

***THIS NOTE, THE SHARES ISSUABLE UPON CONVERSION OF THE NOTE AND THE UNITS THAT MAY BE ISSUED IN PAYMENT OF INTEREST DUE UNDER THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE NOTE NOR SUCH SHARES OR UNITS MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR
AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.***

AETHLON MEDICAL, INC.

**AMENDED AND RESTATED
12% SERIES A CONVERTIBLE NOTE**

No. _____

\$ _____

FOR VALUE RECEIVED, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to _____, or registered assigns (the "Holder"), the sum of _____ in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein. This Note includes various advances (the "Advances") that the Holder has made to the Company since July 2005. This Note is issued as an amendment of that certain Amended and Restated 10% Series A Convertible Note dated November 29, 2007 and any notes predecessor thereto issued by the Company to the Holder prior to the Issue Date (the "Prior Notes"), and all amendments to the Prior Notes, including that certain allonge entered into between the Company and the Holder on March 5, 2007 (the "Allonge").

1. Interest and Liquidated Damages.

1.1 Commencing on the Issue Date, this Note shall bear interest ("Interest") equal to twelve percent (12%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Prior to the Issue Date, Interest due under the Prior Notes accrued on each Advance at a rate of ten percent (10%) per annum, commencing on the date of the Advance, as set forth on Exhibit A to this Note. Except as set forth in Paragraph 1.2 below, the Company shall pay all accrued Interest on a quarterly basis on the fifteenth day of January, April, July and October of each year until the Maturity Date, when all accrued but unpaid Interest will be due and payable. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 On June 14, 2010 (the "Interest Payment Date"), the Company will pay Interest and Default Interest (as defined in Paragraph 11.5) accrued under this Note and the Prior Notes from February 1, 2010 through the Interest Payment Date and will prepay Interest scheduled to accrue under this Note following the Interest Payment Date through December 31, 2010 (the "Combined Interest Payment"). On the Interest Payment Date, the Company also will pay liquidated damages due through July 31, 2010 under that certain Registration Rights Agreement dated as of November 29, 2007 between the Holder and the Company (the "November 2007 Registration Rights Agreement"). The Company will pay the Combined Interest Payment and the liquidated damages in units ("Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). Each Unit shall be composed of one share of the Company's Common Stock and one Amended and Restated Class A Common Stock Purchase Warrant (the "Amended Class A Warrant"). The Company shall pay the Combined Interest Payment and the liquidated damages by issuing _____ Units and shall pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Amended Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$0.20 per share. The form of Amended Class A Warrant is set forth as Exhibit C. The Company previously issued to the Holder _____ Class A Common Stock Purchase Warrants (the "Prior Class A Warrants") in satisfaction of Interest and Default Interest accrued under the Prior Notes through January 31, 2010 and liquidated damages due through September 30, 2008 under the November 2007 Registration Rights Agreement. Concurrently herewith, the Company will issue _____ Amended Class A Warrants to the Holder as an amendment of such Prior Class A Warrants.

1.3 All Interest accrued but unpaid under this Note after the Interest Payment Date will, at the option of the Company, be payable in cash or in Units, valued at the Interest Payment Rate, as such term is defined in this Note; provided that, if, subsequent to the Combined Interest Payment, the Company is in default under this Note at the time an Interest payment becomes due and payable, it will be the Holder's option as to whether to accept payment of such Interest in cash or in Units. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of payment.

1.4 The Company previously issued to the Holder _____ Class A-1 Common Stock Purchase Warrants (the "Prior Class A-1 Warrants") in satisfaction of the liquidated damages due the Holder through November 29, 2007 under that certain Registration Rights Agreement dated April 21, 2007 between the Holder and the Company. Concurrently herewith, the Company will issue _____ Amended and Restated Class A-1 Common Stock Purchase Warrants (the "Amended Class A-1 Warrants") to the Holder as an amendment of such Prior Class A-1 Warrants. Each Amended Class A-1 Warrant will be exercisable to purchase one share of Common Stock at a price of \$0.20 per share. The form of Amended Class A-1 Warrant is set forth as Exhibit D.

1.5 In connection with the issuance of a Prior Note, the Company issued to the Holder a Class A Principal Common Stock Purchase Warrant (the "Prior Class A Principal Warrant") exercisable to purchase a total of _____ shares of Common Stock. Concurrently herewith, the Company will issue an Amended and Restated Class A Principal Common Stock Purchase Warrant (the "Amended Class A Principal Warrant") to the Holder as an amendment of such Prior Class A Principal Warrant. The Amended Class A Principal Warrant will be exercisable to purchase a total of _____ shares of Common Stock at a price of \$0.20 per share. The form of Amended Class A Principal Warrant is set forth as Exhibit E.

1.6 Under certain conditions, upon the exercise of certain of the Prior Class A Warrants and Prior Class A-1 Warrants (collectively, the "Prior Warrants"), the Holder would have been entitled to receive an additional warrant for every two (2) shares of Common Stock purchased upon such exercise. Concurrently herewith, the Company will issue _____ Class B Common Stock Purchase Warrants (the "Class B Warrants") to the Holder in lieu of the warrants that would have been issuable to the Holder upon any such exercise of the Prior Warrants. The Class B Warrants will be exercisable to purchase one share of Common Stock at a price of \$0.20 per share. The form of Class B Warrant is set forth as Exhibit F. The Amended Class A Warrants, the Amended Class A-1 Warrants, the Amended Class A Principal Warrant and the Class B Warrants are referred to collectively as the "Warrants."

1.7 *Series of Notes.* This Note has been issued as an amendment of the Prior Notes and Allonge issued to the Holder. This Note is one of a series of Notes issued by the Company as of the date hereof (the "Amended Notes") as amendments of prior notes held by their respective Holders.

2. **Payments.** All payments under this Note shall first be credited against costs and expenses provided for in this Note, second to the payment of any penalties, third to the payment of accrued and unpaid Interest, if any, and the remainder shall be credited against principal. All cash payments due hereunder shall be payable in legal tender of the United States of America, and in same day funds delivered to the Holder by cashier's check, certified check, bank wire transfer or any other means of guaranteed funds to the mailing address provided below, or at such other place as the Holder shall designate in writing for such purpose from time to time. If a payment under this Note otherwise would become due and payable on a Saturday, Sunday or legal holiday (any other day being a "Business Day"), the due date of the payment shall be extended to the next succeeding Business Day, and Interest, if any, shall be payable thereon during such extension.

3. **Pre-Payments and Maturity Date.** This Note shall be due and payable in full, including all accrued Interest thereon, on December 31, 2010 (the "Maturity Date"). At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that, on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued but unpaid Interest on the Note (or portion thereof) redeemed. At any time after the Maturity Date, the Company shall have the right to repay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such repayment date. The Company may prepay this Note at any time after issuance without penalty.

4. **Equal Rank.** This Note represents one of a series of Amended Notes that are amendments of a series of One Million Dollars (\$1,000,000) principal amount of 10% Series A Convertible Notes previously issued by the Company. All Amended Notes rank equally and ratably without priority over one another.

5. **Conversion of Note and Issuance of Shares.**

5.1 The unpaid principal amount of this Note is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the date of repayment of such principal amount at the rate of \$0.20 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the Fair Market Value of the Common Stock on the date of conversion.

5.2 *Limitation on Conversion Rights.* Notwithstanding any other provision of Paragraph 5 to the contrary, the Holder shall not be entitled to convert this Note in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of this Note and all Related Notes with respect to which the determination of such proviso is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount of this Note and the Related Notes beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Paragraph, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) a more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. If the foregoing 9.9% limitation is ever reached and the Holder desires to convert this Note or part thereof into equity, the Company will acknowledge the conversion in writing, but not issue the Holder any additional shares of Common Stock at that point. Under such circumstances the Holder will have the right to receive additional shares of Common Stock as a result of the conversion only at such point and to the extent that its beneficial ownership subsequently becomes less than 9.9% and such issuance will not cause the Holder's beneficial ownership to exceed 9.9%. Upon written notice to this effect given by the Holder, the Company will issue such additional shares in accordance with Paragraph 5.7, "Issuance of Certificate."

5.3 *Adjustment Based Upon Stock Dividends, Combination of Shares or Recapitalization.* The Conversion Price shall be adjusted in the event that the Company shall at any time (i) pay a stock dividend on the Common Stock; (ii) subdivide its outstanding Common Stock into a greater number of shares; (iii) combine its outstanding Common Stock into a smaller number of shares; (iv) issue by reclassification of its Common Stock any other special capital stock of the Company; or (v) distribute to all holders of Common Stock evidences of indebtedness or assets (excluding cash dividends) or rights or warrants to subscribe for Common Stock (other than those mentioned above). No adjustment of the Conversion Price will be required until cumulative adjustments amount to One Dollar (\$1.00) per Note or more. Upon the occurrence of an event requiring adjustment of the Conversion Price, and thereafter, the Holder, upon surrender of this Note for conversion, shall be entitled to receive the number of shares of Common Stock or other capital stock of the Company that the Holder would have owned or been entitled to receive after the happening of any of the events described above had this Note been converted immediately prior to the happening of such event.

5.4 *Adjustment Based Upon Merger or Consolidation.* In case of any consolidation or merger to which the Company is a party (other than a merger in which the Company is the surviving entity and which does not result in any reclassification of or change in the outstanding Common Stock of the Company), or in case of any sale or conveyance to another person, firm, or corporation of the property of the Company as an entirety or substantially as an entirety, the Holder shall have the right to convert this Note into the kind and amount of securities and property (including cash) receivable upon such consolidation, merger, sale or conveyance by the Holder of the number of shares of Common Stock into which such Note might have been converted immediately prior thereto.

5.5 *Exercise of Conversion Privilege.*

5.5.1 The conversion right provided for in this Note shall be exercisable by the Holder by written notice to the Company or its successor and the surrender of this Note in exchange for the number of shares of Common Stock (or other securities and property, including cash, in the event of an adjustment of the Conversion Price) into which this Note is convertible based upon the Conversion Price.

5.5.2 The Holder's conversion right set forth in this Paragraph 5 may be exercised at any time and from time to time but prior to payment in full of the principal amount and the accrued Interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the redemption date of this Note.

5.5.3 The Holder may exercise the right to convert all or any portion of the principal amount and accrued Interest on this Note by delivery of (i) this Note and (ii) a completed Conversion Notice in the form attached as Exhibit B on a Business Day to the Company's principal executive offices. Such conversion shall be deemed to have been made immediately prior to the close of business on the Business Day of such delivery of a conversion notice (the "Conversion Date"), and the Holder shall be treated for all purposes as the record holder of the shares of Common Stock into which this Note is converted as of such date.

5.5.4 Upon conversion of the entire principal amount and accrued Interest of this Note and the delivery of shares of Common Stock upon conversion of this Note, except as otherwise provided in Paragraph 22, "Representations and Warranties to Survive Closing," the Company shall be forever released from all of its obligations and liabilities under this Note.

5.6 *Corporate Status of Common Stock to be Issued.* All shares of Common Stock (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

5.7 *Issuance of Certificate.* Upon the conversion of this Note, the Company shall, within five (5) Business Days of such conversion, issue to the Holder a certificate or certificates representing the number of shares of Common Stock (or other securities in the event of an adjustment of the Conversion Price) to which the conversion relates.

5.8 *Price Protection.* In the event that the Company shall sell any of its equity securities or issue securities convertible into, or exercisable or exchangeable for, Common Stock at a price per share that is less than \$0.20 (the "New Price"), then, in such event, the Conversion Price shall automatically, and without further action on the part of the Holder or the Company, be adjusted to the New Price. Notwithstanding the foregoing, the provisions of this Section 5.8 shall not apply to the issuance of stock options to the Company's management, directors, employees, consultants and advisors so long as such options are issued with exercise prices per share that are no less than the fair market value of a share of Common Stock at the time of issuance.

6. **Status of Holder of Note.** This Note shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company or to any rights whatsoever except the rights herein expressed, and no dividends shall be payable or accrue in respect of this Note or the securities issuable upon the conversion hereof unless and until this Note shall be converted. Upon the conversion of this Note, the Holder shall, to the extent permitted by law, be deemed to be the holder of record of the shares of Common Stock issuable upon such conversion, notwithstanding that the stock transfer books of the Company shall then be closed or that the certificates representing such shares of Common Stock shall not then be actually delivered.

7. **Reserve of Shares of Common Stock.** The Company shall reserve out of its authorized shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, a number of shares sufficient to enable it to comply with its obligation to issue shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, upon the conversion of this Note.

8. **Transfer Restrictions; Exemption from Registration.**

8.1 The Holder agrees that (i) this Note and the Common Stock issuable upon conversion have not been registered under the Securities Act of 1933, as amended (the "Act"), and may not be sold or transferred without registration under the Act or unless an exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

8.2 If an opinion of counsel of Holder provides that registration is not required for the proposed conversion or transfer of this Note or the proposed transfer of the shares of Common Stock issuable upon conversion and that the proposed conversion or transfer in the absence of registration would require the Company to take any action including executing and filing forms or other documents with the Securities and Exchange Commission (the "SEC") or any state securities agency, or delivering to the Holder any form or document in order to establish the right of the Holder to effectuate the proposed conversion or transfer, the Company agrees promptly, at its expense, to take any such action; and provided, further, that the Company will reimburse the Holder in full for any expenses (including but not limited to the fees and disbursements of such counsel, but excluding brokers' commissions) incurred by the Holder or owner of the Common Stock on his, her or its behalf in connection with such conversion or transfer of the Note or transfer of the Common Stock.

9. **Registration Rights.** The Holder shall have the right, under the terms of the Amended and Restated Registration Rights Agreement of even date herewith between the Holder and the Company, to cause the Company to register the Common Stock underlying the Warrants in a registration statement under the Act, filed by the Company with the SEC.

10. **Rule 144.** If the Company (a) has registered or registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) files or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

11. **Default.** The Company shall perform its obligations and covenants hereunder and in each and every other agreement between the Company and Holder pertaining to the Indebtedness evidenced hereby. The following provisions shall apply upon failure of the Company so to perform.

11.1 *Event of Default.* Any of the following events shall constitute an "Event of Default" hereunder:

11.1.1 Failure by the Company to pay principal of any of this Note when due and payable on the Maturity Date;

11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except as set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

11.1.4 The entry of an order for relief under the Federal Bankruptcy Code as to the Company or entry of any order appointing a receiver or trustee for the Company or approving a petition in reorganization or other similar relief under bankruptcy or similar laws in the United States of America or any other competent jurisdiction, and if such order, if involuntary, is not satisfied or withdrawn within sixty (60) days after entry thereof; or the filing of a petition by the Company seeking any of the foregoing, or consenting thereto; or the filing of a petition to take advantage of any debtor's act; or making a general assignment for the benefit of creditors; or admitting in writing inability to pay debts as they mature.

11.2 *Acceleration.* Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding, all sums evidenced hereby, including all principal, Interest, fees and all other amounts due hereunder, shall become immediately due and payable. If an Event of Default in the payment of principal or Interest should occur and be continuing with respect to the Note, any one or more holders of the Notes then outstanding may declare the principal of the Notes to be immediately due and payable. In the Event of a Default due to a breach of any other covenant or term, Holders representing twenty-five percent (25%) of the principal amount of the Notes may take action to accelerate the Notes.

11.3 *Notice by Company.* Upon the happening of any Event of Default specified in this paragraph that is not cured within the respective periods prescribed above, the Company will give prompt written notice thereof to the Holder of this Note.

11.4 *No Waiver.* Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent Event of Default, or in the event of continuance of any existing Event of Default after demand or performance thereof.

11.5 *Default Interest.* "Default Interest" will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured; provided that, effective January 1, 2010, such rate will become twenty percent (20%) per annum.

11.6 *Pursuit of any Remedy.* No Holder of a Note may pursue any remedy under the Notes unless (i) the Company shall have received written notice of a continuing Event of Default from the Holder and (ii) the Company shall have received a request from Holders of at least twenty-five percent (25%) of principal amount of the Notes to pursue such remedy. The Holders of fifty-one percent (51%) of principal amount of the Notes then outstanding have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Noteholders under the Notes.

12. Assignment, Transfer or Loss of the Note.

12.1 No Holder of this Note may assign, transfer, hypothecate or sell all or any part of this Note or in any way alienate or encumber the Note without the express written consent of the Company, the granting or denial of which shall be within the absolute discretion of the Company. Any attempt to effect such transfer without the consent of the Company shall be null and void. The Company has not registered this Note under the Act or the applicable securities laws of any state in reliance on exemptions from registration. Such exemptions depend upon the investment intent of the Holder at the time he acquires his Note. The Holder is acquiring this Note for his own account for investment purposes only and not with a view toward distribution or resale of such Note within the meaning of the Act and the applicable securities laws of any state. The Company shall be under no duty to register the Note or to comply with an exemption in connection with the sale, transfer or other disposition under the applicable laws and regulations of the Act or the applicable securities laws of any state. The Company may require the Holder to provide, at his expense, an opinion of counsel satisfactory to the Company to the effect that any proposed transfer or other assignment of the Note will not result in a violation of the applicable federal or state securities laws or any other applicable federal or state laws or regulations.

12.2 All expenses, including reasonable legal fees incurred by the Company in connection with any permitted transfer, assignment or pledge of this Note will be paid by the Holder requesting such transfer, assignment or pledge.

12.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at its principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12.4 Subject to Subparagraph 12.1 above, the Holder may, at his option, either in person or by duly authorized attorney, surrender this Note for registration of transfer at the principal office of the Company and, upon payment of any expenses associated with the transfer, receive in exchange therefor a Note or Notes, dated as of the date to which interest has been paid on the Note so surrendered, each in the principal amount of \$1,000 or any multiple thereof, for the same aggregate unpaid principal amount as the Note so surrendered and registered as payable to such person or persons as may be designated by the Holder. Every Note surrendered for registration of transfer shall be duly endorsed or shall be accompanied by a written instrument of transfer duly executed by the Holder or his attorney duly authorized in writing. Every Note, so made and delivered by the Company in exchange for any Note surrendered, shall in all other respects be in the same form and have the same terms as the Note surrendered. No transfer of any Note shall be valid unless made in such manner at the principal office of the Company.

12.5 The Company may treat the person in whose name this Note is registered as the owner and Holder of this Note for the purpose of receiving payment of all principal of and all Interest on this Note, and for all other purposes whatsoever, whether or not such Note shall be overdue and, except for transfers effected in accordance with this subparagraph, the Company shall not be affected by notice to the contrary.

13. **Modifications and Amendments.** After notice given by the Company to the Holders of all Notes at the time outstanding, the Company may from time to time and at any time enter into an agreement or agreements supplemental to the provisions of this Note for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Notes or of modifying in any manner the rights of the Holders of the Notes; *provided, however*, that no such supplemental agreement, modification or amendment may, without the consent of the holder of each Note then outstanding affected thereby, (i) reduce the percentage of principal amount of Notes whose Holders may consent to an amendment, supplement or waiver; (ii) reduce the rate or change the time for payment of interest, including Default Interest, on any Note; (iii) reduce the principal amount of any Note or change the Maturity Date of the Notes; (iv) make any Note payable in money other than that stated in the Note; (v) impair the right to institute suit for the enforcement of any payment of principal of, or premium, if any, or interest on, any Note; (vi) make any change in the percentage of principal amount of Notes necessary to waive compliance with certain provisions of the Note; or (vii) waive a continuing default or Event of Default in the payment of principal of, premium, if any, or Interest on the Notes. The modifications and amendments of the Notes may be made by the Company without the consent of any Holders of Notes in certain limited circumstances, including (a) to cure any ambiguity, omission, defect or inconsistency, (b) to provide for the assumption of the obligations of the Company under the Notes upon the merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company, or (c) to make any change that does not adversely affect the rights of any holder of Notes. The Holders of a majority in aggregate principal amount of the Notes then outstanding may waive any past default under the Notes, except a default in the payment of principal, premium, if any, or Interest. Promptly after execution by the Company and Holders of the Notes of a supplemental agreement pursuant to the provisions of this paragraph, the Company shall deliver a copy of such supplemental agreement to all Holders of the Notes at the time outstanding.

14. **Notices.** All notices provided for herein shall be validly given if in writing and delivered personally or sent by certified mail, postage prepaid, to the office of the Company or such other address as the Company may from time to time designate in writing sent by certified mail, postage prepaid, to the Holder at his address set forth below or such other address as the Holder may from time to time designate in writing to the Company by certified mail, postage prepaid.

15. **Usury.** All Interest, Default Interest, fees, charges, goods, things in action or any other sums or things of value, or other contractual obligations (collectively, the "Additional Sums") paid by the Company hereunder, whether pursuant to this Note or otherwise, with respect to the Indebtedness evidenced hereby, or any other document or instrument in any way pertaining to the Indebtedness, which, under the laws of the State of California may be deemed to be Interest with respect to such loan or Indebtedness, shall, for the purpose of any laws of the State of California, which may limit the maximum amount of Interest to be charged with respect to such loan or Indebtedness, be payable by the Company as, and shall be deemed to be, Interest and for such purposes only, the agreed upon and contracted rate of Interest shall be deemed to be increased by the Additional Sums. Notwithstanding any provision of this Note to the contrary, the total liability for payments in the nature of Interest under this Note shall not exceed the limits imposed by applicable law. The Company shall not assert a claim, and shall actively resist any attempts to compel it to assert a claim, respecting a benefit under any present or future usury laws against any Holder of this Note.

16. **Binding Effect.** This Note shall be binding upon the parties hereto and their respective heirs, executors, administrators, representatives, successors and permitted assigns.

17. **Collection Fees.** Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all costs of suit and preparation for such suit (and whether at trial or appellate level), in the event the unpaid principal amount of this Note, or any payment of Interest is not paid when due, or in the event Holder is made party to any litigation because of the existence of the Indebtedness evidenced by this Note, or if at any time Holder should incur any attorneys' fees in any proceeding under the Federal Bankruptcy Code (or other similar laws for the protection of debtors generally) in order to collect any Indebtedness hereunder or to preserve, protect or realize upon any security for, or guarantee or surety of, such Indebtedness whether suit be brought or not, and whether through courts of original jurisdiction, as well as in courts of appellate jurisdiction, or through a bankruptcy court or other legal proceedings.

18. **Construction.** This Note shall be governed as to its validity, interpretation, construction, effect and in all other respects by and in accordance with the laws and interpretations thereof of the State of California. Unless the context otherwise requires, the use of terms in singular and masculine form shall include in all instances singular and plural number and masculine, feminine and neuter gender.

19. **Severability.** In the event any one or more of the provisions contained in this Note or any future amendment hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note or such other agreement, and in lieu of each such invalid, illegal or unenforceable provision there shall be added automatically as a part of this Note a provision as similar in terms to such invalid, illegal or unenforceable provision as may be possible and be valid, legal and enforceable.

20. **Entire Agreement.** This Note Agreement represents the entire agreement and understanding between the parties concerning the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, representations and warranties with respect thereto.

21. **Governing Law; Jurisdiction; Jury Trial.** The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its shareholders. All other questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by the internal laws of the State of California, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of California or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego for the adjudication of any dispute hereunder or in connection herewith or therewith, or with any transaction contemplated hereby or discussed herein, or in any manner arising in connection with or related to the transactions contemplated hereby or involving the parties hereto whether at law or equity and under any contract, tort or any other claim whatsoever and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing or faxing a copy thereof to such party at the address for such notices as listed in this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.

22. **Representations and Warranties to Survive Closing.** All representations, warranties and covenants contained herein shall survive the execution and delivery of this Note and the issuance of any shares of Common Stock upon the conversion hereof.

23. **Headings.** The headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

24. **Definitions.**

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means, with respect to any Person, the Board of Directors of such Person or any committee of the Board of Directors of such Person duly authorized to act on behalf of the Board of Directors of such Person.

"Capital Stock" means, with respect to any Person, any and all shares, interests, equity participations or other equivalents (however designated) of corporate stock or partnership interests and any and all warrants, options and rights with respect thereto (whether or not currently exercisable), including each class of common stock and preferred stock of such Person.

"Fair Market Value" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading;

(b) if such Common Stock is quoted on the NASDAQ National Market or the NASDAQ Capital Market, its closing price on the NASDAQ National Market or the NASDAQ Capital Market, respectively, on the date of determination;

(c) if such Common Stock is not listed on a national securities exchange or quoted on the NASDAQ National Market or the NASDAQ Capital Market, but is traded in the over-the-counter market, the average of the bid and ask prices for a share of Common Stock on the most recent date on which the Common Stock was publicly traded;

(d) if none of the foregoing is applicable, by the Company's Board of Directors in good faith.

"GAAP" means generally accepted accounting principles as in effect in the United States of America as of the Issue Date.

"Holder" means a Person in whose name a Note is registered on the Company's books.

"Indebtedness" means, without duplication, with respect to any Person, (a) all obligations of such Person (i) in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof); (ii) evidenced by bonds, notes, debentures or similar instruments; (iii) representing the balance deferred and unpaid of the purchase price of any property or services (other than accounts payable or other obligations arising in the ordinary course of business); (iv) evidenced by bankers' acceptances or similar instruments issued or accepted by banks, (v) for the payment of money relating to a capitalized lease obligation under GAAP; or (vi) evidenced by a letter of credit or a reimbursement obligation of such Person with respect to any letter of credit; (b) all net obligations of such Person under interest rate swap obligations and foreign currency hedges; (c) all liabilities of others of the kind described in the preceding clauses (a) or (b) that such Person has guaranteed or that are otherwise its legal liability; (d) Indebtedness (as otherwise defined in this definition) of another Person secured by lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, the amount of such obligations being deemed to be the lesser of (1) the full amount of such obligations so secured, and (2) the fair market value of such asset, as determined in good faith by the Board of Directors of such Person, which determination shall be evidenced by a board resolution; and (e) any and all deferrals, renewals, extensions, refinancings and refundings (whether direct or indirect) of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (a), (b), (c), (d) or this clause (e), whether or not between or among the same parties.

"Issue Date" means February 15, 2009.

"Maturity Date" means December 31, 2010.

"Person" means any individual, corporation, partnership, joint venture, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Senior Indebtedness" means any Indebtedness of the Company, outstanding prior to the date of this Note, unless such Indebtedness is *pari passu* with or contractually subordinate or junior in right to payment of this Note, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to this Note.

"Subordinated Indebtedness of the Company" means any Indebtedness of the Company incurred after the date of this Note.

A "subsidiary" of any Person means (i) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person, (ii) a partnership in which such Person or a subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if such Person or its subsidiary is entitled to receive more than fifty percent (50%) of the assets of such partnership upon its dissolution, or (iii) any other Person (other than a corporation or partnership) in which such Person, directly or indirectly, at the date of determination thereof, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of directors or other governing body of such Person.

"Subsidiary" means any subsidiary of the Company.

"Voting Stock" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency, to vote in the election of members of the Board of Directors or other governing body of such Person.

25. **Miscellaneous.** Except as otherwise provided herein, the Company waives demand, diligence, presentment for payment and protest, notice of extension, dishonor, maturity and protest. Time is of the essence with respect to the performance of each and every covenant, condition, term and provision hereof.

26. **Covenants of the Company.** The Company covenants to perform the following:

26.1 The Warrants will have a term expiring seven (7) years from their respective dates of issuance. All Warrants will be assignable by their holders.

26.2 The Company will hold Board meetings, whether formal or informal, at a frequency consistent with its past practices.

26.3 Upon the execution of this Note, the Company will pay a total of \$64,153.14 for all of the fees and related costs of Quarles & Brady, LLP, legal counsel of the Holder by (i) issuing to Quarles & Brady a promissory note on the same terms and conditions as this Note; provided that such note will bear interest at the rate of twelve percent (12%) per annum from the date of the original invoices for services rendered, and (ii) issuing to Quarles & Brady Common Stock purchase warrants providing a “net exercise” or “cashless exercise” option. The forms of promissory note and warrants to be issued under this Paragraph 26.3 are set forth as Exhibits G, H and I.

26.4 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of this Note and the Warrants. The Company will bear all reasonable costs associated with the preparation and implementation of this Note and the Warrants.

27. **Senior Subordinated Indebtedness.**

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. This Note will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the Company, all holders of Senior Indebtedness of the Company must be paid in full before any payment or distribution is made with respect to this Note. The Company shall pay all principal or distribution to the holders of Subordinated Indebtedness.

IN WITNESS WHEREOF, this Note has been executed on the 14th day of June, 2010.

AETHLON MEDICAL, INC.

By: /s/ James B. Frakes
James B. Frakes
Senior Vice President - Finance

Accepted and agreed to:

By: _____

Mailing Address of Holder:

Mailing Address of Company:

8910 University Center Lane

Suite 660

San Diego, CA 92122

EXHIBIT A

SCHEDULE OF ADVANCES

EXHIBIT B

CONVERSION NOTICE

(To be signed only upon conversion of this Note)

TO: **AETHLON MEDICAL, INC.**

The undersigned, the registered holder of the Amended and Restated 12 % Series A Convertible Note (the "Note") of **AETHLON MEDICAL, INC.** (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of \$_____ unpaid principal amount of the Note and \$_____ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing the shares, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

(Signature and name of the registered holder)

Print Name

Dated: _____

EXHIBIT C

FORM OF AMENDED CLASS A WARRANT

[Attached hereto]

EXHIBIT D

FORM OF AMENDED CLASS A-1 WARRANT

[Attached hereto]

EXHIBIT E

FORM OF AMENDED CLASS A PRINCIPAL WARRANT

[Attached hereto]

EXHIBIT F

FORM OF CLASS B WARRANT

[Attached hereto]

EXHIBIT G

**FORM OF QUARLES & BRADY, LLP
PROMISSORY NOTE**

[Attached hereto]

EXHIBIT H

**FORM OF QUARLES & BRADY, LLP
AMENDED AND RESTATED
CLASS A
COMMON STOCK PURCHASE WARRANT**

[Attached hereto]

EXHIBIT I

**FORM OF QUARLES & BRADY, LLP
AMENDED AND RESTATED
CLASS A PRINCIPAL
COMMON STOCK PURCHASE WARRANT**

[Attached hereto]

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

Warrant No: _____

**AMENDED AND RESTATED
CLASS __
COMMON STOCK PURCHASE WARRANT
("AMENDED CLASS __ WARRANT")
OF**

AETHLON MEDICAL, INC.

Aethlon Medical, Inc., a Nevada corporation (the "Company"), hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the Exercise Commencement Date (as defined below) and before the Expiration Date (as defined below), to purchase from the Company _____ (_____) shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$.20 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). This Warrant is being issued as a part of a Unit consisting of this Warrant and one share of Common Stock in consideration for accrued interest due under that certain Amended and Restated 12% Series A Convertible Note entered into between the Company and the Holder (the "Note") and certain predecessor notes thereto, or as an amendment of certain Class A Common Stock Purchase Warrants previously issued to the Holder by the Company.

1. Terms of the Warrant.

1.1 *Time of Exercise.* Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on February 15, 2009 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., February 15, 2016 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease.

1.2 *Manner of Exercise.*

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) in a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 *Exchange of Warrant.* This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged. The Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 *Holder as Owner.* Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of the Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 *Transfer and Assignment.* This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 *Method for Assignment.* Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 *Rights of Holder.* Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 *Lost Warrant Certificate(s)*. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 *Covenants of the Company*. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully paid and non-assessable.

1.10 *Limitation on Exercise Rights*. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Warrant. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) a more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. Adjustment of Purchase Price and Number of Shares Purchasable Upon Exercise.

2.1 *Recapitalization.* The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Section 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Section 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

2.2 *Merger or Consolidation.* In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then, and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation.

2.3 *Price Protection.* In the event that the Company shall sell any of its equity securities or issue securities convertible into, or exercisable or exchangeable for, Common Stock at a price per share that is less than \$0.20 (the "New Price"), then, in such event, the Purchase Price shall automatically, and without further action on the part of the Holder or the Company, be adjusted to the New Price. Notwithstanding the foregoing, the provisions of this Section 2.3 shall not apply to the issuance of stock options to the Company's management, directors, employees, consultants and advisors so long as such options are issued with exercise prices per share that are no less than the fair market value of a share of Common Stock at the time of issuance.

2.4 *Notice of Dissolution or Liquidation.* Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.5 *Statement of Adjustment.* Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the event giving rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.6 *No Fractional Shares.* The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.6, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.7 *No Change in Form Required.* The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the number of Shares purchasable upon the exercise of a Warrant, and may state the same Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued.

3. Registration Under the Securities Act of 1933.

3.1 *Registration and Legends.* The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act"), or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 *No-Action Letter.* The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission") stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no registration statement under which such Shares are to be registered is required to be filed.

3.3 *Registration Rights.* The Holder shall have the right, under the terms of an Amended and Restated Registration Rights Agreement of even date herewith between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant in a registration statement under the Act filed by the Company with the Commission.

3.4 *Rule 144.* If the Company (a) has registered or registers a class of securities under Section 12 of the Exchange Act or (b) files or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the Commission, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the Commission as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

3.5 *Agreements.* The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. **Reservation of Shares.** The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant, such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant, and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. **Survival.** All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property issuable on exercise hereof).

6. **Remedies.** The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. **Other Matters.**

7.1 *Binding Effect.* All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 *Notices.* Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
8910 University Center Lane
Suite 660
San Diego, CA 92122
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

7.3 *Governing Law.* The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

7.4 *Parties Bound and Benefitted.* Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 *Headings.* The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the 14th day of June, 2010.

AETHLON MEDICAL, INC.

By: /s/ James B. Frakes
James B. Frakes
Senior Vice President - Finance

AETHLON MEDICAL, INC.

Assignment

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

Subscription Form

**Aethlon Medical, Inc.
8910 University Center Lane
Suite 660, San Diego, CA 92122**

The undersigned hereby irrevocably subscribes for the purchase of _____ shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment, covering the purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant should be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares shall have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

Warrant No: _____

**AMENDED AND RESTATED
CLASS ____
COMMON STOCK PURCHASE WARRANT (QB)
("AMENDED CLASS ____ WARRANT (QB)")
OF
AETHLON MEDICAL, INC.**

Aethlon Medical, Inc., a Nevada corporation (the "Company"), hereby certifies that, for value received of \$.001 per Warrant, Quarles & Brady LLP (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the Exercise Commencement Date (as defined below) and before the Expiration Date (as defined below), to purchase from the Company _____ (_____) shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$0.20 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). This Warrant is being issued pursuant to terms contained in the Amended and Restated 12% Series A Convertible Note issued to the Ellen R. Weiner Family Trust in the principal amount of \$660,000, dated as of February 15, 2009.

1. Terms of the Warrant.

1.1 *Time of Exercise.* Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on February 15, 2009 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., February 15, 2016 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease.

1.2 *Manner of Exercise.*

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, (i) together with the full Purchase Price for each Share to be purchased (A) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (B) in a manner acceptable to the Company; or (ii) stating in such form of subscription that the Holder desires to exercise the cashless exercise feature of this Warrant set forth in Section 1.2.2.

1.2.2 If there is no effective Registration Statement registering the resale of the Shares by the Holder, then this Warrant may be exercised at such time by means of a "cashless exercise" pursuant to which the Holder will be entitled to receive a certificate for the number of Shares equal to the quotient obtained by dividing [(A-B) times (X)] by (A), where:

(A) = the Fair Market Value of a Share on the business day immediately preceding the date of such exercise;

(B) = the Purchase Price, as adjusted; and

(X) = the number of Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

1.2.3 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment, if applicable, of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.4 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.5 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.6 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 *Exchange of Warrant.* This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged. The Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 *Holder as Owner.* Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of the Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 *Transfer and Assignment.* This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 *Method for Assignment.* Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 *Rights of Holder.* Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 *Lost Warrant Certificate(s)*. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 *Covenants of the Company*. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully paid and non-assessable.

1.10 *Limitation on Exercise Rights.* Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the “Related Warrants”) issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Warrant. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) a more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). For purposes of this Warrant, an “Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A “Person” means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. Adjustment of Purchase Price and Number of Shares Purchasable Upon Exercise.

2.1 *Recapitalization.* The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Section 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Section 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

2.2 *Merger or Consolidation.* In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then, and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation.

2.3 *Price Protection.* In the event that the Company shall sell any of its equity securities or issue securities convertible into, or exercisable or exchangeable for, Common Stock at a price per share that is less than \$0.20 (the "New Price"), then, in such event, the Purchase Price shall automatically, and without further action on the part of the Holder or the Company, be adjusted to the New Price. Notwithstanding the foregoing, the provisions of this Section 2.3 shall not apply to the issuance of stock options to the Company's management, directors, employees, consultants and advisors so long as such options are issued with exercise prices per share that are no less than the fair market value of a share of Common Stock at the time of issuance.

2.4 *Notice of Dissolution or Liquidation.* Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.5 *Statement of Adjustment.* Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the event giving rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.6 *No Fractional Shares.* The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.6, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.7 *No Change in Form Required.* The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the number of Shares purchasable upon the exercise of a Warrant, and may state the same Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued.

3. Registration Under the Securities Act of 1933.

3.1 *Registration and Legends.* The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act"), or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 *No-Action Letter.* The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission") stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no registration statement under which such Shares are to be registered is required to be filed.

3.3 *Registration Rights.* The Holder shall have the right, under the terms of an Amended and Restated Registration Rights Agreement dated as of February 15, 2009 among the Company and the holders signatory thereto, to cause the Company to register the Common Stock underlying this Warrant in a registration statement under the Act filed by the Company with the Commission.

3.4 *Rule 144.* If the Company (a) has registered or registers a class of securities under Section 12 of the Exchange Act or (b) files or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the Commission, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the Commission as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

3.5 *Agreements.* The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. **Reservation of Shares.** The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant, such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant, and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. **Survival.** All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property issuable on exercise hereof).

6. **Remedies.** The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. **Other Matters.**

7.1 *Binding Effect.* All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 *Notices.* Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
8910 University Center Lane
Suite 660
San Diego, CA 92122
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

7.3 *Governing Law.* The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

7.4 *Parties Bound and Benefitted.* Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 *Headings.* The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the 14th day of June, 2010.

AETHLON MEDICAL, INC.

By: /s/ James B. Frakes

James B. Frakes
Senior Vice President - Finance

AETHLON MEDICAL, INC.

Assignment

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

Subscription Form

**Aethlon Medical, Inc.
8910 University Center Lane
Suite 660, San Diego, CA 92122**

The undersigned hereby irrevocably subscribes for the purchase of _____ shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment or, elects to effect a cashless exercise pursuant to Section 1.2.2 hereof, covering the purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant should be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares shall have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

**AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT**

This AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT (the "Agreement") is entered into as of February 15, 2009, by and among AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and the parties who are signatories to this Agreement (collectively referred to as the "Holders").

WHEREAS, the Company and the Holders entered into certain Amended and Restated 12% Series A Convertible Promissory Notes (the "Notes") as amendments of certain prior promissory notes ("Prior Notes") and allonges ("Allonges");

WHEREAS, in order to induce the Holders to amend the Prior Notes, the Company has entered into this Agreement to register under the Securities Act of 1933, as amended (the "Securities Act"), in accordance with the provisions of this Agreement, the shares of Common Stock issuable upon exercise of the Amended and Restated Class A Principal Common Stock Purchase Warrants ("Class A Principal Warrants"), Amended and Restated Class A Common Stock Purchase Warrants (the "Class A Warrants"), Amended and Restated Class A-1 Common Stock Purchase Warrants (the "Class A-1 Warrants") and the Class B Common Stock Purchase Warrants (the "Class B Warrants") issued to the Holders in connection with the Notes.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties hereto agree as follows:

1. **Definitions.**

As used in this Agreement, the following terms shall have the following meanings. Other capitalized terms in this Agreement will have the meanings set forth in the Notes and the Warrants, as the case may be.

1.1 "Business Day" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York or the State of California are authorized or required by law or other government actions to close.

1.2 "Effectiveness Date" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the Warrants, the ninetieth (90th) calendar day following the Filing Date and, with respect to any additional Registration Statements which may be required hereunder, the ninetieth (90th) calendar day following the date on which the Company first knows, or reasonably should have known, that such additional Registration Statement is required hereunder; provided, however, if the Company is notified by the Securities and Exchange Commission (the "Commission") that one of the above Registration Statements will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to such Registration Statement shall be the tenth (10th) Trading Day following the date on which the Company is so notified if such date precedes the dates required above; provided further, however, that if the period between the Filing Date and the corresponding Effective Date includes the date that is 135 days following the latest date of the Company's financial statements included in its most recently filed Quarterly Report on Form 10-Q for the third quarter (the "Financial Statement Stale Date") and the Commission has not declared the Registration Statement effective prior to the Financial Statement Stale Date, the Effectiveness Date as to such Registration Statement shall be the sixtieth (60th) day following the filing of the Company's Annual Report on Form 10-K for the corresponding fiscal year-end.

1.3 "Effectiveness Period" shall have the meaning set forth in Section 2.1.

1.4 "Filing Date" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the Warrants, July 31, 2010, and, with respect to any additional Registration Statements which may be required hereunder, the thirtieth (30th) day following the date on which the Company first knows, or reasonably should have known that such additional Registration Statement is required hereunder.

1.5 "Holder" or "Holders" means the holder or holders, as the case may be, from time to time of Registrable Securities.

1.6 "Indemnified Party" shall have the meaning set forth in Section 5.3.

1.7 "Indemnifying Party" shall have the meaning set forth in Section 5.3.

1.8 "Prospectus" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by a Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

1.9 "Registrable Securities" means all of the shares of Common Stock issuable upon the exercise of the Warrants together with any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing.

1.10 "Registration Statement" means the initial registration statement and any additional registration statements required to be filed hereunder, including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

1.11 "Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

1.12 "Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

1.13 "Special Counsel" means one special counsel for the Holders, the cost of whose services will be reimbursed by the Company pursuant to Section 4.

1.14 "Warrants" shall mean the Class A Principal Warrants, Class A Warrants, Class A-1 Warrants and Class B Warrants issued to the Holders in connection with the Notes.

2. **Shelf Registration.**

2.1 On or prior to each Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering the resale of all Registrable Securities applicable to such Filing Date for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on Form S-1 or another appropriate form in accordance herewith) and shall contain (except if otherwise directed by the Holders) the "Plan of Distribution" in substantially the form attached hereto as Exhibit A. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the applicable Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the expiration date of the Warrants or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold pursuant to Rule 144, as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "Effectiveness Period").

2.2 The Registration Statements to be filed hereunder shall include a number of shares of Common Stock equal to no less than the number of shares of Common Stock issuable upon exercise in full of the Registrable Securities subject to such Registration Statement.

2.3 The Company shall be subject to the provisions of Sections 2.4 if

2.3.1 a Registration Statement is not filed on or prior to its respective Filing Date (if the Company files such Registration Statement without affording the Holder the opportunity to review and comment on the same as required by Section 3.1 hereof, the Company shall not be deemed to have satisfied this Subsection 2.3.1); or

2.3.2 a Registration Statement filed hereunder is not declared effective by the Commission on or prior to its Effectiveness Date; or

2.3.3 after a Registration Statement is filed with and declared effective by the Commission, such Registration Statement ceases to be effective as to all Registrable Securities to which it is required to relate at any time prior to the expiration of the Effectiveness Period without being succeeded within ten (10) Business Days by an amendment to such Registration Statement or by a subsequent Registration Statement filed with and declared effective by the Commission; or

2.3.4 the Common Stock shall be delisted or suspended from trading on the New York Stock Exchange, American Stock Exchange, the Nasdaq Stock Market or the Nasdaq OTC Bulletin Board (each, a "Subsequent Market") for more than twenty (20) Business Days (which need not be consecutive Business Days); or

Any failure or breach set forth in this Section 2.3 is referred to as an "Event." The following are referred to as "Event Date": for purposes of Subsections 2.3.1 and 2.3.2, the date on which such Event occurs, or for purposes of Subsections 2.3.3 and 2.3.4, the date on which such ten (10) and twenty (20) Business Day periods are exceeded.

2.4 On an Event Date, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one percent (1.0%) of the original principal amount of the Notes of such Holder. On every month after the Event Date until the applicable Event is cured, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one and one-half percent (1.5%) of the original principal amount of the Notes. If the Warrants have been issued and are "in the money," the penalties shall be computed based on the value of any outstanding Warrants on an Event Date and on each month following an Event Date until the Event is cured. The value of the Warrants for such purposes shall be the difference between the closing price of the Common Stock on the Event Date (and after the Event Date, the average of the closing sales prices during the applicable month) and the exercise price multiplied by the number of shares of Common Stock issuable upon exercise of the Warrants. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at a rate of twelve (12%) per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. At the option of the Company, shares of Common Stock may be issued to the Holder in lieu of a cash payment for such liquidated damages based upon the Conversion Price then in effect, provided that such shares have been registered for resale by such Holder and the Company provides the Holder with at least five (5) Business Days' irrevocable notice prior to the date such payment is due. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

3. **Registration Procedures.** In connection with the Company's registration obligations hereunder, the Company shall:

3.1 Not less than five (5) Business Days prior to the filing of each Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), (i) furnish to the Holders and their Special Counsel copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders and their Special Counsel, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of respective counsel to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities and their Special Counsel shall reasonably object, provided the Company is notified of such objection no later than five (5) Business Days after the Holders have been so furnished copies of such documents and provided, further, that such objections relate to the selling shareholder information, the plan of distribution, any information relating to the Holders, either directly or indirectly, or the compliance under the Securities Act of such Registration Statement or Prospectus as to form.

3.2 (i) Prepare and file with the Commission such amendments, including post-effective amendments, to a Registration Statement and the Prospectus used in connection therewith as may be necessary to keep a Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten (10) days, to any comments received from the Commission with respect to a Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to a Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act of 1934, as amended (the "Exchange Act") with respect to the disposition of all Registrable Securities covered by a Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in such Registration Statement as so amended or in such Prospectus as so supplemented.

3.3 On or prior to each anniversary of the date the initial Registration Statement was filed, file a Registration Statement covering any Registrable Securities issued after the filing of the most recently filed Registration Statement.

3.4 Notify the Holders of Registrable Securities to be sold and their Special Counsel as promptly as reasonably possible (and, in the case of (i)(A) below, not less than five (5) Business Days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one Business Day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to a Registration Statement is proposed to be filed; and (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of a Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (iv) of the occurrence of any event or passage of time that makes the financial statements included in a Registration Statement ineligible for inclusion therein or any statement made in a Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to a Registration Statement, Prospectus or other documents so that, in the case of a Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.5 Promptly deliver to each Holder and their Special Counsel, without charge, as many copies of the Prospectus or Prospectuses, including each form of Prospectus, and each amendment or supplement thereto as such Persons may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

3.6 Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders and their Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

3.7 Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by law, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may request.

3.8 Upon the occurrence of any event contemplated this Section 3, as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to a Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither a Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.9 Comply with all applicable rules and regulations of the Commission.

3.10 Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

3.11 Furnish to each Holder and their Special Counsel, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

3.12 Notwithstanding anything herein to the contrary, if at any time or from time to time during the Effectiveness Period, the Company notifies the Holders in writing of the existence of a Potential Material Event (as defined below), the Holders shall not offer or sell any Securities from the time of the giving of notice with respect to a Potential Material Event until the Holders receive written notice from the Company that such Potential Material Event either has been disclosed to the public or no longer constitutes a Potential Material Event; provided, however, that, subject to Subsections 3.12.1 and 3.12.2, the Company may not so suspend the right to such holders of Securities for more than sixty (60) calendar days in the aggregate during any twelve-month period, and if such period is exceeded, such period shall be deemed an "Event" and the Company shall be liable to the Holder for liquidated damages pursuant to Section 2(c); provided, further, subject to Subsections 3.12.1 and 3.12.2, the failure to maintain a Registration Statement for not more than sixty (60) calendar days in the aggregate during any twelve (12) month period as a result of a Potential Material Event shall not be deemed a breach of this Agreement, provided the Company timely pays the Holder such liquidated damages. The Company must give the Holders at least thirty (30) calendar days' prior written notice that such a blackout period (without indicating the nature of such blackout period) will occur and such notice must be acknowledged in writing by the Holders. Failure to provide the Holders with such notice shall constitute an Event during the entire applicable period that the Registration Statement is suspended. "Potential Material Event" means any of the following:

3.12.1 The Board of Directors of the Company determines, in its good faith judgment, that the use of any Prospectus would require the disclosure of important information which the Company has a bona fide business purpose for preserving as confidential or the disclosure of which would impede the Company's ability to consummate a significant transaction, in which event such period may be extended for up to thirty (30) additional days in any twelve (12) month period;

3.12.2 The Company consummates any business combination for purposes of Rule 3-05 or Article 11 of Regulation S-X under the Securities Act, in which event such restricted period may be extended until the date on which the Company has filed such reports or obtained the financial information required by Rule 3-05 or Article 11 of Regulation S-X to be included in the Registration Statement, but in no event more sixty (60) additional days in any twelve (12) month period;

3.12.3 After one year from the Closing Date, the Company files or proposes to file a registration statement in an underwritten primary equity offering initiated by the Company (other than any registration by the Company on Form S-8, or a successor or substantially similar form, of (i) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan, or (ii) a dividend reinvestment plan), for which the underwriters are reasonably acceptable to a majority in interest of the Holders, in which event such restricted period may be extended for thirty (30) days prior to the effective date of the registration statement covering such underwritten primary equity offering and ending on the date specified by such managing underwriter in such written request to each Holder, which date shall be no more than thirty (30) days after such effective date, during which the Holder agrees, if requested in writing by the managing underwriter or underwriters administering such offering, not to effect any offer, sale or distribution of Company securities (or any option or right to acquire Company securities);

4 . **Registration Expenses.** All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Nasdaq OTC Bulletin Board and any Subsequent Market on which the Common Stock is then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)); (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders); (iii) messenger, telephone and delivery expenses; (iv) fees and disbursements of counsel for the Company; and (v) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement; and (vi) and fees and expenses of the Special Counsel up to \$20,000. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

5. Indemnification.

5 . 1 *Indemnification by the Company.* The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in a Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in a Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (ii) in the case of an occurrence of an event of the type specified in Section 3.4(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6.5. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

5 . 2 *Indemnification by Holders.* Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising out of or based upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in such Registration Statement or such Prospectus or to the extent that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (ii) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

5.3 *Conduct of Indemnification Proceedings.*

5.3.1 If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

5.3.2 An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (i) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (ii) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (iii) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

5.3.3 All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten (10) Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

5.4 *Contribution.*

5.4.1 If a claim for indemnification under Section 5.1 or 5.2 is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5.3, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

5.4.2 The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5.4 were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5.4, no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

5.4.3 The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. **Miscellaneous.**

6.1 *Amendments and Waivers.* The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holders of at least two-thirds of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

6.2 *No Inconsistent Agreements.* Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities, that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as and to the extent specified in Schedule 6.2 hereto, neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

6.3 *No Piggyback on Registrations.* Except as and to the extent specified in Schedule 6.3 hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders.

6.4 *Compliance.* Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

6.5 *Discontinued Disposition.* Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3.4, such Holder will forthwith discontinue disposition of such Registrable Securities under a Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3.8, or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

6 . 6 *Piggy-Back Registrations.* If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen (15) days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered, subject to customary underwriter cutbacks applicable to all Holders of registration rights; provided, that, the Company shall not be required to register any Registrable Securities pursuant to this Section 6.6 that are eligible for resale pursuant to Rule 144 promulgated under the Securities Act.

6 . 7 *Notices.* Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

6 . 8 *Successors and Assigns.* This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

6 . 9 *Counterparts.* This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

6 . 1 0 *Governing Law.* All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Agreement, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

6.11 *Cumulative Remedies.* The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

6.12 *Severability.* If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

6.13 *Headings.* The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

6.14 *Independent Nature of Purchasers' Obligations and Rights.* The obligations of each Purchaser hereunder are several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

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

AETHLON MEDICAL, INC.

By: /s/ James B. Frakes

Name: James B. Frakes

Title: Senior Vice President - Finance

HOLDER SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT

By: _____

Its: _____

Outstanding Principal Amount of Notes: \$ _____

EXHIBIT A

Plan of Distribution

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act of 1933, if available, rather than under this prospectus. Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders may from time to time pledge or grant a security interest in some or all of the Shares or Common Stock or Warrant owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of Selling Stockholders to include the pledgee, transferee or other successors in interest as Selling Stockholders under this prospectus.

The Selling Stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The Selling Stockholders have informed the Company that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is required to pay all fees and expenses incident to the registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

EXHIBIT 21

LIST OF SUBSIDIARIES
OF
AETHLON MEDICAL, INC.

Exosome Sciences, Inc., a Nevada corporation.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the previously filed Registration Statements of Aethlon Medical, Inc. on Form S-8 (File Nos. 333-164939, 333-160532, 333-145290, 333-127911, 333-114017 and 333-49896) of our report, dated June 30, 2010 on the consolidated financial statements of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2010 and 2009 and for each of the two years in the two year period ended March 31, 2010 and the period January 31, 2004 (inception) through March 31, 2010 (which includes an explanatory paragraph expressing substantial doubt as to the Company's ability to continue as a going concern) appearing in this Annual Report on Form 10-K of Aethlon Medical, Inc. for the year ended March 31, 2010.

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
Squar, Milner, Peterson, Miranda & Williamson, LLP

Newport Beach, California
June 30, 2010

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James Joyce, certify that:

1. I have reviewed this Annual Report on Form 10-K of Aethlon Medical, Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the smaller reporting company as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report and our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the smaller reporting company's internal control over financial reporting.

Date: July 2, 2010

/S/ JAMES A. JOYCE
JAMES A. JOYCE
CHIEF EXECUTIVE OFFICER AND
CHIEF ACCOUNTING OFFICER
(PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL ACCOUNTING OFFICER)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Aethlon Medical, Inc. on Form 10-K for the fiscal year ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. Based on my knowledge, the Annual Report fully complies with therequirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Date: July 2, 2010

By: /s/ James A. Joyce

James A. Joyce

Chief Executive Officer and Chief Accounting Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Aethlon Medical, Inc. and will be retained by Aethlon Medical, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(MARK ONE)

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 (I.R.S. Employer
incorporation or organization) 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:

NAME OF EACH EXCHANGE	TITLE OF EACH CLASS 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

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

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

Indicate by check mark whether the registrant 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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company. Yes No

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.

TABLE OF CONTENTS

PAGE

PART I.

Item 1.	Description of Business.....	1
Item 1A.	Risk Factors	6
Item 1B.	Unresolved Staff Comments.....	17
Item 2.	Properties.....	17
Item 3.	Legal Proceedings.....	17
Item 4.	Removed and Reserved.....	17

PART II.

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.....	18
Item 6.	Selected Financial Data.....	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	25
Item 7A	Quantitative and Qualitative Disclosures about Market Risk.....	28
Item 8.	Financial Statements.....	29
Item 9.	Changes in and Disagreements with Accountants on Accounting and Results of Operations.....	29
Item 9A(T).	Controls and Procedures.....	29
Item 9B.	Other Information.....	30

PART III.

Item 10.	Directors, Executive Officers and Corporate Governance.....	30
Item 11.	Executive Compensation.....	35
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	39
Item 13.	Certain Relationships and Related Transactions and Director Independence.....	41
Item 14.	Principal Accountant Fees and Services.....	41
Item 15.	Exhibits, Financial Statements.....	42

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.

1

Summary highlights of the Hemopurifier(R) include:

- o Multi-patented first-in-class medical device that selectively capture viruses and immunosuppressive toxins from the entire circulatory system.
- o Preserves immune cells needed to combat cancer and viral infections.
- o Inhibits viral replication by clearing circulating viruses prior to cell and organ infection.
- o Provides expansive treatment pipeline into both cancer and infectious disease.
- o Establishes a possible therapeutic strategy to address immunosuppressive particles released by cancer.
- o Initial safety of the device has been demonstrated in 68 human treatment experiences conducted at research hospitals in Delhi, India.
- o 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.
- o Presently working to establish the commercialization opportunity in India.
- o GMP manufacturing has been established.
- o 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.

2

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.

3

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:

<TABLE>

<CAPTION>

PATENT ISSUED IN THE UNITED STATES

PATENT #	PATENT NAME	ISSUANCE OWNED OR	
		DATE	LICENSED
<S> 7,226,429	<C> Method for removal of viruses from blood by lectin affinity hemodialysis	<C> 01/20/04	<C> Owned
6,528,057	Method for removal of HIV and other viruses from blood	03/04/03	Licensed

6,071,412 Extracorporeal device containing immobilized chelator on silica substrate and use thereof 06/06/00 Owned

</TABLE>

<TABLE>

<CAPTION>

INTERNATIONAL PATENTS ISSUED

PATENT #	PATENT NAME	ISSUANCE DATE	OWNED OR LICENSED
<S>	<C>	<C>	<C>
2,353,399	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
770,344	Method for removal of HIV and other viruses from blood	06/03/04	Licensed
69929986.1-08	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed
1,109,564	Method for removal of HIV and other viruses from blood	02/22/06	Licensed

</TABLE>

<TABLE>

<CAPTION>

PATENT APPLICATIONS IN THE UNITED STATES

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
<S>	<C>	<C>	<C>
11/756543	Method for removal of viruses from blood by lectin affinity hemodialysis	05/31/07	Owned
12/600236	Device and method for purifying virally infected blood	11/13/09	Owned
60/989043	Affinity capture of circulating cancer biomarkers	12/20/08	Owned
12/282152	Extracorporeal removal of microvesicular particles (exosomes)	05/26/09	Licensed
PCT/US2006/027746	Removal of growth factors during surgery	07/20/08	Licensed

</TABLE>

<TABLE>

<CAPTION>

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

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
<S>	<C>	<C>	<C>
4,703,673	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
2,516,403	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
200,480,006,996	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
0	Method for removal of viruses from blood by lectin affinity hemodialysis	01/00/00	Owned
2006-501076	Method for removal of viruses from blood by lectin affinity hemodialysis	01/20/04	Owned
PCT/US2008/063946	Method for removal of viruses from blood by lectin affinity hemodialysis	05/16/08	Owned
8201/DELNP/2009	Method for removal of viruses from blood by lectin affinity hemodialysis	05/16/08	Owned
PCT/US2009/066626	Affinity capture of circulating cancer biomarkers	12/03/09	Owned
PCT/US2008/016922	Method and apparatus for increasing containment clearance rates during extracorporeal fluid treatment	12/19/08	Owned
2,342,203	Method for removal of HIV and other viruses from blood	08/30/99	Licensed
PCT/US2007/006101	Extracorporeal removal of microvesicular particles (exosomes)	03/09/07	Licensed
7,752,779	Extracorporeal removal of microvesicular particles (exosomes)	03/09/07	Licensed
9,104,741	Extracorporeal removal of microvesicular particles (exosomes)	03/09/07	Licensed
PCT/US2007/006101	Extracorporeal removal of microvesicular particles (exosomes)	08/12/08	Licensed

8139/DELNP/2008	Extracorporeal removal of microvesicular particles (exosomes)	03/09/07	Licensed
PCT/US2009/046123	Device and method for purifying virally infected blood in combination with antiviral therapies	06/03/09	Owned
PCT/US2009/057013	Methods and systems for reducing viral load of hepatitis C virus in hemodialysis patients	09/15/09	Owned
PCT/US2006/027746	Removal of growth factors during surgery	07/18/06	Licensed
6,787,633	Removal of growth factors during surgery	05/27/08	Licensed
PCT/US2006/027746	Removal of growth factors during surgery	07/20/08	Licensed
PCT/US2006/027746	Removal of growth factors during surgery	07/31/08	Licensed

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.

6

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:

- o 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;

- o labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses;
- o clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;
- o 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
- o 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.

7

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.

9

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 Hemopurifier 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 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:

- o are more effective;
- o have fewer or less severe adverse side effects;
- o are better tolerated;
- o are more adaptable to various modes of dosing;
- o are easier to administer; or
- o 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.

10

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 personnel. 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.

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

- o warning letters;
- o civil penalties;
- o criminal penalties;
- o injunctions;
- o product seizure or detention;
- o product recalls; and
- o 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:

- o serious adverse events related to our medical device candidates;
- o unsatisfactory results of any clinical trial;
- o the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and/or
- o 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.

14

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:

- o 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;
- o audit and object to our contract-related costs and fees, including allocated indirect costs;
- o control and potentially prohibit the export of our products; and
- o 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.

15

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:

- o lack of adequate quality or sufficient prevention benefit, or unacceptable safety during pre-clinical studies or clinical trials;
- o failure to receive necessary regulatory approvals;
- o existence of proprietary rights of third parties; and/or
- o 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 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-averse 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.

19

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

20

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.

PERIOD	BID PRICE	
	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.

21

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.

22

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:

<TABLE>
<CAPTION>

Plan category <S>	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights <C>	(b) Weighted-average exercise price of outstanding options, warrants and rights (1)(2) <C>	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
			(a)	(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	

</TABLE>

(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.

24

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 vesting 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:

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

- o changes in our business plan and corporate strategies; and
- o 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 public 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.

26

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)

28

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.

29

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.

30

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.

31

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.

32

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:

- o 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.
- o 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-phosphorochloridites. 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.

36

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.

37

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.

38

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.

<TABLE>

SUMMARY COMPENSATION TABLE FOR 2010 AND 2009 FISCAL YEARS

NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION	YEAR	NON-EQUITY NONQUALIFIED INCENTIVE DEFERRED ALL					OTHER COMPENSATION (\$)	EARNINGS (\$)	COMP.	TOTAL
		STOCK SALARY	OPTION AWARDS (\$)	PLAN AWARDS (\$)	DEFERRED AWARDS (\$)	COMPENSATION AWARDS (\$)				
James A. Joyce (1)										
CHIEF EXECUTIVE OFFICER	2010	\$ 290,000	\$ --	\$960,000(3)	\$ --	\$ --	\$ --	\$ --	\$ --	\$1,250,000
AND PRINCIPAL ACCOUNTING OFFICER	2009	290,000	--	--	424,528(4)	--	--	--	--	714,528
Richard H. Tullis, Ph.D (2)										
VICE PRESIDENT AND CHIEF SCIENCE OFFICER	2010	\$ 175,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 175,000
	2009	175,000	--	--	154,025(5)	--	--	--	--	329,025

</TABLE>

- (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 as 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 as 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.

<TABLE>
<CAPTION>

OUTSTANDING EQUITY AWARDS AT 2010 FISCAL YEAR END

OPTIONS AWARDS

EQUITY INCENTIVE PLAN AWARDS;		
NUMBER OF SECURITIES UNDERLYING	NUMBER OF SECURITIES UNDERLYING	NUMBER OF SECURITIES UNDERLYING

NAME	UNEXERCISED OPTIONS EXERCISABLE		UNEXERCISED UNEXERCISABLE		UNEXERCISED UNEARNED	OPTION EXERCISE PRICE	OPTION EXPIRATION DATE
	(#)	(#)	(#)	(#)	(\$)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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	

</TABLE>

(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).

42

(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.

<TABLE>
<CAPTION>

STOCK AWARDS

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

</TABLE>

(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.

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.

<TABLE>
<CAPTION>

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

(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.

43

(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:

<TABLE>

<CAPTION>

AMOUNT AND NATURE OF TITLE OF CLASS	NAME	PERCENT OF BENEFICIAL OWNERSHIP(1)(2)	CLASS
-------------------------------------	------	---------------------------------------	-------

<S>	<C>	<C>	<C>
Common Stock	James A. Joyce, Chief Executive Officer and Director 8910 University Center Lane, Suite 660 San Diego, CA 92122	9,710,465 shares(3)	13%
Common Stock	Richard H. Tullis, Chief Scientific Officer and Director 8910 University Center Lane, Suite 660 San Diego, CA 92122	2,165,925 shares(4)	3%
Common Stock	Edward G. Broenniman, Director 8910 University Center Lane, Suite 660 San Diego, CA 92122	1,096,399 shares(5)	2%
Common Stock	Franklyn S. Barry, Jr., Director 8910 University Center Lane, Suite 660 San Diego, CA 92122	873,010 shares(6)	1%
Common Stock	Ellen R. Weiner Family Revocable Trust(7) 10645 N. Tatum Blvd. Suite 200-166 Phoenix, Arizona 85028	6,957,770 shares(8)	9.9%
Common Stock	Estate of Allan S. Bird(7) PO Box 371179 Las Vegas, Nevada 89137	5,156,928 shares(8)	7.3%
Common Stock	Phillip A. Ward (7) P.O. Box 3322 Rancho Santa Fe, CA 92067	3,353,611 shares(9)	4.99%
Common Stock	Alan R. Albrecht (7) 8910 University Center Lane, Suite 660 San Diego, CA 92122	3,498,051 shares(10)	4.99%

All Current
Directors and
Executive Officers
as a Group (4
members)
</TABLE>

13,845,799 shares 18%

* 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.

45

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.

46

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.

49

- (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.

50

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

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 ----- JAMES A. JOYCE	CHAIRMAN OF THE BOARD	JULY 2, 2010
----- /S/ FRANKLYN S. BARRY, JR. ----- FRANKLYN S. BARRY, JR.	DIRECTOR	JULY 2, 2010
----- /S/ EDWARD G. BROENNIMAN ----- EDWARD G. BROENNIMAN	DIRECTOR	JULY 2, 2010
----- /S/ RICHARD H. TULLIS ----- RICHARD H. TULLIS	DIRECTOR	JULY 2, 2010

51

AETHLON MEDICAL, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets.....	F-3
Consolidated Statements of Operations.....	F-4
Consolidated Statements of Stockholders' Deficit.....	F-5
Consolidated Statements of Cash Flows.....	F-23
Notes to Consolidated Financial Statements.....	F-25

F-1

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

F-2

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

<TABLE>
<CAPTION>

ASSETS

	March 31, 2010	March 31, 2009
	-----	-----
<S>	<C>	<C>
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
---	----	---------	----	---------

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

F-3

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

<TABLE>

<CAPTION>

	2010	2009	JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2010	
	<C>	<C>	<C>	<C>
Grant income	\$	--	\$	--
Subcontract income		--		--
Sale of research and development		--		--
				1,424,012
				73,746
				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

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

F-4

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

<TABLE>
<CAPTION>

	DEFICIT					
	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID IN CONSULTING CAPITAL	DEFERRED DEVELOPMENT FEES	TOTAL DURING STOCKHOLDERS' EQUITY (DEFICIT)	
	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 31, 1984 (Inception)	--	\$ --	\$ --	\$ --	--	\$ -- \$ --
Common stock issued for cash at \$1 per share	22,000	22	26,502	--	--	26,524
Common stock issued for cash at \$23 per share	1,100	1	24,999	--	--	25,000
Common stock issued for cash at \$86 per share	700	1	59,999	--	--	60,000
Common stock issued for cash at \$94 per share	160	1	14,999	--	--	15,000
Common stock issued for cash at \$74 per share	540	1	39,999	--	--	40,000
Common stock issued for cash at \$250 per share	4,678	5	1,169,495	--	--	1,169,500
Capital contributions	--	--	521,439	--	--	521,439
Common stock issued for compensation at \$103 per share	2,600	3	267,403	--	--	267,406
Conversion of due to related parties to common stock at \$101 per share	1,120	1	113,574	--	--	113,575
Conversion of due to related parties to common stock at \$250 per share	1,741	2	435,092	--	--	435,094
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	--	--	520,000

Common stock issued in connection with the acquisition of patents at \$8 per share	12,500	13	99,987	--	--	100,000
Warrants issued to note holders in connection with notes payable	--	--	734,826	--	--	734,826
Warrants issued for services	--	--	5,000	--	--	5,000
Net loss	--	--	--	(4,746,416)	(4,746,416)	
BALANCE, MARCH 31, 2000			2,672,500	2,673	4,030,691	-- (4,746,416) (713,052)
Common stock and options issued in connection with acquisition of Cell Activation, Inc. at \$7.20 per share	99,152	99	1,067,768	--	--	1,067,867
Warrants issued to note holders in connection with notes payable	--	--	218,779	--	--	218,779
Warrants issued to promoter in connection with notes payable	--	--	298,319	--	--	298,319
Beneficial conversion feature of convertible notes payable	--	--	150,000	--	--	150,000
Warrants issued to promoter in connection with convertible notes payable	--	--	299,106	--	--	299,106
Options issued to directors for services as board members	--	--	14,163	--	--	14,163

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-5

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

<TABLE>
<CAPTION>

	COMMON STOCK		DEFICIT ACCUMULATED		TOTAL	
	SHARES	AMOUNT	PAID IN CAPITAL	CONSULTING FEES	DEVELOPMENT STAGE	STOCKHOLDERS' EQUITY (DEFICIT)
Options and warrants issued for services	--	--	505,400	--	--	505,400
Common stock issued for services at \$3 per share	5,500	5	16,495	--	--	16,500
Common stock issued for cash at \$1 per share	100,000	100	99,900	--	--	100,000
Net loss	--	--	--	(4,423,073)	(4,423,073)	
BALANCE, MARCH 31, 2001			2,877,152	\$ 2,877	\$ 6,700,621	\$ -- \$ (9,169,489) \$ (2,465,991)
Common stock, warrants and options issued for accounts payable and accrued liabilities	21,750	22	243,353	--	--	243,375

Common stock issued for services at \$2.65 per share	6,038	6	15,994	--	--	16,000
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	--	--	689,264
Common stock issued for services at \$2.75 per share	10,000	10	27,490	--	--	27,500
Common stock issued in connection with license agreement at \$3.00 per share	6,000	6	17,994	--	--	18,000
Common stock issued to holder of convertible notes payable at \$3.00 per share	70,586	71	211,687	--	--	211,758
Options issued to directors for services as board members	--	--	7,459	--	--	7,459
Common stock issued for cash at \$1.50 per share, net of issuance costs of \$2,500	16,667	17	22,483	--	--	22,500
Beneficial conversion feature of convertible notes payable	--	--	185,000	--	--	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	--	--	166,486
Common stock issued for services at \$2.72 per share	9,651	10	26,240	--	--	26,250
Options issued to consultant for services	--	--	562,000	--	--	562,000
Common stock and warrants for services at \$1.95 per share	62,327	62	161,475	--	--	161,537
Common stock issued for services at \$1.90 per share	9,198	9	17,491	--	--	17,500
Stock options exercised for cash	400,000	400	199,600	--	--	200,000
Warrants issued to note holders for 90-day forbearance	--	--	118,000	--	--	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	--	--	1,624,451

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-6

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

<TABLE>
<CAPTION>

DEFICIT
ACCUMULATED TOTAL

<S>	COMMON STOCK		ADDITIONAL	DEFERRED	DURING	STOCKHOLDERS'
	SHARES	PAID IN	CONSULTING	DEVELOPMENT	STAGE	EQUITY
	AMOUNT	CAPITAL	FEES	STAGE	(DEFICIT)	
Other warrant transactions	--	--	(32,715)	--	--	(32,715)
Net loss	--	--	--	(3,995,910)	(3,995,910)	
BALANCE - MARCH 31, 2002	5,170,697	\$ 5,171	\$ 10,962,692	\$ --	\$(13,165,399)	\$ (2,197,536)
Proceeds from the issuance of common stock at \$0.50 per share in connection with the exercise of options	200,000	200	99,800	--	--	100,000
Interest expense related to beneficial conversion feature	--	--	150,000	--	--	150,000
Pro-rata value assigned to warrants issued in connection with conversion of accounts payable	--	--	71,000	--	--	71,000
Pro-rata value assigned to warrants issued in connection with note payable	--	--	30,000	--	--	30,000
Issuance of common stock at \$1.25 per share in connection with the conversion of accounts payable	150,124	150	187,505	--	--	187,655
Issuance of common stock at \$1.25 per share in connection with the conversion of notes payable	420,000	420	104,580	--	--	105,000
Estimated fair market value of options issued for services	--	--	114,000	--	--	114,000
Issuance of common stock at \$0.25 per share for cash	461,600	462	114,938	--	--	115,400
Issuance of common stock at \$0.26 per share for cash	19,230	19	4,981	--	--	5,000
Issuance of common stock at \$1.25 per share for cash	8,000	8	9,992	--	--	10,000
Issuance of common stock at \$0.65 per share for services	69,231	69	44,931	--	--	45,000
Issuance of common stock at \$0.51 per share for services	196,078	196	99,804	--	--	100,000
Adjustment booked	--	--	(100,000)	--	100,000	--
Net loss	--	--	--	(2,461,116)	(2,461,116)	
BALANCE - MARCH 31, 2003	6,694,960	\$ 6,695	\$ 11,894,223	\$ --	\$(15,526,515)	\$ (3,625,597)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

<TABLE>
<CAPTION>

	DEFICIT ACCUMULATED TOTAL					
	COMMON STOCK SHARES	PAID IN AMOUNT	ADDITIONAL CAPITAL	CONSULTING FEES	DEFERRED STAGE	DURING STOCKHOLDERS' DEVELOPMENT EQUITY (DEFICIT)
BALANCE - MARCH 31, 2003	6,694,960	\$ 6,695	\$ 11,894,223	\$ --	\$(15,526,515)	\$(3,625,597)
Proceeds from the issuance of common stock at \$0.25 per share in connection with the exercise of warrants	540,000	540	134,460	--	--	135,000
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	--	--	75,099
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	--	--	284,827
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	--	--	5,509
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	--	--	5,696
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	--	--	17,588
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	--	--	115,416
Issuance of common stock at \$0.25 per share for cash	1,226,000	1,226	305,274	--	--	306,500
Issuance of common stock at \$0.30 per share for cash	180,000	180	53,820	--	--	54,000
Issuance of common stock at \$0.525 per share for cash	40,000	40	20,960	--	--	21,000
Issuance of common stock at \$1.125 per share for cash	5,000	5	5,620	--	--	5,625
Issuance of common stock at \$0.25 per share for services	10,000	10	2,490	--	--	2,500
Issuance of common stock at \$0.34 per share for services	73,529	73	24,927	--	--	25,000
Issuance of common stock at \$0.40 per share for services	62,000	62	24,763	--	--	24,825
Issuance of common stock at \$0.45 per share for services	185,185	185	83,148	--	--	83,333
Issuance of common stock at \$0.50 per share for services	5,000	5	2,495	--	--	2,500
Interest expense related to beneficial conversion feature	--	--	324,800	--	--	324,800

Net loss	--	--	--	--	(1,518,798)	(1,518,798)
BALANCE - MARCH 31, 2004	10,649,329	\$ 10,649	\$ 13,379,487	\$ --	\$(17,045,313)	\$ (3,655,177)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-8

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

<TABLE>
<CAPTION>

	DEFICIT					
	COMMON STOCK		ACCUMULATED	TOTAL	DURING STOCKHOLDERS'	
	PAID IN		CONSULTING	DEFERRED	EQUITY	
	SHARES	AMOUNT	CAPITAL	FEES	STAGE	(DEFICIT)
BALANCE - MARCH 31, 2004	10,649,329	\$ 10,649	\$ 13,379,487	\$ --	\$(17,045,313)	\$ (3,655,177)
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	--	--	281,642
Issuance of common stock at \$0.44 per share for cash	1,415,909	1,416	621,584	--	--	623,000
Issuance of common stock at \$0.25 per share for cash	40,233	40	9,960	--	--	10,000
Issuance of common stock at \$0.28 per share for cash	35,947	36	9,964	--	--	10,000
Issuance of common stock at \$0.29 per share for cash	69,431	69	19,931	--	--	20,000
Issuance of common stock at \$0.32 per share for cash	94,449	94	29,906	--	--	30,000
Issuance of common stock at \$0.33 per share for cash	60,620	61	19,939	--	--	20,000
Issuance of common stock at \$0.35 per share for cash	172,824	173	59,826	--	--	59,999
Issuance of common stock at \$0.36 per share for cash	223,756	224	79,776	--	--	80,000
Issuance of common stock at \$0.37 per share for cash	108,079	108	39,892	--	--	40,000
Issuance of common stock at \$0.38 per share for cash	26,549	27	9,973	--	--	10,000
Issuance of common stock at \$0.39 per share for cash	51,748	52	19,948	--	--	20,000
Issuance of common stock at \$0.40 per share for cash	25,233	25	9,975	--	--	10,000
Issuance of common stock at \$0.42 per share for cash	143,885	144	59,857	--	--	60,001
Issuance of common stock at \$0.43 per						

share for cash	70,467	70	29,930	--	--	30,001
Issuance of common stock at \$0.45 per share for cash	22,455	22	9,978	--	--	10,000
Issuance of common stock at \$0.46 per share for cash	43,944	44	19,956	--	--	20,000
Issuance of common stock at \$0.47 per share for cash	128,836	129	59,872	--	--	60,001
Issuance of common stock at \$0.52 per share for cash	95,502	96	49,904	--	--	49,999
Issuance of common stock with warrants at \$0.36 per unit for cash	55,556	56	19,944	--	--	20,000
Issuance of common stock at \$0.27 per share for cash	90,000	90	24,210	--	--	24,300
Issuance of common stock at \$0.50 per share for cash	3,000	3	1,497	--	--	1,500
Issuance of common stock to Fusion Capital for "commitment" shares	50,000	50	(50)	--	--	--

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-9

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

<TABLE>
<CAPTION>

DEFICIT
ACCUMULATED TOTAL
COMMON STOCK ADDITIONAL DEFERRED DURING STOCKHOLDERS'
----- PAID IN CONSULTING DEVELOPMENT EQUITY
SHARES AMOUNT CAPITAL FEES STAGE (DEFICIT)

	<C>	<C>	<C>	<C>	<C>	<C>
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	--	--	163,371
Issuance of common stock at \$0.44 per share in connection with the conversion of notes payable	113,636	114	49,886	--	--	50,000
Issuance of common stock at \$0.25 per share in connection with the conversion of notes payable	80,000	80	19,920	--	--	20,000
Issuance of common stock at \$0.49 per share in connection with the conversion of notes payable	174,606	175	85,382	--	--	85,557
Issuance of common stock at \$1.75 per share for services	17,143	17	29,983	--	--	30,000
Issuance of common stock at \$0.44 per share for services	265,273	265	116,455	--	--	116,720

Issuance of common stock at \$0.70 per share for services	10,715	11	7,489	--	--	7,500
Issuance of common stock at \$0.73 per share for services	6,850	7	4,993	--	--	5,000
Issuance of common stock at \$0.55 per share for services	46,364	46	25,454	--	--	25,500
Issuance of common stock at \$0.25 per share for services	165,492	165	41,208	--	--	41,373
Issuance of common stock at \$0.45 per share for services	28,377	28	12,741	--	--	12,769
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	--	--	12,343
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	--	--	5,000
Issuance of common stock at \$0.42 per share for services	19,231	19	7,981	--	--	8,000
Issuance of common stock at \$0.39 per share for services	18,042	18	6,982	--	--	7,000
Issuance of common stock at \$0.32 per share for services	162,678	163	52,382	--	--	52,545
Issuance of common stock at \$0.31 per share for services	16,234	16	4,984	--	--	5,000
Issuance of common stock at \$0.39 per share for employee bonus	22,500	22	8,754	--	--	8,776

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-10

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

<TABLE>
<CAPTION>

	DEFICIT					
	COMMON STOCK		ACCUMULATED	DEFERRED	TOTAL	
	SHARES	AMOUNT	ADDITIONAL CAPITAL	CONSULTING FEES	DURING DEVELOPMENT STAGE	STOCKHOLDERS' EQUITY (DEFICIT)
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Debt discount on debt issued with detachable warrants	--	--	84,000	--	--	84,000
Amortization of deferred consulting fees	--	--	--	30,000	--	30,000

Intrinsic value of options issued to directors	--	--	424,262	--	--	424,262
Net loss	--	--	--	--	(2,096,951)	(2,096,951)

BALANCE - MARCH 31, 2005			17,014,696	\$ 17,015	\$ 16,088,280	\$ (30,000) \$ (19,142,264) \$ (3,066,969)
Issuance of common stock at \$0.28 per share for cash	35,947	36	9,964	--	--	10,000
Issuance of common stock at \$0.26 per share for cash	38,256	38	9,962	--	--	10,000
Issuance of common stock at \$0.26 per share for cash	38,401	38	9,962	--	--	10,000
Issuance of common stock at \$0.25 per share for cash	201,165	201	49,799	--	--	50,000
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	--	20,000
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	--	20,000
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	--	20,000
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	--	20,000
Issuance of common stock at \$0.18 per share for cash	100,000	100	17,500	--	--	17,600
Issuance of common stock at \$0.25 per Share for cash	301,744	302	74,698	--	--	75,000
Issuance of common stock at varied prices for cash	2,485,249	2,485	767,512	--	--	769,997
Issuance of common stock at \$0.76 per share for cash	568,181	568	431,249	--	--	431,818
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	--	--	35,000
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	--	--	34,943
Issuance of common stock at \$0.31 per share for services	9,740	10	2,990	--	--	3,000
Issuance of common stock at \$0.30 per share for services	25,134	25	7,475	--	--	7,500
Issuance of common stock at \$0.25 per share for services	31,424	31	7,869	--	--	7,900
Issuance of common stock at \$0.26 per share for services	19,084	19	4,981	--	--	5,000

</TABLE>

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

<TABLE>
<CAPTION>

	DEFICIT					
	COMMON STOCK	ACCUMULATED			TOTAL	
	PAID IN	ADDITIONAL	DEFERRED	DURING	STOCKHOLDERS'	
SHARES	AMOUNT	CAPITAL	FEES	STAGE	EQUITY	
(DEFICIT)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock at \$0.25 per share for services	33,228	33	8,407	--	--	8,440
Issuance of common stock at \$0.25 per share for services	24,000	24	5,976	--	--	6,000
Issuance of common stock at \$0.26 per share for services	11,450	11	2,989	--	--	3,000
Issuance of common stock at \$0.26 per share for services	19,084	19	4,981	--	--	5,000
Issuance of common stock at \$0.26 per share for services	34,352	34	8,966	--	--	9,000
Issuance of common stock at \$0.26 per share for services	11,450	11	2,989	--	--	3,000
Loss on settlement of accrued legal liabilities	--	--	142,245	--	--	142,245
Issuance of common stock at \$0.24 per share for services	12,605	13	2,987	--	--	3,000
Issuance of common stock at \$0.24 per share for services	21,008	21	4,979	--	--	5,000
Issuance of common stock at \$0.23 per share for services	21,739	22	4,978	--	--	5,000
Issuance of common stock at \$0.23 per share for services	21,740	22	4,978	--	--	5,000
Issuance of common stock at \$0.23 per share for services	2,155	2	498	--	--	500
Issuance of common stock at \$0.23 per share for services	91,739	92	21,008	--	--	21,100
Issuance of common stock at \$0.21 per share for services	175,755	176	37,084	--	--	37,260
Issuance of common stock at \$0.23 per share for services	37,863	38	8,519	--	--	8,557
Issuance of common stock at \$0.23 per share for services	21,368	21	4,979	--	--	5,000
Issuance of common stock at \$0.21 per share for services	27,852	28	5,710	--	--	5,738
Issuance of common stock at \$0.24 per share for services	21,186	21	4,979	--	--	5,000
Issuance of common stock at \$0.22 per share for services	35,278	35	7,585	--	--	7,620
Issuance of common stock at \$0.38 per share for services	13,298	13	4,987	--	--	5,000

Issuance of common stock at \$0.38 per share for services	19,948	20	7,640	--	--	7,660
Issuance of common stock at \$0.37 per share for services	97,662	98	36,037	--	--	36,135
Issuance of common stock at \$0.25 per share for services	371,847	372	91,137	--	--	91,509
Issuance of common stock at \$0.25 per share for services	73,964	74	18,128	--	--	18,202

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-12

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

<TABLE>
<CAPTION>

	DEFICIT ACCUMULATED TOTAL					
	COMMON STOCK SHARES	PAID IN AMOUNT	CONSULTING CAPITAL	DEVELOPMENT FEES	DURING STAGE	STOCKHOLDERS' EQUITY (DEFICIT)
	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock at \$0.29 per share for services	13,333	13	3,827	--	--	3,840
Issuance of common stock at \$0.33 per share for services	15,060	15	4,985	--	--	5,000
Issuance of common stock at \$0.24 per share for services	579,813	580	138,575	--	--	139,155
Issuance of common stock at \$0.28 and \$0.33 per share for services	66,017	66	19,934	--	--	20,000
Issuance of common stock at \$0.36 per share for services	13,889	14	4,986	--	--	5,000
Issuance of common stock at \$0.33 per share for services	9,091	9	2,989	--	--	2,999
Issuance of common stock at \$0.28 per share for services	10,563	11	2,991	--	--	3,001
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	--	--	10,000
Issuance of common stock at \$0.33 per share for services	15,152	15	4,985	--	--	5,000
Issuance of common stock at \$0.28 per share for services	17,730	18	4,982	--	--	5,000
Issuance of common stock at \$0.20 and \$0.37 per share for services	79,255	79	19,894	--	--	19,974
Issuance of common stock at \$0.33 per						

share for services	33,333	33	9,967	--	--	10,000
Issuance of common stock at \$0.39 per share for services	220,080	220	85,171	--	--	85,391
Issuance of common stock at \$0.49 per share for services	7,275	7	3,543	--	--	3,550
Issuance of common stock at \$0.34 per share for services	27,284	27	9,170	--	--	9,197
Issuance of common stock at \$0.33 per share for services	158,046	158	51,997	--	--	52,155
Issuance of common stock at \$0.20 per share for services	836,730	837	166,509	--	--	167,346
Issuance of cashless warrants	389,168	389	(389)	--	--	--
Conversion of accrued salaries to employee stock options	--	--	300,000	--	--	300,000
Debt discount on debt issued with detachable warrants	--	--	119,610	--	--	119,610
Interest expense related to beneficial conversion feature	--	--	222,375	--	--	222,375
Professional fees related to registration statement	--	--	(76,732)	--	--	(76,732)
Amortization of deferred consulting fees	--	--	34,083	--	--	34,083

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-13

 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

<TABLE>
<CAPTION>

	COMMON STOCK		DEFICIT ACCUMULATED		TOTAL	
	SHARES	PAID IN AMOUNT	ADDITIONAL CAPITAL	DEFERRED FEES	DURING DEVELOPMENT STAGE	STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Reclassification of derivative liabilities upon registration of shares underlying warrants	--	--	1,090,000	--	--	1,090,000
Net loss	--	--	--	(2,920,183)	(2,920,183)	
BALANCE - MARCH 31, 2006		25,383,705	\$ 25,380	\$ 20,322,498	\$ (44,917)	\$ (22,062,447) \$ (1,759,484)
Issuance of common stock at varied prices for cash	2,649,773	2,650	794,097	--	--	796,747
Issuance of common stock at \$0.18 per share for cash	555,556	556	99,444	--	--	100,000
Issuance of common stock at \$0.30 per						

share for cash	1,333,333	1,333	398,667	--	--	400,000
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	--	--	43,750
Issuance of common stock at \$0.24 per share for services	33,058	33	7,967	--	--	8,000
Issuance of common stock at \$0.25 per share for services	126,065	127	31,858	--	--	31,985
Issuance of common stock at \$0.26 per share for services	156,485	156	40,349	--	--	40,505
Issuance of common stock at \$0.27 per share for services	30,075	30	7,970	--	--	8,000
Issuance of common stock at \$0.28 per share for services	43,819	44	12,256	--	--	12,300
Issuance of common stock at \$0.29 per share for services	14,563	15	4,150	--	--	4,165
Issuance of common stock at \$0.30 per share for services	18,454	19	5,531	--	--	5,550
Issuance of common stock at \$0.31 per share for services	32,984	33	10,467	--	--	10,500
Issuance of common stock at \$0.32 per share for services	52,722	53	17,947	--	--	18,000
Issuance of common stock at \$0.34 per share for services	29,965	30	9,470	--	--	9,500
Issuance of common stock at \$0.37 per share for services	132,765	133	48,725	--	--	48,858
Issuance of common stock at \$0.40 per share for services	7,813	8	2,492	--	--	2,500
Issuance of common stock at \$0.45 per share for services	3,363	3	1,497	--	--	1,500
Issuance of common stock at \$0.47 per share for services	14,535	15	4,985	--	--	5,000

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-14

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

<TABLE>
<CAPTION>

	DEFICIT				TOTAL	
	COMMON STOCK	ACCUMULATED	DEFERRED	DURING	STOCKHOLDERS'	
	PAID IN	CONSULTING	DEVELOPMENT	EQUITY	(DEFICIT)	
	SHARES	AMOUNT	CAPITAL	FEES	STAGE	

<S>

<C> <C> <C> <C> <C> <C>

Issuance of common stock at \$0.50 per share for services	35,601	36	17,765	--	--	17,801
Issuance of common stock at \$0.51 per share for services	21,078	21	10,728	--	--	10,749
Issuance of common stock at \$0.53 per share for services	20,127	20	8,980	--	--	9,000
Issuance of common stock at \$0.55 per share for services	4,545	5	2,495	--	--	2,500
Issuance of common stock at \$0.58 per share for services	17,332	17	9,983	--	--	10,000
Issuance of common stock at \$0.59 per share for services	8,532	9	4,991	--	--	5,000
Issuance of common stock at \$0.61 per share for services	4,934	5	2,995	--	--	3,000
Issuance of common stock at \$0.79 per share for services	10,095	9	7,990	--	--	8,000
Issuance of common stock at \$0.81 per share for services	3,086	3	2,497	--	--	2,500
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	--	--	50,000
Amortization of deferred consulting fees	--	--	--	44,917	--	44,917
Issuance of common stock for option to obtain licensing rights to cancer patent	40,000	40	10,760	--	--	10,800
Stock compensation expense	--	--	38,132	--	--	38,132
Issuance of common stock at \$0.20 per Share in settlement of accrued liabilities	114,130	114	22,997	--	--	23,111
Reclassification of derivative liabilities upon registration of shares underlying warrants	--	--	(1,090,000)	--	--	(1,090,000)
Net loss	--	--	--	(6,024,545)	(6,024,545)	
	<hr/>					
BALANCE - MARCH 31, 2007	31,912,153	\$ 31,914	\$ 20,963,419	\$ --	\$ (28,086,992)	\$ (7,091,660)

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-15

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

<TABLE>
<CAPTION>

	DEFICIT							
	COMMON STOCK		ADDITIONAL	DEFERRED	TOTAL	DURING STOCKHOLDERS'		
	SHARES	AMOUNT	PAID IN CAPITAL	CONSULTING FEES	DEVELOPMENT STAGE		EQUITY (DEFICIT)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>		
BALANCE - MARCH 31, 2007	2,560,000	2,560	31,912,153	\$ 31,914	\$ 20,963,419	\$ --	\$ (28,086,992)	\$ (7,091,660)
Issuance of common stock at \$0.50 per share for cash	2,560,000	2,560	1,187,840	--	--	--	1,190,400	
Issuance of common stock at \$1.00 per share for cash	100,000	100	99,900	--	--	--	100,000	
Issuance of common stock at \$0.24 per share for services	71,045	71	16,980	--	--	--	17,051	
Issuance of common stock at \$0.48 per share for services	41,999	42	19,958	--	--	--	20,000	
Issuance of common stock at \$0.49 per share for services	13,017	13	6,399	--	--	--	6,413	
Issuance of common stock at \$0.50 per share for services	45,380	45	22,645	--	--	--	22,690	
Issuance of common stock at \$0.53 per share for services	75,000	75	39,675	--	--	--	39,750	
Issuance of common stock at \$0.57 per share for services	7,895	8	4,492	--	--	--	4,500	
Issuance of common stock at \$0.58 per share for services	36,487	36	21,164	--	--	--	21,200	
Issuance of common stock at \$0.60 per share for services	120,033	120	71,490	--	--	--	71,610	
Issuance of common stock at \$0.61 per share for services	103,106	103	62,791	--	--	--	62,894	
Issuance of common stock at \$0.63 per share for services	10,174	10	6,440	--	--	--	6,450	
Issuance of common stock at \$0.65 per share for services	4,601	5	2,995	--	--	--	3,000	
Issuance of common stock at \$0.68 per share for services	17,127	17	11,583	--	--	--	11,600	
Issuance of common stock at \$0.69 per share for services	7,246	7	4,993	--	--	--	5,000	
Issuance of common stock at \$0.76 per share for services	17,061	17	12,983	--	--	--	13,000	
Issuance of common stock at \$0.78 per share for services	19,179	19	14,981	--	--	--	15,000	
Exercise of cashless warrants	49,414	49	(49)	--	--	--	--	
Issuance of common stock for option exercises by director	250,000	250	94,750	--	--	--	95,000	
Common stock units issued under renegotiation of convertible notes	2,149,582	2,150	5,390,514	--	--	--	5,392,664	
Beneficial conversion feature on convertible debt	--	--	38,197	--	--	--	38,197	

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

<TABLE>
<CAPTION>

	COMMON STOCK		DEFICIT ACCUMULATED		TOTAL	
	SHARES	AMOUNT	ADDITIONAL PAID IN CAPITAL	CONSULTING FEES	DEFERRED DEVELOPMENT STAGE	DURING STOCKHOLDERS' EQUITY (DEFICIT)
	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock in exchange for licensing rights	15,152	15	4,985	--	--	5,000
Stock compensation expense	--	--	487,093	--	--	487,093
Issuance of common stock in connection with the conversion of notes payable	1,365,500	1,366	279,782	--	--	281,148
Net loss	--	--	--	(4,140,264)	(4,140,264)	
BALANCE - MARCH 31, 2008		38,991,151	\$ 38,992	\$ 28,866,000	\$ --	\$ (32,227,256) \$ (3,322,264)
Issuance of common stock at \$0.59 per share for services	10,170	10	5,990	--	--	6,000
Issuance of common stock under licensing agreement	10,849	11	5,739	--	--	5,750
Issuance of common stock at \$0.45 per share for services	6,667	7	2,993	--	--	3,000
Issuance of common stock at \$0.50 per share for cash	1,000,000	1,000	499,000	--	--	500,000
Issuance of common stock in connection with the conversion of notes payable	232,033	232	39,093	--	--	39,325
Issuance of common stock at \$0.41 per share for services	25,610	26	10,474	--	--	10,500
Issuance of common stock in connection with the conversion of accounts payable due to related parties	1,015,050	1,015	331,264	--	--	332,279
Issuance of common stock in connection with the payment of interest and damages to convertible noteholders	966,750	967	472,741	--	--	473,708
Issuance of common stock at \$0.45 per share for legal services	110,138	110	49,452	--	--	49,562
Issuance of common stock at \$0.40 per share for services	38,150	38	15,222	--	--	15,260
Issuance of common stock at \$0.50 per share under warrant exercises	770,000	770	191,730	--	--	192,500
Issuance of common stock at \$0.50 per share under warrant exercises	200,000	200	49,800	--	--	50,000
Issuance of common stock at \$0.19 per share for legal services	98,684	99	18,651	--	--	18,750

Issuance of common stock at \$0.28 per share for legal services	59,950	60	16,546	--	--	16,606
Issuance of common stock at \$0.25 per share for cash	700,000	700	165,550	--	--	166,250
Issuance of common stock at \$0.25 per share for legal services	338,099	338	83,950	--	--	84,288
Record warrant expense on the issuance of units for accrued interest	--	--	425,680	--	--	425,680

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-17

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

<TABLE>
<CAPTION>

	DEFICIT					
	COMMON STOCK		ACCUMULATED	TOTAL		
	SHARES	PAID IN	CONSULTING	DEFERRED	DURING	STOCKHOLDERS'
	AMOUNT	CAPITAL	FEES	STAGE	EQUITY	(DEFICIT)
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Record warrants and discount on Convertible notes	--	--	163,402	--	--	163,402
Issuance of common stock at \$0.25 per share for services	23,636	24	5,976	--	--	6,000
Issuance of common stock at \$0.26 per share for services	77,192	77	19,993	--	--	20,070
Issuance of common stock at \$0.26 per share for services	35,000	35	8,365	--	--	8,400
Issuance of common stock at \$0.33 per share for services	15,337	15	4,985	--	--	5,000
Reclass remainder of derivative liability to additional paid-in capital due to registration of warrants	--	--	419,192	--	--	419,192
Estimated value of equity instruments granted in debt restructuring	--	--	711,541	--	--	711,541
Issuance of common stock at \$0.15 per share for cash	1,320,000	1,320	200,610	--	--	201,930
Issuance of common stock at \$0.21 per share for services	38,810	39	8,111	--	--	8,150
Issuance of common stock at \$0.17 per share for services	67,059	67	11,333	--	--	11,400
Issuance of common stock under licensing agreement	23,566	24	5,726	--	--	5,750
Issuances of common stock under conversions of notes payable	2,569,727	2,570	680,212	--	--	682,782

Issuance of common stock at \$0.19 per share for services	28,947	27	5,471	--	--	5,498
Issuance of common stock at \$0.17 per share for services	78,743	79	13,701	--	--	13,780
Issuance of common stock at \$0.17 per share for services	53,706	54	9,076	--	--	9,130
Issuance of common stock in connection with the payment of interest to convertible noteholders	168,750	169	30,206	--	--	30,375
Issuance of common stock at \$0.17 per share for services	50,000	50	8,450	--	--	8,500
Issuance of common stock at \$0.17 per share for services	33,333	33	5,467	--	--	5,500
Issuance of common stock at \$0.20 per share for legal services	63,369	63	12,412	--	--	12,475
Issuance of common stock at \$0.19 per share for services	28,947	29	5,471	--	--	5,500
Stock-based compensation expense	204,708	205	733,084	--	--	733,289
Net loss	--	--	--	(6,084,158)	(6,084,158)	

BALANCE - MARCH 31, 2009	49,454,131	\$ 49,455	\$ 34,312,659	\$ --	\$ (38,311,414)	\$ (3,949,300)

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-18

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

<TABLE>
<CAPTION>

	DEFICIT ACCUMULATED TOTAL					
	COMMON STOCK SHARES	PAID IN AMOUNT	ADDITIONAL CONSULTING CAPITAL	DEFERRED FEES	DEVELOPMENT STAGE	DURING STOCKHOLDERS' EQUITY (DEFICIT)
	-----	-----	-----	-----	-----	-----
	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock at \$0.17 per share for services	71,519	72	12,086	--	--	12,158
Issuances of common stock under conversions of notes payable	1,688,211	1,688	261,790	--	--	263,478
Issuance of common stock at \$0.18 per share under warrant exercise	555,556	556	99,444	--	--	100,000
Issuance of common stock per share at \$0.22 per share for investor relations services	490,000	490	108,210	--	--	108,700
Issuance of common stock at \$0.22 per						

share for services	25,000	25	5,475	--	--	5,500
Issuance of common stock at \$0.23 per share for services	32,935	33	7,542	--	--	7,575
Issuance of common stock at \$0.22 per share for services	12,372	12	2,648	--	--	2,660
Issuance of common stock at \$0.19 per share for cash	80,000	80	15,120	--	--	15,200
Issuance of common stock at \$0.18 per share for services	43,021	43	7,701	--	--	7,744
Issuance of common stock at \$0.20 per share for services	70,870	71	14,429	--	--	14,500
Issuance of common stock at \$0.24 per share for services	22,817	23	5,477	--	--	5,500
Issuances of common stock under conversions of notes payable	878,059	878	138,378	--	--	139,256
Issuance of common stock at \$0.23 per share for services	13,043	13	2,987	--	--	3,000
Issuance of common stock at \$0.28 per share for services	10,714	11	2,989	--	--	3,000
Issuance of common stock at \$0.19 per share for services	51,118	51	9,662	--	--	9,713
Issuance of common stock at \$0.25 per share for services	22,000	22	5,478	--	--	5,500
Issuance of common stock at \$0.22 per share for services	34,602	35	7,578	--	--	7,613
Issuance of common stock at \$0.24 per share for services	40,104	40	9,585	--	--	9,625
Issuance of common stock at \$0.24 per share for services	22,917	23	5,477	--	--	5,500
Issuance of common stock at \$0.24 per share for services	20,500	21	4,899	--	--	4,920
Issuance of common stock at \$0.22 per share for services	57,055	57	12,495	--	--	12,552
Issuance of common stock at \$0.24 per share for services	22,917	23	5,477	--	--	5,500
Issuance of common stock at \$0.23 per share for services	23,000	23	5,267	--	--	5,290
Issuance of common stock at \$0.22 per share for services	48,106	48	10,535	--	--	10,583
Issuance of common stock at \$0.34 per share for services	16,176	16	5,484	--	--	5,500

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-19

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

<TABLE>
<CAPTION>

	DEFICIT ACCUMULATED TOTAL					
	COMMON STOCK SHARES	PAID IN AMOUNT	ADDITIONAL CAPITAL	CONSULTING FEES	DEFERRED DEVELOPMENT STAGE	DURING STOCKHOLDERS' EQUITY (DEFICIT)
	<C>	<C>	<C>	<C>	<C>	<C>
Issuances of common stock under conversions of notes payable	779,956	780	142,732	--	--	143,512
Issuances of common stock under conversions of notes payable	518,649	519	100,047	--	--	100,566
Issuance of common stock at \$0.30 per share for services	18,333	18	5,482	--	--	5,500
Issuance of common stock at \$0.28 per share for services	51,971	52	14,448	--	--	14,500
Issuance of common stock at \$0.34 per share for services	11,647	12	3,948	--	--	3,960
Issuance of common stock at \$0.28 per share for services	19,643	20	5,480	--	--	5,500
Issuance of common stock at \$0.26 per share for services	21,154	21	5,479	--	--	5,500
Issuance of common stock at \$0.28 per share for services	14,143	14	3,946	--	--	3,960
Issuance of common stock at \$0.24 per share for services	22,917	23	5,477	--	--	5,500
Issuance of common stock at \$0.22 per share for services	36,094	36	7,905	--	--	7,941
Issuance of common stock at \$0.27 per share for services	20,370	20	5,480	--	--	5,500
Issuance of common stock at \$0.24 per share for services	16,000	16	3,824	--	--	3,840
Issuance of common stock at \$0.28 per share for services	19,784	20	5,480	--	--	5,500
Issuance of common stock at \$0.25 per share for services	12,000	12	2,988	--	--	3,000
Issuance of common stock at \$0.25 per share as grant to research institute	100,000	100	24,900	--	--	25,000
Issuance of common stock at \$0.22 per share for services	319,033	319	69,868	--	--	70,187
Issuance of common stock at \$0.25 per share for services	22,088	22	5,478	--	--	5,500
Issuance of common stock at \$0.22 per share for services	37,585	38	8,231	--	--	8,269
Issuances of common stock under conversions of notes payable	2,511,264	2,511	478,786	--	--	481,297
Issuance of common stock at \$0.26 per share for services	15,231	15	3,945	--	--	3,960
Issuance of common stock at \$0.47 per share for services	11,702	12	5,488	--	--	5,500
Issuances of common stock under						

conversions of notes payable	117,759	117	38,478	--	--	38,595
Issuance of common stock at \$0.39 per share for services	14,103	14	5,486	--	--	5,500

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-20

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

<TABLE>
<CAPTION>

	DEFICIT ACCUMULATED TOTAL					
	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID IN CAPITAL	ADDITIONAL CONSULTING FEES	DEFERRED DEVELOPMENT STAGE	DURING STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock at \$0.36 per share for services	89,397	89	32,362	--	--	32,451
Issuance of common stock at \$0.35 per share for services	19,688	20	6,871	--	--	6,891
Issuance of common stock at \$0.37 per share for services	15,068	15	5,485	--	--	5,500
Issuance of common stock at \$0.40 per share for services	9,900	10	3,950	--	--	3,960
Issuance of common stock at \$0.30 per share for services	50,313	50	15,044	--	--	15,094
Issuance of common stock at \$0.30 per share for services	114,066	114	34,106	--	--	34,220
Issuance of common stock at \$0.32 per share for services	17,188	17	5,483	--	--	5,500
Issuance of common stock at \$0.35 per share for services	11,314	11	3,949	--	--	3,960
Issuance of common stock at \$0.30 per share for services	18,333	18	5,482	--	--	5,500
Issuances of common stock under conversions of notes payable	280,000	280	69,720	--	--	70,000
Issuances of common stock under conversions of notes payable	211,665	212	42,121	--	--	42,333
Issuance of common stock under licensing agreement at \$0.31 per share	36,683	37	11,463	--	--	11,500
Issuance of common stock at \$0.38 per share for services	14,474	14	5,486	--	--	5,500
Issuance of common stock in connection with the payment of interest to convertible noteholders	731,251	731	487,504	--	--	488,235

Issuance of common stock at \$0.30 per share for services	13,200	13	3,947	--	--	3,960
Issuance of common stock at \$0.35 per share for services	15,714	16	5,484	--	--	5,500
Issuance of common stock at \$0.32 per share for services	45,886	46	14,454	--	--	14,500
Issuance of common stock at \$0.32 per share for services	17,188	17	5,483	--	--	5,500
Issuances of common stock under conversions of accrued expenses	29,878	30	8,933	--	--	8,963
Issuance of common stock at \$0.35 per share for services	11,314	11	3,949	--	--	3,960
Issuance of common stock at \$0.33 per share for services	16,667	17	5,483	--	--	5,500
Issuance of common stock at \$0.32 per share for services	9,059	9	2,908	--	--	2,917
Issuances of common stock under conversions of notes payable	1,444,185	1,445	351,114	--	--	352,559

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-21

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

<TABLE>
<CAPTION>

	COMMON STOCK		DEFICIT ACCUMULATED		TOTAL	
	SHARES	PAID IN AMOUNT	CONSULTING CAPITAL	DEFERRED FEES	DURING DEVELOPMENT STAGE	STOCKHOLDERS' EQUITY (DEFICIT)
<\$>	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of common stock at \$0.40 per share for services	82,678	83	32,988	--	--	33,071
Issuance of common stock at \$0.42 per share for services	13,095	13	5,487	--	--	5,500
Issuance of common stock at \$0.35 per share for services	11,065	11	3,906	--	--	3,917
Issuance of common stock at \$0.34 per share for services	11,647	12	3,948	--	--	3,960
Issuance of common stock at \$0.37 per share for services	20,929	21	7,723	--	--	7,744
Issuance of common stock at \$0.38 per share for services	14,474	14	5,486	--	--	5,500
Issuance of common stock at \$0.36 per share for services	8,125	8	2,909	--	--	2,917

Issuance of common stock at \$0.34 per share for services	10,895	11	3,739	--	--	3,750
Issuance of warrants and recording discount on convertible notes	--	--	933,985	--	--	933,985
Issuance of warrants upon conversion of debt into common stock	--	--	31,549	--	--	31,549
Stock-based compensation expense	--	--	504,933	--	--	504,933
Cumulative effect of change in accounting principle	--	--	(403,320)	--	124,219	(279,101)
Net loss	--	--	--	--	(4,573,315)	(4,573,315)
<hr/>						
BALANCE - MARCH 31, 2010	61,913,508	\$ 61,914	\$ 38,296,362	\$ --	\$(42,760,510)	\$(4,402,234)

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

F-22

 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

<TABLE>
<CAPTION>

	2010	2009	January 31, 1984 (Inception) Through March 31, 2010
	<C>	<C>	<C>
<hr/>			
Cash flows from operating activities:			
Net loss	\$ (4,573,315)	\$ (6,084,158)	\$(42,760,510)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	13,653	16,281	1,058,877
Amortization of deferred consulting fees	--	--	109,000
Gain on settlement of debt	--	--	(131,175)
Loss on debt extinguishment and on issuance of units for accrued interest and damages	341,984	1,604,715	3,710,566
Loss on settlement of accrued legal liabilities	--	--	142,245
Gain on sale of property and equipment	--	--	(13,065)
Change in estimated fair value of derivative liabilities	(178,723)	(213,903)	1,318,676
Fair market value of warrants issued in connection with accounts payable and debt related costs	--	--	2,715,736
Fair market value of equity instruments issued for services, grants and accrued interest	665,771	334,870	4,812,714
Amortization of discount associated with warrants issued upon conversion of debt	31,549	--	31,549
Stock based compensation	504,933	733,289	2,187,709
Amortization of debt discount and deferred financing costs	627,060	1,517,132	4,625,842
Impairment of patents and patents pending	--	--	416,026
Impairment of goodwill	--	--	897,227
Deferred compensation forgiven	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	26,872	(3,452)	181,357
Other assets	2,483	--	(10,718)
Accounts payable and accrued liabilities	615,845	309,695	3,115,011
Due to related parties	(55,629)	8,143	1,230,078

Net cash used in operating activities	(1,977,517)	(1,777,388)	(16,145,631)
Cash flows from investing activities:			
Purchases of property and equipment	(17,068)	(1,407)	(289,918)
Patents and patents pending	(13,087)	(10,419)	(400,430)
Proceeds from the sale of property and equipment	--	--	17,065
Cash of acquired company	--	--	10,728
Net cash used in investing activities	(30,155)	(11,826)	(662,555)

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

F-23

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)

<TABLE>
<CAPTION>

	2010	2009	January 31, 1984 (Inception) Through March 31, 2010
Cash flows from financing activities:			
Net proceeds from the issuance of notes payable		--	2,350,000
Principal repayments of notes payable	(24,000)	--	(376,500)
Proceeds from the issuance of convertible notes payable	1,978,265	430,000	4,546,265
Net proceeds from the issuance of common stock	115,200	1,110,680	10,433,102
Professional fees related to registration statements	--	--	(76,731)
Net cash provided by financing activities	2,069,465	1,540,680	16,876,136
Net increase (decrease) in cash	61,793	(248,534)	67,950
Cash at beginning of period	6,157	254,691	--
Cash at end of period	\$ 67,950	\$ 6,157	\$ 67,950
Supplemental disclosure of cash flow information			
- Cash paid during the period for:			
Interest	\$ --	\$ --	\$ 266,975
Income taxes	\$ --	\$ --	\$ 13,346
Supplement schedule of noncash investing and financing activities:			
Conversion of debt, accrued liabilities and accrued interest to common stock	\$ 1,640,559	\$ 722,106	\$ 5,159,751
Stock option exercise by director for accrued expenses	\$ --	\$ --	\$ 95,000
Conversion of amounts due to officers and directors into common stock	\$ --	\$ 332,279	\$ 332,279

Debt discount on notes payable associated with detachable warrants	\$ 1,867,973	\$ 150,095	\$ 3,172,928
Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties	\$ --	\$ --	\$ 1,003,273
Reclassification of derivative liability to additional paid-in capital	\$ --	\$ 419,192	\$ 419,192
Additional convertible debt issued in connection with debt restructuring	\$ --	\$ 573,211	\$ 573,211
Issuance of common stock in connection with license agreements	\$ --	\$ --	\$ 18,000
Issuance of note receivable in connection with convertible debt financing	\$ 300,000	\$ --	\$ 300,000
Net assets of entities acquired in exchange for equity securities	\$ --	\$ --	\$ 1,597,867
Debt placement fees paid by issuance of warrants	\$ --	\$ 13,307	\$ 856,845
Patent pending acquired for 12,500 shares of common stock	\$ --	\$ --	\$ 100,000
Common stock issued for prepaid expenses	\$ --	\$ --	\$ 161,537
Licensing rights acquired with common stock issuance	\$ 11,500	\$ 11,500	\$ 38,800

</TABLE>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

F-24

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

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.

F-25

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

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.

F-26

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

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.

F-27

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

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	<u>\$ 504,933</u>	<u>\$ 733,289</u>
Basic and diluted loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

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.

F-28

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

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.

F-29

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

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 consolidated 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.

F-30

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

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.

F-31

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

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.

<TABLE>
<CAPTION>

Description	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for March 31, 2010	Significant Other Observable Inputs (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<S>	<C>	<C>	<C>	<C>

Derivative Liabilities	\$	--	\$	--	\$	--	\$	1,054,716
Total Assets	\$	--	\$	--	\$	--	\$	1,054,716

</TABLE>

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.

F-32

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

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.

	Change in estimated fair value recognized		
	Recorded April 1, 2009	New Derivative Liabilities	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.

	Change in estimated fair value recognized		
	Transfers April 1, 2008 (See Note 6)	into Equity in results of operations	March 31, 2009

Derivative Liabilities(1) \$ 633,095 (\$ 419,192) (\$ 213,903) \$ --

F-33

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.

F-34

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

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:

<TABLE>
<CAPTION>

	Principal	Discount	Net Amount	
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
Amended Series A 10% Convertible Notes, past due	\$ 900,000	\$ --	\$ 900,000	
2008 10% Convertible Notes, past due	45,000	--	45,000	
December 2006 10% Convertible Notes, past due	17,000	--	17,000	
May & June 2009 10% Convertible Notes	300,000	(120,649)	179,351	
July & August 2009 10% Convertible Notes	338,250	(98,458)	239,792	
October & November 2009 10% Convertible Notes	380,250	(380,203)	47	
January 2010 10% Convertible Notes	250,000	(249,993)	7	
February 2010 10% Convertible Note	660,000	(409,198)	250,802	
	-----	-----	-----	
Total - Convertible Notes	\$ 2,890,500	\$ (1,258,501)	\$ 1,631,999	
	=====	=====	=====	

</TABLE>

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.

F-35

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

5. CONVERTIBLE NOTES PAYABLE (continued)

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

<TABLE>
<CAPTION>

	Principal	Discount	Net Amount	
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
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
=====

</TABLE>

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 convertible 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.

F-36

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

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.

F-37

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

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.

F-38

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

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.

F-39

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

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).

F-40

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

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.

F-41

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.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

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.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

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.

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

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.

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

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.

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

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.

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

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.

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

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.

F-50

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

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.

F-51

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

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.

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

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.

F-53

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

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).

F-54

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

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 on 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.

F-55

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

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.

F-56

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

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.

F-57

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

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.

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

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-8 registration 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.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010

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.

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

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.

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

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.

F-62

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

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).

F-63

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

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.

F-64

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

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.

F-65

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

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).

F-66

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

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:

<TABLE>
<CAPTION>

Year Ended March 31,

	2010		2009	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	19,193,965		16,021,629	
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

</TABLE>

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

F-67

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

The detail of the warrants outstanding and exercisable as of March 31, 2010 is as follows:

<TABLE>
<CAPTION>

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable		
	Number	Weighted Average Remaining Outstanding	Weighted Average Exercise Life (Years)	Number	Weighted Average Exercise Outstanding	Price
\$0.15 - \$0.18	3,754,904	3.20	\$ 0.17	3,754,904	\$ 0.17	
\$0.20 - \$0.40	14,914,004	2.70	\$ 0.23	14,914,004	\$ 0.23	
\$0.50 - \$0.76	7,318,557	2.34	\$ 0.53	7,318,557	\$ 0.53	
	25,987,465			25,987,465		

</TABLE>

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.

F-68

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

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.

F-69

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
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:

<TABLE>
<CAPTION>

	Year Ended March 31,			
	2010		2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
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
--	-------	---------

</TABLE>

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:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$0.21 - \$0.25	4,857,143	6.75 years	\$ 0.23	4,357,143	\$ 0.22
\$0.36 - \$0.41	8,221,550	4.64 years	\$ 0.38	7,021,550	\$ 0.36
\$1.78 - \$3.75	337,367	1.77 years	\$ 2.02	337,367	\$ 2.02
	13,416,060			11,716,060	

</TABLE>

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.

F-70

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

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	<u>\$ 766,940</u>	<u>\$ 679,498</u>

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.

F-71

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

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
	\$ --	\$ --

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.

F-72

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

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

<TABLE>
<CAPTION>

	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

</TABLE>

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.

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

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.

F-75

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

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.

F-76

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

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.

F-77