we raised $430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of $0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at $0.25 per share. We also issued to a finder as deferred offering costs a convertible note for $20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling $70,000 to 280,000 shares of our common stock per the conversion

formula in the notes (see Note 5).





In January 2010, we raised $250,000 from the sale to an accredited investor of 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

In January 2010, we issued 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at $0.20 per share to repay $146,250 of interest on certain convertible debentures accrued through January 31, 2010 (see Note 5).

On February 12, 2010, we raised $300,000 in cash and received a secured promissory note in the amount of $300,000 in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of $0.30 and a minimum price per share of $0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of $0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at $0.50 per share. The Note was issued in a private placement.

A summary of the aggregate warrant activity for the years ended March 31, 2010 and 2009 is presented below:

| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Warrants | Weighted Average Exercise Price | Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 19,193,965 | $ 0.29 | 16,021,629 | $ 0.36 |
| Granted | 8,489,863 | $ 0.28 | 4,075,701 | $ 0.26 |
| Exercised | (655,556) | $ 0.19 | (485,000) | $ 0.50 |
| Cancelled/Forfeited | (1,040,807) | $ 0.82 | (418,365) | $ 0.25 |
| Outstanding, end of year | 25,987,465 | $ 0.31 | 19,193,965 | $ 0.29 |
| Exercisable, end of year | 25,987,465 | $ 0.31 | 19,193,965 | $ 0.29 |

| | | | | |
|---|---|---|---|---|
| Weighted average estimated fair value of warrants granted | $ 0.22 | | $ 0.19 | |

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to warrants

utilizing the Binomial Lattice option pricing models:

| | Years Ended March 31, 2010 | 2009 |
|---|---|---|
| Risk free interest rate | 1.28%-2.58% | 0.94%-3.01% |
| Average expected life | 2 to 5 years | 3 to 5 years |
| Expected volatility | 78.8% - 96.28% | 83.6% - 103.0% |
| Expected dividends | None | None |





The detail of the warrants outstanding and exercisable as of March 31, 2010 is as follows:

| | Warrants Outstanding | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number Outstanding | Weighte Averag Exercis Price |
| $0.15 - $0.18 | 3,754,904 | 3.20 | $ 0.17 | 3,754,904 | $ 0.1 |
| $0.20 - $0.40 | 14,914,004 | 2.70 | $ 0.23 | 14,914,004 | $ 0.2 |
| $0.50 - $0.76 | 7,318,557 | 2.34 | $ 0.53 | 7,318,557 | $ 0.5 |
| | 25,987,465 | | | 25,987,465 | |

At March 31, 2010 we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors under the 2005 Directors Compensation Program. Of the options issued to employee-directors, 867,175 had expired. Of the options issued to outside directors, 514,550 options had expired or been forfeited, 250,000 options had been exercised and 3,671,550 options remain outstanding.

From time to time, our Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are

individually negotiated.

In August 2000, we adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of our stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of our common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At March 31, 2010, we had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited and also granted 10,000 shares to employees under the plan, with 457,500 available for future issuance.

In March 2002, the Board of Directors granted our Chief Executive Officer ("CEO") and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 250,000 shares of common stock each, at an exercise price of $1.90 per share (the estimated fair value of the underlying common stock at grant date) and expire March 2012. Awards are earned upon achievement of certain financial and/or research and development milestones. On July 1, 2005, the Company's CEO forfeited all of his aforementioned 250,000 options.

In February 2005, our Board of Directors granted our CEO and CSO non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of $0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry, Jr. and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, we recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005.





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On September 9, 2005, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,857,143 shares of common stock, at an exercise price of $0.21 per share, in exchange for the extinguishment of $300,000 of accrued related-party liabilities. The fair value of such options approximated the value of the accrued related-party liability.

On October 2, 2006, our Board of Directors granted our President non-qualified stock options to purchase up to 500,000 shares of common stock, at an exercise price of $0.27 per share. 166,667 of the options vested on July 18, 2007 with the remaining shares of the grant vesting at a rate of 13,889 shares per month. Due to our President ceasing his employment with us in November 2008, the option

grant was subsequently forfeited.

On June 13, 2007, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,500,000 shares of common stock, at an exercise price of $0.36 per share. 1,000,000 options vested immediately, 500,000 options vested in June 2008 and 500,000 options vested in June 2009. Unless terminated earlier in accordance with the agreement, the option, to the extent unexercised, will expire on June 13, 2017.

On December 15, 2008, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,000,000 shares of common stock, at an exercise price of $0.25 per share. The exercise price was set based on the closing price of our common stock on November 13, 2008, the date on which our Board of Directors approved the grant of the option. The option vested on December 15, 2008, the date of grant, with respect to 1,000,000 shares. Another 500,000 shares vested on December 31, 2009 and will vest as to the remaining 500,000 shares on December 31, 2010. Unless terminated earlier in accordance with the agreement, the option, to the extent unexercised, will expire on November 13, 2018.

Also on December 15, 2008, we entered into separate agreements with Franklyn S. Barry, Jr. and Edward G. Broenniman, two of our non-employee directors, pursuant to which we granted to each such director a non-statutory stock option to acquire an aggregate of 500,000 shares of the Company's common stock at an exercise price of $0.41 per share. The exercise price was set based on the closing price of our common stock on June 4, 2008, the date on which our Board of Directors approved the grant of each option. In the case of each grant, the option vested on December 15, 2008, the date of grant, with respect to 333,333 shares and vested as to the remaining 166,667 shares on June 4, 2009. Unless terminated earlier in accordance with its respective agreement, each option, to the extent unexercised, will expire on June 4, 2018.

Additionally, on December 15, 2008, our Board of Directors granted our CSO and another employee non-statutory stock options at an exercise price of $0.41 per share to acquire an aggregate of 750,000 shares and 300,000 shares of our common stock, respectively. The exercise price was set based on the closing price of our common stock on June 4, 2008, the date on which our Board of Directors approved the option grants. The one-third of the options vested on June 4, 2009, one-third will vest on June 4, 2010 and the final one-third will vest on June 4, 2011. Unless terminated earlier in accordance with the agreements, the options, to the extent unexercised, will expire on June 4, 2018.

In June 2009, our Chief Executive Officer agreed to suspend the exercise of up to 9,588,243 of his stock options, which allowed us to utilize the shares underlying those stock options in capital raising activities while we presented our stockholders with a proposal to increase the number of authorized shares from 100,000,000 to 250,000,000. That proposal was approved by our stockholders at our Annual Meeting on September 16, 2009. Following that approval we extended the Chief Executive Officer's stock options by 100 days that he had unreserved his shares. We determined the change in fair value of his stock options due to this extension, and based on the change in fair value, recorded an increase to our stock based compensation expense in the quarter ended September 30, 2009 of $64,678 for his vested options. For his unvested options, we recorded an increase to fair value of $15,308 which will be expensed over the remaining vesting period of those options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

The following is a summary of the stock options outstanding at March 31, 2010 and 2009 and the changes during the two years then ended:

| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 14,489,060 | $ 0.37 | 10,954,060 | $ 0.38 |
| Granted | -- | $ -- | 4,050,000 | $ 0.33 |
| Exercised | -- | $ -- | -- | $ -- |
| Cancelled/Forfeited | (1,073,000) | $ 0.38 | (515,000) | $ 0.32 |
| Outstanding, end of year | 13,416,060 | $ 0.37 | 14,489,060 | $ 0.38 |
| Exercisable, end of year | 11,716,060 | $ 0.37 | 11,105,726 | $ 0.37 |
| Weighted average estimated fair value of options granted | | $ -- | | $ 0.21 |

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to stock options utilizing the Binomial Lattice option pricing model for the years ended March 31, 2010 and March 31, 2009:

| | Years Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| Risk free interest rate | 2.08% | 1.02% |
| Average expected life | 3.8 years | 3 years |
| Expected volatility | 96% | 112% |
| Expected dividends | None | None |

The detail of the options outstanding and exercisable as of March 31, 2010 is as follows:

| | Options Outstanding | | | Options Exercisa | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price | Number Outstanding | W E |
| $0.21 - $0.25 | 4,857,143 | 6.75 years | $ 0.23 | 4,357,143 | |
| $0.36 - $0.41 | 8,221,550 | 4.64 years | $ 0.38 | 7,021,550 | |

| | | | | |
|---|---|---|---|---|
| $1.78 - $3.75 | 337,367 | 1.77 years | $ 2.02 | 337,367 |
| | 13,416,060 | | | 11,716,060 |

We recorded stock based compensation expense related to share issuances and to options granted outside of our Stock Option Plan totaling $504,933 and $733,289 for the fiscal years ended March 31, 2010 and 2009, respectively. These expenses were recorded as stock compensation included in payroll and related expenses in the accompanying consolidated statement of operations for the years ended March 31, 2010 and 2009.





As of March 31, 2010, we had $253,149 of remaining unrecognized stock option expense, which is expected to be recognized over a weighted average remaining vesting period of 0.61 years.

On March 31, 2010, our stock options had an intrinsic value of approximately $168,000 comparing the closing price of our stock on that date of $0.38 per share to the weighted average exercise price of our stock options.

7. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

Certain of our officers and other related parties have advanced us funds, agreed to defer compensation and/or paid expenses on our behalf to cover working capital deficiencies. These non interest-bearing liabilities have been included as due to related parties in the accompanying consolidated balance sheets.

Other related party transactions are disclosed elsewhere in these notes to consolidated financial statements.

8. ACCRUED LIQUIDATED DAMAGES

We follow the guidance of ASC 825-20 regarding our registration payment arrangements. We have registration payment arrangements associated with convertible notes (see Footnote 5) related to the registration of warrants and the common stock underlying the convertible notes. These warrants have lives extending through 2016. The terms of certain of these arrangements do not provide for a maximum potential amount of consideration. At March 31, 2010, we had accrued liquidated damages of $493,000 related to these registration payment arrangements.

9. OTHER CURRENT LIABILITIES

At March 31, 2010 and 2009, other current liabilities were comprised of the following items:

| | March 31, 2010 | March 31, 2009 |
|---|---|---|

| | | |
|---|---|---|
| Accrued interest | 452,339 | 352,204 |
| Accrued legal fees | 236,902 | 246,865 |
| Other accrued liabilities | 77,699 | 80,429 |
| Total other current liabilities | $ 766,940 | $ 679,498 |

10. INCOME TAXES

On July 13, 2006, the FASB issued FIN 48, subsequently codified in ASC 740, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, ACCOUNTING FOR INCOME Taxes (Codified under ASC 740), and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 is effective for fiscal years beginning after December 15, 2006.

We adopted the provisions of ASC 740 on April 1, 2007, and have commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, we have recorded no additional tax liability. There are no unrecognized tax benefits as of April 1, 2008, or as of March 31, 2010. As of March 31, 2010, we have not yet completed our analysis of the deferred tax assets for net operating losses and we believe that it is more likely than not that an ownership change may have occurred. As such, this amount and the offsetting valuation allowance have been removed from our deferred tax assets. We will complete a Section 382 analysis regarding the limitation of the net operating loss, if we utilize the net operating loss.

Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact our effective tax rate.

We are subject to taxation in the U.S. and state jurisdictions. Our tax years for 1994 and forward are subject to examination by the U.S. and 2004 and forward by California tax authorities due to the carryforward of unutilized net operating losses. We are currently not under examination by any taxing authorities.





Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the twelve months ended March 31, 2010, we did not recognize any interest or penalties. Upon adoption of ASC 740 on April 1, 2007, we did not record any interest or penalties.

At March 31, 2010, we had net deferred tax assets of approximately $4.7 million. These deferred tax assets are primarily composed of capitalized research and development costs and other accruals. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation has been established to offset the net deferred tax asset. Additionally, the future utilization of the our net operating loss carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future.

Significant components of our net deferred tax assets at March 31, 2010 are shown below (in thousands). A valuation allowance of $4.7 million has been established to offset the net deferred tax assets as of March 31, 2010, as realization of such assets is uncertain.

| | YEAR ENDED MARCH 31, | |
|---|---|---|
| | 2010 | 2009 |
| Deferred tax assets: | | |
| Capitalized research and development | $ 3,445 | $ 3,245 |
| Other | 1,301 | 626 |
| Total deferred tax assets | 4,746 | 3,871 |
| Total deferred tax liabilities | -- | -- |
| Net deferred tax assets | 4,746 | 3,871 |
| Valuation allowance for deferred tax assets | (4,746) | (3,871) |
| Net deferred tax assets | $ -- | $ -- |

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at March 31, 2010, due to the following (in thousands):

| | 2010 | 2009 |
|---|---|---|
| Federal income taxes at 34% | $ (1,539) | $ (2,069) |
| State income tax, net of federal benefit | (265) | (355) |
| Tax effect on non-deductible expenses and credits | (70) | 472 |
| Increase in valuation allowance | 1,874 | 1,952 |
| | $ -- | $ -- |

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Pursuant to Internal Revenue Code Sections 382, use of our net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period.

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

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11. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

We entered into an employment agreement with our Chairman of the Board effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days notice, will be in effect until the employee retires or ceases to be employed by us. The Chairman of the Board was appointed President and CEO effective June 1, 2001 upon which the base annual salary was increased from $120,000 to $180,000. Effective January 1, 2005, the CEO's salary was increased from $180,000 to $205,000 per year. The CEO is eligible for an annual bonus at the discretion of the Board of Directors, of which $0 and $20,000 was earned during each of the years ended March 31, 2007 and 2006, respectively. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary. Effective April 1, 2006, the CEO's salary was increased from $205,000 to $240,000 per year. His salary was subsequently increased to $265,000 per year and effective May 1, 2008, his salary was increased from $265,000 to $290,000 per year. On April 1, 2010, his salary was increased from $290,000 to $325,000 per year.

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer ("CSO"). His compensation under the agreement was modified in June 2001 from $80,000 to $150,000 per year. Effective January 1, 2005 Dr. Tullis' salary was increased from $150,000 to $165,000 per year Under the terms of the agreement, his employment continues at a salary of $165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Dr. Tullis was granted 250,000 stock options to purchase the Company's common stock in connection the completing certain milestones, such as the initiation and completion of certain clinical trials, the submission of proposals to the FDA and the filing of a patent application. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of twelve months base salary. Effective April 1, 2006, the CSO's salary was increased from $165,000 per year to $185,000 per year. On April 1, 2010, his salary was increased from $185,000 to $195,000 per year.

LEASE COMMITMENTS

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of $6,045 per month on a four year lease that expires in September 2013. We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of $1,667 per month on a two year lease that expires in October 2011.

Rent expense approximated $96,000 and $91,000 for the fiscal years ended March 31, 2010 and 2009, respectively. Our commitments under the rent agreements for the next four fiscal years are as follows:

OPERATING LEASE COMMITMENTS

FISCAL YEAR ENDED MARCH 31,

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| 8910 University Center Lane, Suite 660, San Diego, CA 92122 office lease | $ 73,805 | $ 76,388 | $ 79,062 | $ 40,211 |
| 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 office lease | 22,088 | 14,586 | - | - |
| Total Lease Commitments | $ 95,893 | $ 90,974 | $ 79,062 | $ 40,211 |

We sublet a portion of the Sorrento Valley Road location for $500 per month to an independent third party under a month to month sublease. We record this sub rental income as an offset to our general and administrative expenses.





12. NOTE RECEIVABLE

On February 12, 2010, we received a full recourse secured promissory note ("Investor Note") in the amount of $300,000 in connection with the issuance by the Company of a $660,000 principal amount 10% convertible promissory note to one accredited investor (See Note 5). The Investor Note bears interest payable to the Company at five percent per annum and has a maturity date of April 1, 2011. Accordingly, the Investor note is classified as non-current in the consolidated balance sheets. We recognize interest income on the Investor Note as it is earned under the terms of the note. The Investor Note has a prepayment option.

At March 31, 2010, we had accrued interest income relating to the Investor Note of $1,932.

13. SUBSEQUENT EVENTS

In April 2010, a holder of one of our 12% Notes payable converted $171,758 of principal and accrued interest into 687,033 shares of our common stock based upon an agreed conversion rate of $0.25 per share.

In April 2010, we issued 8,333 shares of restricted common stock to a broker dealer as partial payment of the registration fee of an investor conference. The shares were valued at $3,000 based on the closing stock price of $0.36 per share.

In April 2010, we issued 28,301 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for financial consulting services valued at $9,056 based on the value of the services provided.

In April 2010, we issued 16,667 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock

Plan at $0.33 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In April 2010, we issued 8,455 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.35 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.

In April 2010, we issued 10,703 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.37 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received a matching three year warrant to purchase unregistered shares of our common stock at a price of $0.25 per share.

In April 2010, we issued 20,341 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.33 per share in payment for internal controls consulting services valued at $6,713 based on the value of the services provided.

In April 2010, a holder of one of our October & November 2009 10% Convertible Notes payable converted $183,750 of principal and accrued interest into 735,000 shares of our common stock based upon an agreed conversion rate of $0.25 per share.

In April 2010, we issued 16,667 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.33 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In April 2010, we issued 8,760 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.33 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.





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In April 2010, we entered into a one year consulting agreement with a individual for media relations services. We agreed to pay the consultant 22,727 warrants to purchase our common stock at a fixed exercise price of $0.33 per share on a monthly basis. The agreement values these warrant issuances at $5,000 per month. The first issuance under this arrangement is scheduled for late June 2010.

In May 2010, we issued 29,063 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.28 per share in payment for financial consulting services valued at $8,109 based on the value of the services provided.

In May 2010, we issued 103,332 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.30 per share in payment for legal services valued at $31,000 based on the value of the services provided.

In May 2010, we issued 17,188 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In May 2010, we issued 9,319 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.31 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.

In May 2010, we issued 12,375 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for regulatory affairs consulting services valued at $3,960 based on the value of the services provided.

In May 2010, a warrant holder exercised warrants to purchase 1,599,348 shares of common stock at the agreed exercise prices, which resulted in proceeds of $283,600. As an inducement to this warrant holder, we agreed to issue to him 1,599,348 replacement warrants on the same terms as the warrants that he exercised.

In May 2010, we issued 11,639 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.31 per share in payment for corporate communications consulting services valued at $3,608 based on the value of the services provided.

On May 21, 2010, the Board of Directors of the Company amended the expiration terms of certain outstanding stock options such that all outstanding stock options of the Company shall have a term that is for not less than ten (10) years following the original date of grant. No other terms or features of the stock options were modified or amended. Stock options held by Mr. James Joyce, our Chief Executive Officer and Chairman of the Board of Directors, Mr. Richard Tullis, our Chief Science Officer and member of the Board of Directors, Mr. Franklyn Barry, a member of the Board of Directors, and Mr. Edward Broenniman, a member of the Board of Directors, were modified accordingly. Of the foregoing (i) options to purchase 2,231,100 shares held by Mr. Joyce were extended to February 23, 2015; (ii) options to purchase 867,175 shares held by Mr. Tullis were extended to February 23, 2015; (iii) options to purchase 308,725 shares held by Mr. Broenniman were extended to February 23, 2015; and (iv) options to purchase 308,725 shares held by Mr. Barry were extended to February 23, 2015. All of the foregoing options are at an exercise price of $0.38 per share. The foregoing represents only a portion of the total options and shares owned by the directors and officers of the Company.

In June 2010, we issued 17,188 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.32 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In June 2010, we issued 9,349 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.31 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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In June 2010, we issued 15,377 shares of restricted common stock valued at $0.33 per share in payment for investor relations consulting services valued at $5,000 based on the value of the services provided.

In June 2010, we issued 33,056 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.27 per share in payment for financial consulting services valued at $8,925 based on the value of the services provided.

In June 2010, we issued 17,516 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.31 per share in payment for business development consulting services valued at $5,500 based on the value of the services provided.

In June 2010, we issued 9,678 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.30 per share in payment for corporate communications and administration consulting services valued at $2,917 based on the value of the services provided.

In June 2010, a holder of one of our August 2009 Convertible Notes payable converted $12,500 of principal into 51,286 shares of our common stock based upon the agreed conversion formula of the August 2009 Convertible Note.

In June 2010, a holder of one of our August 2009 Convertible Notes payable converted $17,500 of principal into 75,000 shares of our common stock based upon the agreed conversion formula of the August 2009 Convertible Note.

In June 2010, we issued 34,514 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at $0.27 per share in payment for financial consulting services valued at $9,319 based on the value of the services provided.

On June 23, 2010, we closed on the restructuring (the "Restructuring") of our Amended Series A 10% Convertible Notes (see Note 5). In the Restructuring, we issued four Amended and Restated 12% Series A Convertible Notes (each, a "Note" and collectively, the "Notes") to the holders in an aggregate amount of $900,000. The Notes amend and restate certain Amended and Restated 10% Series A Convertible Notes dated November 29, 2007 and certain amendments and predecessor notes thereto (collectively, the "Prior Notes") that had been issued to the holders by us. The effective date of the Restructuring is June 14, 2010.

The Notes were issued effective February 15, 2009, bear an interest rate of 12 percent (12%) per annum on the unpaid principal balance and mature on December 31, 2010 (the "Maturity Date"). Upon closing the Restructuring, we paid interest on the Notes from February 1, 2010 through the Maturity Date and liquidated damages due under that certain Registration Rights Agreement dated as of November 29, 2007 (the "2007 Registration Rights Agreement"), entered into among the Company and the holders in connection with the Prior Notes, by issuing to the Holders an aggregate of 1,555,000 units (the "Units") consisting of one share of our common stock and a warrant to purchase one share of our common

stock at an exercise price of $0.20 per share. The Notes are convertible into shares of restricted common stock at the election of the holders at any time prior to repayment at a conversion price of $0.20 per share (the "Conversion Price"). At any time on or prior to the Maturity Date, we have the right to prepay the Notes, in whole or in part, on ten (10) days' advance notice to the Holders, subject to the holders' right to convert in advance of such prepayment.

In addition to issuing the Notes and the Units, we issued to the holders an aggregate of 10,091,127 amended and restated warrants (collectively, the "Warrants") to purchase shares of our common stock. The Warrants amend and restate a like number of warrants previously issued or potentially issuable to the holders in connection with the Prior Notes. The Warrants bear an exercise price of $0.20 per share and may be exercised at any time through February 15, 2016. No Holder may convert such Holder's Note or exercise such holder's Warrants if, upon giving effect to such conversion or exercise, the holder's ownership would exceed 9.9% of the number of outstanding shares of our common stock.

In satisfaction of charges for legal services rendered to the holders by Quarles & Brady LLP in connection with the Prior Notes and the Restructuring, we also issued to Quarles & Brady two Amended and Restated 12% Series A Convertible Notes in an aggregate amount of $64,153.14, an aggregate of 31,040 Units to pay interest thereunder from March 1, 2010 through December 31, 2010, and an aggregate of 320,765 warrants to purchase our common stock. The notes and warrants issued to Quarles & Brady contain substantially the same terms and conditions as the Notes and Warrants issued to the holders, except that the Quarles & Brady warrants include a cashless exercise feature not provided in the Holders' Warrants.





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In connection with the Restructuring, the Company and the holders amended and restated the 2007 Registration Rights Agreement by entering into an Amended and Restated Registration Rights Agreement with an effective date of February 15, 2009 (the "2009 Registration Rights Agreement"). Quarles & Brady also is a party to the 2009 Registration Rights Agreement. Pursuant to the 2009 Registration Rights Agreement, we must file no later than July 31, 2010, a registration statement on Form S-1 under the Securities Act of 1933, as amended (the "Act"), covering the shares of common stock issuable upon exercise of the warrants issued to the holders and Quarles & Brady in the Restructuring.