SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(MARK ONE)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2007

OR

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

For transition period from _____ to _____

COMMISSION FILE NUMBER 0-21846

AETHLON MEDICAL, INC.
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(Name of Small Business issuer in its charter)

| NEVADA | 13-3632859 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3030 Bunker Hill Street, Suite 4000, San Diego, CALIFORNIA | 92109 |
| (Address of principal executive office) | (Zip Code) |

ISSUER'S TELEPHONE NUMBER (858) 459-7800

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

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

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

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

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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.[x]

The registrant had no revenue for the fiscal year ended March 31, 2007. The aggregate market value of the Common Stock held by non-affiliates was approximately $13,111,389 based upon the closing price of the Common Stock of $0.67, as reported by the NASDAQ Over-the-Counter Bulletin Board ("OTCBB") on June 29, 2007.

The number of shares of the Common Stock of the registrant outstanding as of June 29, 2007 was 32,008,389.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE):

Yes [ ] No [X]

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FORWARD - LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-KSB are, or may be deemed to be, "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"). 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 such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Aethlon Medical, Inc. ("Aethlon Medical", "We" or the "Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Form 10-KSB. Such potential risks and uncertainties include, without limitation, Food and Drug Administration ("FDA") and other regulatory approval of our products, patent protection on our proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of our filings with the Securities and Exchange Commission. 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 annual report as well as other public reports filed with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-KSB, and we assume no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL OVERVIEW

We are a developmental stage medical device company focused on expanding the applications of our Hemopurifier(R) platform technology which is designed to reduce the presence of infectious viruses and other toxins from human blood. As such, we focus on developing therapeutic devices to treat acute viral conditions brought on by pathogens targeted as potential biological warfare agents and chronic viral conditions including HIV/AIDS and Hepatitis-C. The Hemopurifier(R) combines the established scientific technologies of hemodialysis and affinity chromatography as a means to mimic the immune system's response of clearing viruses and toxins from the blood. The Hemopurifier(R) cannot cure these afflictions but can lower viral loads and allow compromised immune systems to overcome otherwise serious or fatal medical conditions.

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 of Aethlon Medical, Inc.

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



THE HEMOPURIFIER

The Hemopurifier(R) is a broad spectrum platform technology that combines the established scientific methods of hemodialysis (artificial kidneys) and affinity chromatography (a method that allows the selective capture of viruses and related toxins) as a means to augment the natural immune response of clearing infectious virus and toxins from the blood. The therapeutic goal of each Hemopurifier(R) application is to improve patient survival rates by reducing viral load and preserving the immune function. We believe that the Hemopurifier(R) will enhance and prolong the benefit of current infectious disease drug therapies and fill present treatment gap for patients who inevitably become resistant to such therapies. The Hemopurifier(R) is also positioned to treat those infected by biological agents for which there are no effective drug or vaccine treatments. The Hemopurifier(R) is not a substitute for antiviral drug or vaccine therapies, as it is solely positioned to treat drug and vaccine resistant pathogens.

Traditionally, hemodialysis (kidney dialysis) has been used to remove urea and other small metabolic toxins that accumulate in the blood of people with acute or chronic kidney failure (also called renal failure). Acute renal failure is generally treated in hospital intensive care units using a continuous filtration therapy. Chronic renal failure is treated through intermittent, thrice-weekly kidney dialysis in a specialized clinic setting. A catheter is most often the method used to gain access to the blood which is then pumped through thousands of hollow micro-fibers running the length of the kidney dialysis cartridge. Within the cartridge, toxins, urea and excess water pass through small pores in the walls of the micro-fibers and are removed by a separately circulating dialysis fluid outside of the fibers. Blood cells and molecules that are too large to pass through the pores are retained and the cleansed blood is returned back to circulation.

The Hemopurifier(R) modifies this process in several ways to provide an efficient method to selectively remove targeted viruses and toxins. First, the pores of the micro-fibers within the Hemopurifier(R) are large enough to allow circulating infectious viruses and toxins to separate from the blood and diffuse through the walls of the fibers. Second, within the cartridge but outside of the fibers the Hemopurifier(R) contains a unique material (the "affinity agent") which selectively binds to the viruses or toxins. Finally, because of the affinity agent's ability to bind to viruses and toxins, there is no need for a separate circulation of a dialysis solution with the Hemopurifier(R). This provides the flexibility to use the Hemopurifier(R) either on kidney dialysis machines (global infrastructure), by employing a simple pump mechanism or using

a patient's own blood pressure (in field or military applications).

INFECTIOUS DISEASE

The current treatment for viral illnesses include vaccines and antiviral drugs. Vaccines have been the most successful in curing viral diseases (e.g. polio and smallpox). Unfortunately, newly emerging pathogens (e.g. SARS), highly mutable RNA viruses (e.g., HIV and Hepatitis C) and exotic viruses that might be used in terrorist attacks often do not have vaccine treatments. Similarly, antiviral drugs are often useful in controlling viral infections. However, there do not seem to be any general, broad-spectrum antiviral agents similar to penicillin for bacteria and viruses capable of rapidly developing drug resistant mutations. In addition, it generally takes years and millions of dollars to develop vaccine and drug candidates that may or may not be approved by the FDA.

Our Hemopurifier(R) technology represents a new approach to treating viral diseases. The application is designed to work with current treatments to remove infectious virus, toxic viral proteins and injurious immunological mediators directly from the blood of the patient. By removing circulating virus and toxins the Hemopurifier(R) cartridge prevents virus and toxins from infecting tissues and cells. The device cannot cure HIV and Hepatitis-C but appears to augment the immune response of clearing viruses and toxins from the blood before infection can occur. Scientifically, this action is known as "Fusion Inhibition" since the ability of the virus to enter or fuse with host cells or organs is inhibited.



The Hemopurifier(R) is positioned as a therapeutic medical device that can be quickly deployed to treat genetically engineered and drug and vaccine resistant biowarfare agents. For example, we demonstrated the ability to rapidly build and test new antibody cartridges upon receipt of an antibody against HIV which was previously untested for its utility as an agent to be immobilized within the Hemopurifier(R) treatment cartridge. The process included the attachment of the antibody to agarose beads to create an affinity or binding solution that was immobilized within the hollow-fiber treatment cartridge as means to capture HIV as it diffused through the fibers. Human blood infected with HIV was then circulated through the cartridge to measure the ability of the Hemopurifier(R) to capture HIV over a range of time periods. Human blood infected with HIV was also circulated through a control cartridge without immobilized antibodies as a means to document an improved ability to capture infectious virus when the immobilized antibody was utilized in the treatment cartridge. Upon completion of the circulation of infected blood, diagnostic studies were conducted to verify the viral capture rate of the Hemopurifier(R) with and without the immobilized antibody. The data was then provided in a confidential report to the antibody manufacturer within ten days of the original receipt of the antibody in our labs.

BIOLOGICAL WEAPONS

We are developing treatments to combat infectious agents that may be used in biological warfare and terrorism. We are working to design Hemopurifiers(R) that can be rapidly deployed by armed forces as wearable post-exposure treatments on the battlefield, as well as dialysis-based treatments for civilian populations. We are focusing our bio-defense strategy on treating "Category A" agents, which are considered by the Centers for Disease Control ("CDC") to be the worst bioterrorism threats. These agents include the viruses that cause Smallpox, hemorrhagic fevers such as Ebola and Marburg, the Anthrax toxin, and Botulinum toxin. We have not yet published any data related to the treatment of any "Category A" agent. In March 2007, we submitted an Investigational Device Exemption ("IDE") with the FDA the goal of which is to obtain approval to conduct human safety and, if applicable, animal efficacy trials targeted to a specific bioterror viral agent. We are presently in the process of conducting in-vitro trials to determine the most appropriate "Category A" application.

MANUFACTURING

We plan to manufacture a small number of cartridges sufficient to complete clinical trials in our current facilities. Ultimately, we will outsource cartridge manufacturing to a GMP/ISO9001 compliant contract manufacturer. Hemopurifiers(R) to treat pathogens that are bioweapons candidates will be sold directly to the U.S. military and the federal government. Sale of Hemopurifiers(R) to treat chronic viral conditions will be directed through organizations with established distribution channels.

RESEARCH AND DEVELOPMENT

In fiscal year 2001, we realigned our research and development activities from developing Hemopurifiers(R) to treat harmful metals to developing Hemopurifiers(R) for the treatment of chronic viral conditions. As a result of this strategic realignment, we initiated the consolidation of all scientific and administrative functions into our San Diego facilities during the fourth quarter of fiscal year 2001. This consolidation was completed during the first quarter of fiscal year 2002 and our facilities in Buffalo, N.Y. were closed. In 2004, we expanded our research effort to include the development of Hemopurifiers(R) to treat acute viral diseases as well as countermeasures against biological weapons. The cost of research and development, all of which has been charged to operations, amounted to approximately $1,429,059 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.



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 is extremely competitive, and companies developing new treatment procedures are faced with severe regulatory challenges. In this regard, only a very small percentage of companies that are developing new treatments will actually obtain approval from the FDA to market their treatments in the United States. Currently, the market for treating chronic and acute viral diseases is comprised of drugs designed to reduce viral load by inhibiting viral replication or by inhibiting viruses from infecting healthy cells. Unfortunately, these drugs are generally toxic, are expensive to develop, and inevitably infected patients will develop viral strains that become

resistant to drug treatment. As a result, patients are ultimately left without treatment options.

COMPETITION

We are advancing our Hemopurifier(R) technology as a treatment to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. The Hemopurifier(R) is also designed to prolong life for infected patients who have become drug resistant and have no other treatment options. Therefore, we do not believe that the Hemopurifier(R) competes with the current drug therapy treatment standard. However, if the industry considered the Hemopurifier(R) to be a potential replacement for drug therapy, then the marketplace for the Hemopurifier(R) would be extremely competitive. We are also pursuing the development of Hemopurifiers(R) to be utilized as treatment countermeasures against biological weapons. In this regard, we are targeting the treatment of pathogens, which are microbial organisms that cause disease, in which current treatments are either limited or do not exist. We believe that we are the sole developer of viral filtration systems (Hemopurifiers(R)) to treat chronic viral conditions, acute viral conditions and biological weapons. However, we face competition from the producers of the following alternative treatment options for all market applications.

ANTIVIRAL DRUGS

For viral infections, specific antiviral drugs can be effective, but there are none that are effective against a broad-spectrum of infectious virus. At present, only a few antiviral drugs are available to treat the multitude of viruses that could be used as biological weapons. For example, Ribavirin is the treatment of choice for certain viral hemorrhagic fever infections, but has no current application to Ebola and Marburg infections. Newer antiviral drugs have shown some promise in animal models, and limited case reports in humans are encouraging. The lack of broad-spectrum antivirals takes on added significance in light of the ability of many viruses to rapidly develop resistance.

Current efforts to define the genetic details of normal and pathogenic agents on a molecular level promise the hope of new points of attack. Genomic analysis of viral pathogens and animal models of responses to infection provide valuable information enabling the potential development of novel treatment and prevention strategies. However, even the rapid elucidation of the genetic structure of a specific pathogen does not provide sufficient information to quickly design an effective cure.



Another approach in drug development is combinatorial chemistry, which provides the ability to rapidly synthesize large libraries of related compounds, many of which are completely new. However, there is still a need to laboriously screen each new compound for efficacy in fighting a particular disease. In that sense, combinatorial drugs confront the same problem as the traditional method of screening of plant and animal extracts for active compounds that block viral or bacterial replication.

Vaccines

Historically, the most effective tools in controlling infections have been vaccines. Polio, measles, mumps and many other viral illnesses are now controllable and smallpox has been eradicated from nature. Licensed vaccines for hemorrhagic fever viruses are limited to yellow fever (though others are in the trial phase of approval). Promising vaccines are being tested for some of the other diseases, but research is hampered by the need to conduct the studies in secure laboratories.

There are other problems with relying on vaccines as our primary protection against a biological weapons attack. While vaccination may be an effective treatment in a military setting, it would be problematic for civilian populations for several reasons:

- The infectious virus would have to be known prior to vaccine deployment. With the exception of smallpox, post-exposure vaccination is ineffective.

- Even if a large population could be vaccinated, it would be impossible to vaccinate people against every viral threat.

- Vaccines are only useful if the viral target has not mutated or been genetically altered.

Vaccines that are effective and safe are difficult to develop. History has shown that such development can be a slow process and may not even be possible for highly mutable pathogens like HIV and Hepatitis C. Moreover, current vaccine strategies often carry significant risk for complications. For example, the smallpox vaccine, which uses attenuated strains of a live virus, can occasionally cause illness or death by infection from the very organism that usually provides protection.

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". It is our intention to effect such license within the term of the option. On February 8, 2007 we entered into an amendment to this agreement to extend its term until August 9, 2007.

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 "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" for which a provisional patent application was filed in the United States. 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.



One of the problems facing the FDA is the need to ensure public safety while at the same time preventing unsafe treatments from reaching the public. The balance between these competing pressures has resulted in a long and deliberate process for approving new treatments which is not responsive to the urgent need for new treatments presented in the era of bioterrorism. For most drugs, the principal research and development phases take several years prior to a drug being submitted to the FDA for testing. A clinical research program takes two to ten years, depending on the agent and clinical indication, after which the marketing application review period requires an average of one year. Once a product is approved for market, long-term post-marketing surveillance, inspections, and product testing must be performed to ensure the quality, safety, and efficacy of the product, as well as appropriate product labeling.

FDA'S PREMARKET CLEARANCE AND APPROVAL REQUIREMENTS. Each medical device we wish to commercialize in the United States will require the filing of a Premarket Approval ("PMA") from FDA. Medical devices are classified into one of three classes--Class I, Class II, or Class III--depending on the degree or risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risks are placed in either Class I or II, which requires the manufacturer to submit to FDA a premarket notification requesting permission to commercially distribute the device. Our Hemopurifier(R) has been categorized as a Class III device, requiring premarket approval.

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 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 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 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. Similarly, in Europe the clinical study must be approved by a local ethics committee and in some cases, including studies with high-risk devices, by the Ministry of Health in the applicable country.

In March 2007 we submitted an IDE with the FDA the goal of which is to obtain approval to conduct human safety and, if applicable, animal efficacy trials targeted to a specific bioterror viral agent. We are presently in the process of conducting in-vitro trials to determine the most appropriate "Category A" bioterror application. Upon successful completion of the IDE clinical trials, we would anticipate submitting a PMA (see below).

PREMARKET APPROVAL PATHWAY. A PMA application must be supported by extensive data, including but not limited to technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is submitted and FDA determines that the application is sufficiently complete to permit a substantive review, FDA will accept the application for review. FDA has 180 days to review an "accepted" PMA application, although the review of an application generally occurs over a significantly longer period of time and can take up to several years. During this review period, FDA may request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside FDA may be convened to review and evaluate the application and provide recommendations to FDA as to the approvability of the device. In addition, FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with quality system regulations. New PMA applications or PMA application supplements are required for significant modification to the manufacturing process, labeling and design of a device that is approved through the premarket approval process. Premarket approval supplements often require submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application and may not require as extensive clinical data or the convening of an advisory panel.

PERVASIVE AND CONTINUING REGULATION. After a device is placed on the market, numerous regulatory requirements continue to apply. These include:

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

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

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

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

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

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

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

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

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.



We have completed preclinical studies that demonstrate the removal of HIV and Hepatitis C virus from infected human blood. We have also completed initial animal safety studies, limited human safety studies and are presently engaged in the in-vitro testing and clinical planning required to support our recent IDE submission.

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 four dormant wholly-owned subsidiaries, Aethlon, Inc., Cell Activation, Inc., Syngen Research, Inc., and Hemex, Inc.

EMPLOYEES

At March 31, 2007, we had six full-time employees, comprised of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, and two research scientists. We utilize, whenever appropriate, contract and part time professionals in order to conserve cash and resources. We believe our employee relations are good. None of our employees are represented by a collective bargaining unit.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and proxy and information statements and amendments to reports files or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy these materials at the SEC's Public Reference Room at 450 Fifth St NW, Washington, DC 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding other companies, like us, that file materials with the SEC electronically. Our headquarters are located at 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109. Our phone number at that address is (858) 459-7800. Our website is www.aethlonmedical.com.

ITEM 2. DESCRIPTION OF PROPERTY

We currently rent approximately 3,200 square feet of executive office space and laboratory space at 3030 Bunker Hill Street, Suite 4000, San Diego, California 92109 at the rate of $7,744 per month on a lease that expires on July 12, 2007. The Company is presently negotiating a new lease arrangement with its current landlord and will lease its space on a month to month basis, at the same terms, until such negotiations are completed.

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On March 2, 2007, Aethlon Medical, Inc. (the "Company") held an annual meeting of stockholders at the Company's executive offices for the following purposes: (1) to elect a director slate, (2) ratify the appointment of Squar, Milner, Peterson, Miranda & Williamson, L.L.P ("Squar Milner"), as the Company's independent auditors for the fiscal year ending March 31, 2007, and (3) to approve an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's Common Stock from 50,000,000 to 100,000,000. Stockholders holding an aggregate minimum of 21,763,109 shares of Common Stock of the Company voted to elect the Directors, 21,811,789 in favor of ratifying the appointment of Squar Milner as the Company's independent auditors and stockholders holding an aggregate of 8,628,045 shares of Common Stock of the Company, with holders of 12,363,691 non-votes excluded, voting in favor of approving the amendment to the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 100,000,000. The number of shares voting in favor of the three proposals was sufficient for the approval. The number of shares voting against and/or abstaining from the vote were as follows: Proposal 1: 170,021 shares (maximum); Proposal 2: 121,341 shares and Proposal 3: 941,394 shares with 12,363,691 non-votes. The entire proposed slate of Directors was approved by the shareholders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

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

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

| | BID PRICE | |
|---|---|---|
| PERIOD | HIGH | LOW |
| 2007: | | |
| First Quarter | $ 0.84 | $ 0.25 |
| 2006: | | |
| Fourth Quarter | 0.34 | 0.25 |
| Third Quarter | 0.34 | 0.19 |

| | | |
|---|---|---|
| Second Quarter | 0.84 | 0.32 |
| First Quarter | 0.98 | 0.26 |
| | | |
| 2005: | | |
| Fourth Quarter | 0.77 | 0.21 |
| Third Quarter | 0.25 | 0.18 |
| Second Quarter | 0.33 | 0.22 |
| First Quarter | 0.52 | 0.25 |

There are approximately 2,100 record holders of our Common Stock at June 29, 2007. 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 Trust Company, 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 three year period ending on the date of filing of this registration statement. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

CONVERTIBLE DEBT

From July 11, 2005 through December 15, 2005 the Company received cash investments of $760,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) based on agreed-upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005, November 4, 2005 and December 15, 2005 in three 10% Series A Convertible Notes ("Weiner Series A Notes"). The Weiner Series A Notes accrue interest at a rate of ten percent (10%) per annum and mature on January 2, 2007. The Weiner Series A Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Weiner Series A Warrants") to purchase a number of shares equal to the number of shares into which the Weiner Series A Notes can be converted at an exercise price of $0.20. The Weiner Series A Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $531,875, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Weiner Series A Notes provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be $228,125 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Weiner Series A Notes. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

From August 8, 2005 through December 14, 2005 the Company received cash investments of $225,000, from an accredited investor (Allan S. Bird) based on agreed upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005, November 7, 2005 and December 14, 2005 in three 10% Series A Convertible Notes ("Bird Series A Notes"). The Bird Series A Notes accrue interest at a rate of ten percent (10%) per annum and mature on January

2, 2007. The Bird Series A Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Bird Series A Warrants") to purchase a number of shares equal to the number of shares into which the Bird Series A Notes can be converted at an exercise price of $0.20. The Bird Series A Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $183,000, measured at the commitment dates with the warrants being initially classified as a derivative liability. The derivative liability was reclassified as additional paid in capital upon obtaining an effective registration statement in January 2006 and the discount will be expensed when the warrants are issued when future debt conversions occur. The convertible feature of the Bird Series A Note provides for a rate of conversion that is below market value (Beneficial Conversion Feature or "BCF"). Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be $42,000 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Bird Series A Note. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On December 15, 2005, the Company received total cash investments of $15,000 from two related accredited investors (Christian Hoffmann III and Claypoole Capital, LLC). Such investments were documented in two 10% Series A Convertible Notes ("December Notes"). The December Notes accrue interest at a rate of ten percent (10%) per annum and mature on January 2, 2007. The December Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price of $0.20 per share for any conversion occurring on or before the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "December Warrants") to purchase a number of shares equal to the number of shares into which the December Notes were converted at an exercise p rice of $0.20. The December Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $15,000, measured at the commitment date, with the warrants being initially classified as a derivative liability. The derivative liability was reclassified as additional paid in capital upon obtaining an effective registration statement in January 2006 and the discount will be expensed when the warrants are issued upon the occurance of future debt conversion. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.



On December 15, 2006, the Company 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 mature 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, the Company 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 are exercised prior to December 15, 2007, the holder will receive 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 common stock.

On or about March 13, 2007, the Company determined that the effectiveness of the registration statement underlying the conversion and warrant shares associated with the Series A Convertible Promissory Notes ("Notes") had lapsed on October 27, 2006. As a result, the Company reversed the effect of the prior registration effectiveness and reduced additional-paid-in-capital by $1,090,000 and recorded a warrant liability of like amount. Between October 27, 2006 and March 22, 2007 (when the debt was effectively extinguished), the Company recorded an additional expense related to the change in the fair value of the associated warrant liability of $1,969,450.

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to the Notes entered into in December 2005 having an aggregate

principal amount of $1,000,000 (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffmann III (the "Holders"). Each Holder has qualified as an "accredited investor" as that term is defined in the Securities Act of 1933, as amended (the "Act"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will 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 are 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, the Company 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. Pursuant to EITF Issue No. 06-06, and because of the change in the fair value of embedded conversion options as a result of the issuance of Units under the Allonges on March 22, 2007, such issuance was determined to be a substantial change in the Notes resulting in the extinguishment of the Notes as per Accounting Principles Board ("ABP") Opinion No. 26. Therefore on March 22, 2007, the Company recorded a net increase of $270,127 of discount on convertible notes payable, an increase in warrant liability of $1,486,875 and a loss on extinguishment of debt of $1,216,748 (see Note 6 to the consolidated financial statements). Between March 22, 2007 and March 31, 2007, the Company also recorded an additional other expense of $143,125 to record the change in fair value of the warrant liability at March 31, 2007. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK AND WARRANTS

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.

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 $0.53 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In 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 $0.32 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In July 2006, the Company issued 6,250 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 July 2006, the Company issued 7,813 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 8,721 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.30 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In 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 $0.49 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.

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 $0.34 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In 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 114,130 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 $0.34 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 $0.34 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 $0.32 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In 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 $5,000 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.

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 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.



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 Consultant 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 $0.26 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 Consultant Stock Plan at $0.31 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 Consultant Stock Plan at $0.32 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

Consultant Stock Plan at $0.61 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 Consultant 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 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.

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, associated with a Common Stock Purchase Agreement dated March 21, 2007, the Company issued 1,050,000 commitment shares.



EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth March 31, 2007 information on our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

<TABLE>
<S> <C>

| | (a) | (b) | (c) |
|---|---|---|---|
| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2) | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders | 32,500 | $2.65 | 467,500 |
| Equity compensation plans not approved by security holders (1) | 9,171,560 | $0.39 | N/A |
| Totals | 9,204,060 | $0.39 | 467,500 |

</TABLE>

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Notes 4, 5 and 6 to the accompanying consolidated financial statements.

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

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 | 467,500 |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 32,500 | $ 2.65 | 467,500 |

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, 2007, we had granted 32,500 options under the 2000 Stock Option Plan, with 467,500 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 | 3,000,000 | $ 0.31 | 2,928,935 |
| Total | 3,000,000 | $ 0.31 | 2,928,935 |

Our 2003 Consultant Stock Plan (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. We initially reserved a total of 1,000,000 common shares for issuance under the Stock Plan and increased this to 3,000,000 on August 29, 2005. 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.

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.

At March 31, 2007, 71,065 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 interest 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, 2007 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors, 3,965,450 options to employee-directors, 308,725 outside directors options had been forfeited and 4,994,550 options remained outstanding.

STAND-ALONE GRANTS

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.

To date we have issued 5,828,158 options (of which 1,573,300 have been exercised or cancelled) outside of both the 2005 Directors Compensation Plan and 2 000 Stock Option Plan.



ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

Operating Expenses

Consolidated operating expenses were $2,084,254 for the fiscal year ended March 31, 2007, versus $2,094,939 for the comparable period one year ago. The net decrease of ($10,685) was comprised of an increase in payroll expense of $214,021 and general and administrative expense of $8,518, offset by decreases in professional fees and asset impairment charges of ($151,502) and ($81,722), respectively.

Professional fees decreased by ($151,502). This decrease was primarily a result of a reduction in scientific consulting expense of ($126,736) due to higher costs in the prior fiscal year related to human and animal safety studies conducted by the company. Other decreases in expenses included ($70,622) in legal expense and ($15,109) related to decreases in web development and accounting fees. The decreases noted above were offset by an increase of $60,965 in investor relations expenses due to our senior director of communications being retained for the entire year as well as the addition of a senior director of investor relations both retained on a consulting basis.

Payroll and related expenses increased by $214,021 as compared to the prior fiscal year. The increase was principally driven by research and development payroll which increased $122,114 due to the hiring of our new president (whose duties are primarily development-related) and a result of increases in senior management salaries. Administrative payroll increased by $38,913 because of salary increases for a senior executive and the employment of our chief financial officer for the entire fiscal year. Stock compensation expense increased $38,132 due to the recognition of expense related to the amortization of stock options vesting during the fiscal year ended March 31, 2007. Finally, due to the general increases in payroll expenses, payroll taxes increased by $14,862.

General and administrative expenses remained essentially unchanged from the prior year, increasing by $8,518. This increase is comprised of reductions in lab supplies of ($64,239) and other expenses of ($4,337), offset by increases in insurance expense of $44,523 and investor conference expenses of $32,569. Lab supplies decreased because the company incurred significant expenses in the prior fiscal year related to animal and human safety studies. Insurance expense increased primarily due to increases in employee medical insurance expense and against an approximate $17,000 write-off benefit in the prior fiscal year.

Interest and Other Expense

In the fiscal year ended March 31, 2007, the Company recognized a $1,216,748 non-cash loss on the extinguishment of debt as a result of the issuance of Allonges to the Company's 10% Series A Convertible Notes. In addition the Company recognized $2,112,575 in non-cash expense related to warrant liability revaluation in comparison to the prior fiscal year when $360,125 of non-cash expense was recognized to reflect the change in fair value of the warrants issued related to our 10% Series A Convertible Notes.

Interest expense decreased by ($59,329) as a consequence of the full amortization of BCF associated with convertible notes outstanding in the prior fiscal year.

Other expense increased by $205,178 over the prior fiscal year a result of the recognition of approximately $220,000 in liquidated damages associated with the failure to register shares underlying our 10% Series A Convertible Notes and related warrants (see Note 6 to the consolidated financial statements).

PLAN OF OPERATION

The Company's current plan of operation is to fund our anticipated increased research and development activities and operations for the near future by effecting a new equity line of credit with Fusion Capital and/or by raising funds through the sale of private equity or a combination thereof.
Based on our projections of additional resources required for operations and to complete research, development and testing associated with our Hemopurifier(R) products, we anticipate that these funds will satisfy our cash requirements, including this anticipated increase in operations, in excess of the next twelve months. However, due to market conditions and to assure availability of funding for operations in the long term, we plan to arrange for additional funding,

subject to acceptable terms, during the next twelve months.



The Company is a development stage medical device company that has not yet engaged in significant commercial activities. The primary focus of our resources is 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.

The Company plans to continue research and development activities related to our Hemopurifier(R) platform technology, with particular emphasis on the advancement of our treatment for "Category A" pathogens as defined by the Federal Government under Project Bioshield and the All Hazards Preparedness Act of 2006. The Company has filed an Investigational Device Exemption ("IDE") with the FDA in order to proceed with Human safety studies of the Hemopurifier(R). Such studies, complemented by planned in-vivo and appropriate animal in-vitro studies should allow the Company to proceed to Premarket Approval ("PMA") process. The PMA process is the last major FDA hurdle in determining the safety and effectiveness of Class III medical Devices (of which the Hemopurifier(R) is one).

Management anticipates continuing to increase spending on research and development over the next 12 months. Additionally, associated with the Company's anticipated increase in research and development expenditures, we anticipate purchasing additional amounts of equipment during this period to support our laboratory and testing operations. Operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(R) products, as well as market any of those products that receive regulatory approval. The Company does not expect to generate revenue from operations for the foreseeable future, and our ability to 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 management's ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. The Company expects to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Convertible Notes Payable and Warrants

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Promissory Notes entered into in December 2005 having an aggregate principal amount of $1,000,000 (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffmann III (the "Holders"). Each Holder has qualified as an "accredited investor" as that term is defined in the Securities Act of 1933, as amended (the "Act"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will 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 are 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 on Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expires on January 2, 2001 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, the Company 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. Pursuant to EITF 06-06, and because of the change in the fair value of embedded conversion options as a result of the issuance of Units under the Allonges on March 22, 2007, such issuance was determined to be a substantial change in the Series A Notes resulting in the extinguishment of the Series A Notes as per ABP 26. Therefore on March 22, 2007, the Company recorded a loss on extinguishment of $1,216,748, a net increase of $270,127 of discount on convertible notes payable and an increase in warrant liability of $1,486,875. Between March 22, 2007 and March 31, 2007, the Company also recorded an additional other expense of $143,125 to record the change in fair value of the warrant liability at the end of the fiscal year. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.



On March 31, 2007, the Company had $1,000,000 in Notes outstanding, offset by a ($1,000,000) note discount. The discount is associated with the unamortized fair value of warrants attached to the Notes. The discount value will amortize to interest expense over the life of the warrants once they are issued. These 10% Series A Notes were amended on March 22, 2007 as described above (the Allonges).

On December 15, 2006, the Company 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 mature 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, the Company 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 are exercised prior to December 15, 2007, the holder will receive 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 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. Pursuant to EITF No. 98-5 and EITF No. 00-27, the Company estimated the fair value of such BCF to be $34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the BCF are being accreted to interest expense over the term of the December 10% Notes. Total expense recognized on the December 10% Notes for amortization of such debt discounts totaled $50,000 for the fiscal year ended March 31, 2007.

Notes Payable

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 $0.406 per share to an accredited individual investor. There was no gain or loss on the extinguishment.

The Company is currently in default on approximately $502,500 of amounts owed under various unsecured notes payable and accrued liabilities and is currently seeking other financing arrangements to retire all past due notes. At March 31, 2007 the Company had accrued interest in the amount of $355,410 associated with these notes payable.

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, 2007 we issued 821,996 common shares for services of which 163,779 were unregistered. We issued 1,050,000 restricted common shares as commitment shares related to equity line financing, 114,130 restricted common shares for payment of accrued liabilities, 107,759 for the retirement of notes payable, 163,779 for investor communications services, 40,000 for licensing rights and 30,617 in exchange for the conversion of Warrants. Included in the 821,996 common shares issued for services are 658,217 shares, registered under a Form S-8 registration statement, which were issued as follows:
540,044 for scientific and regulatory consulting and 118,173 for legal expense
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 9.3%.

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, 2006 we issued 2,737,588 common shares for services of which 1,030,700 were unregistered. We issued 579,813 restricted common shares in settlement of a legal dispute, 150,000 restricted common shares for financial consulting services, 116,883 restricted common shares for corporate communications services, 110,040 restricted common shares for accrued legal fees and 73,964 restricted common shares for legal fees related to financing activities. In addition, 1,706,888 shares, registered under a Form S-8 registration statement, were issued as follows: 1,061,129 for scientific and regulatory consulting, 399,131 for legal expense, 110,040 for payment of accrued legal fees, 103,255 for financial consulting and 33,333 for the right to license intellectual property assets. 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 9%.



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, 2007 we issued 107,759 restricted common shares for repayment in full of notes, including accrued interest. The price discount of the common stock issued for debt was approximately 46.3%

In the fiscal year ended March 31, 2006 we issued 314,716 restricted common shares for repayment in full of notes, including accrued interest. The price discount of the common stock issued for debt in this period weighted by the number of shares issued for conversion of debt was approximately 70%, primarily to reflect the fact that these common shares were not freely tradable when issued.

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, 2007 consolidated financial statements, that we have a working capital deficiency and a significant deficiency accumulated during the development stage. These conditions, among others, raise substantial doubt about our ability to continue as a going concern.

CRITICAL ACCOUNTING POLICIES

The preparation of condensed 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, the Company evaluates 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. The Company believes that the estimates and assumptions that are most important to the portrayal of the Company's 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 the Company's future financial conditions or results of operations.

Long Lived Assets

SFAS No.144 ("SFAS 144"), "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of" addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 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. SFAS 144 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, 2007.

Stock Purchase Warrants Issued with Notes Payable

The Company granted warrants in connection with the issuance of certain notes payable. Under Accounting Principles Board Opinion No. 14, "Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants," the relative estimated fair value of such warrants represents a discount from the face amount of the notes payable. Such discounts are amortized to interest expense over the term of the notes.



Derivatives

In the fiscal year ending March 31, 2006, the Company was obligated to register for resale the shares underlying warrants in connection with the issuance of its 10% Series A Convertible Promissory Notes. In accordance with Emerging Issues Task Force ("EITF") No. 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In, a Company's Own Stock," the value of the warrants were recorded as a liability until the registration became effective on January 20, 2006. At that time the Company determined the fair value of these warrants and recorded an additional non-cash expense of $363,875. Coincident with this valuation, the derivative liability balance was reclassified to equity.

On or about March 13, 2007, the Company determined that the effectiveness of the registration statement underlying the conversion and warrant shares associated with the 10% Series A Promissory Notes had lapsed on October 27, 2006. In accordance with EITF No. 00-19, the Company reversed the accounting effect of the prior registration effectiveness and reduced additional-paid-in-capital by $1,090,000 and recorded a warrant liability of

like amount. Between October 27, 2006 and March 22, 2007 (when the debt was effectively extinguished), the Company recorded an additional expense related to the change in the fair value of the associated warrant liability of $1,969,450.

Extinguishment of Debt

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Promissory Notes entered into in December 2005 having an aggregate principal amount of $1,000,000 (the "Notes"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Notes are 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 on 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, the Company 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. Pursuant to EITF No. 06-06, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments", such issuance was determined to be a substantial change in the Notes resulting in the extinguishment of the Notes as per ABP No. 26, "Accounting for Early Extinguishment of Debt". Therefore on March 22, 2007, the Company recorded a loss on extinguishment of $1,216,748. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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"). Pursuant to EITF Issue No. 98-5, "Accounting for Convertible Securities With Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments," the estimated 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 amortized to interest expense over the term of the notes.

Accounting for Transactions involving Stock Compensation

In December 2004, the FASB issued SFAS No. 123-R, "Share-Based Payment," which requires that the compensation cost relating to share-based payment transactions (including the cost of all employee stock options) be recognized in the financial statements. That cost will be measured based on the estimated fair value of the equity or liability instruments issued. SFAS No. 123-R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No.123-R replaces SFAS No. 123 and supersedes APB 25. As originally issued, SFAS No. 123 established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that pronouncement permitted entities to continue applying the intrinsic-value model of APB 25, provided that the financial statements disclosed the pro forma net income or loss based on the preferable fair-value method.



Small Business Issuers are required to apply SFAS No. 123-R in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005. Thus, the Company's consolidated financial statements reflect an expense for (a) all share-based compensation arrangements granted on or after January 1, 2006 and for any such arrangements that are

modified, cancelled, or repurchased on or after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value. The Company adopted SFAS No. 123-R in the first fiscal quarter of 2007. For the fiscal year ended March 31, 2007, the Company recognized $38,132 of share-based compensation.

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.

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 A LIMITED OPERATING HISTORY WITH 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 $2,084,254, $2,094,939 and $2,183,377, respectively, during the past three fiscal years of operation. At March 31, 2007, we had an accumulated deficit of $28,086,992. We have incurred net losses of $6,024,545 and $2,920,183 for the fiscal years ending March 31, 2007 and 2006. Our revenues have not been sufficient to sustain our operations. We expect that our revenues 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 OPINION FROM OUR AUDITORS REGARDING OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our independent auditors noted in their report accompanying our consolidated financial statements for our fiscal year ended March 31, 2007 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 described management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This opinion about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as such an opinion 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.

At March 31, 2007 and 2006, we had a working capital deficit of approximately $7,260,352 and $1,920,000, respectively. The independent auditors' report for the year ended March 31, 2007, includes an explanatory paragraph stating that, among other conditions, our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. We had a net operating cash flow deficit of $1,718,904 for the fiscal year ended March 31, 2007, a net operating cash flow deficit of $1,584,281 for the year ended March 31, 2006, and for the year ended March 31,

2005 a net operating cash flow deficit of $1,559,366. We do not currently have sufficient financial resources to fund our operations or those of our subsidiaries. Therefore, we will require additional funds to continue these operations.



We are presently negotiating with Fusion Capital to effect a new financing facility and are also reviewing other possible financing options. The extent to which we might rely upon Fusion Capital, assuming we can complete the transaction, as a source of funding will depend on a number of factors including, the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the commercialization or licensing of our Hemopurifier(R) technology or the receipt of grant revenue. If obtaining sufficient financing from Fusion Capital were to prove prohibitively expensive, if our present grant applications are not fruitful and if we are unable to commercialize and sell our Hemopurifier(R) technology, we will need to secure another source of funding in order to satisfy our working capital needs. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, the consequences would be a material adverse effect on our business, operating results, financial condition and prospects.

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 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 future government grants or contracts utilizing our Hemopurifier(R) platform technology.

IF THE U.S. GOVERNMENT FAILS TO PURCHASE SUFFICIENT QUANTITIES OF ANY FUTURE BIODEFENSE CANDIDATE UTILIZING OUR HEMOPURIFIER(R) PLATFORM TECHNOLOGY, WE MAY BE UNABLE TO GENERATE SUFFICIENT REVENUES TO CONTINUE OPERATIONS.

We cannot be certain of the timing or availability of any future funding from the U.S. Government, and substantial delays or cancellations of funding could result from protests or challenges from third parties once such funding is obtained. If we develop products utilizing our Hemopurifier(R) platform technology that are approved by the U.S. Food and Drug Administration (the "FDA"), but the U.S. Government does not place sufficient orders for these products, our future business will be harmed.

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

Our plan to provide the Hemopurifier(R) as a candidate to treat Certain infectious disease conditions may involve contracts with the U.S. Government. U.S. Government contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S. Government to unilaterally:

- suspend or prevent us for a period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;

- audit and object to our contract-related costs and fees, including allocated indirect costs;
- control and potentially prohibit the export of our products; and
- change certain terms and conditions in our contracts.

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



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

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

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

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

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

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

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

WE HAVE LIMITED MANUFACTURING EXPERIENCE.

To achieve the levels of production necessary to commercialize our Hemopurifier(R) products, we will need secure manufacturing agreements with manufacturers which comply with good manufacturing practices 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. 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 surmount such problems could delay or prevent commercialization of our products and would have a material adverse effect on us.

OUR HEMOPURIFER(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 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 Chairman and Chief Executive Officer, James A. Joyce and our Chief Science Officer, Richard H. Tullis. Were we to lose one or more 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 could delay the clinical development of our products due to his unique experience with the Hemopurifier(R) technology. The loss of Mr. Joyce would be detrimental to our growth as he possesses unique knowledge of our business model and infectious disease which would be difficult to replace.

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 six full time employees consisting of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, a research scientist, a research associate, as well as other personnel employed on a contract basis. Although we believe that these employees, together with the consultants currently engaged by our company, will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer-term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified scientific, technical and managerial personal. Competition for these individuals, especially in San Diego where many bio-technology 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 has recently become much more 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) is protected by five issued patents, four of which we own and one in which we own an exclusive license. Two additional patent applications deal with treatments for virus infection and cancer treatment, one of which we own and two of which we own exclusive licenses.

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 United States 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 government through consultation with a number of governmental agencies, including the FDA, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the FDA to be commercially marketed and sold. The process of obtaining and complying with FDA and other governmental regulatory approvals and regulations is costly, time consuming, uncertain and subject to unanticipated delays. Such regulatory approval (if any) and product development requires several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others.

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

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

- warning letters;

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

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

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

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

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



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

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

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

We are developing product candidates based upon current governmental policies regulating these medical countermeasure treatments. For instance, we intend to pursue FDA approval of our proprietary pathogen filtration devices to

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

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

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

Our previously planned products have not become marketable products due in part to our transition in 2001 from a focus on utilizing our Hemopurifier(R) technology on treating harmful metals to treating infectious diseases prior to our having completed the FDA approval process. Our transition was made in order to focus on larger markets with an urgent need for new treatment and to take advantage of the sense of 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.

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

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

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

The Hemopurifier(R) is protected by four issued patents, three of which we own and one which we have 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 Food & Drug Administration approves the Hemopurifier(R). These patents comprise a majority of our assets. At March 31, 2007, our intellectual property assets comprised 84.08% of our non-current assets, and 23.12% of all 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 employee stock options as a compensation expense. These and other potential changes could materially increase the expenses we report under accounting principles generally accepted in the United States of America, and adversely affect our operating results.

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

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

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

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

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

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

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

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

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than

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



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

Our common shares have historically been sporadically or "thinly-traded" on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. As of June 29, 2007, our average trading volume per day for the past three months was approximately 110,875 shares a day with a high of 583,500 shares traded and a low of 9,000 shares traded. 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 REVENUES 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 June 29, 2007, the high and low sale prices of a share of our common stock were $0.82 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 revenues or profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the

fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance or rejection of our proprietary technology as 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 that 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 32% OF OUR OUTSTANDING COMMON SHARES AS OF JUNE 15, 2006, WHICH MAY LIMIT THE ABILITY OF YOURSELF OR 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 29, 2007, our officers and directors beneficially own or control approximately 32% of our outstanding common shares. These persons will have the ability to control substantially 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 June 29, 2007, there are outstanding non-variable priced purchase options and warrants entitling the holders to purchase 24,993,247 common shares at a weighted average exercise price of $0.33 per share. There are 5,294,118 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 100,000,000 shares of common stock. After taking into consideration our outstanding common stock at June 29, 2007, our convertible notes, outstanding options and outstanding warrants we will be entitled to issue up to 37,703,960 additional common shares. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

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

Our board may generally issue shares of common stock to pay for debt or services, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. For the past three fiscal years ended March 31, 2007, we issued a total of 2,728,578 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 53.4%, 69.41% and 46.34% for the years ended 2005, 2006 and 2007. For the past three fiscal years we issued a total of 5,808,939 shares in payment for services. The average price discount of common stock issued for services during this period, weighted by the number of shares issued was 36.0%, 14.86% and 4.54% for the years ended 2005, 2006 and 2007, 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, which 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.

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

- whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- our ability to attract and retain the qualified personnel to implement our growth strategies,
- our ability to obtain approval from the Food and Drug Administration for our products;
- our ability to protect the patents on our proprietary technology;
- our ability to fund our short-term and long-term financing needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned

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

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



ITEM 7. 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 13.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. EVALUATION OF CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 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, 2007 Form 10-KSB. Based upon that evaluation, our CEO and CFO concluded that, as of March 31, 2007, our disclosure controls and procedures were effective in timely alerting management to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic filings with the SEC. Based on their most recent evaluation as of the Evaluation Date, our CEO and the CFO have also concluded that there are no significant deficiencies in the design or operation of internal controls over financial reporting, at the reasonable assurance level, which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information, and such officers have identified no material weaknesses in our internal controls over financial reporting.

CHANGES IN CONTROLS AND PROCEDURES

There were no significant changes made in our internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected or are reasonably likely to materially affect these controls. Thus, no corrective actions with regard to significant deficiencies or material weaknesses were necessary.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROL

Our management, including the CEO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Aethlon Medical have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part

upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances, and/or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

ITEM 8B. OTHER INFORMATION

On June 13, 2007, upon recommendation of the Compensation Committee, the Board authorized the issuance of stock options to James A. Joyce to purchase 2,500,000 shares of Common Stock at an exercise price of $0.36 per share. The options vest 1,000,000 options at the grant date and 500,000 options on each annual anniversary date ending June 13, 2010. The options expire on June 13, 2017.



PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

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 and Nasdaq. 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, 2007, we believe that all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were complied with.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The names, ages and positions of our directors and executive officers as of June 29, 2007 are listed below:

| NAMES | TITLE OR POSITION | AGE |
|---|---|---|
| James A. Joyce (1) | Chairman, President, Chief Executive Officer and Secretary | 45 |
| Harold H. Handley, PhD (2) | President | 55 |
| Richard H. Tullis, PhD (3) | Vice President, Chief Science Officer and Director | 62 |
| James W. Dorst (4) | Chief Financial Officer | 52 |
| Franklyn S. Barry, Jr. | Director | 67 |
| Edward G. Broenniman | Director | 70 |

(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 July 18, 2006, Dr. Handley was appointed President.

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

(4) Effective August 1, 2005, Mr. Dorst was appointed Chief Financial

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, President and CEO

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. 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.

Harold H. Handley, Ph.D., President

Mr. Harold H. Handley has been President of the Company since July 2006. Mr. Handley brings over 20 years experience in management and research in immunology, biotechnology and medical devices. Mr. Handley has authored or co-authored over 20 publications and helped developed 15 patents. Prior to joining Aethlon, Mr. Handley was Executive Vice President and Chief Scientific Officer for Transvivo, Inc., a privately-held company, from 2000 to 2006. From 1996 to 2000, Mr. Handley was Vaccine Program Director for Maxim Pharmaceuticals, Inc. Mr. Handley was a co-founder of Idec Limited Partners, Inc., today known as Biogen Idec, Inc., operating with a market value exceeding $14 billion. (NasdaqGS:BIIB). Mr. Handley holds a Ph.D in Anatomy and Cell Biology from University of Virginia and a B.A. in Zoology from the University of California, Los Angeles.



James W. Dorst, Chief Financial Officer

Mr. Dorst brings more than 20 years of senior management experience in finance, operations, planning and business transactions to the Company. Prior to joining Aethlon, Mr. Dorst was Vice President of Finance and Operations for VerdiSoft Corporation, a developmental-stage mobile-software developer recently acquired by Yahoo, Inc. (NASDAQ:YHOO). Previously, Mr. Dorst held executive positions as SVP of Finance and Administration at SeeCommerce; COO/CFO of Omnis Technology Corp. (now NASDAQ Small Cap: RDTA); CFO and SVP of Information Technology at Savoir Technology Group, Inc. (acquired by NYSE:AVT). Mr. Dorst practiced as a Certified Public Accountant with Coopers & Lybrand (PricewaterhouseCoopers) and holds an MS in Accounting and BS in finance from the University of Oregon.

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

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

its IPO under his management, and was co-founder of DNA Sciences, Inc., a company that was eventually acquired by Genetic Vectors. Dr. Tullis received his Ph.D. in Biochemistry and Cell Biology from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and the University of Hawaii.

Franklyn S. Barry, Jr.

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

Edward G. Broenniman

Mr. Broenniman became a director of Aethlon Medical on March 10, 1999. Mr. Broenniman has 30 years of management and executive experience with high-tech, privately-held growth firms 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, Broenniman and Leung 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 interest by helping us to obtain and retain the services of outside directors 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. 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, 2007 under the 2005 Directors Compensation Program, we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors for a total of 5,303,275 options, of these 4,994,550 remain 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.

REGULATORY AND CLINICAL ADVISOR

Kenneth R. Michael, Pharm.D. R.A.C.
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Dr. Michael is the President of KRM Associates LLC, a regulatory and clinical affairs consulting organization. He is the former VP of Regulatory Affairs and Quality Assurance at Siemens Medical Systems, and he is the founder, past President and Chairman of The Regulatory Affairs Professional Society. He is also the founder of the San Diego Regulatory Affairs Network.

SCIENCE ADVISORY BOARD

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

Ken Alibek, M.D., Ph.D., D.Sc.
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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 top five biological warfare experts in the nation.



Charles Bailey, Ph.D.
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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.

Joseph A. Bellanti, M.D.

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Dr. Bellanti is the Director of the International Center for Immunology and Professor of Pediatrics at Georgetown University School of Medicine. He has authored over 400 scientific articles and 25 books and book chapters in the areas of Immunology and Virology. Dr. Bellanti's textbook, "Immunology," is used in medical and graduate schools throughout the country.

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

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Dr. Cowgill is a Professor in the Department of Medicine and Epidemiology at the School of Veterinary Medicine, University of California--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-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-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--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 Diplomat 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.

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

Nathan W. Levin, M.D.

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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.
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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.
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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 five 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 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; and (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.

CODE OF ETHICS.

On February 23, 2005, the Board of Directors approved a "Code of Business Conduct and Ethics." Our Code of Business Conduct and Ethics is available on our company website at www.aethlonmedical.com.



ITEM 10. 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, 2007. The following table summarizes all compensation for fiscal year 2007 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 2007

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SUMMARY COMPENSATION TABLE

| NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION | YEAR | SALARY ($) | BONUS ($) | STOCK AWARDS ($) | OPTION AWARDS ($) | NON-EQUITY INCENTIVE PLAN COMPENSATION ($) | NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($) | ALL OTHER COMP. ($) | TOTAL ($) |
|---|---|---|---|---|---|---|---|---|---|
| James A. Joyce (1) CHIEF EXECUTIVE OFFICER | 2007 | $ 240,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 240,000 |
| Richard H. Tullis, Ph.D (2) VICE PRESIDENT AND CHIEF SCIENCE OFFICER | 2007 | $ 180,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 180,000 |
| James W. Dorst (3) CHIEF FINANCIAL OFFICER | 2007 | $ 150,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 150,000 |

</TABLE>

(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2007 is 0 and 5,088,243. On June 13, 2007, Mr. Joyce was granted a stock option award to purchase 2,500,000 shares of common stock at an exercise price of $0.36 per share.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2007 is 0 and 2,014,350.

(3) The aggregate number of stock awards and stock option awards issued to Mr. Dorst and outstanding as of March 31, 2007 is 0 and 500,000.

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.

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.

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 FISCAL YEAR-END

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

<TABLE>
<S> <C>

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

| | OPTIONS AWARDS | | | | |
|---|---|---|---|---|---|
| NAME | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE | EQUITY INCENTIVE PLAN AWARDS; NUMBER OF SECURITIES UNDERLYING UNEXERCISED UNEARNED OPTIONS | OPTION EXERCISE PRICE | OPTION EXPIRATION DATE |
| | (#) | (#) | (#) | ($) | |
| James A. Joyce | 1,115,550(1) | -- | -- | $0.38 | 02/23/10 |
| | 557,775(1) | -- | -- | $0.38 | 12/31/10 |
| | 557,775(1) | -- | -- | $0.38 | 12/31/11 |
| | 2,857,143(1) | -- | -- | $0.21 | 09/09/15 |
| Richard H. Tullis | 30,000(1) | -- | -- | $2.56 | 12/31/10 |
| | 250,000(1) | -- | -- | $1.90 | 03/12/12 |
| | 867,175(1) | -- | -- | $0.38 | 02/23/10 |
| | 433,588(1) | -- | -- | $0.38 | 12/31/10 |
| | 433,587(1) | -- | -- | $0.38 | 12/31/11 |
| James W. Dorst | 165,000(2) | 335,000 | -- | $0.23 | 08/01/08 |
| Harold H. Handley | -- | 500,000(3) | -- | $0.27 | 10/02/16 |

(1) This option was fully vested as of March 31, 2007. (2) 165,000 options vest each year on August 1 starting August 1, 2006. (3) 165,000 options vest each year on July 18 starting July 18, 2007.

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Harold H. Handley | -- | $ -- | -- | $ -- | | | |

OPTION GRANTS TO EXECUTIVE OFFICERS IN 2007

There were 500,000 stock options granted to our President, Dr. Harold H. Handley. No options were granted to our Chief Executive Officer, Chief Operating Officer or Chief Financial Officer in fiscal year 2007.

DIRECTOR COMPENSATION

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, 2007.

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

</TABLE>

(1) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 5,088,243.

(2) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 2,014,350.

(3) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 516,417.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 520,050.



Directors Compensation Program

Under the Directors Compensation Program, adopted by us in February 2005, 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, 2007 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors for a total of 5,303,275 options, of which 4,994,550 remained outstanding. A portion of the employee-director options were awarded in recognition of prior employment efforts. Since inception of the Program, the Company has not paid any

non-qualified stock option retainers.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 29, 2007, information with respect to the shares of Common Stock beneficially owned by (i) each director nominee; (ii) each person (other than a person who is also a director nominee) who is an executive officer; and (iii) all 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>
<S> <C>

| TITLE OF CLASS | NAME | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)(2) | PERCENT OF CLASS |
|---|---|---|---|
| Common Stock | James A. Joyce, Chief Executive Officer and Director<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 6,688,243 shares(3) | 21% |
| Common Stock | Richard H. Tullis, Chief Scientific Officer and Director<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 2,072,350 shares(4) | 6% |
| Common Stock | Franklyn S. Barry, Director<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 523,010 shares(5) | 2% |
| Common Stock | Edward G. Broenniman, Director<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 655,924 shares(6) | 2% |
| Common Stock | James W. Dorst, Chief Financial Officer<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 330,000 shares(7) | 1% |
| Common Stock | Harold H. Handley, President<br>3030 Bunker Hill Street, Suite 4000,<br>San Diego, CA 92109 | 165,000 shares(8) | * |
| All Current Directors and Executive Officers as a Group (6 members) | | 10,434,527 Shares | 32% |

</TABLE>

*Less than 1%.

1. Based on 32,008,765 shares of Common Stock outstanding on the transfer records as of June 15, 2007.



2. Calculated pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934. Under Rule 13d-3(d)(1), shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage

owned by such person, but not deemed outstanding for the purpose of calculating the percentage owned by each other person listed. The Company believes that each individual or entity named has sole investment and voting power with respect to shares of Common Stock indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted.

3. Includes 2,231,100 stock options exercisable at $0.38 per-share, 2,857,143 stock options exercisable at $0.21 per share and 1,000,000 stock options exercisable at $0.36 per share.

4. Includes 250,000 stock options exercisable at $1.90 per share, 30,000 stock options exercisable at $3.00 per share and 1,734,350 stock options exercisable at $0.38 per share.

5. Includes 1,867 stock options exercisable at $1.84 per share and 514,550 stock options exercisable at $0.38 per share.

6. Includes 2,500 stock options exercisable at $3.75 per share, 3,000 stock options exercisable at $1.78 per share and 514,550 stock options exercisable at $0.38 per share.

7. Includes 165,000 vested stock options and 165,000 stock options vesting August 1, 2007, all stock options exercisable at $0.23 per share.

8. Includes 165,000 stock options vesting July 18, 2007, exercisable at $0.27 per share.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 9, 2005, as previously disclosed on Form 8-K, we issued a stock option to acquire 2,857,143 stock option to our CEO and Chairman, James A. Joyce, in satisfaction of $300,000 in previously accrued payroll expense. These non interest-bearing liabilities have been included as due to related parties in the accompanying financial statements.



ITEM 13. EXHIBITS

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

1. Consolidated Financial Statements for the periods ended March 31, 2007 and 2006:

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

2. Exhibits

3.1 Articles of Incorporation of Aethlon Medical, Inc. (1)

3.2 Bylaws of Aethlon Medical, Inc. (1)

3.3 Certificate of Amendment of Articles of Incorporation dated March 28, 2000 (2)

3.4 Certificate of Amendment of Articles of Incorporation dated June 13, 2005(3)

3.5 Certificate of Amendment of Articles of Incorporation dated March 6, 2007 (22)

10.1 Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (4)

10.2 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (5)

10.3 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (5)

10.4 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Syngen Research, Inc. (6)

10.5 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Cell Activation, Inc. (7)

10.6 Common Stock Purchase Agreement between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC. (8)

10.7 Registration Rights Agreement between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC. (8)

10.8 Form of Securities Purchase Agreement for Private Placement closing on June 7, 2004 (8)

10.9 Form of Common Stock Purchase Warrant for Private Placement closing on June 7, 2004 (8)

10.10 Form of Registration Rights Agreement for Private Placement closing on June 7, 2004 (8)

10.11 Note Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC, dated May 16, 2005.(9)

10.12 Convertible Promissory Note by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC, dated May 16, 2005.(9)

10.13 Form of Common Stock Cashless Purchase Warrant for benefit of Fusion Capital Fund II, LLC, dated May 16, 2005. (9)

10.14 2003 Consultant Stock Plan (10)

10.15 Lease by and between Aethlon Medical, Inc. and San Diego Science Center (11)

10.16 Consulting Agreement by and between Aethlon Medical, Inc. and Jean-Claude Chermann, PhD (11)

10.17 Consulting Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. (11)



10.18 Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (11)

10.19 Employment Agreement by and between Aethlon Medical, Inc. and Dr.Richard H. Tullis (11)

10.20 Employment Agreement by and between Aethlon Medical, Inc. and Edward C. Hall (11)

10.21 Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University (12)

10.22 Consulting Agreement by and between Aethlon Medical, Inc. and Dr. Charles Bailey (13)

10.23 Consulting Agreement by and between Aethlon Medical, Inc. and Dr. Ken Alibek (13)

10.24 Stock Option Agreement by and between Aethlon Medical, Inc. and James A Joyce (14)

10.25 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (14)

10.26 Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry (14)

10.27 Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (14)

10.28 Stock Option Agreement by and between Aethlon Medical, Inc. and Calvin Leung (14)

10.29 Warrant for the benefit of Richardson and Patel, LLP (14)

10.30 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce(15)

10.31 10% Series A Convertible Note by and between Aethlon Medical, Inc. and Allan S. Bird(16)

10.32 10% Series A Convertible Note by and between Aethlon Medical, Inc. and Ellen R. Weiner Family Revocable Trust(16)

10.33 Form of Warrant for Series A Convertible Noteholders(16)

10.34 Form of Registration Rights Agreement for Series A Convertible Noteholders(16)

10.35 Employment Agreement by and between Aethlon Medical, Inc. and James Dorst(17)

10.36 10% Series A Convertible Note by and between Aethlon Medical, Inc. and Christian Hoffmann(18)

10.37 10% Series A Convertible Note by and between Aethlon Medical, Inc. and Claypoole Capital, LLC(18)

10.38 Form of Warrant for additional Series A Convertible Noteholders(18)

10.39 Form of Registration Rights Agreement for additional Series A Convertible Noteholders(18)

10.40 Option Agreement by and between Aethlon Medical, Inc. and Trustees of Boston University(19)

10.41 Warrant for the benefit of Fusion Capital Fund II, LLC(20)

10.42 Common Stock Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007*

10.43 Registration Rights Agreement by and between Aethlon Medica, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007*

10.44 Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Christian Hoffman III*



10.45 Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Joel S. Aronson, Patricia Green, Christina J. Bird, Co-Executor of the

Estate of Allan S. Bird*

10.46 Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Claypoole Capital, LLC*

10.47 Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Ellen R. Weiner Family Revocable Trust*

14 Code of Ethics*

21 List of subsidiaries (21)

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

31.1 Certification of our Chief Executive Officer and President, 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.*

31.2 Certification of our Chief Financial 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 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)*

99.1 Resignation Letter dated June 28, 2006 from Calvin Leung

* Filed herewith

(1) December 18, 2000 and incorporated by reference.

(2) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2000 and incorporated by reference.

(3) Filed with the Company's Current Report on Form 8-K, dated June 10, 2005 and incorporated by reference.

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

(5) Filed with the Company's Current Report on Form 8-K dated March 10, 1999 and incorporated by reference.

(6) Filed with the Company's Current Report on Form 8-K dated January 10, 2000 an incorporated by reference.

(7) Filed with the Company's Current Report on Form 8-K dated April 10, 2000 and incorporated by reference.

(8) Filed with the Company's Current Report on Form 8-K dated June 7, 2004 and incorporated by reference.

(9) Filed with the Company's Current Report on Form 8-K dated May 16, 2005 and incorporated by reference.

(10) Filed with the Company Registration Statement on Form S-8 (File No. 333-114017) filed on August 29, 2005 and incorporated by reference.

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

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

(13) Filed with the Company's Amendment No. 3 to Registration Statement on Form SB-2 (File No. 333-117203) filed on November 24, 2004 and incorporated by reference.

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

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

(16) Filed with the Company's Current Report on Form 8-K filed on November 7, 2005 and incorporated by reference.

(17) Filed with the Company's Post-Effective Amendment to Registration Statement on Form SB-2 filed on December 8, 2005 and incorporated by reference.

(18) Filed with the Company's Registration Statement on Form SB-2 (File No. 333-130915) filed on January 9, 2006 and incorporated by reference.

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

(20) Filed with the Company's Current Report on Form 8-K filed on April 4, 2006 and incorporated by reference.

(21) Filed with the Company's Registration Statement on Form SB-2 filed on July 7, 2004 and incorporated by reference.

(22) Filed with the Company's Current Report on form 8-K dated March 7, 2007 and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services rendered by Squar, Milner, Peterson, Miranda & Williamson LLP ("Squar Milner") for the annual audit of our consolidated financial statements as of and for the fiscal years ended March 31, 2007, and 2006 and fees billed for other services rendered by Squar Milner during such years:

| | Fiscal Years Ended March 31, | |
|---|---|---|
| | 2007 | 2006 |
| Audit Fees | $93,000 | $86,000 |
| Audit Related Fees | 35,625 | 47,050 |
| Tax Fees | - | - |
| All Other Fees | - | - |
| | $128,625 | $123,050 |

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 and permitted non-audit services to be performed for us by our independent auditor.



SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 13th day of July, 2007.

BY: /S/ JAMES A. JOYCE
---
JAMES A. JOYCE
CHAIRMAN, PRESIDENT & CHIEF EXECUTIVE OFFICER

BY: /S/ JAMES W. DORST
---
JAMES W. DORST
CHIEF FINANCIAL OFFICER

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /S/ JAMES A. JOYCE<br>JAMES A. JOYCE | CHAIRMAN OF THE BOARD | JULY 13, 2007 |
| /S/ FRANKLYN S. BARRY, JR.<br>FRANKLYN S. BARRY, JR. | DIRECTOR | JULY 13, 2007 |
| /S/ EDWARD G. BROENNIMAN<br>EDWARD G. BROENNIMAN | DIRECTOR | JULY 13, 2007 |
| /S/ RICHARD H. TULLIS<br>RICHARD H. TULLIS | DIRECTOR | JULY 13, 2007 |



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Aethlon Medical, Inc. and Subsidiaries (the "Company"), a development stage company, as of March 31, 2007 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007. 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. 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, 2007 and the consolidated results of their operations and their cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered continuing losses from operations, is in default on certain debt, has negative working capital of approximately $7,260,000 and a deficit accumulated during the development stage of approximately $28,087,000 at March 31, 2007. 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 consolidated financial statements, effective April 1, 2006, the Company changed its method of accounting for stock-based compensation to conform to Financial Accounting Standards Board No. 123-R, Share Based Payment.

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

JULY 12, 2007

NEWPORT BEACH, CALIFORNIA

<TABLE>
<S> <C>

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
MARCH 31, 2007

ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 440,106 | |
| Prepaid expenses | 4,570 | |
| TOTAL CURRENT ASSETS | | 444,676 |
| NON-CURRENT ASSETS | | |
| Property and equipment, net | 13,662 | |
| Patents, net | 141,820 | |
| Deposits | 13,200 | |
| TOTAL ASSETS | $ 613,358 | |

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 1,374,079 | |
| Due to related parties | 1,088,999 | |
| Notes payable | 502,500 | |
| Convertible notes payable, net of discounts | 50,000 | |
| Warrant obligation | 4,689,450 | |
| TOTAL CURRENT LIABILITIES | | 7,705,028 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, par value of $0.001, 100,000,000 shares authorized; 31,912,153 issued and outstanding | 31,912 | |
| Additional paid-in capital | 20,963,410 | |
| Deficit accumulated during the development stage | (28,086,992) | |
| TOTAL STOCKHOLDERS' DEFICIT | | (7,091,670) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | | $ 613,358 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | 2007 | 2006 | JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007 |
|---|---|---|---|
| Grant income | $ -- | $ -- | $ 1,424,012 |
| Subcontract income | -- | -- | 73,746 |
| Sale of research and development | -- | -- | 35,810 |
| | -- | -- | 1,533,568 |
| OPERATING EXPENSES | | | |
| Professional fees | 700,092 | 851,594 | 5,938,227 |
| Payroll and related | 889,192 | 675,171 | 8,135,197 |
| General and administrative | 494,970 | 486,452 | 4,927,001 |
| Impairment | -- | 81,722 | 1,313,253 |
| | 2,084,254 | 2,094,939 | 20,313,678 |
| OPERATING LOSS | (2,084,254) | (2,094,939) | (18,780,110) |
| OTHER (INCOME) EXPENSE | | | |
| Loss on extinguishment of debt | 1,216,748 | -- | 1,216,748 |
| Change in fair value of warrant liability | 2,112,575 | 360,125 | 2,472,700 |
| Interest expense | 390,968 | 450,297 | 5,262,420 |
| Interest income | -- | -- | (17,415) |
| Other | 220,000 | 14,822 | 372,429 |
| | 3,940,291 | 825,244 | 9,306,882 |
| NET LOSS | $ (6,024,545) | $ (2,920,183) | $(28,086,992) |
| Basic and diluted net loss per share attributable to common stockholders | $ (0.22) | $ (0.15) | |
| Weighted average number of common shares outstanding | 26,937,727 | 19,551,501 | |

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, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

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

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

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



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

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



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' 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.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT | TOTAL STOCKHOLDERS' 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) | -- | -- | -- |

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SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE | (DEFICIT) |
| Issuance of common stock to Fusion Capital for fees | 418,604 | 419 | (419) | -- | -- | (0) |
| 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 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE | (DEFICIT) |
| 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 | $ 16,088,278 | $ (30,000) | $(19,142,264) | $ (3,066,971) |
| 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 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

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

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SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

- ----------

| | | | | DEFICIT ACCUMULATED | TOTAL |
|---|---|---|---|---|---|
| COMMON STOCK | | ADDITIONAL | DEFERRED | DURING | STOCKHOLDERS' |

| | SHARES | AMOUNT | PAID IN CAPITAL | CONSULTING FEES | DEVELOPMENT STAGE | EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| 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 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 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE | (DEFICIT) |
| 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 | $ 25,384 | $ 20,322,494 | $ (44,917) | $(22,062,447) | $ (1,759,486) |
| 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 | -- | -- | 31,965 |
| 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.....



AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | COMMON STOCK | | ADDITIONAL PAID IN | DEFERRED CONSULTING | DEFICIT ACCUMULATED DURING DEVELOPMENT | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | FEES | STAGE | (DEFICIT) |
| 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 |
| Correction for issuance of cashless warrants | (174,716) | (175) | 175 | -- | -- | -- |
| Issuance of cashless warrants | 30,617 | 31 | (31) | -- | -- | -- |
| 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 |
| 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) |
| BALANCE - MARCH 31, 2007 | 31,912,153 | $ 31,912 | $ 20,963,410 | $ -- | $(28,086,992) | $ (7,091,670) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

| | 2007 | 2006 | January 31, 1984 (Inception) Through March 31, 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (6,024,545) | $ (2,920,183) | $(28,086,992) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 23,400 | 34,241 | 1,007,393 |
| Amortization of deferred consulting fees | 44,917 | 34,083 | 109,000 |
| Gain on settlement of debt | -- | (131,175) | (131,175) |
| Loss on settlement of accrued legal liabilities | -- | 142,245 | 142,245 |
| Gain on sale of property and equipment | -- | -- | (13,065) |
| Change in estimated fair value of warrant liability | 2,112,575 | 360,125 | 2,472,700 |
| Fair market value of warrants issued in connection with accounts payable and debt related costs | -- | -- | 2,715,736 |
| Fair market value of common stock, warrants and options issued for services and interest | 274,914 | 704,383 | 3,486,916 |
| Stock based compensation | 38,132 | -- | 462,394 |
| Loss on debt extinguishment | 1,216,748 | -- | 1,216,748 |
| Amortization of debt discount | 177,762 | 259,416 | 1,285,787 |
| Impairment of patents and patents pending | -- | 81,722 | 416,026 |
| Impairment of goodwill | -- | -- | 897,227 |
| Deferred compensation forgiven | -- | -- | 217,223 |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses | 27,652 | (22,034) | 156,967 |
| Other assets | 4,000 | 20,050 | (13,200) |
| Accounts payable and accrued liabilities | 535,166 | (118,276) | 2,049,116 |
| Due to related parties | (149,625) | (28,878) | 1,322,500 |
| Net cash used in operating activities | (1,718,904) | (1,584,281) | (10,286,454) |

| | | | |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (17,810) | (4,651) | (266,697) |
| Patents and patents pending | (6,294) | (11,000) | (370,127) |
| Proceeds from the sale of property and equipment | -- | -- | 17,065 |
| Cash of acquired company | -- | -- | 10,728 |
| Net cash used in investing activities | (24,104) | (15,651) | (609,031) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007 (CONTINUED)

| | 2007 | 2006 | January 31, 1984 (Inception) Through March 31, 2007 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net proceeds from the issuance of notes payable | -- | 100,000 | 1,710,000 |
| Principal repayments of notes payable | -- | (80,000) | (292,500) |
| Proceeds from the issuance of convertible notes payable | 50,000 | 1,030,000 | 2,078,000 |
| Net proceeds from the issuance of common stock | 1,296,737 | 1,454,415 | 7,916,822 |
| Professional fees related to registration statements | -- | (76,731) | (76,731) |
| Net cash provided by financing activities | 1,346,737 | 2,427,684 | 11,335,591 |
| Net increase (decrease) in cash | (396,271) | 827,752 | 440,106 |
| Cash at beginning of period | 836,377 | 8,625 | -- |
| Cash at end of period | $ 440,106 | $ 836,377 | $ 440,106 |
| Supplemental disclosure of cash flow information - | | | |
| Cash paid during the period for: | | | |
| Interest | $ -- | $ 8,000 | $ 263,258 |
| Income taxes | $ -- | $ -- | $ 13,346 |
| Supplement schedule of noncash investing and financing activities: | | | |
| Debt and accrued interest converted to common stock | $ 43,750 | $ 69,942 | $2,480,711 |
| Debt discount on notes payable associated with detachable warrants | $ 50,000 | $ 1,070,860 | $1,154,860 |
| Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties | $ 23,111 | $ 467,346 | $1,003,273 |
| Reclassification of derivative liability to (from) additional paid-in capital | $ (1,090,000) | $ 1,090,000 | $ -- |
| Issuance of common stock in connection with license | | | |

| | | | |
|---|---|---|---|
| agreements | $ -- | $ -- | $ 18,000 |
| Net assets of entities acquired in exchange for equity securities | $ -- | $ -- | $ 1,597,867 |
| Debt placement fees paid by issuance of warrants | $ -- | $ -- | $ 843,538 |
| 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 | $ 10,800 | $ -- | $ 10,800 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.



</TABLE>

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Aethlon Medical, Inc. ("Aethlon" or the "Company") 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 and plans to begin FDA sanctioned clinical trials within the next twelve months. Since many of Aethlon's patents were issued in the 1980's, some have expired and other are scheduled to expire in the near future. Thus, some 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 National Association of Securities Dealers ("OTCBB") under the symbol "AEMD.OB."

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its inactive wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc., Syngen Research, Inc. and Cell Activation, Inc.(hereinafter collectively referred to as the "Company"). All significant intercompany balances and transactions 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 suffered continuing losses from operations, is in default on certain debt, has negative working capital of approximately $7,260,000 recurring losses from operations and a deficit accumulated during the development stage of approximately $28,087,000 at March 31, 2007, 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 through debt and/or equity financing arrangements, which management believes may be insufficient to fund its capital expenditures, 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, 2008. Therefore, the Company will be required to seek additional funds to finance its long-term operations.

The Company is currently addressing its liquidity issue by continually seeking investment capital through the public markets, specifically, through private placement of common stock and a pending common stock purchase agreement with Fusion Capital Fund II, LLC ("Fusion"). The Company believes that its cash on hand and funds available from Fusion and/or additional private investment will be sufficient to meet its liquidity needs for fiscal 2008. However, no assurance can be given that the Company will receive any funds in addition to the funds it has received to date.





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

GOING CONCERN (continued)

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 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.

USE OF ESTIMATES

The Company prepares its 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosure About Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amount of the Company's cash, accounts payable, accrued liabilities and notes payable approximates their estimated fair values due to the short-term maturities of those financial instruments. Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties. SFAS No. 107 requires that for instruments for which it is not practicable to estimate their fair value, information pertinent to those instruments be disclosed, such as the carrying amount, interest rate, and maturity, as well as the reasons why it is not practicable to estimate fair value. Information about these related party instruments is included in Note 8. Management believes it is not practical to estimate the fair value of such financial instruments 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 a single financial institution. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at each institution for up to $100,000. At times, cash may be in excess of the FDIC insurance limit. The Company had approximately $340,000 exceeding this limit at March 31, 2007.





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

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 statements of operations.

INCOME TAXES

Under SFAS No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences 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 carry-forwards. The Company records a valuation allowance for deferred tax assets when, based on management's best estimate of taxable income in the foreseeable future, it is more likely than not that some portion of the deferred income tax assets may not be realized.

LONG-LIVED ASSETS

SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 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, an impairment loss is recognized.

Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS No. 144 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. The provisions of this pronouncement relating to assets held for disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to sell or dispose of such assets, (as defined), by management. As a result, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements with respect to future disposal decisions, if any. Management believes no impairment charges were necessary during the fiscal years ended March 31, 2007 and 2006.

EARNINGS PER SHARE

Under SFAS No. 128, "Earnings per Share," basic earnings 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 earnings per share is computed similar to basic earnings 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 If the Company had net income in each of the years ended March 31, 2007 and 2006, 12,885,453 and 11,086,990 shares would have been considered additional common stock equivalents, respectively, based on the treasury stock method. As the Company had net losses for the periods presented, basic and diluted loss per share are the same, as any additional common stock equivalents would be antidilutive.





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

SEGMENTS

SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information," requires public companies to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the foreign countries in which it holds significant assets and how the Company reports revenues and its major customers. The Company currently operates in one segment, as disclosed in the accompanying consolidated statements of operations.

STOCK BASED COMPENSATION

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123-R, "Share Based Payment." SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. 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. Prior to April 1, 2006, the Company accounted for awards granted under its equity incentive plan under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock

Based Compensation," as amended. 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 Over-the-Counter Bulletin Board administered by Nasdaq) on the date of grant. Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost recognized by the Company beginning April 1, 2006 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 SFAS No. 123, 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 SFAS No. 123-R.

From time to time, the Company's 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 the Company's formal stock plans. The terms of these grants are individually negotiated and generally expire within five years from the grant date.

In August 2000, the Company 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 Company 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 the Company's 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, 2007, the Company had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited, with 467,500 available for future issuance. All of these options vested prior to the adoption of FAS 123-R.

The effects of share-based compensation resulting from the application of SFAS No. 123-R to options granted outside of the Company's Stock Option Plan resulted in an expense of $38,132 for the fiscal year ended March 31, 2007. This expense was recorded as stock compensation included in payroll and related expenses in the accompanying March 31, 2007 condensed consolidated statement of operations. Share-based compensation recognized as a result of the adoption of SFAS No. 123-R as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123-R use the Binomial Lattice option pricing model for estimating fair value of options granted.

The following table summarizes the effect of share-based compensation resulting from the application of SFAS No. 123-R to options granted:

| | Fiscal Year Ended March 31, 2007 |
|---|---|
| Payroll and related | $ 38,132 |
| Net share-based compensation effect in net loss from operations | $ 38,132 |
| Basic and diluted loss per common share | $ (0.00) |





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

STOCK BASED COMPENSATION (continued)

In accordance with SFAS No. 123-R, the Company reviews 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, 2007 was insignificant.

Pro forma information required under SFAS No. 123 for periods prior to April 1, 2006 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under and outside of the Company's equity incentive plans was as follows:

| | YEAR ENDED MARCH 31, 2006 |
|---|---|
| Net loss available to common stockholders, as reported | $ 2,920,183 |
| Add back: Recorded intrinsic value | -- |
| Pro forma compensation expense | 361,111 |
| Pro forma net loss available to common stockholders | $ 3,281,294 |
| Loss per common share, as reported | |
| Basic and diluted | $ (0.15) |
| Loss per common share, pro forma | |
| Basic and diluted | $ (0.17) |

Pro forma compensation expense reported in the above table is generally based on the vesting provisions in the related stock option grants.

Share compensation expense for the fiscal year ended March 31, 2007 relates to the vesting of existing grants (issued subsequent to April 1, 2006), the date the Company adopted SFAS No. 123-R and of grants issued during the current fiscal year.

The following weighted average assumptions were used in the valuation of these instruments.

| | 2007 | 2006 |
|---|---|---|
| Annual dividends | Zero | Zero |
| Expected volatility | 91.9% | 89% |
| Risk free interest rate | 4.84% | 4.82% |
| Expected life | 10.0 years | 5.0 years |

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" described in the SEC's Staff Accounting Bulletin No. 107 due to changes in the vesting terms and contractual life of current option grants compared to the Company's historical grants.

Options outstanding that have vested and are expected to vest as of March 31, 2007 are as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term in Years | Aggregate Intrinsic Value (1) |
|---|---|---|---|---|
| Vested | 8,369,060 | $ 0.39 | 5.33 | $ 3,396,474 |
| Expected to vest | 835,000 | 0.25 | 5.67 | $ 412,550 |
| Total | 9,204,060 | | | $ 3,809,024 |

(1) These amounts represent the difference between the exercise price and $0.74, the closing market price of the Company's common stock on March 31, 2007 as quoted on the Over-the-Counter Bulletin Board under the symbol "AEMD.OB" for all in-the-money options outstanding.



AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

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

STOCK BASED COMPENSATION (continued)

Options outstanding that are expected to vest are net of estimated future forfeitures in accordance with the provisions of SFAS No. 123-R, which are estimated when compensation costs are recognized. The Company estimates that the fair value of unvested stock options expected to vest and be expensed in future periods is approximately $134,000. Additional information with respect to stock option activity is as follows:

| | Outstanding Options | | |
|---|---|---|---|
| | Shares Available for Grant | Weighted Number of Shares | Average Exercise Price | Aggregate Intrinsic Value (1) |
| March 31, 2006 | 467,500 | 9,012,785 | $ 0.38 | $3,875,498 |
| Grants | -- | 500,000 | $ 0.27 | |
| Exercises | -- | -- | -- | |
| Cancellations | -- | (308,725) | $ 0.38 | |
| March 31, 2007 | 467,500 | 9,204,060 | $ 0.38 | $3,802,324 |
| Options exercisable at: | | | | |
| March 31, 2006 | | 7,135,518 | $ 0.39 | |
| March 31, 2007 | | 8,369,060 | $ 0.39 | |

(1) Represents the difference between the exercise price and the March 31, 2006 or March 31, 2007 market price of the Company's common stock, which was $0.81 and $0.74, respectively, for "in the money" options.

The Company follows SFAS No. 123-R (as interpreted by EITF Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services") to account for transactions involving services provided by third parties where the Company issues equity instruments as part of the total consideration.

Pursuant to paragraph 8 of SFAS No. 123, the Company accounts for such transactions 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. The Company applies EITF Issue No. 96-18, 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, using 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.

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

PATENTS

The Company capitalizes the cost of patents and patents pending, some of which were acquired, and amortizes such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent.

STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

The Company granted warrants in connection with the issuance of certain notes payable. Under APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants", as amended, 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 yield method over the respective term of the related notes payable.





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

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable (see Notes 6 and 7) provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force Issue No. 98-5 ("EITF Issue No. 98-5"), "Accounting for Convertible Securities With Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and Emerging Issues Task Force Issue No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments," the estimated 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 yield method.

CLASSIFICATION OF WARRANT OBLIGATION

In connection with the issuance of the 10% Series A Convertible Notes (see Note 6), the Company had an obligation to file a registration statement covering the common shares underlying the convertible notes and related warrants (the "Registerable Securities", as defined in the Registration Rights Agreement). The obligation to file the registration statement met the criteria of an embedded derivative to be bifurcated pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The classification of the warrant obligation was evaluated at each reporting date. From the original issuance date through January 20, 2006 and October 27, 2006, the Company was required to classify the warrant obligation as a derivative liability, recorded at its fair value, in accordance with SFAS No. 133 under EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In, a Company's Own Stock." Accordingly, the warrants were classified as derivative liabilities with the change in fair value reported in earnings.,

REGISTRATION PAYMENT ARRANGEMENTS

The Company accounts for its liquidated damages on registration rights agreements (see Note 6) in accordance with FASB Staff Position EITF 00-19-2, which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies."

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately $673,614 and $754,000 of research and development expenses during the years ended March 31, 2007 and 2006, respectively, which are included in various operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company's financial statements.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109,"Accounting for Income Taxes." FIN No. 48 prescribes a more-likely-than-not recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken (or expected to be taken) in an income tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The requirement to assess the need for a valuation allowance on net deferred tax assets is not affected by FIN No. 48. This pronouncement is effective for fiscal years beginning after December 31, 2006. Management is in the process of evaluating this guidance, and therefore has not yet determined the impact (if any) that FIN No.48 will have on the Company's financial position or results of operation upon adoption.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 simplifies and codifies related guidance within GAAP, but does not require any new fair value measurements. The guidance in SFAS No. 157 applies to derivatives and other financial instruments measured at estimated fair value under SFAS No. 133 and related pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not expect the adoption of SFAS No. 157 to have a significant effect on the Company's financial position or results of operation.





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

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If the Company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in

current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management has not yet evaluated the effects on future 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.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2007:

| | |
|---|---|
| Furniture and office equipment | $ 261,535 |
| Accumulated depreciation | (247,873) |
| | $ 13,662 |

Depreciation expense for the years ended March 31, 2007 and 2006 approximated $16,500 and $23,000, respectively.

3. PATENTS

Patents include both foreign and domestic patents. There was one patent pending at March 31, 2007 and 2006. The unamortized cost of patents and patents pending is written off when management determines there is no future benefit. During the years ended March 31, 2007 and 2006, patents with net carrying values of $0 and $81,722, respectively, were written off as impairment expense. At March 31, 2007, the gross carrying amount of patents and patents in process totaled approximately $175,000and the related accumulated amortization totaled approximately 33,000. Amortization of patents approximated $7,000 and $12,000 during the years ended March 31, 2007 and 2006, respectively. Amortization expense on patents is estimated to be approximately $7,000 per year for the next five fiscal years. Some of the Company's patents have expired and others may expire before FDA approval, if any, is obtained.

4. DEBT-TO-EQUITY CONVERSION PROGRAM

In March 2002, for a limited time, the Company extended an offer to certain note holders and vendors to convert past due amounts into restricted common stock and warrants to purchase common stock of the Company. The offer entailed the conversion of liabilities at a rate of one share and one-half of a warrant for every $1.25 converted. The warrants had an exercise price of $2.00 per share and expired three years from the date of issuance; none are outstanding at March 31, 2006 and 2005.

5. NOTES PAYABLE

12% NOTES

From August 1999 through September 2000, the Company entered into arrangements for the issuance of notes payable from private placement offerings (the "12% Notes") in the original aggregate amount of $422,500. The 12% Notes bore annual interest at 12% (15% after maturity), required interest to be paid quarterly, matured one year from the date of issuance, and carried detachable warrants. These notes have no acceleration provisions. In June 2004, one such note in the principal amount of $12,500 plus accrued interest was repaid. In December 2004, each of two such notes in the principal amount of $25,000, plus $17,778 accrued interest, were converted to 87,303 restricted common shares at $0.49 per share.

On May 27, 2005 the Company issued a promissory note to an accredited investor in an amount of $100,000 with 12% interest maturing on December 1, 2005. In conjunction with the issuance of the Note, the Company also issued a 12-month warrant to acquire 400,000 shares of Common Stock at $0.25 per share. Accordingly, this warrant has been valued using a Black-Scholes option pricing model and an associated discount of $41,860, was accreted to interest expense over the term of the Note. This entire amount was included in interest expense during the fiscal year ended March 31, 2006.

At March 31, 2007, $347,500 of principal balance of the 12% Notes were outstanding and delinquent, in default, and bore interest at the default rate of

15%.





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5. NOTES PAYABLE (continued)

10% NOTES

From time to time, the Company issued convertible notes payable ("10% Note") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Notes require no payment of principal or interest during the term and may be converted to common stock of the Company at the conversion price of $0.50 per share at any time at the option of the noteholder. The total amount of the original notes issued was $275,000. There were two remaining 10% Notes outstanding at March 31, 2004. As of such date and through March 31, 2007, these notes were classified as notes payable since they were no longer convertible.

The remaining 10% Note in the amount of $5,000, was past due and in default at March 31, 2007. At March 31, 2007, interest payable on this note totaled $2,875.

9% NOTE

In April 2003, the Company issued a convertible note in the amount of $150,000 ("9% Note"), bearing interest at 9% per annum, with principal and interest due in June 2003, which is in default and currently bears penalty interest at 18% per annum. The 9% Note required no payment of principal or interest during the term and was convertible into common stock of the Company at the conversion price of $0.25 per share through June 2003 at the option of the noteholder. As this note is no longer convertible, the outstanding balance totaling $150,000 has been recorded as notes payable in the accompanying consolidated balance sheet.

Notes payable, which are all in default, consist of the following at March 31, 2006:

| | |
|---|---|
| 12% Notes payable, all past due | $347,500 |
| 10% Note payable, past due | 5,000 |
| 9% Note payable, past due | 150,000 |
| | $502,500 |

Management's plans to satisfy the remaining outstanding balance on these notes include converting the notes to common stock at market value or repayment with available funds.

6. CONVERTIBLE NOTES PAYABLE

10% CONVERTIBLE NOTES

On December 15, 2006, the Company 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 mature 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, the Company 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 are exercised prior to December 15, 2007, the holder will receive 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 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. Pursuant to EITF No. 98-5 and EITF No. 00-27, the Company estimated the fair value of such BCF to be $34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the BCF were accreted to interest expense over the term of the December 10% Notes. Interest expense on the December 10% Notes for accretion of such debt discounts totaled approximately $50,000 for the fiscal year ended March 31, 2007.

15% CONVERTIBLE NOTE

On May 16, 2005 the Company issued Fusion Capital ("Fusion") a $30,000 Convertible Promissory Note (the "Convertible Note") with an interest rate of fifteen percent (15%) per annum that matured on August 15, 2005 (the "Maturity Date"). In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of $0.25 per share (the "Warrant"). In accordance with EITF Issue No. 98-5, EITF Issue No. 00-27 and APB No. 14, the Company recorded debt discounts associated with conversion feature and the warrants totaling $30,000 which was entirely





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6. CONVERTIBLE NOTES PAYABLE (continued)

accreted to interest expense during the fiscal year ended March 31, 2006. The Convertible Note and approximately $5,000 in associated accrued interest was exchanged for 174,716 shares of restricted common stock on March 23, 2006.

10% SERIES A CONVERTIBLE NOTES

From July 11, 2005 through December 15, 2005 the Company received cash investments totaling $1,000,000 from accredited investors based on agreed-upon terms reached on the cash receipt dates. Such investments were documented in November and December 2005 in several 10% Series A Convertible Promissory Notes. The 10% Series A Convertible Notes accrue interest at a rate of ten percent (10%) per annum and matured on January 2, 2007. The 10% Series A Convertible Notes were convertible into shares of common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date.

Convertible Notes Payable consistes of the following at March 31, 2007:

| | Principal | Discount | Net Amount |
|---|---|---|---|
| 10% Series A Convertible Notes | $ 1,000,000 | $ (1,000,000) | $ -- |
| December 10% Convertible Notes | 50,000 | -- | 50,000 |

The Conversion Option

SFAS No. 133 states that a contract issued by an entity that is both (a) indexed to its own stock and (b) would be classified in stockholders' equity if it were a freestanding financial instrument is not a derivative for purposes of that pronouncement. Management has concluded that the conversion option associated

with the 10% Series A Convertible Notes is "indexed to the Company's own stock" as that term is defined by EITF Issue No. 01-6, "The Meaning of Indexed to Company's Own Stock". In addition, since such notes have been determined to be "conventional convertible debt instruments" as defined in EITF Issue No. 05-2, "The Meaning of Conventional Convertible Debt Instrument" in Issue 00-19", the requirements of EITF Issue No. 00-19 do not apply. Lastly, the debt host contract is not a derivative in its entirety and (based on SFAS No. 133) the conversion option need not be bifurcated from such contract. Therefore, the conversion option is not a derivative instrument as contemplated by EITF Issue No. 00-19 or SFAS No. 133. As explained below, the Company has therefore applied intrinsic value accounting, where applicable, to the BCF embedded in the conversion option.

Intrinsic Value Accounting for the BCF

The Company accounted for the BCF associated with the issuance of the 10% Series A Convertible Notes in accordance EITF Issue No. 98-5, EITF Issue No. 00-27, and APB No. 14. The convertible feature of the 10% Series A Convertible Notes provides for a rate of conversion that is below market value. The excess of the proceeds over the estimated fair value of the warrants (see "Accounting for the Warrants" below) was used to calculate the effective conversion price per share. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be $270,125 and recorded such amount as a debt discount against the face amount of the notes. Such discount was accreted to interest expense over the original term of the notes. Total interest expense on the 10% Series A Convertible Notes for amortization of the above BCF debt discount totaled $142,364 and $127,762 for the fiscal years ended March 31, 2007 and 2006.





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10% SERIES A CONVERTIBLE NOTES (continued)

Accounting for the Warrants

Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, the embedded derivative associated with this warrant obligation does not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at the commitment date, the Company did not have any uncommitted registered shares to settle the warrant obligation and accordingly, such obligation was required to be classified as a liability (outside of stockholders' deficit) in accordance with EITF Issue No. 00-19. The Series A Warrants were valued at $729,875 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability and an offsetting debt discount against the face amount of the 10% Series A Convertible Notes. Such debt discount will begin to be expensed as future conversions occur and the warrants are issued.

On January, 2006, the registration statement which included the shares underlying the 10% Series A Convertible Notes ("Notes")and related warrants was deemed effective. At such time, the Company re-evaluated the classification of the warrant obligation and determined that the warrant obligation me the criteria for equity classification under EITF No. 00-19. Accordingly, the Company revalued the warrants at such date, totaling $1,090,000, with the change in fair value of the warrant liability totaling $360,125 expensed in the accompanying consolidated statements of operations for the year ended March 31, 2006.

The Allonge Transactions

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Notes entered into in December 2005 having an aggregate principal amount of $1,000,000 (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital,

LLC and Christian J. Hoffmann III (the "Holders"). Each Holder has qualified as an "accredited investor" as that term is defined in the





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6. CONVERTIBLE NOTES PAYABLE (continued)

Securities Act of 1933, as amended (the "Act"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will 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 Allonges amend the Notes so that they are now 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, 2001 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, the Company 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. Pursuant to EITF 06-06, and because of the change in the fair value of embedded conversion options as a result of the issuance of Units under the Allonges on March 22, 2007, such issuance was determined to be a substantial change in the 10% Series A Notes resulting in the extinguishment of the Notes as per ABP No. 26. Therefore on March 22, 2007, the Company recorded a net increase of $270,127 of discount on convertible notes payable, an increase in the warrant liability of $1,486,875 and a loss on extinguishment of debt of $1,216,748. Between March 22, 2007 and March 31, 2007, the Company also recorded an additional other expense of $143,125 to record the change in fair value of the warrant liability at the end of the fiscal year. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On or about March 13, 2007, the Company determined that the effectiveness of the registration statement underlying the warrant shares associated with the 10% Series A Convertible Notes had lapsed on October 27, 2006. Pursuant to EITF Issue No. 00-19, the Company believed it could no longer control settlement in registered shares. Accordingly, the Company reversed the effect of the prior registration effectiveness and reduced additional-paid-in-capital by $1,090,000 and recorded a warrant liability of like amount. Between October 27, 2006 and March 22, 2007 (when the debt was effectively extinguished), the Company recorded an additional non-cash expense related to the change in the fair value of the associated warrant liability of $1,969,450. Upon extinguishment, the Company recorded a net increase in warrant liability of $757,002 and a non-cash loss on extinguishment of $1,216,748. In addition the Company also recorded estimated liquidated damages in an amount of $220,000, an amount of the Company's estimate of the damages that are expected to be paid prior to the effective registration of the shares underlying the warrants.

7. EQUITY TRANSACTIONS

2003 CONSULTANT STOCK PLAN

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

reserved for issuance under the Stock Plan. On March 29, 2004, the Company 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, the Company 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.

2005 DIRECTORS COMPENSATION PROGRAM

In February 2005, the Company adopted the 2005 Directors Compensation Program (the "Directors Compensation Program") to assist in obtaining and retaining the services of outside directors. 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.





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7. EQUITY TRANSACTIONS (continued)

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.

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 (see Note 7). This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.

7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.





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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

On March 22, 2007 in effecting the Allonges (see "The Allonge Transactions"), the Company amended its 10% Series A Convertible Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company agreed to pay all accrued interest, through February 15, 2007 in the form of units (the "Units") at the rate of $0.20 per Unit (the "Interest Payment Rate"). The Notes are 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 warrants. At March 31, 2007, the Company is obligated to issue, but has not yet issued, 685,328 "Unit Shares" of common stock under the Allonges.

WARRANTS

During the year ended March 31, 2005, the Company 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, the Company 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 has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company 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 7 and 8). 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, the Company 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).

During the year ended March 31, 2005, the Company issued 260,000 warrants to purchase common stock for $0.50 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). 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, the Company issued 144,443 warrants to purchase common stock for $0.90 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). 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, the Company 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 are 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, the Company 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 are 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.

As noted under "Common Stock", 1,206,564 warrants with an exercise price of $0.25 per share, which were granted to investors in connection with the purchase of common stock, were exercised during the year ended March 31, 2005.





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7. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

On May 16, 2005, the Company 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 are exercisable through May 2008.

On May 16, 2005, the Company 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, the Company 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, the Company 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, the Company 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, the Company 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 vale was insignificant.

On November 14, 2006, in conjunction with the purchase of 555,556 shares of the Company's restricted common stock, the Company granted five-year non-cashless 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 non-cashless 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, the Company granted noteholders five-year non-cashless 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 non-cashless warrants to purchase an additional 294,118 shares of restricted common stock at an exercise price of $0.17.

On March 22, 2007 in effecting the Allonges, the Company amended its 10% Series A Convertible Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will 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 are 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, the Company 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.





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7. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

A summary of the aggregate warrant activity for the years ended March 31, 2007 and 2006 is presented below:

<TABLE>

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| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Warrants | Weighted Average Exercise Price | Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 3,791,908 | $ 0.61 | 2,833,834 | $ 0.91 |
| Granted | 1,535,002 | $ 0.19 | 1,786,546 | 0.41 |
| Exercised | (160,000) | $ 0.50 | (568,182) | 0.76 |
| Cancelled/Forfeited | (669,000) | $ 0.72 | (260,290) | 3.30 |
| Outstanding, end of year | 4,479,910 | $ 0.46 | 3,791,908 | $ 0.61 |
| Exercisable, end of year | 4,479,910 | $ 0.46 | 3,791,908 | $ 0.61 |
| Weighted average estimated fair value of warrants granted | | $ 0.29 | | $ 0.23 |

The following outlines the significant weighted average assumptions used to estimate the fair value information presented utilizing the Black-Scholes and Binomial Lattice option pricing models:

| | Years Ended March 31, 2007 | 2006 |
|---|---|---|
| Risk free interest rate | 4.47%-4.57% | 4.18%-4.3% |
| Average expected life | 4.4 years | 3 years |
| Expected volatility | 90.7% - 93.4% | 72% - 97% |
| Expected dividends | None | |

The detail of the warrants outstanding and exercisable as of March 31, 2007 is as follows:

| | Warrants Outstanding | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| $0.17 - $0.20 | 1,635,002 | 4.07 | $ 0.19 | 1,635,002 | $ 0.19 |
| $0.25 - $0.44 | 863,921 | 1.81 | $ 0.27 | 863,921 | $ 0.27 |
| $0.50 - $0.90 | 1,998,987 | 3.00 | $ 0.76 | 1,998,987 | $ 0.76 |
| | 4,497,910 | | | 4,497,910 | |

</TABLE>

7. EQUITY TRANSACTIONS (continued)

OPTIONS

At March 31, 2007 the Company had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors under the 2005 Directors Compensation Program.

From time to time, the Company's 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 the Company's formal stock plans. The terms of these grants are individually negotiated.

In August 2000, the Company 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 Company 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 the Company's 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, 2007, the Company had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited, with 467,500 available for future issuance.

In March 2002, the Board of Directors granted the Company's 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, the Board of Directors granted the Company's Chief Executive Officer ("CEO")and Chief Scientific Officer ("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 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 forty 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, the Company recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005.

On September 9, 2005, the Company granted 2,857,143 options to James A. Joyce, its Chief Executive Officer, in exchange for $300,000 of accrued related-party liabilities. The fair value of such options approximated the value of the accrued related-party liability.

7. EQUITY TRANSACTIONS (continued)

OPTIONS (continued)

The following is a summary of the stock options outstanding at March 31, 2007 and 2006 and the changes during the two years then ended:

<TABLE>
<S> <C>

| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 9,012,785 | $ 0.38 | 6,679,390 | $ 0.80 |
| Granted | 500,000 | 0.27 | 3,357,143 | 0.21 |
| Exercised | -- | -- | -- | -- |
| Cancelled/Forfeited | (308,725) | 2.74 | (1,023,748) | -- |
| Outstanding, end of year | 9,204,060 | $ 0.38 | 9,012,785 | $ 0.38 |
| Exercisable, end of year | 8,369,060 | $ 0.39 | 7,135,518 | $ 0.39 |
| Weighted average estimated fair value of options granted | | $ 0.23 | | $ 0.12 |

The following outlines the significant weighted average assumptions used to estimate the fair value information presented utilizing the Binomial Lattice option pricing model for the years ended March 31, 2007 and March 31, 2006:

| Years Ended March 31, | 2007 | 2006 |
|---|---|---|
| Risk free interest rate | 4.84% | 4.18% |
| Average expected life | 10 years | 4.7 years |
| Expected volatility | 92% | 72% |
| Expected dividends | None | None |

The detail of the options outstanding and exercisable as of March 31, 2007 is as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| $0.21 - $0.23 | 3,357,143 | 7.39 years | $ 0.21 | 3,022,143 | $ 0.21 |
| $0.38 | 5,494,550 | 4.15 years | $ 0.37 | 4,994,550 | $ 0.38 |
| $1.78 - $3.75 | 352,367 | 4.57 years | $ 2.02 | 352,367 | $ 2.02 |
| | 9,204,060 | | | 8,369,060 | |



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8. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

Certain officers of the Company and other related parties have advanced the Company funds, agreed to defer compensation and/or paid expenses on behalf of the Company to cover working capital deficiencies. These non interest-bearing liabilities have been included as due to related parties in the accompanying consolidated financial statements.

Other related party transactions are disclosed elsewhere in these notes to consolidated financial statements.

9. INCOME TAX PROVISION

Income tax expense for the years ended March 31, 2007 and 2006 differed from the amounts computed by applying the U.S. Federal income tax rate of 34 percent to the loss from continuing operations before provision for income taxes as a result of the following:

| | 2007 | 2006 |
|---|---|---|
| Computed "expected" tax benefit | $(2,048,000) | $ (993,000) |
| Reduction in income taxes resulting from: | | |
| Derivative expense | 718,000 | 122,000 |
| Debt extinguishment | 414,000 | -- |
| Change in deferred tax assets valuation allowance | 1,078,000 | 1,024,000 |
| State and local income taxes, net of federal benefit | (162,000) | (153,000) |
| Other | -- | -- |
| | $ -- | $ -- |

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at March 31, 2007 are presented below:

| | |
|---|---|
| Deferred tax assets: | |
| Net operating loss carryforwards | $ 5,210,000 |
| Capitalized research and development | 2,670,000 |
| Other | 136,000 |
| Total gross deferred tax assets | 8,016,000 |
| Less valuation allowance | (8,016,000) |
| Net deferred tax assets | $ -- |

The valuation allowance increased by $1,078,000 and $1,024,000 during the years ended March 31, 2007 and 2006, respectively. The current provision for income taxes for the years ended March 31, 2007 and 2006 is not significant and due primarily to certain state taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the history of operating losses, management believes it is more likely than not the Company will not realize the benefits of these deductible differences. A full reduction allowance has been recorded to offset 100% of the deferred tax asset.

As of March 31, 2007, the Company had tax net operating loss carryforwards of approximately $13,600,000 and $8,307,000 available to offset future taxable Federal and state income, respectively. The carryforward amounts expire in various years through 2026. In the event the Company were to experience a greater than 50% change in ownership as defined in Section 382 of the Internal Revenue Code, the utilization of the Company's tax net operating loss carryforwards could be severely restricted.





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10. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

The Company entered into an employment agreement with its 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 the Company. The Chairman of the Board was appointed President and Chief Executive Officer ("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.

The Company entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed the Company's 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 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.

LEASE COMMITMENTS

The Company leases its office and research and development space under an operating lease agreement which expires in July 2006. The Company signed an 12 month extension of its existing lease on substantially the same terms as its present lease. Minimum monthly payments under the new extension approximate $7,700.

Rent expense approximated $105,000 and $126,000 for the years ended March 31, 2007 and 2006, respectively.

Exhibit 10.42

# COMMON STOCK PURCHASE AGREEMENT

COMMON STOCK PURCHASE AGREEMENT (the "Agreement"), dated as of March 21, 2007, by and between AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and FUSION CAPITAL FUND II, LLC, an Illinois limited liability company (the "Buyer"). Capitalized terms used herein and not otherwise defined herein are defined in Section 10 hereof.

WHEREAS:

Subject to the terms and conditions set forth in this Agreement, the Company wishes to sell to the Buyer, and the Buyer wishes to buy from the Company, up to Eight Million Four Hundred Thousand Dollars ($8,400,000.00) of the Company's common stock, par value $0.001 per share (the "Common Stock") The shares of Common Stock to be purchased hereunder are referred to herein as the "Purchase Shares."

NOW THEREFORE, the Company and the Buyer hereby agree as follows:

1. PURCHASE OF COMMON STOCK.

Subject to the terms and conditions set forth in this Agreement, the Company has the right to sell to the Buyer, and the Buyer has the obligation to purchase from the Company, Purchase Shares as follows:

(a) INITIAL PURCHASE; COMMENCEMENT OF BASE AND BLOCK PURCHASES OF COMMON STOCK. On the Filing Date (as defined in Section 4(a) hereof), the Buyer shall buy from the Company as of such date Four Hundred Thousand Dollars ($400,000.00) of Purchase Shares (the "Initial Purchase" and such Purchase Shares are referred to herein as the "Initial Purchase Shares") at the lesser of (i) the Purchase Price as of the Business Day prior to the Filing Date, or (ii) $0.30. The Initial Purchase Shares shall be issued in certificated form and (subject to Section 5 hereof) shall bear only the restrictive legend set forth in Section 4(e) hereof. Thereafter, the purchase and sale of Purchase Shares hereunder shall occur from time to time upon written notices by the Company to the Buyer on the terms and conditions as set forth herein following the satisfaction of the conditions (the "Commencement") as set forth in Sections 6 and 7 below (the date of satisfaction of such conditions, the "Commencement Date").

(b) THE COMPANY'S RIGHT TO REQUIRE PURCHASES. Any time on or after the Commencement Date, the Company shall have the right but not the obligation to direct the Buyer by its delivery to the Buyer of Base Purchase Notices from time to time to buy Purchase Shares (each such purchase a "Base Purchase") in any amount up to Thirty Two Thousand Dollars ($32,000.00) per Base Purchase Notice (the "Base Purchase Amount") at the Purchase Price on the Purchase Date. The Company may deliver multiple Base Purchase Notices to the Buyer so long as at least two (2) Business Days have passed since the most recent Base Purchase was completed. Notwithstanding the forgoing, any time on or after the Commencement Date, the Company shall also have the right but not the obligation by its delivery to the Buyer of Block Purchase Notices from time to time to direct the Buyer to buy Purchase Shares (each such purchase a "Block Purchase") in any amount up to One Million Dollars ($1,000,000.00) per Block Purchase Notice at the Block Purchase Price on the Purchase Date as provided herein. For a Block Purchase Notice to be valid the following conditions must be met: (1) the Block Purchase Amount shall not exceed Fifty Thousand Dollars ($50,000.00) per Block Purchase Notice, (2) the Company must deliver the Purchase Shares before 11:00 a.m. eastern time on the Purchase Date and (3) the Sale Price of the Common Stock must not be below $0.30 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to One Hundred Thousand Dollars ($100,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below $0.40 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to

Two Hundred Thousand Dollars ($200,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below $0.55 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to Four Hundred Thousand Dollars ($400,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below $0.70 (subject to equitable



adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to One Million Dollars ($1,000,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below $1.50 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. As used herein, the term "Block Purchase Price" shall mean the lesser of (i) the lowest Sale Price of the Common Stock on the Purchase Date or (ii) the lowest Purchase Price during the previous seven (7) Business Days prior to the date that the valid Block Purchase Notice was received by the Buyer. However, if at any time during the Purchase Date, the date of the delivery of the Block Purchase Notice or during the Business Day prior to the delivery of the Block Purchase Notice, the Sale Price of the Common Stock is below the applicable Block Purchase threshold price, such Block Purchase shall be void and the Buyer's obligations to buy Purchase Shares in respect of that Block Purchase Notice shall be terminated. Thereafter, the Company shall again have the right to submit a Block Purchase Notice as set forth herein by delivery of a new Block Purchase Notice only if the Sale Price of the Common Stock is above the applicable Block Purchase threshold price during the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Company may deliver multiple Block Purchase Notices to the Buyer so long as at least two (2) Business Days have passed since the most recent Block Purchase was completed.

(c) PAYMENT FOR PURCHASE SHARES. The Buyer shall pay to the Company an amount equal to the Purchase Amount with respect to such Purchase Shares as full payment for such Purchase Shares via wire transfer of immediately available funds on the same Business Day that the Buyer receives such Purchase Shares if they are received by the Buyer before 11:00 a.m. eastern time or if received by the Buyer after 11:00 a.m. eastern time, the next Business Day. The Company shall not issue any fraction of a share of Common Stock upon any purchase. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Company shall round such fraction of a share of Common Stock up or down to the nearest whole share. All payments made under this Agreement shall be made in lawful money of the United States of America or wire transfer of immediately available funds to such account as the Company may from time to time designate by written notice in accordance with the provisions of this Agreement. Whenever any amount expressed to be due by the terms of this Agreement is due on any day that is not a Business Day, the same shall instead be due on the next succeeding day that is a Business Day.

(d) PURCHASE PRICE FLOOR. The Company and the Buyer shall not effect any sales under this Agreement on any Purchase Date where the Purchase Price for any purchases of Purchase Shares would be less than the Floor Price. "Floor Price" means $0.25, which shall be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction.

(e) RECORDS OF PURCHASES. The Buyer and the Company shall each maintain records showing the remaining Available Amount at any give time and the dates and Purchase Amounts for each purchase or shall use such other method, reasonably satisfactory to the Buyer and the Company.

(f) TAXES. The Company shall pay any and all transfer, stamp or similar taxes that may be payable with respect to the issuance and delivery of any shares of Common Stock to the Buyer made under this Agreement.

2. BUYER'S REPRESENTATIONS AND WARRANTIES.

The Buyer represents and warrants to the Company that as of the date hereof and as of the Commencement Date:

(a) INVESTMENT PURPOSE. The Buyer is entering into this Agreement and acquiring the Commitment Shares, (as defined in Section 4(e) hereof) (this Agreement, the Purchase Shares and the Commitment Shares are collectively referred to herein as the "Securities"), for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof; provided however, by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term.



(b) ACCREDITED INVESTOR STATUS. The Buyer is an "accredited investor" as that term is defined in Rule 501(a)(3) of Regulation D.

(c) RELIANCE ON EXEMPTIONS. The Buyer understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

(d) INFORMATION. The Buyer has been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities that have been reasonably requested by the Buyer, including, without limitation, the SEC Documents (as defined in Section 3(f) hereof). The Buyer understands that its investment in the Securities involves a high degree of risk. The Buyer (i) is able to bear the economic risk of an investment in the Securities including a total loss, (ii) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the proposed investment in the Securities and (iii) has had an opportunity to ask questions of and receive answers from the officers of the Company concerning the financial condition and business of the Company and others matters related to an investment in the Securities. Neither such inquiries nor any other due diligence investigations conducted by the Buyer or its representatives shall modify, amend or affect the Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Securities.

(e) NO GOVERNMENTAL REVIEW. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(f) TRANSFER OR SALE. The Buyer understands that except as provided in the Registration Rights Agreement (as defined in Section 4(a) hereof): (i) the Securities have not been and are not being registered under the 1933 Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (A) subsequently registered thereunder or (B) an exemption exists permitting such Securities to be sold, assigned or transferred without such registration; (ii) any sale of the Securities made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register the Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

(g) VALIDITY; ENFORCEMENT. This Agreement has been duly and validly authorized, executed and delivered on behalf of the Buyer and is a valid and binding agreement of the Buyer enforceable against the Buyer in accordance with

its terms, subject as to enforceability to general principles of equity and to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

(h) RESIDENCY. The Buyer is a resident of the State of Illinois.

(i) NO PRIOR SHORT SELLING. The Buyer represents and warrants to the Company that at no time prior to the date of this Agreement has any of the Buyer, its agents, representatives or affiliates engaged in or effected, in any manner whatsoever, directly or indirectly, any (i) "short sale" (as such term is defined in Section 242.200 of Regulation SHO of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of the Common Stock or (ii) hedging transaction, which establishes a net short position with respect to the Common Stock.



3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to the Buyer that as of the date hereof and as of the Commencement Date:

(a) ORGANIZATION AND QUALIFICATION. The Company and its "Subsidiaries" (which for purposes of this Agreement means any entity in which the Company, directly or indirectly, owns 50% or more of the voting stock or capital stock or other similar equity interests) are corporations duly organized and validly existing in good standing under the laws of the jurisdiction in which they are incorporated, and have the requisite corporate power and authority to own their properties and to carry on their business as now being conducted. Each of the Company and its Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing could not reasonably be expected to have a Material Adverse Effect. As used in this Agreement, "Material Adverse Effect" means any material adverse effect on any of: (i) the business, properties, assets, operations, results of operations or financial condition of the Company and its Subsidiaries, if any, taken as a whole, or (ii) the authority or ability of the Company to perform its obligations under the Transaction Documents (as defined in Section 3(b) hereof). The Company has no Subsidiaries except as set forth on Schedule 3(a).

(b) AUTHORIZATION; ENFORCEMENT; VALIDITY. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and each of the other agreements entered into by the parties on the Commencement Date and attached hereto as exhibits to this Agreement (collectively, the "Transaction Documents"), and to issue the Securities in accordance with the terms hereof and thereof, (ii) the execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby, including without limitation, the issuance of the Commitment Shares and the reservation for issuance and the issuance of the Purchase Shares issuable under this Agreement, have been duly authorized by the Company's Board of Directors and no further consent or authorization is required by the Company, its Board of Directors or its shareholders, (iii) this Agreement has been, and each other Transaction Document shall be on the Commencement Date, duly executed and delivered by the Company and (iv) this Agreement constitutes, and each other Transaction Document upon its execution on behalf of the Company, shall constitute, the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies. The Board of Directors of the Company has approved the resolutions (the "Signing Resolutions") substantially in the form as set forth as EXHIBIT C-1 attached hereto to authorize this Agreement and the transactions contemplated hereby The Signing Resolutions are valid, in full force and effect and have not been modified or supplemented in any respect other than by the resolutions set forth in EXHIBIT C-2 attached hereto regarding the registration statement referred to in Section 4 hereof. The Company has delivered to the Buyer a true and correct copy of a unanimous written consent adopting the Signing Resolutions executed by all of the members of the Board of Directors of the Company. No other approvals

or consents of the Company's Board of Directors and/or shareholders is necessary under applicable laws and the Company's Certificate of Incorporation and/or Bylaws to authorize the execution and delivery of this Agreement or any of the transactions contemplated hereby, including, but not limited to, the issuance of the Commitment Shares and the issuance of the Purchase Shares.

(c) CAPITALIZATION. As of the date hereof, the authorized capital stock of the Company consists of (i) 100,000,000 shares of Common Stock, of which as of the date hereof, 29,423,874 shares are issued and outstanding, none are held as treasury shares, 500,000 shares are reserved for issuance pursuant to the Company's stock option plans of which 467,500 shares remain available for future grants and 20,021,809 shares are issuable and reserved for issuance pursuant to securities (other than stock options issued pursuant to the Company's stock option plans) exercisable or exchangeable for, or convertible into, shares of Common Stock and (ii) no shares of Preferred Stock are issued and outstanding. All of such outstanding shares have been, or upon issuance will be, validly issued and are fully paid and nonassessable. Except as disclosed in Schedule 3(c), (i) no shares of the Company's capital stock are subject to preemptive



rights or any other similar rights or any liens or encumbrances suffered or permitted by the Company, (ii) there are no outstanding debt securities, (iii) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries, or contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries, (iv) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of their securities under the 1933 Act (except the Registration Rights Agreement), (v) there are no outstanding securities or instruments of the Company or any of its Subsidiaries which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to redeem a security of the Company or any of its Subsidiaries, (vi) there are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Securities as described in this Agreement and (vii) the Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement. The Company has furnished to the Buyer true and correct copies of the Company's Certificate of Incorporation, as amended and as in effect on the date hereof (the "Certificate of Incorporation"), and the Company's By-laws, as amended and as in effect on the date hereof (the "By-laws"), and summaries of the terms of all securities convertible into or exercisable for Common Stock, if any, and copies of any documents containing the material rights of the holders thereof in respect thereto.

(d) ISSUANCE OF SECURITIES. The Commitment Shares and the Initial Purchase Shares have been duly authorized and, upon issuance (and payment therefor in the case of the Initial Purchase Shares) in accordance with the terms hereof, the Commitment Shares and Initial Purchase Shares shall be (i) validly issued, fully paid and non-assessable and (ii) free from all taxes, liens and charges with respect to the issue thereof. 6,000,000 shares of Common Stock have been duly authorized and reserved for issuance as Purchase Shares under this Agreement after the Commencement. Upon issuance and payment therefor in accordance with the terms and conditions of this Agreement, the Purchase Shares shall be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, with the holders being entitled to all rights accorded to a holder of Common Stock.

(e) NO CONFLICTS. Except as disclosed in Schedule 3(e), the execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the reservation for issuance and issuance of the Purchase Shares) will not (i) result in a violation of the Certificate of Incorporation, any Certificate of Designations, Preferences and Rights of any outstanding series of preferred stock of the Company or the By-laws or (ii) conflict with, or constitute a default (or an event which with notice or lapse

of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of the Principal Market applicable to the Company or any of its Subsidiaries) or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, except in the case of conflicts, defaults, terminations, amendments, accelerations, cancellations and violations under clause (ii), which could not reasonably be expected to result in a Material Adverse Effect. Except as disclosed in Schedule 3(e), neither the Company nor its Subsidiaries is in violation of any term of or in default under its Certificate of Incorporation, any Certificate of Designation, Preferences and Rights of any outstanding series of preferred stock of the Company or By-laws or their organizational charter or by-laws, respectively. Except as



disclosed in Schedule 3(e), neither the Company nor any of its Subsidiaries is in violation of any term of or is in default under any material contract, agreement, mortgage, indebtedness, indenture, instrument, judgment, decree or order or any statute, rule or regulation applicable to the Company or its Subsidiaries, except for possible conflicts, defaults, terminations or amendments which could not reasonably be expected to have a Material Adverse Effect. The business of the Company and its Subsidiaries is not being conducted, and shall not be conducted, in violation of any law, ordinance, regulation of any governmental entity, except for possible violations, the sanctions for which either individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. Except as specifically contemplated by this Agreement and as required under the 1933 Act or applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self-regulatory agency in order for it to execute, deliver or perform any of its obligations under or contemplated by the Transaction Documents in accordance with the terms hereof or thereof. Except as disclosed in Schedule 3(e), all consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence shall be obtained or effected on or prior to the Commencement Date. Except as listed in Schedule 3(e), since January 1, 2006, the Company has not received nor delivered any notices or correspondence from or to the Principal Market. The Principal Market has not commenced any delisting proceedings against the Company.

(f) SEC DOCUMENTS; FINANCIAL STATEMENTS. Except as disclosed in Schedule 3(f), since January 1, 2006,, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the 1934 Act (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). As of their respective dates (except as they have been correctly amended), the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC (except as they may have been properly amended), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates (except as they have been properly amended), the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as listed in Schedule 3(f), the Company has received no notices or correspondence from the SEC since January 1, 2006. The SEC has not

commenced any enforcement proceedings against the Company or any of its subsidiaries.

(g) ABSENCE OF CERTAIN CHANGES. Except as disclosed in Schedule 3(g), since January 1, 2007, there has been no material adverse change in the business, properties, operations, financial condition or results of operations of the Company or its Subsidiaries. The Company has not taken any steps, and does not currently expect to take any steps, to seek protection pursuant to any Bankruptcy Law nor does the Company or any of its Subsidiaries have any knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy or insolvency proceedings. The Company is financially solvent and is generally able to pay its debts as they become due.



(h) ABSENCE OF LITIGATION. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company, the Common Stock or any of the Company's Subsidiaries or any of the Company's or the Company's Subsidiaries' officers or directors in their capacities as such, which could reasonably be expected to have a Material Adverse Effect. A description of each action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body which, as of the date of this Agreement, is pending or threatened in writing against or affecting the Company, the Common Stock or any of the Company's Subsidiaries or any of the Company's or the Company's Subsidiaries' officers or directors in their capacities as such, is set forth in Schedule 3(h).

(i) ACKNOWLEDGMENT REGARDING BUYER'S STATUS. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby and thereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by the Buyer or any of its representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to the Buyer's purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into the Transaction Documents has been based solely on the independent evaluation by the Company and its representatives and advisors.

(j) NO GENERAL SOLICITATION. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the 1933 Act) in connection with the offer or sale of the Securities.

(k) INTELLECTUAL PROPERTY RIGHTS. The Company and its Subsidiaries own or possess adequate rights or licenses to use all material trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets and rights necessary to conduct their respective businesses as now conducted. Except as set forth on Schedule 3(k), none of the Company's material trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, government authorizations, trade secrets or other intellectual property rights have expired or terminated, or, by the terms and conditions thereof, could expire or terminate within two years from the date of this Agreement. The Company and its Subsidiaries do not have any knowledge of any infringement by the Company or its Subsidiaries of any material trademark, trade name rights, patents, patent rights, copyrights, inventions, licenses, service names, service marks, service mark registrations, trade secret or other similar rights of others, or of any such development of similar or identical trade secrets or technical information by others and, except as set forth on Schedule 3(k), there is no claim, action or proceeding being made or brought against, or to the Company's knowledge, being threatened against, the Company or its Subsidiaries regarding trademark, trade name, patents, patent rights, invention, copyright, license, service names, service marks, service mark registrations, trade secret or other infringement, which could reasonably be expected to have a Material Adverse Effect.

(l) ENVIRONMENTAL LAWS. The Company and its Subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where, in each of the three foregoing clauses, the failure to so comply could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.



(m) TITLE. The Company and its Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its Subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(m) or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and any of its Subsidiaries. Any real property and facilities held under lease by the Company and any of its Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its Subsidiaries.

(n) INSURANCE. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has been refused any insurance coverage sought or applied for and neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition, financial or otherwise, or the earnings, business or operations of the Company and its Subsidiaries, taken as a whole.

(o) REGULATORY PERMITS. The Company and its Subsidiaries possess all material certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any such Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit.

(p) TAX STATUS. The Company and each of its Subsidiaries has made or filed all federal and state income and all other material tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its Subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim.

(q) TRANSACTIONS WITH AFFILIATES. Except as set forth on Schedule 3(q) and other than the grant or exercise of stock options disclosed on Schedule 3(c), none of the officers, directors, or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has an interest or is an officer, director, trustee or partner.

(r) APPLICATION OF TAKEOVER PROTECTIONS. The Company and its board of directors have taken or will take prior to the Commencement Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Certificate of Incorporation or the laws of the state of its incorporation which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and the Buyer's ownership of the Securities.



(s) FOREIGN CORRUPT PRACTICES. Neither the Company, nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any of its Subsidiaries has, in the course of its actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

4. COVENANTS.

(a) FILING OF FORM 8-K AND REGISTRATION STATEMENT. The Company agrees that it shall, within the time required under the 1934 Act file a Report on Form 8-K disclosing this Agreement and the transaction contemplated hereby. The Company shall also file within ten (10) Business Days from the date hereof a new registration statement covering only the sale of the Commitment Shares and 7,333,333 Purchase Shares (which includes the 1,333,333 Initial Purchase Shares) in accordance with the terms of the Registration Rights Agreement between the Company and the Buyer, dated as of the date hereof ("Registration Rights Agreement"). After such registration statement is declared effective by the SEC, the Company agrees and acknowledges that any sales by the Company to the Buyer pursuant to this Agreement are sales of the Company's equity securities in a transaction that is registered under the 1933 Act.

(b) BLUE SKY. The Company shall take such action, if any, as is reasonably necessary in order to obtain an exemption for or to qualify (i) the initial sale of the Commitment Shares and any Purchase Shares to the Buyer under this Agreement and (ii) any subsequent sale of the Commitment Shares and any Purchase Shares by the Buyer, in each case, under applicable securities or "Blue Sky" laws of the states of the United States in such states as is reasonably requested by the Buyer from time to time, and shall provide evidence of any such action so taken to the Buyer.

(c) LISTING. The Company shall promptly secure the listing of all of the Purchase Shares and Commitment Shares upon each national securities exchange and automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all such securities from time to time issuable under the terms of the Transaction Documents. The Company shall maintain the Common Stock's authorization for quotation on the Principal Market. Neither the Company nor any of its Subsidiaries shall take any action that would be reasonably expected to result in the delisting or suspension of the Common Stock on the Principal Market. The Company shall promptly, and in no event later than the following Business Day, provide to the Buyer copies of any notices it receives from the Principal Market regarding the continued eligibility of the Common Stock for listing on such automated quotation system or securities exchange. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section.

(d) LIMITATION ON SHORT SALES AND HEDGING TRANSACTIONS. The Buyer agrees that beginning on the date of this Agreement and ending on the date of termination of this Agreement as provided in Section 11(k), the Buyer and its agents, representatives and affiliates shall not in any manner whatsoever enter into or effect, directly or indirectly, any (i) "short sale" (as such term is defined in Section 242.200 of Regulation SHO of the 1934 Act) of the Common Stock or (ii) hedging transaction, which establishes a net short position with

respect to the Common Stock.

(e) ISSUANCE OF COMMITMENT SHARES; LIMITATION ON SALES OF COMMITMENT SHARES. Immediately upon the execution of this Agreement, the Company shall issue to the Buyer as consideration for the Buyer entering into this Agreement 1,050,000 shares of Common Stock (the "Commitment Shares"). The Commitment Shares shall be issued in certificated form and (subject to Section 5 hereof) shall bear the following restrictive legend and no other restrictive 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, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

The Buyer agrees that the Buyer shall not transfer or sell the Commitment Shares until the earlier of 500 Business Days (25 Monthly Periods) from the date hereof or the date on which this Agreement has been terminated, provided, however, that such restrictions shall not apply: (i) in connection with any transfers to or among affiliates (as defined in the 1934 Act), (ii) in connection with any pledge in connection with a bona fide loan or margin account, (iii) in the event that the Commencement does not occur on or before July 1, 2007, due to the failure of the Company to satisfy the conditions set forth in Section 7 or (iv) if an Event of Default has occurred, or any event which, after notice and/or lapse of time, would become an Event of Default, including any failure by the Company to timely issue Purchase Shares under this Agreement. Notwithstanding the forgoing, the Buyer may transfer Commitment Shares to a third party in order to settle a sale made by the Buyer where the Buyer reasonably expects the Company to deliver Purchase Shares to the Buyer under this Agreement so long as the Buyer maintains ownership of the same overall number of shares of Common Stock by "replacing" the Commitment Shares so transferred with Purchase Shares when the Purchase Shares are actually issued by the Company to the Buyer.

(g) DUE DILIGENCE. The Buyer shall have the right, from time to time as the Buyer may reasonably deem appropriate, to perform reasonable due diligence on the Company during normal business hours. The Company and its officers and employees shall provide information and reasonably cooperate with the Buyer in connection with any reasonable request by the Buyer related to the Buyer's due diligence of the Company, including, but not limited to, any such request made by the Buyer in connection with (i) the filing of the registration statement described in Section 4(a) hereof and (ii) the Commencement. Each party hereto agrees not to disclose any Confidential Information of the other party to any third party and shall not use the Confidential Information for any purpose other than in connection with, or in furtherance of, the transactions contemplated hereby. Each party hereto acknowledges that the Confidential Information shall remain the property of the disclosing party and agrees that it shall take all reasonable measures to protect the secrecy of any Confidential Information disclosed by the other party.

5. TRANSFER AGENT INSTRUCTIONS.

Immediately upon the execution of this Agreement, the Company shall deliver to the Transfer Agent a letter in the form as set forth as EXHIBIT E attached hereto with respect to the issuance of the Commitment Shares. On the Commencement Date, the Company shall cause any restrictive legend on the Commitment Shares and the Initial Purchase Shares to be removed and all of the remaining Purchase Shares to be issued under this Agreement shall be issued without any restrictive legend unless the Buyer expressly consents otherwise. The Company shall issue irrevocable instructions to the Transfer Agent, and any subsequent transfer agent, to issue Purchase Shares in the name of the Buyer for the Purchase Shares (the "Irrevocable Transfer Agent Instructions"). The Company warrants to the Buyer that no instruction other than the Irrevocable Transfer Agent Instructions expressly referred to in this Agreement, will be given by the Company to the Transfer Agent with respect to the Purchase Shares and that the

Commitment Shares and the Purchase Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Registration Rights Agreement subject to the provisions of Section 4(e) in the case of the Commitment Shares.



6. CONDITIONS TO THE COMPANY'S RIGHT TO COMMENCE SALES OF SHARES OF COMMON STOCK UNDER THIS AGREEMENT.

The right of the Company hereunder to commence sales of the Purchase Shares is subject to the satisfaction of each of the following conditions on or before the Commencement Date (the date that the Company may begin sales):

(a) The Buyer shall have executed each of the Transaction Documents and delivered the same to the Company;

(b) A registration statement covering the sale of all of the Commitment Shares and Purchase Shares shall have been declared effective under the 1933 Act by the SEC and no stop order with respect to the registration statement shall be pending or threatened by the SEC.

7. CONDITIONS TO THE BUYER'S OBLIGATION TO MAKE PURCHASES OF SHARES OF COMMON STOCK.

The obligation of the Buyer to buy Purchase Shares under this Agreement is subject to the satisfaction of each of the following conditions on or before the Commencement Date (the date that the Company may begin sales) and once such conditions have been initially satisfied, there shall not be any ongoing obligation to satisfy such conditions after the Commencement has occurred:

(a) The Company shall have executed each of the Transaction Documents and delivered the same to the Buyer;

(b) The Company shall have issued to the Buyer the Commitment Shares and the Initial Purchase Shares and shall have removed the restrictive transfer legend from the certificate representing the Commitment Shares and the Initial Purchase Shares;

(c) The Common Stock shall be authorized for quotation on the Principal Market, trading in the Common Stock shall not have been within the last 365 days suspended by the SEC or the Principal Market and the Purchase Shares and the Commitment Shares shall be approved for listing upon the Principal Market;

(d) The Buyer shall have received the opinions of the Company's legal counsel dated as of the Commencement Date substantially in the form of EXHIBIT A attached hereto;

(e) The representations and warranties of the Company shall be true and correct in all material respects (except to the extent that any of such representations and warranties is already qualified as to materiality in Section 3 above, in which case, such representations and warranties shall be true and correct without further qualification) as of the date when made and as of the Commencement Date as though made at that time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Commencement Date. The Buyer shall have received a certificate, executed by the CEO, President or CFO of the Company, dated as of the Commencement Date, to the foregoing effect in the form attached hereto as EXHIBIT B;

(f) The Board of Directors of the Company shall have adopted resolutions in the form attached hereto as EXHIBIT C which shall be in full force and effect without any amendment or supplement thereto as of the Commencement Date;

(g) As of the Commencement Date, the Company shall have reserved out of its authorized and unissued Common Stock, solely for the purpose of effecting purchases of Purchase Shares hereunder, 7,333,333 shares of Common Stock including the Initial Purchase Shares;

(h) The Irrevocable Transfer Agent Instructions, in form acceptable to the Buyer shall have been delivered to and acknowledged in writing by the Company and the Company's Transfer Agent;

(i) The Company shall have delivered to the Buyer a certificate evidencing the incorporation and good standing of the Company in the State of Nevada issued by the Secretary of State of the State of Nevada as of a date within ten (10) Business Days of the Commencement Date;

(j) The Company shall have delivered to the Buyer a certified copy of the Certificate of Incorporation as certified by the Secretary of State of the State of Nevada within ten (10) Business Days of the Commencement Date;

(k) The Company shall have delivered to the Buyer a secretary's certificate executed by the Secretary of the Company, dated as of the Commencement Date, in the form attached hereto as EXHIBIT D;

(l) A registration statement covering the sale of all of the Commitment Shares and Purchase Shares shall have been declared effective under the 1933 Act by the SEC and no stop order with respect to the registration statement shall be pending or threatened by the SEC. The Company shall have prepared and delivered to the Buyer a final and complete form of prospectus, dated and current as of the Commencement Date, to be used by the Buyer in connection with any sales of any Commitment Shares or any Purchase Shares, and to be filed by the Company one Business Day after the Commencement Date. The Company shall have made all filings under all applicable federal and state securities laws necessary to consummate the issuance of the Commitment Shares and the Purchase Shares pursuant to this Agreement in compliance with such laws;

(m) No Event of Default has occurred, or any event which, after notice and/or lapse of time, would become an Event of Default has occurred;

(n) On or prior to the Commencement Date, the Company shall take all necessary action, if any, and such actions as reasonably requested by the Buyer, in order to render inapplicable any control share acquisition, business combination, shareholder rights plan or poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Certificate of Incorporation or the laws of the state of its incorporation which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and the Buyer's ownership of the Securities; and

(o) The Company shall have provided the Buyer with the information requested by the Buyer in connection with its due diligence requests made prior to, or in connection with, the Commencement, in accordance with the terms of Section 4(g) hereof.

8. INDEMNIFICATION.

In consideration of the Buyer's execution and delivery of the Transaction Documents and acquiring the Securities hereunder and in addition to all of the Company's other obligations under the Transaction Documents, the Company shall defend, protect, indemnify and hold harmless the Buyer and all of its affiliates, shareholders, officers, directors, employees and direct or indirect investors and any of the foregoing person's agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "Indemnitees") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (irrespective of whether any such Indemnitee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by any Indemnitee as a result of, or arising out of, or relating to (a) any misrepresentation or breach of any representation or warranty made by the Company in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (b) any breach of any covenant,

agreement or obligation of the Company contained in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, or (c) any cause of action, suit or claim brought or made against such Indemnitee and arising out of or resulting from the execution, delivery, performance or enforcement of the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, other than with respect to Indemnified Liabilities which directly and primarily result from the gross negligence or willful misconduct of the Indemnitee. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

9. EVENTS OF DEFAULT.

An "Event of Default" shall be deemed to have occurred at any time as any of the following events occurs:

(a) while any registration statement is required to be maintained effective pursuant to the terms of the Registration Rights Agreement, the effectiveness of such registration statement lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to the Buyer for sale of all of the Registrable Securities (as defined in the Registration Rights Agreement) in accordance with the terms of the Registration Rights Agreement, and such lapse or unavailability continues for a period of five (5) consecutive Business Days or for more than an aggregate of twenty (20) Business Days in any 365-day period;

(b) the suspension from trading or failure of the Common Stock to be listed on the Principal Market for a period of three (3) consecutive Business Days;

(c) the delisting of the Company's Common Stock from the Principal Market, provided, however, that the Common Stock is not immediately thereafter trading on the New York Stock Exchange, the Nasdaq Global Market, the Nasdaq Capital Market, or the American Stock Exchange;

(d) the failure for any reason by the Transfer Agent to issue Purchase Shares to the Buyer within five (5) Business Days after the applicable Purchase Date which the Buyer is entitled to receive;

(e) the Company breaches any representation, warranty, covenant or other term or condition under any Transaction Document if such breach could have a Material Adverse Effect and except, in the case of a breach of a covenant which is reasonably curable, only if such breach continues for a period of at least five (5) Business Days;

(f) if any Person commences a proceeding against the Company pursuant to or within the meaning of any Bankruptcy Law ;

(g) if the Company pursuant to or within the meaning of any Bankruptcy Law; (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a Custodian of it or for all or substantially all of its property, (D) makes a general assignment for the benefit of its creditors, (E) becomes insolvent, or (F) is generally unable to pay its debts as the same become due; or

(h) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Company in an involuntary case, (B) appoints a Custodian of the Company or for all or substantially all of its property, or (C) orders the liquidation of the Company or any Subsidiary.



In addition to any other rights and remedies under applicable law and this Agreement, including the Buyer termination rights under Section 11(k) hereof, so long as an Event of Default has occurred and is continuing, or if any event which, after notice and/or lapse of time, would become an Event of Default, has occurred and is continuing, or so long as the Purchase Price is below the Purchase Price Floor, the Buyer shall not be obligated to purchase any shares of Common Stock under this Agreement. If pursuant to or within the meaning of any Bankruptcy Law, the Company commences a voluntary case or any Person commences a

proceeding against the Company, a Custodian is appointed for the Company or for all or substantially all of its property, or the Company makes a general assignment for the benefit of its creditors, (any of which would be an Event of Default as described in Sections 9(f), 9(g) and 9(h) hereof) this Agreement shall automatically terminate without any liability or payment to the Company without further action or notice by any Person. No such termination of this Agreement under Section 11(k)(i) shall affect the Company's or the Buyer's obligations under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.

10. CERTAIN DEFINED TERMS.

For purposes of this Agreement, the following terms shall have the following meanings:

(a) "1933 Act" means the Securities Act of 1933, as amended.

(b) "Available Amount" means initially Eight Million Four Hundred Thousand Dollars ($8,400,000.00) in the aggregate which amount shall be reduced by the Purchase Amount each time the Buyer purchases shares of Common Stock pursuant to Section 1 hereof.

(c) "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

(d) "Base Purchase Notice" shall mean an irrevocable written notice from the Company to the Buyer directing the Buyer to buy up to the Base Purchase Amount in Purchase Shares as specified by the Company therein at the applicable Purchase Price on the Purchase Date.

(e) "Block Purchase Amount" shall mean such Block Purchase Amount as specified by the Company in a Block Purchase Notice subject to Section 1(b) hereof.

(f) "Block Purchase Notice" shall mean an irrevocable written notice from the Company to the Buyer directing the Buyer to buy the Block Purchase Amount in Purchase Shares as specified by the Company therein at the Block Purchase Price as of the Purchase Date subject to Section 1 hereof.

(d) "Business Day" means any day on which the Principal Market is open for trading including any day on which the Principal Market is open for trading for a period of time less than the customary time.

(e) "Closing Sale Price" means, for any security as of any date, the last closing trade price for such security on the Principal Market as reported by the Principal Market, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing trade price of such security on the principal securities exchange or trading market where such security is listed or traded as reported by the Principal Market.



(f) "Confidential Information" means any information disclosed by either party to the other party, either directly or indirectly, in writing, orally or by inspection of tangible objects (including, without limitation, documents, prototypes, samples, plant and equipment), which is designated as "Confidential," "Proprietary" or some similar designation. Information communicated orally shall be considered Confidential Information if such information is confirmed in writing as being Confidential Information within ten (10) business days after the initial disclosure. Confidential Information may also include information disclosed to a disclosing party by third parties. Confidential Information shall not, however, include any information which (i) was publicly known and made generally available in the public domain prior to the time of disclosure by the disclosing party; (ii) becomes publicly known and made generally available after disclosure by the disclosing party to the receiving party through no action or inaction of the receiving party; (iii) is already in the possession of the receiving party at the time of disclosure by the disclosing party as shown by the receiving party's files and records immediately prior to the time of disclosure; (iv) is obtained by the receiving party from a third party without a breach of such third party's obligations of confidentiality; (v) is independently developed by the receiving party without

use of or reference to the disclosing party's Confidential Information, as shown by documents and other competent evidence in the receiving party's possession; or (vi) is required by law to be disclosed by the receiving party, provided that the receiving party gives the disclosing party prompt written notice of such requirement prior to such disclosure and assistance in obtaining an order protecting the information from public disclosure.

(g) "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

(h) "Maturity Date" means the date that is 500 Business Days (25 Monthly Periods) from the Commencement Date.

(i) "Monthly Period" means each successive 20 Business Day period commencing with the Commencement Date.

(j) "Person" means an individual or entity including any limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

(k) "Principal Market" means the Nasdaq OTC Bulletin Board; provided however, that in the event the Company's Common Stock is ever listed or traded on the Nasdaq Global Market, the Nasdaq Capital Market, the New York Stock Exchange or the American Stock Exchange, than the "Principal Market" shall mean such other market or exchange on which the Company's Common Stock is then listed or traded.

(l) "Purchase Amount" means, with respect to any particular purchase made hereunder, the portion of the Available Amount to be purchased by the Buyer pursuant to Section 1 hereof as set forth in a valid Base Purchase Notice or a valid Block Purchase Notice which the Company delivers to the Buyer.

(m) "Purchase Date" means with respect to any particular purchase made hereunder, the Business Day after receipt by the Buyer of a valid Base Purchase Notice or a valid Block Purchase Notice that the Buyer is to buy Purchase Shares pursuant to Section 1 hereof.

(n) "Purchase Price" means the lower of the (A) the lowest Sale Price of the Common Stock on the Purchase Date and (B) the arithmetic average of the three (3) lowest Closing Sale Prices for the Common Stock during the twelve (12) consecutive Business Days ending on the Business Day immediately preceding such Purchase Date (to be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction).

(o) "Sale Price" means, any trade price for the shares of Common Stock on the Principal Market as reported by the Principal Market.

(q) "SEC" means the United States Securities and Exchange Commission.

(r) "Transfer Agent" means the transfer agent of the Company as set forth in Section 11(f) hereof or such other person who is then serving as the transfer agent for the Company in respect of the Common Stock.



11. MISCELLANEOUS.

(a) 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 Agreement and the other Transaction Documents shall be governed by the internal laws of the State of Illinois, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Illinois or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Illinois. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of Chicago, for the adjudication of any dispute hereunder or under the other Transaction Documents or in connection herewith or therewith, 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 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 a copy thereof to such party at the address for such 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 HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(b) COUNTERPARTS. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.

(c) HEADINGS. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(d) SEVERABILITY. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(e) ENTIRE AGREEMENT. With the exception of the Mutual Nondisclosure Agreement between the parties dated as of March 13, 2007, this Agreement supersedes all other prior oral or written agreements between the Buyer, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement, the other Transaction Documents and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. The Company acknowledges and agrees that is has not relied on, in any manner whatsoever, any representations or statements, written or oral, other than as expressly set forth in this Agreement.

(f) NOTICES. Any notices, consents or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt when delivered personally; (ii) upon receipt when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:



If to the Company:
Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Telephone: 858-459-7800
Facsimile: 858-332-1739
Attention: Chief Executive Officer

With a copy to:
Richardson & Patel, LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, CA 90404
Telephone: 310-208-1182
Facsimile: 310-208-1154
Attention: Nimish Patel, Esq.

If to the Buyer:

Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Telephone: 312-644-6644
Facsimile: 312-644-6244
Attention: Steven G. Martin

If to the Transfer Agent:
Computershare Trust Company
350 Indiana Street, #800
Golden, CO 80401
Telephone: (303) 262-0600 ext. 4761
Facsimile: (303) 262-0700
Attention: Sue Barron

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three (3) Business Days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, and recipient facsimile number or (C) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

(g) SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Buyer, including by merger or consolidation. The Buyer may not assign its rights or obligations under this Agreement.

(h) NO THIRD PARTY BENEFICIARIES. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) PUBLICITY. The Buyer shall have the right to approve before issuance any press release, SEC filing or any other public disclosure made by or on behalf of the Company whatsoever with respect to, in any manner, the Buyer, its purchases hereunder or any aspect of this Agreement or the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Buyer, to make any press release or other public disclosure (including any filings with the SEC) with respect to such transactions as is required by applicable law and regulations so long as the Company and its counsel consult with the Buyer in connection with any such press release or other public disclosure at least two (2) Business Days prior to its release. The Buyer must be provided with a copy thereof at least two (2) Business Days prior to any release or use by the Company thereof. The Company agrees and acknowledges that its failure to fully comply with this provision constitutes a material adverse effect on its ability to perform its obligations under this Agreement.



(j) FURTHER ASSURANCES. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) TERMINATION. This Agreement may be terminated only as follows:

(i) By the Buyer any time an Event of Default exists without any liability or payment to the Company. However, if pursuant to or within the meaning of any Bankruptcy Law, the Company commences a voluntary case or any Person commences a proceeding against the Company, a Custodian is appointed for the Company or for all or substantially all of its property, or the Company makes a general assignment for the benefit of its creditors, (any of which would be an Event of Default as described in Sections 9(f), 9(g) and 9(h) hereof)

this Agreement shall automatically terminate without any liability or payment to the Company without further action or notice by any Person. No such termination of this Agreement under this Section 11(k)(i) shall affect the Company's or the Buyer's obligations under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.

(ii) In the event that the Commencement shall not have occurred, the Company shall have the option to terminate this Agreement for any reason or for no reason without liability of any party to any other party.

(iii) In the event that the Commencement shall not have occurred on or before July 1, 2007, due to the failure to satisfy the conditions set forth in Sections 6 and 7 above with respect to the Commencement, the nonbreaching party shall have the option to terminate this Agreement at the close of business on such date or thereafter without liability of any party to any other party.

(iv) If by the Maturity Date for any reason or for no reason the full Available Amount under this Agreement has not been purchased as provided for in Section 1 of this Agreement, by the Buyer without any liability or payment to the Company.

(v) At any time after the Commencement Date, the Company shall have the option to terminate this Agreement for any reason or for no reason by delivering notice (a "Company Termination Notice") to the Buyer electing to terminate this Agreement without any liability or payment to the Buyer. The Company Termination Notice shall not be effective until one (1) Business Day after it has been received by the Buyer.

(vi) This Agreement shall automatically terminate on the date that the Company sells and the Buyer purchases the full Available Amount as provided herein, without any action or notice on the part of any party.

Except as set forth in Sections 11(k)(i) (in respect of an Event of Default under Sections 9(f), 9(g) and 9(h)) and 11(k)(vi), any termination of this Agreement pursuant to this Section 11(k) shall be effected by written notice from the Company to the Buyer, or the Buyer to the Company, as the case may be, setting forth the basis for the termination hereof. The representations and warranties of the Company and the Buyer contained in Sections 2, 3 and 5 hereof, the indemnification provisions set forth in Section 8 hereof and the agreements and covenants set forth in Section 11, shall survive the Commencement and any termination of this Agreement. No termination of this Agreement shall affect the Company's or the Buyer's rights or obligations (i) under the Registration Rights Agreement which shall survive any such termination or (ii) under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.



(l) NO FINANCIAL ADVISOR, PLACEMENT AGENT, BROKER OR FINDER. The Company represents and warrants to the Buyer that it has not engaged any financial advisor, placement agent, broker or finder in connection with the transactions contemplated hereby. The Buyer represents and warrants to the Company that it has not engaged any financial advisor, placement agent, broker or finder in connection with the transactions contemplated hereby. The Company shall be responsible for the payment of any fees or commissions, if any, of any financial advisor, placement agent, broker or finder relating to or arising out of the transactions contemplated hereby. The Company shall pay, and hold the Buyer harmless against, any liability, loss or expense (including, without limitation, attorneys' fees and out of pocket expenses) arising in connection with any such claim.

(m) NO STRICT CONSTRUCTION. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(n) REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The

Buyer's remedies provided in this Agreement shall be cumulative and in addition to all other remedies available to the Buyer under this Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief), no remedy of the Buyer contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit the Buyer's right to pursue actual damages for any failure by the Company to comply with the terms of this Agreement. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

(0) ENFORCEMENT COSTS. If: (i) this Agreement is placed by the Buyer in the hands of an attorney for enforcement or is enforced by the Buyer through any legal proceeding; or (ii) an attorney is retained to represent the Buyer in any bankruptcy, reorganization, receivership or other proceedings affecting creditors' rights and involving a claim under this Agreement; or (iii) an attorney is retained to represent the Buyer in any other proceedings whatsoever in connection with this Agreement, then the Company shall pay to the Buyer, as incurred by the Buyer, all reasonable costs and expenses including attorneys' fees incurred in connection therewith, in addition to all other amounts due hereunder.

(p) FAILURE OR INDULGENCE NOT WAIVER. No failure or delay in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

* * * * *



IN WITNESS WHEREOF, the Buyer and the Company have caused this Common Stock Purchase Agreement to be duly executed as of the date first written above.

THE COMPANY:

AETHLON MEDICAL, INC.

By:_____
Name: James A. Joyce
Title: Chief Executive Officer

BUYER:

FUSION CAPITAL FUND II, LLC
BY: FUSION CAPITAL PARTNERS, LLC
BY: ROCKLEDGE CAPITAL CORPORATION

By:_____
Name: Joshua B. Scheinfeld
Title: President



SCHEDULES
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| | |
|---|---|
| Schedule 3(a) | Subsidiaries |
| Schedule 3(c) | Capitalization |

Schedule 3(e) Conflicts
Schedule 3(f) 1934 Act Filings
Schedule 3(g) Material Changes
Schedule 3(h) Litigation
Schedule 3(k) Intellectual Property
Schedule 3(m) Liens
Schedule 3(q) Certain Transactions

EXHIBITS
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Exhibit A Form of Company Counsel Opinion
Exhibit B Form of Officer's Certificate
Exhibit C Form of Resolutions of Board of Directors of the Company
Exhibit D Form of Secretary's Certificate
Exhibit E Form of Letter to Transfer Agent



DISCLOSURE SCHEDULES

SCHEDULE 3(A) - SUBSIDIARIES:
- ---

The company has four wholly-owned dormant subsidiaries; Aethlon, Inc.; Hemex, Inc.; Syngen Research, Inc. and Cell Activation, Inc.

SCHEDULE 3(C) - CAPITALIZATION:
- ---

Outstanding debt:

<TABLE>
<S> <C>

| ORIGINAL DATE | MATURITY OR EXPIRY DATE | STATUS | DESCRIPTION | NOTE HOLDER | BALANCE 03/23/07 |
|---|---|---|---|---|---|
| 8/9/99 | ? | DEFAULT | Note with Warrant | Coughlin | $50,000 |
| 11/10/99 | ? | DEFAULT | Notes | Smith, W. | $25,000 |
| 11/11/99 | ? | DEFAULT | Notes | Palmiter | $25,000 |
| 11/15/99 | ? | DEFAULT | Note with Warrant | Hayden | $25,000 |
| 12/1/99 | ? | DEFAULT | Notes | Reid | $12,500 |
| 3/23/00 | ? | DEFAULT | Note with Warrant | Deaton | $50,000 |
| 3/28/00 | ? | DEFAULT | Notes | Jenkins | $25,000 |
| 4/18/00 | ? | DEFAULT | Notes | Harris | $10,000 |
| 5/25/00 | ? | DEFAULT | Notes | Rockwell | $12,500 |
| 6/26/00 | ? | DEFAULT | Notes | Weir | $12,500 |
| 10/16/01 | 4/17/02 | DEFAULT | Notes | Drake | $5,000 |
| 4/30/03 | 6/25/03 | DEFAULT | Note | Jill Brodersen | $150,000 |
| 05/27/05 | 12/1/05 | DEFAULT | Note with Warrant | Tompkins, Rodney | $100,000 |
| NOTES PAYABLE | | | | | $502,500 |
| 7/11/05 | 1/2/07 | EFFECTIVE | Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $105,000 |
| 8/2/05 | 1/2/07 | EFFECTIVE | Convertible Note - $0.20 - w/ Warrants | Allan S Bird | $25,000 |
| 8/2/05 | 1/2/07 | EFFECTIVE | Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $25,000 |
| 8/19/05 | 1/2/07 | EFFECTIVE | Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $50,000 |
| 8/31/05 | 1/2/07 | EFFECTIVE | Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $100,000 |

| | | | | |
|---|---|---|---|---|
| 9/1 4/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $75,000 |
| 9114/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Allan S Bird | $25,000 |
| 9/30/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $100,000 |
| 1017/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $50,000 |
| 10(7/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Allan S Bird | $50,000 |
| 10/14/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $50,000 |
| 10/14105 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Allan S Bird | $25,000 |
| 10/19/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $25,000 |
| 11/4/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $50,000 |
| 11/7/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Allan S. Bird | $50,000 |
| 12/9/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $50,000 |
| 12/13/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $75,000 |
| 12/14/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Ellen R Weiner Family Revocable Trust | $20,000 |
| 12/14/05 | 1/2/07 | EFFECTIVE Convertible Note - $0.20 - w/ Warrants | Allan S. Bird | $50,000 |
| 12/15/06 | 3/15/07 | EFFECTIVE Convertible Note - $0.17 - w/ Warrants | Phillip A Ward Trust | $33,000 |
| 12/15/06 | 3/15/07 | EFFECTIVE Convertible Note - $0.17 - w/ Warrants | Daniel J Ukkestad | $17,000 |
| CONVERTIBLE NOTES PAYABLE | | | | $1,050,000 |



Warrants:

| | GRANT DATE | EXPIRATION DATE | EXERCISE PRICE | WARRANTS |
|---|---|---|---|---|
| Richardson Patel | 05/31/04 | 12/07/09 | $ 0.76 | 225,000 |
| Mark Abdou | 05/13/04 | 12/07/09 | $ 0.76 | 45,455 |
| Addison Adams | 05/31/04 | 12/07/09 | $ 0.76 | 45,455 |
| AS Capital Partners | 05/31/04 | 12/07/09 | $ 0.76 | 113,636 |
| Jud Hogan | 05/31/04 | 12/07/09 | $ 0.76 | 25,000 |
| Peter Hogan | 05/31/04 | 12/07/09 | $ 0.76 | 11,364 |
| Ryan Hong | 05/31/04 | 12/07/09 | $ 0.76 | 11,364 |
| L'Vrocha Equities | 05/31/04 | 12/07/09 | $ 0.76 | 113,636 |
| Marketwise Trading | 05/31/04 | 12/07/09 | $ 0.76 | 272,727 |
| MF Investments, LLC | 05/31/04 | 12107/09 | $ 0.76 | 56,818 |
| Benjamin Padnos | 05/31/04 | 12/07/09 | $ 0.76 | 50,000 |
| Greg Suess | 05/31/04 | 12/07/09 | $ 0.76 | 22,727 |
| Linda Sharkus | 05/31/04 | 12/07/09 | $ 0.76 | 22,727 |
| Sima Yakoby | 05/31/04 | 12/07/09 | $ 0.76 | 56,818 |
| RP Capital | 05/20/04 | 12/07/09 | $ 0.76 | 113,636 |
| Michael Burchard | 10/06/04 | 10/06/07 | $ 0.50 | 80,000 |
| Michael Burchard | 10/06/04 | 10/06/07 | $ 0.90 | 44,444 |
| Robert Burchard | 10/06/04 | 10/06/07 | $ 0.50 | 80,000 |
| Robert Burchard | 10/06/04 | 10/06/07 | $ 0.90 | 44,444 |
| Phillip A Ward Trust (03/04/96) | 11/14/06 | 11/14/11 | $ 0.50 | 100,000 |
| Phillip A Ward Trust (03/04/96) | 10/20/04 | 10/20/07 | $ 0.90 | 55,555 |
| Michael Burchard | 1/10/05 | 10/10/08 | $ 0.44 | 55,556 |
| Phillip A Ward Trust (03/04/96) | 02/02/05 | 02/02/08 | $ 0.34 | 90,000 |
| Phillip A Ward Trust (03/04/96) | 05/16/05 | 05/16/08 | $ 0.176 | 100,000 |
| Fusion Capital | 05/16/05 | 05/16/10 | $ 0.25 | 300,000 |
| Richardson and Patel - Nimish | 06/22/05 | 05/11/08 | $ 0.25 | 418,365 |
| Ellen R Weiner Family Revocable Trust | 7/11/05 | 07/11/08 | $ 0.20 | 525,000 |
| Allan S Bird | 8/2/05 | 08/02/08 | $ 0.20 | 125,000 |
| Ellen R Weiner Family Revocable Trust | 8/2/05 | 08/02/06 | $ 0.20 | 125,000 |
| Ellen R Weiner Family Revocable Trust | 8/19/05 | 08/19/08 | $ 0.20 | 250,000 |

| | | | | |
|---|---|---|---|---|
| Ellen R Weiner Family Revocable Trust | 8/31/05 | 08/31/08 | $ 0.20 | 500,000 |
| Ellen R Weiner Family Revocable Trust | 9/14/05 | 09/14/08 | $ 0.20 | 375,000 |
| Allan S Bird | 9/14/05 | 09/14/08 | $ 0.20 | 125,000 |
| Ellen R Weiner Family Revocable Trust | 9/30/05 | 09/30/08 | $ 0.20 | 500,000 |
| Ellen R Weiner Family Revocable Trust | 10/7/05 | 10/07/08 | $ 0.20 | 250,000 |
| Allan S. Bird | 10/7/05 | 10/07/08 | $ 0.20 | 250,000 |
| Ellen R Weiner Family Revocable Trust | 10/14/05 | 10/14/08 | $ 0.20 | 250,000 |
| Allan S. Bird | 10/14/05 | 10/14/08 | $ 0.20 | 125,000 |
| Ellen R Weiner Family Revocable Trust | 10/19/05 | 10/19/08 | $ 0.20 | 125,000 |
| Ellen R Weiner Family Revocable Trust | 11/4/05 | 11/04/08 | $ 0.20 | 250,000 |
| Allan S. Bird | 11/7/05 | 11/07/08 | $ 0.20 | 250,000 |
| Ellen R Weiner Family Revocable Trust | 12/9/05 | 12/09/08 | $ 0.20 | 250,000 |
| Ellen R Weiner Family Revocable Trust | 12/13/05 | 12/13/08 | $ 0.20 | 375,000 |
| Ellen R Weiner Family Revocable Trust | 12/14/05 | 12/14/08 | $ 0.20 | 100,000 |
| Allan S. Bird | 12/14/05 | 12/14/08 | $ 0.20 | 250,000 |
| Fusion Capital Fund II, LLC | 03/31/06 | 03/31/11 | $ 0.76 | 568,181 |
| Phillip A. Ward Trust | 11/14/06 | 11/14/11 | $ 0.18 | 555,556 |
| Phillip A. Ward Trust | 11/14/06 | 11/14/11 | $ 0.18 | 555,556 |
| Phillip A. Ward Trust | 12/15/06 | 12/15/11 | $ 0.17 | 194,118 |
| Phillip A. Ward Trust | 12/15/06 | 12/15/11 | $ 0.17 | 194,118 |
| Daniel J Ukkestad | 12/15/06 | 12/15/11 | $ 0.17 | 100,000 |
| Daniel J Ukkestad | 12/15/06 | 12/15/11 | $ 0.17 | 100,000 |
| Ellen R Weiner Family Revocable Trust | 03/05/07 | 0 1/02/1 1 | $ 0.20 | 527,577 |
| Ellen R Weiner Family Revocable Trust | NA | NA | $ 0.20 | 263,789 |
| Allan Bird Estate | 03/05/07 | 01/02/11 | $ 0.20 | 148,959 |
| Allan Bird Estate | NA | NA | $ 0.20 | 74,480 |
| Hoffmann/Claypoole | 03/05/07 | 01/02/11 | $ 0.20 | 8,792 |
| Hoffmann/Claypoole | NA | NA | $ 0.20 | 4,396 |
| | | | | 10,850,249 |



Stock Options:

| | GRANT DATE | EXPIRATION DATE | EXERCISE PRICE | OUTSTANDING 3/23/07 |
|---|---|---|---|---|
| Tullis, Richard H. | Mar. 2001 | 12-31-10 | $ 2.56 | 30,000 |
| Broenniman | Oct. 2000 | 9-24-10 | $ 3.75 | 2,500 |
| Haglund, Bruce H. | Sept. 2000 | 7-15-08 | $ 2.00 | 7,500 |
| Burkhalter, Alton G. | Sept. 2000 | 7-15-08 | $ 2.00 | 7,500 |
| Barry, Franklyn S. Jr. | Nov. 2001 | 11-29-11 | $ 1.84 | 1,867 |
| Broenniman | Nov. 2001 | 11-29-11 | $ 1.78 | 3,000 |
| Stefanovich, Robert S. | July 2001 | 7-15-11 | $ 2.25 | 50,000 |
| Tullis, Richard H. | 03/12/02 | March 2012 | $ 1.90 | 250,000 |
| Jim Joyce | 02/23/05 | 2/23/10 | $ 0.38 | 1,115,550 |
| | | 12/31/10 | $ 0.38 | 557,775 |
| | | 12/31/11 | $ 0.36 | 557,775 |
| Rick Tullis | 02/23/05 | 2/23/10 | $ 0.36 | 867,175 |
| | | 12/31/10 | $ 0.38 | 433,588 |
| | | 12/31/11 | $ 0.38 | 433,587 |
| Ed Broenniman | 02/23/05 | 2/23/10 | $ 0.38 | 205,825 |
| | | 12/31/10 | $ 0.38 | 154,362 |
| | | 12/31/11 | $ 0.38 | 154,363 |
| Frank Barry | 02/23/05 | 2/23/10 | $ 0.38 | 205,825 |
| | | 12/31/10 | $ 0.38 | 154,362 |
| | | 12/31/11 | $ 0.38 | 154,363 |
| Dorst, James | 8/1/05 | 08/01/08 | $ 0.23 | 500,000 |
| Joyce, James | 9/9/05 | 09/09/15 | $ 0.21 | 2,857,143 |
| Handley, Harold | 10/02/06 | 10/02/16 | $ 0.27 | 500,000 |
| | | | | 9,204,060 |

</TABLE>



Agreements to register the sale of securities:

Under the terms of the Company's 10% Series A Convertible Notes, associated Registration Rights Agreements and Allonges (dated March 5, 2007; signed by the Company but, yet to be executed by the Noteholders) the Company is obligated to amend/or file a new registration statement with the SEC for the shares underlying the original SB-2 filing (January 2006) and Allonge shares by March 31, 2007.

SCHEDULE 3(e) - NO CONFLICTS:
- ----------

None

SCHEDULE 3(f) - 1934 ACT FILINGS:
- ----------

On August 1, 2006, the Company received a letter from the SEC questioning the treatment of its accounting for warrants issued with our 10% Series A Convertible Notes under EITF 00-19 within the Company's Form 10-KSB filed for the fiscal year ending March 31, 2006. Management and our auditors immediately responded and on August 29, 2006 we were notified by the Commission that their review was complete, and that we apparently had properly valued and disclosed the warrant obligation.

SCHEDULE 3(g) - ABSENCE OF CERTAIN CHANGES:
- ----------

None

SCHEDULE 3(h) - LITIGATION:
- ----------

None

SCHEDULE 3(k) - INTELLECTUAL PROPERTY RIGHTS:
- ----------

No material intellectual property rights have expired over the prior two years, nor are any slated to run to term within the next two years.

SCHEDULE 3(m) - TITLE:
- ----------

None

SCHEDULE 3(q) - TRANSACTIONS WITH AFFILIATES:
- ----------

None



EXHIBIT A
---

FORM OF COMPANY COUNSEL OPINION

Capitalized terms used herein but not defined herein, have the meaning set forth in the Common Stock Purchase Agreement. Based on the foregoing, and subject to the assumptions and qualifications set forth herein, we are of the opinion that:

1. The Company is a corporation existing and in good standing under the laws of the State of Nevada. The Company is qualified to do business as a foreign corporation and is in good standing in the States of California.

2. The Company has the corporate power to execute and deliver, and perform its obligations under, each Transaction Document to which it is a party. The Company has the corporate power to conduct its business as, to the best of our knowledge, it is now conducted, and to own and use the properties

owned and used by it.

3. The execution, delivery and performance by the Company of the Transaction Documents to which it is a party have been duly authorized by all necessary corporate action on the part of the Company. The execution and delivery of the Transaction Documents by the Company, the performance of the obligations of the Company thereunder and the consummation by it of the transactions contemplated therein have been duly authorized and approved by the Company's Board of Directors and no further consent, approval or authorization of the Company, its Board of Directors or its stockholders is required. The Transaction Documents to which the Company is a party have been duly executed and delivered by the Company and are the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, liquidation or similar laws relating to, or affecting creditor's rights and remedies.

4. The execution, delivery and performance by the Company of the Transaction Documents, the consummation by the Company of the transactions contemplated thereby including the offering, sale and issuance of the Commitment Shares, and the Purchase Shares in accordance with the terms and conditions of the Common Stock Purchase Agreement, and fulfillment and compliance with terms of the Transaction Documents, does not and shall not: (i) conflict with, constitute a breach of or default (or an event which, with the giving of notice or lapse of time or both, constitutes or could constitute a breach or a default), under (a) the Certificate of Incorporation or the Bylaws of the Company, (b) any material agreement, note, lease, mortgage, deed or other material instrument to which to our knowledge the Company is a party or by which the Company or any of its assets are bound, (ii) result in any violation of any statute, law, rule or regulation applicable to the Company, or (iii) to our knowledge, violate any order, writ, injunction or decree applicable to the Company or any of its subsidiaries.

5. The issuance of the Purchase Shares and Commitment Shares pursuant to the terms and conditions of the Transaction Documents has been duly authorized and the Commitment Shares and the Initial Purchase Shares have been validly issued, fully paid and non-assessable, to our knowledge, free of all taxes, liens, charges, restrictions, rights of first refusal and preemptive rights. 6,000,000 shares of Common Stock have been properly reserved for issuance under the Common Stock Purchase Agreement. When issued and paid for in accordance with the Common Stock Purchase Agreement, the Purchase Shares shall be validly issued, fully paid and non-assessable, to our knowledge, free of all



taxes, liens, charges, restrictions, rights of first refusal and preemptive rights. To our knowledge, the execution and delivery of the Registration Rights Agreement do not, and the performance by the Company of its obligations thereunder shall not, give rise to any rights of any other person for the registration under the 1933 Act of any shares of Common Stock or other securities of the Company which have not been waived.

6. As of the date hereof, the authorized capital stock of the Company consists of _____ shares of common stock, par value $_____ per share, of which to our knowledge _____ shares are issued and outstanding. Except as set forth on Schedule 3(c) of the Common Stock Purchase Agreement, to our knowledge, there are no outstanding shares of capital stock or other securities convertible into or exchangeable or exercisable for shares of the capital stock of the Company.

7. Assuming the accuracy of the representations and your compliance with the covenants made by you in the Transaction Documents, the offering, sale and issuance of the Commitment Shares and the Initial Purchase Shares to you pursuant to the Transaction Documents is exempt from registration under the 1933 Act and the securities laws and regulations of the State of California.

8. Other than that which has been obtained and completed prior to the date hereof, no authorization, approval, consent, filing or other order of any federal or state governmental body, regulatory agency, or stock exchange or market, or any court, or, to our knowledge, any third party is required to be obtained by the Company to enter into and perform its obligations under the Transaction Documents or for the Company to issue and sell the Purchase Shares as contemplated by the Transaction Documents.

9. The Common Stock is registered pursuant to Section 12(g) of the 1934 Act. To our knowledge, since, January 1, 2006, the Company has been in compliance with the reporting requirements of the 1934 Act applicable to it To our knowledge, since January 1, 2006, the Company has not received any written notice from the Principal Market stating that the Company has not been in compliance with any of the rules and regulations (including the requirements for continued listing) of the Principal Market.

We further advise you that to our knowledge, except as disclosed on Schedule 3(h) in the Common Stock Purchase Agreement, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body, any governmental agency, any stock exchange or market, or self-regulatory organization, which has been threatened in writing or which is currently pending against the Company, any of its subsidiaries, any officers or directors of the Company or any of its subsidiaries or any of the properties of the Company or any of its subsidiaries.



In addition, we have participated in the preparation of the Registration Statement (SEC File #_____) covering the sale of the Purchase Shares, the Commitment Shares including the prospectus dated _____, contained therein and in conferences with officers and other representatives of the Company (including the Company's independent auditors) during which the contents of the Registration Statement and related matters were discussed and reviewed and, although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement, on the basis of the information that was developed in the course of the performance of the services referred to above, considered in the light of our understanding of the applicable law, nothing came to our attention that caused us to believe that the Registration Statement (other than the financial statements and schedules and the other financial and statistical data included therein, as to which we express no belief), as of their dates, contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.



EXHIBIT B
---

FORM OF OFFICER'S CERTIFICATE

This Officer's Certificate ("CERTIFICATE") is being delivered pursuant to Section 7(e) of that certain Common Stock Purchase Agreement dated as of March 21, 2007, ("COMMON STOCK PURCHASE AGREEMENT"), by and between AETHLON MEDICAL, INC., a Nevada corporation (the "COMPANY"), and FUSION CAPITAL FUND II, LLC (the "BUYER"). Terms used herein and not otherwise defined shall have the meanings ascribed to them in the Common Stock Purchase Agreement.

The undersigned, James W. Dorst, Chief Financial Officer of the Company, hereby certifies as follows:

1. I am the Chief financial Officer of the Company and make the statements contained in this Certificate;

2. The representations and warranties of the Company are true and correct in all material respects (except to the extent that any of

such representations and warranties is already qualified as to materiality in Section 3 of the Common Stock Purchase Agreement, in which case, such representations and warranties are true and correct without further qualification) as of the date when made and as of the Commencement Date as though made at that time (except for representations and warranties that speak as of a specific date);

3. The Company has performed, satisfied and complied in all material respects with covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Commencement Date.

4. The Company has not taken any steps, and does not currently expect to take any steps, to seek protection pursuant to any Bankruptcy Law nor does the Company or any of its Subsidiaries have any knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy or insolvency proceedings. The Company is financially solvent and is generally able to pay its debts as they become due.

IN WITNESS WHEREOF, I have hereunder signed my name on this ___ day of _____.

_____
James W. Dorst:
Chief Financial Officer

The undersigned as Secretary of AETHLON MEDICAL, INC., a Nevada corporation, hereby certifies that James A. Joyce is the duly elected, appointed, qualified and acting Secretary of Aethlon Medical, Inc. and that the signature appearing above is his genuine signature.

_____
James A. Joyce



EXHIBIT C-1
---

FORM OF COMPANY RESOLUTIONS
FOR SIGNING PURCHASE AGREEMENT

UNANIMOUS WRITTEN CONSENT OF
AETHLON MEDICAL, INC.

The undersigned, being all of the members of the Board of Directors of Aethlon Medical, Inc., a Nevada corporation (the "Corporation"), acting pursuant to the autority Granted by Section 78.315 of the Nevada General Corporation Law, do hereby adopt the following resolutions by written consent as of March 21, 2007:

WHEREAS, there has been presented to the Board of Directors of the Corporation a draft of the Common Stock Purchase Agreement (the "Purchase Agreement") by and between the Corporation and Fusion Capital Fund II, LLC ("Fusion"), providing for the purchase by Fusion of up to Eight Million Four Hundred Thousand Dollars ($8,400,000) of the Corporation's common stock, par value $0.001 (the "Common Stock"); and

WHEREAS, after careful consideration of the Purchase Agreement, the documents incident thereto and other factors deemed relevant by the Board of Directors, the Board of Directors has determined that it is advisable and in the best interests of the Corporation to engage in the transactions contemplated by the Purchase Agreement, including, but not limited to, the issuance of 1,050,000 shares of Common Stock to Fusion as a commitment fee (the "Commitment Shares") and the sale of shares of Common Stock to Fusion up to the available amount under the Purchase Agreement (the "Purchase Shares").

TRANSACTION DOCUMENTS
---

NOW, THEREFORE, BE IT RESOLVED, that the transactions described in the Purchase Agreement are hereby approved and James A. Joyce and James W. Dorst

(the "Authorized Officers") are severally authorized to execute and deliver the Purchase Agreement, and any other agreements or documents contemplated thereby including, without limitation, a registration rights agreement (the "Registration Rights Agreement") providing for the registration of the shares of the Company's Common Stock issuable in respect of the Purchase Agreement on behalf of the Corporation, with such amendments, changes, additions and deletions as the Authorized Officers may deem to be appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and

FURTHER RESOLVED, that the terms and provisions of the Registration Rights Agreement by and among the Corporation and Fusion are hereby approved and the Authorized Officers are authorized to execute and deliver the Registration Rights Agreement (pursuant to the terms of the Purchase Agreement), with such amendments, changes, additions and deletions as the Authorized Officer may deem appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and

FURTHER RESOLVED, that the terms and provisions of the Form of Transfer Agent Instructions (the "Instructions") are hereby approved and the Authorized Officers are authorized to execute and deliver the Instructions (pursuant to the terms of the Purchase Agreement), with such amendments, changes, additions and deletions as the Authorized Officers may deem appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and



EXECUTION OF PURCHASE AGREEMENT

FURTHER RESOLVED, that the Corporation be and it hereby is authorized to execute the Purchase Agreement providing for the purchase of common stock of the Corporation having an aggregate value of up to $8,400,000.00; and

ISSUANCE OF COMMON STOCK

FURTHER RESOLVED, that the Corporation is hereby authorized to issue 1,050,000 shares of Common Stock to Fusion Capital Fund II, LLC as Commitment Shares and that upon issuance of the Commitment Shares pursuant to the Purchase Agreement, the Commitment Shares shall be duly authorized, validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof; and

FURTHER RESOLVED, that the Corporation is hereby authorized to issue shares of Common Stock upon the purchase of Purchase Shares up to the available amount under the Purchase Agreement in accordance with the terms of the Purchase Agreement and that, upon issuance of the Purchase Shares pursuant to the Purchase Agreement, the Purchase Shares will be duly authorized, validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof; and

FURTHER RESOLVED, THAT THE CORPORATION SHALL INITIALLY RESERVE 7,333,333 SHARES OF COMMON STOCK FOR ISSUANCE AS PURCHASE SHARES UNDER THE PURCHASE AGREEMENT.

APPROVAL OF ACTIONS

FURTHER RESOLVED, that, without limiting the foregoing, the Authorized Officers are, and each of them hereby is, authorized and directed to proceed on behalf of the Corporation and to take all such steps as deemed necessary or

appropriate, with the advice and assistance of counsel, to cause the Corporation to consummate the agreements referred to herein and to perform its obligations under such agreements; and

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed on behalf of and in the name of the Corporation, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further agreements, amendments, documents, certificates, reports, schedules, applications, notices, letters and undertakings and to incur and pay all such fees and expenses as in their judgment shall be necessary, proper or desirable to carry into effect the purpose and intent of any and all of the foregoing resolutions, and that all actions heretofore taken by any officer or director of the Corporation in connection with the transactions contemplated by the agreements described herein are hereby approved, ratified and confirmed in all respects.



IN WITNESS WHEREOF, the Board of Directors has executed and delivered this Consent effective as of March __, 2007. This Written Consent may be executed in counterparts and with facsimile signatures with the effect as if all parties hereto had executed the same document. All counterparts shall be construed together and shall constitute a single Written Consent.

Dated as of March 21, 2007

DIRECTORS:

_____
James A. Joyce

_____
Franklyn S. Barry, Jr.

_____
Edward G. Broenniman

_____
Richard H. Tullis

being all of the directors of AETHLON MEDICAL, INC., a Nevada corporation.



EXHIBIT C-2
---

FORM OF COMPANY RESOLUTIONS APPROVING REGISTRATION STATEMENT

UNANIMOUS WRITTEN CONSENT OF
AETHLON MEDICAL, INC.

The undersigned, being all of the members of the Board of Directors of Aethlon Medical, Inc., a Nevada corporation (the "Corporation"), acting pursuant to the authority Granted by Section 78.315 of the Nevada General Corporation Law, do hereby adopt the following resolutions by written consent as of March 21, 2007:

WHEREAS, there has been presented to the Board of Directors of the Corporation Common Stock Purchase Agreement (the "Purchase Agreement") by and among the Corporation and Fusion Capital Fund II, LLC ("Fusion"), providing for the purchase by Fusion of up to Eight Million Four Hundred Thousand Dollars ($8,400,000) of the Corporation's common stock, par value $0.001 (the "Common Stock"); and

WHEREAS, after careful consideration of the Purchase Agreement, the documents incident thereto and other factors deemed relevant by the Board of Directors, the Board of Directors has approved the Purchase Agreement and the transactions contemplated thereby and the Company has executed and delivered the Purchase Agreement to Fusion; and

WHEREAS, the management of the Corporation has prepared an initial draft of a Registration Statement on Form SB-2 (the "Registration Statement") in order to register the sale of the Purchase Shares and the Commitment Shares (collectively, the "Shares"); and

WHEREAS, the Board of Directors has determined to approve the Registration Statement and to authorize the appropriate officers of the Corporation to take all such actions as they may deem appropriate to effect the offering.

NOW, THEREFORE, BE IT RESOLVED, that the officers and directors of the Corporation be, and each of them hereby is, authorized and directed, with the assistance of counsel and accountants for the Corporation, to prepare, execute and file with the Commission the Registration Statement, which Registration Statement shall be filed substantially in the form presented to the Board of Directors, with such changes therein as the Chief Executive Officer of the Corporation or any Vice President of the Corporation shall deem desirable and in the best interest of the Corporation and its shareholders (such officer's execution thereof including such changes shall be deemed to evidence conclusively such determination); and

FURTHER RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized and directed, with the assistance of counsel and accountants for the Corporation, to prepare, execute and file with the Commission all amendments, including post-effective amendments, and supplements to the Registration Statement, and all certificates, exhibits, schedules, documents and other instruments relating to the Registration Statement, as such officers shall deem necessary or appropriate (such officer's execution and filing thereof shall be deemed to evidence conclusively such determination); and

FURTHER RESOLVED, that the execution of the Registration Statement and of any amendments and supplements thereto by the officers and directors of the Corporation be, and the same hereby is, specifically authorized either personally or by the Authorized Officers as such officer's or director's true and lawful attorneys-in-fact and agents; and



FURTHER RESOLVED, that the Authorized Officers are hereby designated as "Agent for Service" of the Corporation in connection with the Registration Statement and the filing thereof with the Commission, and the Authorized Officers hereby are authorized to receive communications and notices from the

Commission with respect to the Registration Statement; and

FURTHER RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized and directed to pay all fees, costs and expenses that may be incurred by the Corporation in connection with the Registration Statement; and

FURTHER RESOLVED, that it is desirable and in the best interest of the Corporation that the Shares be qualified or registered for sale in various states; that the officers of the Corporation be, and each of them hereby is, authorized to determine the states in which appropriate action shall be taken to qualify or register for sale all or such part of the Shares as they may deem advisable; that said officers be, and each of them hereby is, authorized to perform on behalf of the Corporation any and all such acts as they may deem necessary or advisable in order to comply with the applicable laws of any such states, and in connection therewith to execute and file all requisite papers and documents, including, but not limited to, applications, reports, surety bonds, irrevocable consents, appointments of attorneys for service of process and resolutions; and the execution by such officers of any such paper or document or the doing by them of any act in connection with the foregoing matters shall conclusively establish their authority therefor from the Corporation and the approval and ratification by the Corporation of the papers and documents so executed and the actions so taken; and

FURTHER RESOLVED, that if, in any state where the securities to be registered or qualified for sale to the public, or where the Corporation is to be registered in connection with the public offering of the Shares, a prescribed form of resolution or resolutions is required to be adopted by the Board of Directors, each such resolution shall be deemed to have been and hereby is adopted, and the Secretary is hereby authorized to certify the adoption of all such resolutions as though such resolutions were now presented to and adopted by the Board of Directors; and

FURTHER RESOLVED, that the officers of the Corporation with the assistance of counsel be, and each of them hereby is, authorized and directed to take all necessary steps and do all other things necessary and appropriate to effect the listing of the Shares on the OTC Bulletin Board.

APPROVAL OF ACTIONS
---

FURTHER RESOLVED, that, without limiting the foregoing, the Authorized Officers are, and each of them hereby is, authorized and directed to proceed on behalf of the Corporation and to take all such steps as are deemed necessary or appropriate, with the advice and assistance of counsel, to cause the Corporation to take all such action referred to herein and to perform its obligations incident to the registration, listing and sale of the Shares; and



FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed on behalf of and in the name of the Corporation, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further agreements, amendments, documents, certificates, reports, schedules, applications, notices, letters and undertakings and to incur and pay all such fees and expenses as in their judgment shall be necessary, proper or desirable to carry into effect the purpose and intent of any and all of the foregoing resolutions, and that all actions heretofore taken by any officer or director of the Corporation in connection with the transactions contemplated by the agreements described herein are hereby approved, ratified and confirmed in all respects.

IN WITNESS WHEREOF, the Board of Directors has executed and delivered this Consent effective as of March 21, 2007. This Written Consent may be

executed in counterparts and with facsimile signatures with the effect as if all parties hereto had executed the same document. All counterparts shall be construed together and shall constitute a single Written Consent.

Dated as of March 21, 2007

DIRECTORS:

_____
James A. Joyce

_____
Franklyn S. Barry, Jr.

_____
Edward G. Broenniman

_____
Richard H. Tullis

being all of the directors of AETHLON MEDICAL, INC., a Nevada corporation.



EXHIBIT D
---

FORM OF SECRETARY'S CERTIFICATE

This Secretary's Certificate ("Certificate") is being delivered pursuant to Section 7(k) of that certain Common Stock Purchase Agreement dated as of March 21, 2007, ("Common Stock Purchase Agreement"), by and between AETHLON MEDICAL, INC., a Nevada corporation (the "Company") and FUSION CAPITAL FUND II, LLC (the "Buyer"), pursuant to which the Company may sell to the Buyer up to Eight Million Four Hundred Thousand Dollars ($8,400,000) of the Company's Common Stock, par value $0.001 per share (the "Common Stock"). Terms used herein and not otherwise defined shall have the meanings ascribed to them in the Common Stock Purchase Agreement.

The undersigned, James A. Joyce, Secretary of the Company, hereby certifies as follows:

1. I am the Secretary of the Company and make the statements contained in this Secretary's Certificate.

2. Attached hereto as EXHIBIT A and EXHIBIT B are true, correct and complete copies of the Company's bylaws ("Bylaws") and Certificate of Incorporation ("Articles"), in each case, as amended through the date hereof, and no action has been taken by the Company, its directors, officers or shareholders, in contemplation of the filing of any further amendment relating to or affecting the Bylaws or Articles.

3. Attached hereto as EXHIBIT C are true, correct and complete copies of the resolutions duly adopted by the Board of Directors of the Company on March 21, 2007, at which a quorum was present and acting throughout. Such resolutions have not been amended, modified or rescinded and remain in full force and effect and such resolutions are the only resolutions adopted by the Company's Board of Directors, or

any committee thereof, or the shareholders of the Company relating to or affecting (i) the entering into and performance of the Common Stock Purchase Agreement, or the issuance, offering and sale of the Purchase Shares and the Commitment Shares and (ii) and the performance of the Company of its obligation under the Transaction Documents as contemplated therein.

4. As of the date hereof, the authorized, issued and reserved capital stock of the Company is as set forth on EXHIBIT D hereto.

IN WITNESS WHEREOF, I have hereunder signed my name on this ___ day of _____.

_____
Secretary

The undersigned as _____ of _____, a _____ corporation, hereby certifies that _____ is the duly elected, appointed, qualified and acting Secretary of _____, and that the signature appearing above is his genuine signature.

_____



EXHIBIT E
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FORM OF LETTER TO THE TRANSFER AGENT FOR THE ISSUANCE OF THE COMMITMENTS SHARES AT SIGNING OF THE PURCHASE AGREEMENT

[COMPANY LETTERHEAD]

[DATE]

[TRANSFER AGENT]
_____
_____
_____

Re: Issuance of Common Shares to Fusion Capital Fund II, LLC

Dear _____,

On behalf of AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), you are hereby instructed to issue AS SOON AS POSSIBLE 1,050,000 shares of our common stock in the name of FUSION CAPITAL FUND II, LLC. The share certificate should be dated [DATE OF THE COMMON STOCK PURCHASE AGREEMENT]. I have included a true and correct copy of a unanimous written consent executed by all of the members of the Board of Directors of the Company adopting resolutions approving the issuance of these shares. The shares should be issued subject to the following restrictive legend and NO OTHER LEGEND WHATSOEVER:

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, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

The share certificate should be sent AS SOON AS POSSIBLE VIA OVERNIGHT MAIL to the following address:

Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Attention: Steven Martin

Thank you very much for your help. Please call me at _____ if you have any questions or need anything further.

AETHLON MEDICAL, INC., a Nevada corporation

BY:_____
[name]
[title]

Exhibit 10.43

# REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "AGREEMENT"), dated as of March 21, 2007, by and between AETHLON MEDICAL, INC., a Nevada corporation, (the "COMPANY"), and FUSION CAPITAL FUND II, LLC (together with it permitted assigns, the "BUYER"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Common Stock Purchase Agreement by and between the parties hereto, dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "PURCHASE AGREEMENT").

WHEREAS:

A. The Company has agreed, upon the terms and subject to the conditions of the Purchase Agreement, to issue to the Buyer (i) up to Eight Million Four Hundred Thousand Dollars ($8,400,000) of the Company's common stock, par value $0.001 per share (the "COMMON STOCK") (the "PURCHASE SHARES"), and (ii) such number of shares of Common Stock as is required pursuant to Section 4(e) of the Purchase Agreement (the "COMMITMENT SHARES"); and

B. To induce the Buyer to enter into the Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "1933 ACT"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Buyer hereby agree as follows:

1. DEFINITIONS.

As used in this Agreement, the following terms shall have the following meanings:

a. "INVESTOR" means the Buyer, any transferee or assignee thereof to whom a Buyer assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9 and any transferee or assignee thereof to whom a transferee or assignee assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9.

b. "PERSON" means any person or entity including any corporation, a limited liability company, an association, a partnership, an organization, a business, an individual, a governmental or political subdivision thereof or a governmental agency.

c. "REGISTER," "REGISTERED," and "REGISTRATION" refer to a registration effected by preparing and filing one or more registration statements of the Company in compliance with the 1933 Act and pursuant to Rule 415 under the 1933 Act or any successor rule providing for offering securities on a continuous basis ("RULE 415"), and the declaration or ordering of effectiveness of such registration statement(s) by the United States Securities and Exchange Commission (the "SEC").

d. "REGISTRABLE SECURITIES" means the Purchase Shares which have been, or which may from time to time be, issued or issuable upon purchases of the Available Amount under the Purchase Agreement (without regard to any limitation or restriction on purchases) and the Commitment Shares issued or issuable to the Investor and any shares of capital stock issued or issuable with respect to the Purchase Shares, the Commitment Shares or the Purchase Agreement as a result of any stock split, stock dividend, recapitalization, exchange or similar event or otherwise, without regard to any limitation on purchases under the Purchase Agreement.

e. "REGISTRATION STATEMENT" means the registration statement of the Company covering only the sale of the Registrable Securities.

2. REGISTRATION.

a. MANDATORY REGISTRATION. The Company shall within ten (10) Business Days from the date hereof file with the SEC the Registration Statement. The Registration Statement shall register only the Registrable Securities and no other securities of the Company. The Investor and its counsel shall have a reasonable opportunity to review and comment upon such registration statement or amendment to such registration statement and any related prospectus prior to its filing with the SEC. Investor shall furnish all information reasonably requested by the Company for inclusion therein. The Company shall use its best efforts to have the Registration Statement or amendment declared effective by the SEC at the earliest possible date. The Company shall use reasonable best efforts to keep the Registration Statement effective pursuant to Rule 415 promulgated under the 1933 Act and available for sales of all of the Registrable Securities at all times until the earlier of (i) the date as of which the Investor may sell all of the Registrable Securities without restriction pursuant to Rule 144(k) promulgated under the 1933 Act (or successor thereto) or (ii) the date on which (A) the Investor shall have sold all the Registrable Securities and no Available Amount remains under the Purchase Agreement (the "REGISTRATION PERIOD"). The Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any 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 in which they were made, not misleading.

b. RULE 424 PROSPECTUS. The Company shall, as required by applicable securities regulations, from time to time file with the SEC, pursuant to Rule 424 promulgated under the 1933 Act, the prospectus and prospectus supplements, if any, to be used in connection with sales of the Registrable Securities under the Registration Statement. The Investor and its counsel shall have a reasonable opportunity to review and comment upon such prospectus prior to its filing with the SEC. The Investor shall use its reasonable best efforts to comment upon such prospectus within one (1) Business Day from the date the Investor receives the final version of such prospectus.

c. SUFFICIENT NUMBER OF SHARES REGISTERED. In the event the number of shares available under the Registration Statement is insufficient to cover all of the Registrable Securities, the Company shall amend the Registration Statement or file a new registration statement (a "NEW REGISTRATION STATEMENT"), so as to cover all of such Registrable Securities as soon as practicable, but in any event not later than ten (10) Business Days after the necessity therefor arises. The Company shall use it reasonable best efforts to cause such amendment and/or New Registration Statement to become effective as soon as practicable following the filing thereof.

3. RELATED OBLIGATIONS.

With respect to the Registration Statement and whenever any Registrable Securities are to be registered pursuant to Section 2(b) including on any New Registration Statement, the Company shall use its reasonable best efforts to effect the registration of the Registrable Securities in accordance with the intended method of disposition thereof and, pursuant thereto, the Company shall have the following obligations:



a. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to any registration statement and the prospectus used in connection with such registration statement, which prospectus is to be filed pursuant to Rule 424 promulgated under the 1933 Act, as may be necessary to keep the Registration Statement or any New Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement or any New Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or

sellers thereof as set forth in such registration statement.

b. The Company shall permit the Investor to review and comment upon the Registration Statement or any New Registration Statement and all amendments and supplements thereto at least two (2) Business Days prior to their filing with the SEC, and not file any document in a form to which Investor reasonably objects. The Investor shall use its reasonable best efforts to comment upon the Registration Statement or any New Registration Statement and any amendments or supplements thereto within two (2) Business Days from the date the Investor receives the final version thereof. The Company shall furnish to the Investor, without charge any correspondence from the SEC or the staff of the SEC to the Company or its representatives relating to the Registration Statement or any New Registration Statement.

c. Upon request of the Investor, the Company shall furnish to the Investor, (i) promptly after the same is prepared and filed with the SEC, at least one copy of such registration statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits, (ii) upon the effectiveness of any registration statement, a copy of the prospectus included in such registration statement and all amendments and supplements thereto (or such other number of copies as the Investor may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus, as the Investor may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by the Investor.

d. The Company shall use reasonable best efforts to (i) register and qualify the Registrable Securities covered by a registration statement under such other securities or "blue sky" laws of such jurisdictions in the United States as the Investor reasonably requests, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (y) subject itself to general taxation in any such jurisdiction, or (z) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify the Investor who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.



e. As promptly as practicable after becoming aware of such event or facts, the Company shall notify the Investor in writing of the happening of any event or existence of such facts as a result of which the prospectus included in any registration statement, as then in effect, includes an untrue statement of a material fact or omits 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, and promptly prepare a supplement or amendment to such registration statement to correct such untrue statement or omission, and deliver a copy of such supplement or amendment to the Investor (or such other number of copies as the Investor may reasonably request). The Company shall also promptly notify the Investor in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, and when a registration statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to the Investor by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC for amendments or supplements to any registration statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a registration statement would be appropriate.

f. The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of

any registration statement, or the suspension of the qualification of any Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify the Investor of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

g. The Company shall (i) cause all the Registrable Securities to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) secure designation and quotation of all the Registrable Securities on the Principal Market. The Company shall pay all fees and expenses in connection with satisfying its obligation under this Section.

h. The Company shall cooperate with the Investor to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to any registration statement and enable such certificates to be in such denominations or amounts as the Investor may reasonably request and registered in such names as the Investor may request.

i. The Company shall at all times provide a transfer agent and registrar with respect to its Common Stock.

j. If reasonably requested by the Investor, the Company shall (i) immediately incorporate in a prospectus supplement or post-effective amendment such information as the Investor believes should be included therein relating to the sale and distribution of Registrable Securities, including, without limitation, information with respect to the number of Registrable Securities being sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities; (ii) make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) supplement or make amendments to any registration statement.



k. The Company shall use its reasonable best efforts to cause the Registrable Securities covered by the any registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

l. Within one (1) Business Day after any registration statement which includes the Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel for the Company to deliver, to the transfer agent for such Registrable Securities (with copies to the Investor) confirmation that such registration statement has been declared effective by the SEC in the form attached hereto as EXHIBIT A. Thereafter, if requested by the Buyer at any time, the Company shall require its counsel to deliver to the Buyer a written confirmation whether or not the effectiveness of such registration statement has lapsed at any time for any reason (including, without limitation, the issuance of a stop order) and whether or not the registration statement is current and available to the Buyer for sale of all of the Registrable Securities.

m. The Company shall take all other reasonable actions necessary to expedite and facilitate disposition by the Investor of Registrable Securities pursuant to any registration statement.

4. OBLIGATIONS OF THE INVESTOR.

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a. The Company shall notify the Investor in writing of the information the Company reasonably requires from the Investor in connection with any registration statement hereunder. The Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request.

b. The Investor agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any registration statement hereunder.

c. The Investor agrees that, upon receipt of any notice from the Company of the happening of any event or existence of facts of the kind described in Section 3(f) or the first sentence of 3(e), the Investor will immediately discontinue disposition of Registrable Securities pursuant to any registration statement(s) covering such Registrable Securities until the Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(f) or the first sentence of 3(e). Notwithstanding anything to the contrary, the Company shall cause its transfer agent to promptly deliver shares of Common Stock without any restrictive legend in accordance with the terms of the Purchase Agreement in connection with any sale of Registrable Securities with respect to which an Investor has entered into a contract for sale prior to the Investor's receipt of a notice from the Company of the happening of any event of the kind described in Section 3(f) or the first sentence of 3(e) and for which the Investor has not yet settled.



## 5. EXPENSES OF REGISTRATION.

All reasonable expenses, other than sales or brokerage commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, and fees and disbursements of counsel for the Company, shall be paid by the Company.

## 6. INDEMNIFICATION.

a. To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend the Investor, each Person, if any, who controls the Investor, the members, the directors, officers, partners, employees, agents, representatives of the Investor and each Person, if any, who controls the Investor within the meaning of the 1933 Act or the Securities Exchange Act of 1934, as amended (the "1934 ACT") (each, an "INDEMNIFIED PERSON"), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, "CLAIMS") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("INDEMNIFIED DAMAGES"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in the Registration Statement, any New Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("BLUE SKY FILING"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to the Registration Statement or any New Registration Statement or (iv) any material violation by the Company of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "VIOLATIONS"). The Company shall reimburse each Indemnified Person promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this

Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for use in connection with the preparation of the Registration



Statement, any New Registration Statement or any such amendment thereof or supplement thereto, if such prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e); (ii) with respect to any superceded prospectus, shall not inure to the benefit of any such person from whom the person asserting any such Claim purchased the Registrable Securities that are the subject thereof (or to the benefit of any person controlling such person) if the untrue statement or omission of material fact contained in the superceded prospectus was corrected in the revised prospectus, as then amended or supplemented, if such revised prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e), and the Indemnified Person was promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a violation and such Indemnified Person, notwithstanding such advice, used it; (iii) shall not be available to the extent such Claim is based on a failure of the Investor to deliver or to cause to be delivered the prospectus made available by the Company, if such prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e); and (iv) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investor pursuant to Section 9.

b. In connection with the Registration Statement or any New Registration Statement, the Investor agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement or any New Registration Statement, each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (collectively and together with an Indemnified Person, an "INDEMNIFIED PARTY"), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information about the Investor set forth on EXHIBIT B attached hereto and furnished to the Company by the Investor expressly for use in connection with such registration statement; and, subject to Section 6(d), the Investor will reimburse any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Section 6(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to the Investor as a result of the sale of Registrable Securities pursuant to such registration statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investor pursuant to Section 9.



c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an

Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. The Indemnified Party or Indemnified Person shall cooperate fully with the indemnifying party in connection with any negotiation or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person fully apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its written consent, provided, however, that the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such claim or litigation. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action.

d. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

e. The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.



## 7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that: (i) no seller of Registrable Securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

## 8. REPORTS AND DISCLOSURE UNDER THE SECURITIES ACTS.

With a view to making available to the Investor the benefits of Rule 144 promulgated under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit the Investor to sell securities of the Company to the public without registration ("RULE 144"), the Company agrees, at the Company's sole expense, to:

a. make and keep public information available, as those terms are understood and defined in Rule 144;

b. file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act so long as the Company remains subject to such requirements and the filing of such reports

and other documents is required for the applicable provisions of Rule 144; and

c. furnish to the Investor so long as the Investor owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting and or disclosure provisions of Rule 144, the 1933 Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Investor to sell such securities pursuant to Rule 144 without registration.

d. take such additional action as is requested by the Investor to enable the Investor to sell the Registrable Securities pursuant to Rule 144, including, without limitation, delivering all such legal opinions, consents, certificates, resolutions and instructions to the Company's Transfer Agent as may be requested from time to time by the Investor and otherwise fully cooperate with Investor and Investor's broker to effect such sale of securities pursuant to Rule 144.

The Company agrees that damages may be an inadequate remedy for any breach of the terms and provisions of this Section 8 and that Investor shall, whether or not it is pursuing any remedies at law, be entitled to equitable relief in the form of a preliminary or permanent injunctions, without having to post any bond or other security, upon any breach or threatened breach of any such terms or provisions.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Investor, including by merger or consolidation. The Investor may not assign its rights under this Agreement without the written consent of the Company, other than to an affiliate of the Investor controlled by Steven G. Martin or Joshua B. Scheinfeld.



10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Investor.

11. MISCELLANEOUS.

a. A Person is deemed to be a holder of Registrable Securities whenever such Person owns or is deemed to own of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more Persons with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

b. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:
Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

Telephone: 858-459-7800
Facsimile: 858-332-1739
Attention: Chief Executive Officer

With a copy to:
Richardson & Patel, LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, CA 90404
Telephone: 310-208-1182
Facsimile: 310-208-1154
Attention: Nimish Patel, Esq.



If to the Investor:
Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Telephone: 312-644-6644
Facsimile: 312-644-6244
Attention: Steven G. Martin

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three (3) Business Days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of Illinois, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Illinois or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Illinois. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting the City of Chicago, 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 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 a copy thereof to such party at the address for such 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. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.



e. This Agreement, and the Purchase Agreement constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or

undertakings, other than those set forth or referred to herein and therein. This Agreement and the Purchase Agreement supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties hereto.

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

h. This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

k. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

* * * * * *



IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be duly executed as of day and year first above written.

THE COMPANY:

AETHLON MEDICAL, INC.

By:_____
Name: James A. Joyce
Title: Chief Executive Officer

BUYER:

FUSION CAPITAL FUND II, LLC
BY: FUSION CAPITAL PARTNERS, LLC
BY: ROCKLEDGE CAPITAL CORPORATION

By:_____
Name: Joshua B. Scheinfeld
Title: President



EXHIBIT A

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TO REGISTRATION RIGHTS AGREEMENT

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FORM OF NOTICE OF EFFECTIVENESS
OF REGISTRATION STATEMENT

[Date]

[TRANSFER AGENT]
_____
_____

Re: AETHLON MEDICAL:, INC.

Ladies and Gentlemen:

We are counsel to AETHLON MEDICAL, INC., a Nevada corporation (the "COMPANY"), and have represented the Company in connection with that certain Common Stock Purchase Agreement, dated as of _____, 2007 (the "PURCHASE AGREEMENT"), entered into by and between the Company and Fusion Capital Fund II, LLC (the "BUYER") pursuant to which the Company has agreed to issue to the Buyer shares of the Company's Common Stock, par value $0.001 per share (the "COMMON STOCK"), in an amount up to Eight Million Four Hundred Dollars ($8,400,000) (the "PURCHASE SHARES"), in accordance with the terms of the Purchase Agreement. In connection with the transactions contemplated by the Purchase Agreement, the Company has registered with the U.S. Securities & Exchange Commission the following shares of Common Stock:

(1) 6,000,000 shares of Common Stock to be issued upon purchase from the Company by the Buyer from time to time (the "PURCHASE SHARES.").

(2) 1,050,000 shares of Common Stock which have been issued to the Buyer as a commitment fee (the "COMMITMENT SHARES").

(3) 1,333,333 Purchase Shares of Common Stock previously issued to the Buyer (the "INITIAL PURCHASE SHARES.").

Pursuant to the Purchase Agreement, the Company also has entered into a Registration Rights Agreement, dated as of _____, with the Buyer (the "Registration Rights Agreement") pursuant to which the Company agreed, among other things, to register the Purchase Shares, the Initial Purchase Shares and the Commitment Shares under the Securities Act of 1933, as amended (the "1933 Act"). In connection with the Company's obligations under the Purchase Agreement and the Registration Rights Agreement, on _____, the Company filed a Registration Statement (File No. 333-_____) (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") relating to the sale of the Purchase Shares, the Initial Purchase Shares and the Commitment Shares.

In connection with the foregoing, we advise you that: (1) a member of the SEC's staff has advised us by telephone that the SEC has entered an order declaring the Registration Statement effective under the 1933 Act at _____ P.M. on _____, 2007, (2) we have no knowledge, after telephonic inquiry of a member of the SEC's staff, that any stop order suspending its effectiveness has been issued or that any proceedings for that purpose are pending before, or threatened by, the SEC, (3) the Commitment Shares and the Initial Purchase Shares are available for sale under the 1933 Act pursuant to the Registration Statement and the restrictive legend on the Commitment Shares and the Initial Purchase Shares may be removed and (4) the Purchase Shares are available for sale under the 1933 Act pursuant to the Registration Statement and may be issued without any restrictive legend.

Very truly yours,

[Company Counsel]

By:_____

CC: Fusion Capital Fund II, LLC



EXHIBIT B
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TO REGISTRATION RIGHTS AGREEMENT
---

Information About The Investor Furnished To The Company By The Investor Expressly For Use In Connection With The Registration Statement

As of the date of the Purchase Agreement, Fusion Capital beneficially owned 767,191 shares of common stock of the Company. Steven G. Martin and Joshua B. Scheinfeld, the principals of Fusion Capital, are deemed to be beneficial owners of all of the shares of common stock owned by Fusion Capital. Messrs. Martin and Scheinfeld have shared voting and investment power over the shares being offered under the prospectus filed with the SEC in connection with the transactions contemplated under the Purchase Agreement. Fusion Capital is not a licensed broker dealer or an affiliate of a licensed broker

Exhibit 10.44

FORM OF ALLONGE TO
10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "NOTE"), made by AETHLON MEDICAL, INC, a Nevada corporation (the "Company"), payable to the order of Christian J. Hoffmann III (the "Holder"), in the total principal amount of $10,000.

1. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date. 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 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of $.20 per Unit (the "Interest Payment Rate"). 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"). The Company will pay the accrued Interest through February 15, 2007 by issuing 5,861 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of $.20 per share (the Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of $.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

1.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.



1.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time

prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, 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 Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

1.5 Paragraph 5.1 of the Note is hereby amended and restated in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of $.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of $0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of $0.001. 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 conversion.

1.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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



11.1.3 Except for Events of Default 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

2. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million

shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the Notes are outstanding. If the Holder elects not to designate such a



person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in a BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of $0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above $0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

26.8 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of the

Notes, the Warrants and this Allonge. The Company will bear all reasonable costs associated with the preparation and implementation of this Allonge.

2.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:



"Maturity Date" means January 3, 2008.

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

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

2.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

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. The Notes 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 the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

2.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:

By:
Christian J. Hoffmann III

Exhibit 10.45

FORM OF ALLONGE TO
10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "NOTE"), made by AETHLON MEDICAL, INC, a Nevada corporation (the "Company"), payable to the order of Joel S. Aaronson, Patricia Green, Christina J. Bird, Co-Executors of the Estate of Allan S. Bird (the "Holder"), in the total principal amount of $225,000.

3. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

3.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date 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.

3.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of $.20 per Unit (the "Interest Payment Rate"). 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"). The Company will pay the accrued Interest through February 15, 2007 by issuing 148,959 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of $.20 per share (the Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common



Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of $.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

3.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note.

The Company will pay any Interest that cannot be paid in full Units in cash.

3.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, 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 Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

3.5 Paragraph 5.1 of the Note is hereby amended and restated in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of $.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or



before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of $0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of $0.001. 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 conversion.

3.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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

11.1.3 Except for Events of Default 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

4. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this

Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;



26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in a BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of $0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above $0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

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



4.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

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

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

4.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

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. The Notes 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 the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

4.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:

By:_____
Holder

Exhibit 10.46

FORM OF ALLONGE TO
10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "NOTE"), made by AETHLON MEDICAL, INC, a Nevada corporation (the "Company"), payable to the order of Claypoole Capital, LLC (the "Holder"), in the total principal amount of $5,000.

5. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

5.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date 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.

5.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of $.20 per Unit (the "Interest Payment Rate"). 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"). The Company will pay the accrued Interest through February 15, 2007 by issuing 2,938 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of $.20 per share (the Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of $.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."



5.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

5.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, 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 Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

5.5 Paragraph 5.1 of the Note is hereby amended and restated in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of $.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of $0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of $0.001. 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 conversion.

5.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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

11.1.3 Except for Events of Default 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



6. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in a BONA FIDE transaction or a series of transactions in an amount up to



(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of $0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above $0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

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

6.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

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

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

6.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

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. The Notes 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 the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

6.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:
Claypoole Capital, LLC.

By: _____
Christian J. Hoffmann III

Exhibit 10.47

FORM OF ALLONGE TO
10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "NOTE"), made by AETHLON MEDICAL, INC, a Nevada corporation (the "Company"), payable to the order of the Ellen R. Weiner Family Revocable Trust (the "Holder"), in the total principal amount of $760,000.

7. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

7.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date 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.

7.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of $.20 per Unit (the "Interest Payment Rate"). 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"). The Company will pay the accrued Interest through February 15, 2007 by issuing 527,577 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of $.20 per share (the Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of $.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."



7.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

7.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, 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 Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

7.5 Paragraph 5.1 of the Note is hereby amended and restated in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of $.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of $0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of $0.001. 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 conversion.

7.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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

11.1.3 Except for Events of Default 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



8. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.



26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in a BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of $0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above $0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

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

8.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

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

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

8.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:



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. The Notes 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 the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

8.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:
Ellen R. Weiner Family Revocable Trust

By:_____
Ellen R. Weiner

Exhibit 14

# CODE OF BUSINESS CONDUCT AND ETHICS
(AS APPROVED BY THE BOARD OF DIRECTORS ON _____, 2005)

THIS CODE APPLIES TO EVERY DIRECTOR, OFFICER (INCLUDING THE CHIEF EXECUTIVE OFFICER, PRESIDENT AND CHIEF FINANCIAL OFFICER), AND EMPLOYEE OF AETHLON MEDICAL, INC., (THE "COMPANY").

To further the Company's fundamental principles of honesty, loyalty, fairness and forthrightness, the Board of Directors of the Company (the "BOARD:") has established and adopted this Code of Business Conduct and Ethics (this "CODE"). This Code strives to deter wrongdoing and promote the following six objectives:

- honest and ethical conduct;
- avoidance of conflicts of interest;
- full, fair, accurate, timely and transparent disclosure;
- compliance with applicable government and self-regulatory organization laws, rules and regulations;
- prompt internal reporting of Code violations; and
- accountability for compliance with the Code.

Below, we discuss situations that require application of our fundamental principles and promotion of our objectives. If you believe there is a conflict between this Code and a specific procedure, please consult the Company's Board of Directors for guidance.

Each of our directors, officers and employees is expected to:

- understand the requirements of your position, including Company expectations and governmental rules and regulations that apply to your position;
- comply with this Code and all applicable laws, rules and regulations;
- report any violation of this Code of which you become aware; and
- be accountable for complying with this Code.



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## ETHICS ADMINISTRATOR

All matters concerning this Code shall be heard by the Board of Directors.

## ACCOUNTING POLICIES

The Company will make and keep books, records and accounts, which in reasonable detail accurately and fairly present the Company's transactions. All directors, officers, employees and other persons are prohibited from directly or indirectly falsifying or causing to be false or misleading any financial or accounting book, record or account. You and others are expressly prohibited from directly or indirectly manipulating an audit, and from destroying or tampering with any record, document or tangible object with the intent to obstruct a pending or contemplated audit, review or federal investigation. The commission of, or participation in, one of these prohibited activities or other illegal conduct will subject you to federal penalties, as well as to punishment, up to and including termination of employment.

No director, officer or employee of the Company may directly or indirectly make or cause to be made a materially false or misleading statement, or omit to state, or cause another person to omit to state, any material fact necessary to make statements made not misleading, in connection with the audit of financial statements by independent accountants, the preparation of any required reports whether by independent or internal accountants, or any other work which involves or relates to the filing of a document with the Securities and Exchange Commission ("SEC").

## AMENDMENTS AND MODIFICATIONS OF THIS CODE

There shall be no amendment or modification to this Code except upon approval by the Board of Directors.

In case of any amendment or modification of this Code that applies to an officer or director of the Company, the amendment or modification shall be posted on the Company's website within two days of the board vote or shall be otherwise disclosed as required by applicable law or the rules of any stock exchange or market on which the Company's securities are listed for trading. Notice posted on the website shall remain there for a period of twelve months and shall be retained in the Company's files as required by law.

## ANTI-BOYCOTT AND U.S. SANCTIONS LAWS

The Company must comply with anti-boycott laws of the United States, which prohibit it from participating in, and require us to report to the authorities any request to participate in, a boycott of a country or businesses within a country. If you receive such a request, report it to your immediate superior, our CEO, or to the chairman of the Board of Directors. We will also not engage in business with any government, entity, organization or individual where doing so is prohibited by applicable laws.

## ANTITRUST AND FAIR COMPETITION LAWS

The purpose of antitrust laws of the United States and most other countries is to provide a level playing field to economic competitors and to promote fair competition. No director, officer or employee, under any circumstances or in any context, may enter into any understanding or agreement, whether express or implied, formal or informal, written or oral, with an actual or potential competitor, which would illegally limit or restrict in any way either party's actions, including the offers of either party to any third party. This prohibition includes any action relating to prices, costs, profits, products, services, terms or conditions of sale, market share or customer or supplier classification or selection.

It is our policy to comply with all U.S. antitrust laws. This policy is not to be compromised or qualified by anyone acting for or on behalf of our Company. You must understand and comply with the antitrust laws as they may bear upon your activities and decisions. Anti-competitive behavior in violation of antitrust laws can result in criminal penalties, both for you and for the Company. Accordingly, any question regarding compliance with antitrust laws or your responsibilities under this policy should be directed to our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Any director, officer or employee found to have knowingly participated in violating the antitrust laws will be subject to disciplinary action, up to and including termination of employment.

Below are some scenarios that are prohibited and scenarios that could be prohibited for antitrust reasons. These scenarios are not an exhaustive list of all prohibited and possibly prohibited antitrust conduct.

- Proposals or agreements or understanding, express or implied, formal or informal, written or oral, with any competitor regarding any aspect of competition between the Company and the competitor for sales to third parties;

- Proposals or agreements or understandings with customers which restrict the price or other terms at which the customer may resell or lease any product to a third party; or

- Proposals or agreements or understandings with suppliers which restrict the price or other terms at which the Company may resell or lease any product or service to a third party.

The following business arrangements could raise anti-competition or antitrust law issues. Before entering into them, you must consult with our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel:

- Exclusive arrangements for the purchase or sale of products or services;

- Bundling of goods and services; or

- Agreements to add an employee of the Company to another entity's board of Directors.



## BRIBERY

You are strictly forbidden from offering, promising or giving money, gifts, loans, rewards, favors or anything of value to any governmental official, employee, agent or other intermediary (either inside or outside the United States) which is prohibited by law. Those paying a bribe may subject the Company and themselves to civil and criminal penalties. When dealing with government customers or officials, no improper payments will be tolerated. If you receive any offer of money or gifts that is intended to influence a business decision, it should be reported to your supervisor our CEO or the chairman of the Board of Directors immediately.

The Company prohibits improper payments in all of its activities, whether these activities are with governments or in the private sector.

## COMPLIANCE WITH LAWS, RULES AND REGULATIONS

The Company's goal and intention is to comply with the laws, rules and regulations by which we are governed. In fact, we strive to comply not only with requirements of the law but also with recognized compliance practices. All illegal activities or illegal conduct are prohibited whether or not they are specifically set forth in this Code.

Where law does not govern a situation or where the law is unclear or conflicting, you should discuss the situation with your supervisor, our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Business should always be conducted in a fair and forthright manner. Directors, officers and employees are expected to act according to high ethical standards.

## COMPUTER AND INFORMATION SYSTEMS

For business purposes, officers and employees are provided telephones and computer workstations and software, including network access to computing systems such as the Internet and e-mail, to improve personal productivity and to efficiently manage proprietary information in a secure and reliable manner. You must obtain the permission from your supervisor or our CEO to install any software on any Company computer or connect any personal laptop to the Company network. As with other equipment and assets of the Company, we are each responsible for the appropriate use of these assets. Except for limited personal use of the Company's telephones and computer/e-mail, such equipment may be used only for business purposes. Officers and employees should not expect a right to privacy of their e-mail or Internet use. All e-mails or Internet use on Company equipment is subject to monitoring by the Company.

## CONFIDENTIAL INFORMATION BELONGING TO OTHERS

You must respect the confidentiality of information, including, but not limited to, trade secrets and other information given in confidence by others, just as we protect our own confidential information. This includes, but is not limited to partners, suppliers, contractors, competitors or customers. However, certain restrictions about the information of others may place an unfair burden on the Company's future business. For that reason, directors, officers and employees should coordinate with your supervisor or the CEO to ensure appropriate



agreements are in place prior to receiving any confidential third-party information. In addition, any confidential information that you may possess from an outside source, such as a previous employer, must not, so long as such information remains confidential, be disclosed to or used by the Company. Unsolicited confidential information submitted to the Company should be refused, returned to the sender where possible and deleted, if received via the Internet.

## CONFIDENTIAL AND PROPRIETARY INFORMATION

It is the Company's policy to ensure that all operations, activities and business affairs of the Company and our business associates are kept confidential to the greatest extent possible. Confidential information includes all non-public information that might be of use to competitors, or that might be harmful to the Company or its customers if disclosed. Confidential and proprietary information about the Company or its business associates belongs to the Company, must be treated with strictest confidence and is not to be disclosed or discussed with others.

Unless otherwise agreed to in writing, confidential and proprietary information includes any and all information from which the Company may derive an economic benefit, including, but not limited to, methods, inventions, improvements or discoveries, whether or not patentable or copyrightable, and any other

information of a similar nature disclosed to the directors, officers or employees of the Company or otherwise made known to the Company as a consequence of or through employment or association with the Company (including information originated by the director, officer or employee). This can include, but is not limited to, information regarding the Company's business, products, processes, and services. It also can include information relating to research, development, inventions, trade secrets, intellectual property of any type or description, data, business plans, marketing strategies, engineering, contract negotiations, contents of the Company intranet and business methods or practices.
The following are examples of information that is not considered confidential:

- information that is in the public domain to the extent it is readily available;
- information that becomes generally known to the public other than by disclosure by the Company or a director, officer or employee; or
- information you receive from a party that is under no legal obligation of confidentiality with the Company with respect to such information.

We have exclusive property rights to all confidential and proprietary information regarding the Company or our business associates. The unauthorized disclosure of this information could destroy its value to the Company and give others an unfair advantage. You are responsible for safeguarding Company information and complying with established security controls and procedures All documents, records, notebooks, notes, memoranda and similar repositories of information containing information of a secret, proprietary, confidential or generally undisclosed nature relating to the Company or our operations and activities, including any copies thereof, unless otherwise agreed to in writing, belong to the Company and shall be held by you in trust solely for the benefit of the Company. Confidential or proprietary information must be delivered to the Company by you on the termination of your association with us or at any other time we request.



## CONFLICTS OF INTEREST

Conflicts of interest can arise in virtually every area of our operations. A "conflict of interest" exists whenever an individual's private interests interfere or conflict in any way (or even appear to interfere or conflict) with the interests of the Company. We must strive to avoid conflicts of interest We must each make decisions solely in the best interest of the Company. Any business, financial or other relationship with suppliers, customers or competitors that might impair or appear to impair the exercise of our judgment solely for the benefit of the Company is prohibited.

Here are some examples of conflicts of interest:

- FAMILY MEMBERS--Actions of family members may create a conflict of interest. For example, gifts to family members by a supplier of the Company are considered gifts to you and must be reported. Doing business for the Company with organizations where your family members are employed or that are partially or fully owned by your family members or close friends may create a conflict or the appearance of a conflict of interest. For purposes of this Code "family members" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, and adoptive relationships.

- GIFTS, ENTERTAINMENT, LOANS, OR OTHER FAVORS--Directors, officers and employees shall not seek or accept personal gain, directly or indirectly, from anyone soliciting business from, or doing business with, the Company, or from any person or entity in competition with us. Examples of such personal gains are gifts, non-business-related trips, gratuities, favors, loans, and guarantees of loans, excessive entertainment or rewards. However, you may accept gifts of a nominal value. Other than common business courtesies, directors, officers, employees and independent contractors must not offer or provide anything to any person or organization for the purpose of influencing

the person or organization in their business relationship with us. Directors, officers and employees are expected to deal with advisors or suppliers who best serve the needs of the Company as to price, quality and service in making decisions concerning the use or purchase of materials, equipment, property or services. Directors, officers and employees who use the Company's advisors, suppliers or contractors in a personal capacity are expected to pay market value for materials and services provided.

- OUTSIDE EMPLOYMENT--Officers and employees may not participate in outside employment, self-employment, or serve as officers, directors, partners or consultants for outside organizations, if such activity: o reduces work efficiency;

  - interferes with your ability to act conscientiously in our best interest; or



  - requires you to utilize our proprietary or confidential procedures, plans or techniques.

You must inform your supervisor or the CEO of any outside employment, including the employer's name and expected work hours.

You should report any actual or potential conflict of interest involving yourself or others of which you become aware to your supervisor or our CEO. Officers and directors should report any actual or potential conflict of interest involving yourself or others of which you become aware to the chairman of the Board of Directors.

## CORPORATE OPPORTUNITIES AND USE AND PROTECTION OF COMPANY ASSETS

You are prohibited from:

- taking for yourself, personally, opportunities that are discovered through the use of Company property, information or position;
- using Company property, information or position for personal gain; or
- competing with the Company.

You have a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

You are personally responsible and accountable for the proper expenditure of Company funds, including money spent for travel expenses or for customer entertainment. You are also responsible for the proper use of property over which you have control, including both Company property and funds and property that customers or others have entrusted to your custody. Company assets must be used only for proper purposes.

Company property should not be misused. Company property may not be sold, loaned or given away regardless of condition or value, without proper authorization. Each director, officer and employee should protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. Company assets should be used only for legitimate business purposes.

## DISCIPLINE FOR NONCOMPLIANCE WITH THIS CODE

Disciplinary actions for violations of this Code can include oral or written reprimands, suspension or termination of employment or a potential civil lawsuit against you. The violation of laws, rules or regulations, which can subject the Company to fines and other penalties, may result in your criminal prosecution.

## DISCLOSURE POLICIES AND CONTROLS

The continuing excellence of the Company's reputation depends upon our full and complete disclosure of important information about the Company that is used in

the securities marketplace. Our financial and non-financial disclosures and filings with the SEC must be transparent, accurate and timely. We must all work together to insure that reliable, truthful and accurate information is disclosed to the public.



The Company must disclose to the SEC, current security holders and the investing public information that is required, and any additional information that may be necessary to ensure the required disclosures are not misleading or inaccurate. The Company requires you to participate in the disclosure process, which is overseen by our CEO and CFO. The disclosure process is designed to record, process, summarize and report material information as required by all applicable laws, rules and regulations. Participation in the disclosure process is a requirement of a public company, and full cooperation and participation by our CEO, CFO and, upon request, other employees in the disclosure process is a requirement of this Code.

Officers and employees must fully comply with their disclosure responsibilities in an accurate and timely manner or be subject to discipline of up to and including termination of employment.

## ENVIRONMENT, HEALTH AND SAFETY

The Company is committed to managing and operating our assets in a manner that is protective of human health and safety and the environment. It is our policy to comply, in all material respects, with applicable health, safety and environmental laws and regulations. Each employee is also expected to comply with our policies, programs, standards and procedures.

## FILING OF GOVERNMENT REPORTS

Any reports or information provided, on our behalf, to federal, state, local or foreign governments should be true, complete and accurate. Any omission, misstatement or lack of attention to detail could result in a violation of the reporting laws, rules and regulations.

## FOREIGN CORRUPT PRACTICES ACT

The United States Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to foreign government officials or foreign political candidates in order to obtain, retain or direct business. Accordingly, corporate funds, property or anything of value may not be, directly or indirectly, offered or given by you or an agent acting on our behalf, to a foreign official, foreign political party or official thereof or any candidate for a foreign political office for the purpose of influencing any act or decision of such foreign person or inducing such person to use his influence or in order to assist in obtaining or retaining business for, or directing business to, any person.

You are also prohibited from offering or paying anything of value to any foreign person if it is known or there is a reason to know that all or part of such payment will be used for the above-described prohibited actions. This provision includes situations when intermediaries, such as affiliates, or agents, are used to channel payoffs to foreign officials.



## INSIDER TRADING OR TIPPING

Directors, officers and employees who are aware of material, non-public information from or about the Company (an "INSIDER"), are not permitted, directly or through family members or other persons or entities, to:

- buy or sell securities (or derivatives relating to such securities) of the Company, or

- pass on, tip or disclose material, nonpublic information to others outside the Company including family and friends.

Such buying, selling or trading of securities may be punished by discipline, up to and including termination of employment; civil actions, resulting in penalties of up to three times the amount of profit gained or loss avoided by the inside trade or stock tip, or criminal actions, resulting in fines and jail time.

Examples of information that may be considered material, non-public information in some circumstances are:

- undisclosed annual, quarterly or monthly financial results, a change in earnings or earnings projections, or unexpected or unusual gains or losses in major operations;

- undisclosed negotiations and agreements regarding mergers, concessions, joint ventures, acquisitions, divestitures, business combinations or tender offers;

- undisclosed major management changes;

- a substantial contract award or termination that has not been publicly disclosed;

- a major lawsuit or claim that has not been publicly disclosed;

- the gain or loss of a significant customer or supplier that has not been publicly disclosed;

- an undisclosed filing of a bankruptcy petition by the Company;

- information that is considered confidential; and

- any other undisclosed information that could affect our stock price.

The same policy also applies to securities issued by another company if you have acquired material, nonpublic information relating to such company in the course of your employment or affiliation with the Company.

When material information has been publicly disclosed, each insider must continue to refrain from buying or selling the securities in question until the third business day after the information has been publicly released to allow the markets time to absorb the information.



## INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS AND TRADEMARKS

Except as otherwise agreed to in writing between the Company and an officer or employee, all intellectual property you conceive or develop during the course of your employment shall be the sole property of the Company. The term intellectual property includes any invention, discovery, concept, idea, or writing whether protectable or not by any United States or foreign copyright, trademark, patent, or common law including, but not limited to, designs, materials, compositions of matter, machines, processes, improvements, data, computer software, writings, formula, techniques, know-how, methods, as well as improvements thereof or know-how related thereto concerning any past, present, or prospective activities of the Company. Officers and employees must promptly disclose in writing to the Company any intellectual property developed or conceived either solely or with others during the course of your employment and must render any and all aid and assistance, at our expense, to secure the appropriate patent, copyright, or trademark protection for such intellectual property.

Copyright laws may protect items posted on a website. Unless a website grants

permission to download the Internet content you generally only have the legal right to view the content. If you do not have permission to download and distribute specific website content you should contact your supervisor or our CEO, who may refer you to our legal counsel.

If you are unclear as to the application of this Intellectual Property Policy or if questions arise, please consult with your supervisor or our CEO, who may refer you to our legal counsel.

## INVESTOR RELATIONS AND PUBLIC AFFAIRS

It is very important that the information disseminated about the Company be both accurate and consistent. For this reason, all matters relating to the Company's internal and external communications are handled by our CEO (or, if retained for such purpose, a public relations consultant). Our CEO (or a public relations consultant retained by the Company) is solely responsible for public communications with stockholders, analysts and other interested members of the financial community. Our CEO (or a public relations consultant retained by the Company) is also solely responsible for our marketing and advertising activities and communication with employees, the media, local communities and government officials. Our CEO serves as the Company's spokesperson in both routine and crisis situations.

## POLITICAL CONTRIBUTIONS

You must refrain from making any use of Company, personal or other funds or resources on behalf of the Company for political or other purposes which are improper or prohibited by the applicable federal, state, local or foreign laws, rules or regulations. Company contributions or expenditures in connection with election campaigns will be permitted only to the extent allowed by federal, state, local or foreign election laws, rules and regulations. You are encouraged to participate actively in the political process. We believe that individual participation is a continuing responsibility of those who live in a free country.



## PROHIBITED SUBSTANCES

The use of alcohol, illegal drugs or other prohibited items, including legal drugs which affect the ability to perform one's work duties, are prohibited while on Company premises. We also prohibit the possession or use of alcoholic beverages, firearms, weapons or explosives on our property, unless authorized by our CEO. You are also prohibited from reporting to work while under the influence of alcohol or illegal drugs. We reserve the right to perform pre-employment and random drug testing on employees, as permitted by law.

## RECORD RETENTION

The alteration, destruction or falsification of corporate documents or records may constitute a criminal act. Destroying or altering documents with the intent to obstruct a pending or anticipated official government proceeding is a criminal act and could result in large fines and a prison sentence of up to 20 years. Document destruction or falsification in other contexts can result in a violation of the federal securities laws or the obstruction of justice laws.

## REPORTING VIOLATIONS OF THIS CODE

You should be alert and sensitive to situations that could result in actions that might violate federal, state, or local laws or the standards of conduct set forth in this Code. If you believe your own conduct or that of a fellow employee may have violated any such laws or this Code, you have an obligation to report the matter.

Generally, you should raise such matters first with an immediate supervisor. However, if you are not comfortable bringing the matter up with your immediate supervisor, or do not believe the supervisor has dealt with the matter properly, then you should raise the matter with our CEO who may, if a law, rule or regulation is in question, then refer you to our legal counsel. The most important point is that possible violations should be reported and we support

all means of reporting them.

Directors and officers should report any potential violations of this Code to the chairman of the Board of Directors or to our legal counsel. We will not allow retaliation against an employee for reporting a possible violation of this Code in good faith. Retaliation for reporting a federal offense is illegal under federal law and prohibited under this Code. Retaliation for reporting any violation of a law, rule or regulation or a provision of this Code is prohibited. Retaliation will result in discipline, up to and including termination of employment, and may also result in criminal prosecution. However, if a reporting individual was involved in improper activity the individual may be appropriately disciplined even if he or she was the one who disclosed the matter to the Company. In these circumstances, we may consider the conduct of the reporting individual in reporting the information as a mitigating factor in any disciplinary decision.



## WAIVERS

There shall be no waiver of any part of this Code for any director or officer except by a vote of the Board of Directors. In case a waiver of this Code is granted to a director or officer, the notice of such waiver shall be posted on our website within five days of the Board's vote or shall be otherwise disclosed as required by applicable law or the rules of any stock exchange or market on which the Company's securities are listed for trading. Notices posted on our website shall remain there for a period of 12 months and shall be retained in our files as required by law.

## CONCLUSION

This Code is an attempt to point all of us at the Company in the right direction, but no document can achieve the level of principled compliance that we are seeking. In reality, each of us must strive every day to maintain our awareness of these issues and to comply with the Code's principles to the best of our abilities. Before we take an action, we must always ask ourselves:

- Does it feel right?
- Is this action ethical in every way?
- Is this action in compliance with the law?
- Could my action create an appearance of impropriety?
- Am I trying to fool anyone, including myself, about the propriety of this action?

If an action would elicit the wrong answer to any of these questions, do not take it. We cannot expect perfection, but we do expect good faith. If you act in bad faith or fail to report illegal or unethical behavior, then you will be subject to disciplinary procedures. We hope that you agree that the best course of action is to be honest, forthright and loyal at all times.

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 No. 333-127911 and 333-114017 and 333-49896) of our report, dated July 12, 2007 appearing in this Annual Report on Form 10-KSB of Aethlon Medical, Inc. for the year ended March 31, 2007.

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

Newport Beach, California
July, 12, 2007

Exhibit 31.1

CERTIFICATION

Certification of Chief Executive Officer and President, 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.

I, James A. Joyce, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 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 small business issuer and have:

a) designed such disclosure controls and procedures or cause such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth fiscal quarter that has materially affected, or its reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weakness in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal controls over financial reporting; and

Date: July 13, 2007

/s/ James A. Joyce
- ----------
James A. Joyce
Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

Certification of Chief Financial 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.

I, James W. Dorst, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 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 small business issuer and have:

a) designed such disclosure controls and procedures or cause such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth fiscal quarter that has materially affected, or its reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weakness in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal controls over financial reporting; and

Date: July 13, 2007

/s/ James W. Dorst
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James W. Dorst
Chief Financial Officer

Exhibit 32

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 Aethlon Medical, Inc. Annual Report on Form 10-KSB for the year ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Joyce, Chief Executive Officer and President, and I, James W. Dorst, Chief Financial 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, to the best of our knowledge:

(1) Fully complies with the requirements 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-KSB fairly presents in all material respects the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906, another 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 Manhattan Scientifics, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ James A. Joyce
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James A. Joyce
Chief Executive Officer and President

/s/ James W. Dorst
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James W. Dorst
Chief Financial Officer

July 13, 2007