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, 2008

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.
(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, 2008. The aggregate market value of the Common Stock held by non-affiliates was approximately $15,204,545 based upon the closing price of the Common Stock of $0.39, as reported by the NASDAQ Over-the-Counter Bulletin Board ("OTCBB") on July 7, 2008.

The number of shares of the Common Stock of the registrant outstanding as of July 7, 2008 was 40,286,480.

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 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.

CANCER TREATMENT

We have licensed an invention and related patent rights for a method to treat cancer under an assignment agreement with the London Health Science Center Research, Inc. The invention provides for the "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" 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.

In addition to our efforts to treat infectious disease, we are developing treatments to remove the immunosuppressive activity normally found in the fluid of cancer patients. Studies in 2007, led by Dr. Douglas Taylor at the University of Louisville, have demonstrated that the capture of tumor secreted exosomes by the Hemopurifier(R) does result in reversing immunosuppressive activity. Dr. Taylor is a recognized authority on the causative effects of immune suppression in cancer patients. He is credited with the initial characterization of exosomes and is a leading peer-reviewed author on the subject.

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

Previously, Dr. Taylor documented that 60% of circulating exosomes were removed from the blood of ovarian cancer patients during first pass (approximately 10 minutes) through a small scale Hemopurifier(R). The capture data was consistent over the course of five different studies. Exosomes, are released by solid tumors, lymphomas, and leukemia. They induce T-cell apoptosis (programmed cell death), and block T-cell signaling, proliferation, and cytokine production. High concentrations of circulating exosomes correlate with reduced T-cell production and tumor progression in cancer patients. The ability to reduce the presence of circulating exosomes would reverse immune suppression and increase patient responsiveness to both immunotherapy and chemotherapy. As such, Aethlon believes the Hemopurifier(R) can address a significant unmet medical need in cancer care. Aethlon further disclosed that Dr. Taylor has not received

nor requested any compensation for conducting these research studies.

We have also exercised an option to exclusively license a pending patent entitled, "Method to Inhibit Proliferation and Growth of Metastases" from The Trustees of Boston University. The license provides a rapid development strategy for new cancer therapies by uniting drug agents that inhibit the spread of cancer-related metastases, with filtration techniques already proven in the

Aethlon Hemopurifier(R). The resulting devices would inhibit tumor growth by reducing the presence of circulating growth factors without interfering with surgical wound healing or the recovery of tissue injured by radiation therapy. While the market for anti-growth factor drug agents exceeds $5 billion, there remains a significant unmet clinical need, as these drug agents may not be indicated for use in conjunction with surgical procedures or radiation treatment as they inhibit wound healing and tissue recovery.

MANUFACTURING AND METHODS OF DISTRIBUTION

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. If approved, Hemopurifiers(R) to treat pathogens that are bioweapons candidates will be sold directly to the U.S. military and the federal government, and 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, New York 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 $1,470,000 over the last two fiscal years.

PATENTS

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

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 fails to 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:

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

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

o 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." On February 8, 2007 we entered into an amendment to this agreement to extend its term until August 9, 2007. On April 22, 2008, we entered into the actual license agreement for this patent and as the initial payment under this license will issue shares of our common stock equivalent to 115% of $5,000.

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 the 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 the 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 the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by the FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, the FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may not be equivocal or may otherwise not be sufficient to obtain approval of the product. 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 the 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, the 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, the FDA may request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the 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:

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

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

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

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

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

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

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

FRAUD AND ABUSE.

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

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

INTERNATIONAL.

International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The

time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

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 2007 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 July 7, 2008, we had five full-time employees, comprised of our Chief Executive Officer, our President, our Chief Science Officer, our Director of Investor Relations, one research scientist, and a part-time Senior Vice President of Finance. 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 expired on July 12, 2007. The Company is presently leasing its space on a month to month basis, at the same terms.

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

None

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
2008:		
First Quarter	$ 0.75	$ 0.46
2007:		
Fourth Quarter	0.76	0.49
Third Quarter	0.88	0.57
Second Quarter	0.79	0.55
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

There were approximately 2,100 record holders of our common stock at July 7, 2008. The number of registered shareholders includes any beneficial owners of common shares held in street name.

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

The transfer agent and registrar for our common stock is Computershare

Investor Services, located at 350 Indiana Street, Suite 800, Golden Colorado 80401; 303-262-0600.

RECENT SALES OF UNREGISTERED SECURITIES

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act or Regulation D of the Securities Act during the 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.

WARRANTS ISSUED IN CONNECTION WITH CONVERTIBLE DEBT

On November 2007, the Company entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Amended Notes") with the holders of certain promissory notes previously issued by the Company (the "Prior Notes"), and all amendments to the Prior Notes, including on March 5, 2007.

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

The Amended Notes also provided for the payment of liquidated damages through November 29, 2007 in the aggregate amount $269,336 to be paid in units ("Damages Units") at a fixed rate of $0.40 per Damages Unit, each Damages Unit consisting of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant") to purchase one share of the Company's Common Stock at a fixed exercise price of $0.40 per share. If the Holders exercise the Class A-1 Warrants on or before February 15, 2010, the Company will issue them one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant") for every two Class A-1 Warrants exercised. The Class B-1 Warrants will have a fixed exercise price of $0.40 per share.

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

The following table summarizes the number of shares of the Company's Common Stock issuable upon the conversion of the Amended Notes or the exercise of the various warrants issued or issuable pursuant to the Amended Notes.

Note Conversion	5,000,000
Accrued Interest	1,476,242
Liquidated Damages	673,340
Class A Warrants	1,476,242
Class A-1 Warrants	673,340
Class A Principal Warrants	5,000,000
Class B Warrants	738,121
Class B-1 Warrants	336,670
Total	15,373,955

The Company was obligated to register the shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and to register the Class B-1 Warrants with the SEC by the 30th day following the issuance date of such warrants.

In January 2008, one of the holders of the Amended Notes requested the conversion of $100,000 into our common stock at the agreed conversion rate of $0.20 per share and, as a result, we issued 500,000 shares of common stock to convert the $100,000 note.

In March 2008, a noteholder converted a $150,000 note to common stock at the agreed conversion rate of $0.25 per share along with accumulated interest of approximately $66,000.

$495,000 NOTE WITH WARRANTS FINANCING

On December 5, 2007, the Company entered into a Subscription Agreement with two accredited investors pursuant to which the Company issued and sold promissory notes in the principal amount of $495,000 and three-year warrants to purchase an aggregate of 1,485,000 shares of the Registrant's common stock at a fixed exercise price of $0.50 per share. The promissory notes bear interest compounded monthly at the annual rate of eight percent (8%) and mature on September 5, 2008. The net proceeds to the Company were $440,000.

The warrants associated with this financing did not meet all of the conditions required for equity classification under EITF Issue No. 00-19; consequently, the warrants (with an estimated fair value of $693,050) were accounted for as derivative liabilities at issuance. The Company revalued the warrants at December 31, 2007 and again at March 31, 2008 and the resulting aggregate reduction in the estimated fair value of $252,895 was recorded to derivative income.

$220,000 NOTE WITH WARRANTS FINANCING

On January 18, 2008, the Company entered into a Subscription Agreement with an accredited investor pursuant to which the Company issued and sold promissory notes in the principal amount of $220,000 and three-year warrants to purchase an aggregate of 660,000 shares of the Registrant's common stock at a fixed exercise price of $0.50 per share. The promissory note bears interest compounded monthly at the annual rate of nine percent (9%) and matures on October 19, 2008. The net proceeds to the Company were $220,000.

COMMON STOCK AND WARRANTS

In April 2007, the Company issued 30,617 shares of restricted common stock as the result of a cashless exercise of 80,000 warrants held by a former noteholder.

In April 2007, the Company issued 15,152 shares of restricted common stock at $0.33 per share in payment of an option agreement valued at $5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In April 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In April 2007, the Company issued 3,937 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In May 2007, the Company issued 13,124 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $10,000 based on the value of the services.

In May 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003

Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2007, the Company issued 41,999 shares of restricted common stock at between $0.30 and $0.74 per share in payment for investor relations services to the Company valued at $20,000 based on the value of the services.

In June 2007, the Company issued 17,526 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $10,200 based on the value of the services.

In June 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2007, the Company issued 10,174 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.63 per share in payment for regulatory affairs consulting services to the Company valued at $6,450 based on the value of the services.

In August 2007, the Company issued 1,630,000 shares of common stock for cash proceeds of $815,000 ($757,950 net of commissions). The shares were issued to accredited investors in the form of Units comprised of two shares of common stock and one three-year warrant to acquire common stock at an exercise price of $0.50. The offering price of each Unit was $1.00.

In August 2007, the Company issued 107,153 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at an average price of $0.37 per share in payment of grant writing and regulatory consulting services to the Company valued at $39,963 based upon the value of the services.

In August of 2007, the Company issued 103,106 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.59 per share in payment of legal fees related to general corporate legal services to the Company valued at $62,894 based upon the value of the services provided.

In August 2007, the Company issued 21,020 shares of restricted common stock at prices between $0.68 and $0.78 per share in payment for investor relations services to the Company valued at $15,000 based on the value of the services.

In August 2007, the Company issued 8,264 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at prices between $0.68 and $0.78 per share in payment for regulatory affairs consulting services to the Company valued at $6,000 based on the value of the services.

In September 2007, the Company issued 14,000 shares of common stock to an accredited investor at $0.50 per share in payment of commissions related to the August Private Placement transaction valued at $7,000 based upon the value of services provided.

In September 2007, the Company issued 5,294 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $3,600 based on the value of the services provided.

In October 2007, the Company issued 4,601 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.65 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

In December 2007, the Company issued 330,000 shares of common stock for cash proceeds of $165,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In January 2008, the Company issued 21,992 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $15,000 based on the value of the services provided.

In January 2008, the Company issued 200,000 shares of common stock for cash proceeds of $100,000. The shares were issued to an accredited investor and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In January 2008, the Company issued 500,000 shares of common stock for a conversion of $100,000 of Amended Series A 10% Convertible Notes at the agreed conversion price of $0.20 per share (see Note 6).

In January 2008, the Company issued 18,797 shares of restricted common stock as the result of a cashless exercise of 55,556 warrants held by a former noteholder.

In February 2008, the Company issued 400,000 shares of common stock for cash proceeds of $200,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In February 2008, the Company issued 25,380 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $12,690 based on the value of the services provided.

In February 2008, the Company issued 100,000 shares for cash proceeds of $100,000. The shares were issued to a corporation at a price of $1.00 per share.

In March 2008, the Company issued 13,895 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.54 per share in payment for regulatory affairs consulting services to the Company valued at $7,500 based on the value of the services provided.

In March 2008, the Company issued 865,500 shares of common stock based on the conversion of a $150,000 note plus accumulated interest of approximately $66,000.

In March 2008, the Company issued 167,188 shares of restricted common stock at prices between $0.53 and $0.60 per share in payment for investor relations services and other consulting services to the Company valued at $94,750 based on the value of the services.

In May 2008, we entered into a Private Placement Agreement with Fusion Capital Fund II, LLC, an Illinois limited liability company ("Fusion Capital"), for the sale of 1,000,000 shares of our common stock for an aggregate purchase price of $500,000. There were no placement agent or other similar fees paid or payable in connection with this private placement. The Company did not grant any registration rights or issue any warrants in connection with this transaction. The Private Placement Agreement does not contain any anti-dilution provisions, price reset provisions, negative covenants or restrictions on future fundings. The proceeds received by the Company under the Private Placement Agreement will be used for working capital and general corporate purposes.

EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth March 31, 2008 information on our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

<TABLE>
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	(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)	10,921,560	$0.37	N/A
Totals	10,954,060	$0.38	467,500

</TABLE>

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Notes 4, 5, 6 and 7 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, 2008, 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	5,000,000	$ 0.32	1,741,135
Total	5,000,000	$ 0.32	1,741,135

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. 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.

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

At March 31, 2008, 1,741,135 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, 2008 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, 250,000 outside directors options had been exercised and 4,744,550 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 8,443,158 options (of which 3,397,025 have been exercised or cancelled) outside of both the 2005 Directors Compensation Plan, 2000 Stock Option Plan and the 2003 Consultant Stock 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 $2,892,588 for the fiscal year ended March 31, 2008, versus $2,084,254 for the comparable period one year ago. The net increase of $808,334 was comprised of increases in payroll expense of $474,759, professional fees of $305,265 and general and administrative expense of $28,310.

Payroll and related expenses increased by $474,759 as compared to the prior fiscal year. The increase was principally driven by an increase in stock compensation expense of $487,093 due to the recognition of expense related to the amortization of stock options vesting during the fiscal year ended March 31, 2008. Additionally, research and development payroll increased by $68,854 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 decreased by $45,694 because of turnover in our financial department. Finally, due to the change in the mix of payroll expenses, payroll taxes decreased by $563.

Professional fees increased by $305,265. This increase was driven by a $303,274 increase in legal fees and a $109,520 increase in accounting-related fees. Those fees were partially offset by a $51,732 reduction in investor relations fees, a $32,821 reduction in scientific consulting fees and a $8,987 decrease in website-related professional fees.

General and administrative expenses increased by $28,310. This increase is comprised of increases in lab supplies of $80,222, lab fees of $7,005, which were partially offset by a number of general and administrative expenses that decreased.

Other Expenses

In the fiscal year ended March 31, 2008, we recognized a $547,119 non-cash loss on extinguishment of debt that arose out of the restructuring of $1,000,000 in convertible notes. In the fiscal year ended March 31, 2007, we recognized a $1,216,748 non-cash loss on the extinguishment of debt as a result of the issuance of Allonges to our 10% Series A Convertible Notes.

In addition, we recognized $637,179 in non-cash income related to warrant liability revaluation in comparison to the prior fiscal year when $2,112,575 in non-cash expense was recognized to reflect the change in fair value of the warrants that were classified as derivative liabilities under EITF Issue No. 00-19.

The combination of interest expenses and other expense increased by $726,768 due to the high level of amortization of discounts associated with several short-term notes that we entered into during the fiscal year ended March 31, 2008 and as a consequence of the full amortization of beneficial conversion feature discount associated with convertible notes outstanding in the prior fiscal year. We recognized approximately $386,000 in liquidated damages associated with the failure to register shares in the fiscal year ended March 31, 2008 compared to approximately $220,000 in the prior fiscal year.

PLAN OF OPERATION

We are 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.

Our current plan of operation is to fund our anticipated increased research and development activities and operations for the near future by raising funds through the sale of private equity or debt. 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 we will need to raise additional capital to continue our operations over the next twelve months. However, there can be no assurance that we will be able to arrange such financing on acceptable terms, or at all.

We plan 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).

We anticipate continuing to increase spending on research and development over the next 12 months. Additionally, associated with our 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. We do 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. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

CONVERTIBLE NOTES PAYABLE AND WARRANTS

On November 2007, the Company entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Amended Notes") with the holders of certain promissory notes previously issued by the Company (the "Prior Notes"), and all amendments to the Prior Notes, including on March 5, 2007.

The Amended Notes, in the principal amount of $1,000,000, are convertible into an aggregate of 5,000,000 shares of the Company's Common Stock and mature on February 15, 2009. The Amended Notes provide for the payment of

accrued and default interest through December 31, 2007 in the aggregate amount of $295,248 to be paid in units ("Units") at a fixed rate of $0.20 per Unit, each Unit consisting of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant") to purchase one share of the Company's Common Stock at a fixed exercise price of $0.20 per share. If the Holders exercise the Class A Warrants on or before February 15, 2010, the Company will issue them one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. The Class B Warrants will have a fixed exercise price of $0.60 per share.

The Amended Notes also provided for the payment of liquidated damages through November 29, 2007 in the aggregate amount $269,336 to be paid in units ("Damages Units") at a fixed rate of $0.40 per Damages Unit, each Damages Unit consisting of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant") to purchase one share of the Company's Common Stock at a fixed exercise price of $0.40 per share. If the Holders exercise the Class A-1 Warrants on or before February 15, 2010, the Company will issue them one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant") for every two Class A-1 Warrants exercised. The Class B-1 Warrants will have a fixed exercise price of $0.40 per share.

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

The following table summarizes the number of shares of the Company's Common Stock issuable upon the conversion of the Amended Notes or the exercise of the various warrants issued or issuable pursuant to the Amended Notes.

Note Conversion	5,000,000
Accrued Interest	1,476,242
Liquidated Damages	673,340
Class A Warrants	1,476,242
Class A-1 Warrants	673,340
Class A Principal Warrants	5,000,000
Class B Warrants	738,121
Class B-1 Warrants	336,670
Total	15,373,955

The Company was obligated to register the shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and to register the Class B-1 Warrants with the SEC by the 30th day following the issuance date of such warrants. Since we failed to register the shares underlying those warrants by the required date, we are accruing damages on a monthly basis of approximately $15,000.

For accounting purposes, the amendment of the 10% Series A Convertible Notes was treated as an extinguishment pursuant to EITF Issue No. 06-6. The changes in the note agreements, conversion feature and warrants were considered substantive as prescribed in that consensus. Consequently, at the amendment date the company initially recorded an estimated loss on extinguishment of $489,013 as follows:

Reacquisition Price (Fair value of new notes and warrants)	$ 5,392,664
Less amounts relieved at date of extinguishment:	
Carrying amount of the unamortized note	(166,667)
Carrying amount of derivative liability	(4,172,400)
Accrued interest and liquidated damages	(564,584)
Loss on extinguishment	$ 489,013

Subsequently, the Company engaged a third party valuation firm to value the various components of the amendment of the Series A Convertible Notes. As a result of that valuation, the Company recorded an additional $58,106 of loss on

extinguishment of debt with the offset being recorded to additional paid-in capital.

The new warrants issued in connection with the Amended Notes were evaluated pursuant to EITF Issue No. 00-19 and classified as equity instruments. In connection with the new warrants, the Company recorded $4,392,664 as an increase to additional paid in capital, based on the estimated fair value at issuance. The amended conversion feature contains a beneficial conversion at the date of the Amended Notes; consequently, the Company recorded a discount of $1,000,000 against the notes and a corresponding increase in additional paid in capital. Through March 31, 2007, the Company amortized approximately $69,000 of such discount into interest expense using the effective interest method.

In January 2008, one of the holders of the Amended Notes requested the conversion of $100,000 into our common stock at the agreed conversion rate of $0.20 per share and, as a result, we issued 500,000 shares of common stock to convert the $100,000 note.

In March 2008, a noteholder converted a $150,000 note to common stock at the agreed conversion rate of $0.25 per share along with accumulated interest of approximately $66,000.

$495,000 NOTE WITH WARRANTS FINANCING

On December 5, 2007, the Company entered into a Subscription Agreement with two accredited investors pursuant to which the Company issued and sold promissory notes in the principal amount of $495,000 and three-year warrants to purchase an aggregate of 1,485,000 shares of the Registrant's common stock at a fixed exercise price of $0.50 per share. The promissory notes bear interest compounded monthly at the annual rate of eight percent (8%) and mature on September 5, 2008. The net proceeds to the Company were $440,000.

The warrants associated with this financing did not meet all of the conditions required for equity classification under EITF Issue No. 00-19; consequently, the warrants (with an estimated fair value of $693,050) were accounted for as derivative liabilities at issuance. The Company revalued the warrants at December 31, 2007 and again at March 31, 2008 and the resulting aggregate reduction in the estimated fair value of $252,895 was recorded to income from change in fair value of warrant liability.

$220,000 NOTE WITH WARRANTS FINANCING

On January 18, 2008, the Company entered into a Subscription Agreement with an accredited investor pursuant to which the Company issued and sold promissory notes in the principal amount of $220,000 and three-year warrants to purchase an aggregate of 660,000 shares of the Registrant's common stock at a fixed exercise price of $0.50 per share. The promissory note bear interest compounded monthly at the annual rate of nine percent (9%) and matures on October 19, 2008. The net proceeds to the Company were $220,000.

The warrants associated with this financing did not meet all of the conditions required for equity classification under EITF Issue No. 00-19; consequently, the warrants (with an estimated fair value of $222,450) were accounted for as derivative liabilities at issuance. The Company revalued the warrants at March 31, 2008 and the resulting aggregate reduction in the estimated fair value of $27,060 was recorded to income from change in fair value of warrant liability.

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, 2008 we issued 589,350 common shares for services of which 223,187 were unregistered. We also issued 250,000 under a stock option exercise by one of our directors restricted common shares for payment of accrued liabilities, 1,365,500 for the retirement of notes payable, 90,000 for investor communications services, 15,152 for licensing rights and 49,414 in exchange for the conversion of Warrants. Included in the 589,350 common shares issued for services are 366,163 shares, registered under a Form S-8 registration statement, which were issued as follows: 263,057 for scientific and regulatory consulting and 103,106 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 12.8%.

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, 2008 we issued 1,365,500 restricted common shares for repayment in full of notes, including accrued interest in the aggregate amount of $66,375. The price discount of the common stock issued for debt was approximately 59.3%

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, 2008 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 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, 2008.

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.

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, 2008, the Company recognized $487,093 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 INCURRED SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE.

We have yet to establish any history of profitable operations. We have not had any significant revenues from our principal operations. We have incurred annual operating losses of $2,892,588, $2,084,254 and $2,094,939, for the fiscal years ended March 31, 2008, 2007, and 2006, respectively. At March 31, 2008, we had an accumulated deficit of $(32,227,256). We have incurred net losses of $4,140,264 and $6,024,545 for the fiscal years ended March 31, 2008 and 2007. We have not had revenues to date. We expect that our revenues, if any, will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Hemopurifier(R) technology. No assurances can be given when or if this will occur or that we will ever generate revenues or be profitable.

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

Our independent registered public accounting firm noted in their report accompanying our financial statements for our fiscal year ended March 31, 2008 that we had a significant deficit accumulated during the development stage, had a working capital deficit and that a significant amount of additional capital will be necessary to advance the development of our products to the point at which we may become commercially viable and stated that those conditions raised substantial doubt about our ability to continue as a going concern. Note 1 to our financial statements for the year ended March 31, 2008 addressed management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This explanatory paragraph about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as it may cause investors to lose faith in our long-term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

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

Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms when we require it, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects.

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

The U.S. Government has undertaken commitments to help secure improved

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

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

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

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

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

other legal actions and liabilities to which purely private sector companies are not.

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

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

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

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

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

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

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

WE HAVE LIMITED MANUFACTURING EXPERIENCE.

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

We have limited experience manufacturing products for testing purposes

and no experience manufacturing products for large scale commercial purposes. We will likely outsource the manufacture of our Hemopurifier(R) products to third parties operating FDA-certified facilities. To date, we have manufactured devices on a small scale for testing purposes. There can be no assurance that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. Any failure to address such problems could delay or prevent commercialization of our products and would have a material adverse effect on us.

OUR HEMOPURIFIER(R) TECHNOLOGY MAY BECOME OBSOLETE.

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

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

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

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

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce and our Chief Science Officer, Richard H. Tullis. Were we to lose one or 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 would harm the clinical development of our products due to his unique experience with the Hemopurifier(R) technology. The loss of Dr. Tullis and/or Mr. Joyce would be detrimental to our growth as they possess unique knowledge of our business model and infectious disease which would be difficult to replace

within the biotechnology field. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although Mr. Joyce and Mr. Tullis have signed employment agreements providing for their continued service to our company, these agreements will not preclude them from leaving our company. We do not currently carry key man life insurance policies on any of our key executive officers which would assist us in recouping our costs in the event of the loss of those officers.

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

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

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

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

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

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

time attracting and retaining management and outside independent directors than a more established company due to these enhanced duties, obligations and liabilities.

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

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

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

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

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

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

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

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

o The FDA may refuse to approve an application if they believe that applicable regulatory criteria are not satisfied.

o The FDA may require additional testing for safety and effectiveness.

o The FDA may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them.

o If regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution.

o The FDA may change their approval policies and/or adopt new regulations.

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

- 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 greater sense of urgency surrounding acute and chronic infectious diseases. Prior to initiating the development of infectious disease Hemopurifiers(R), we successfully completed an FDA approved Phase I human safety trial of a Hemopurifier(R) to treat aluminum and iron intoxication. Since changing the focus to infectious disease research, we have not initiated an FDA approved human clinical trial as the development of the technology is still continuing and will require both significant capital and scientific resources. Our pending products face similar challenges of obtaining successful clinical trials in route to gaining FDA approval prior to commercialization. Additionally, our limited financial resources hinder the speed of our product development due to personnel constraints.

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

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

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

The Hemopurifier(R) is protected by three issued U.S. patents and five issued international patents. One of the U.S. patents is covered via an exclusive license. Our exclusive license expires March 2020 and is subject to

termination if the inventors have not received a minimum of $15,000 in any year during the term beginning in the second year after the FDA approves the Hemopurifier(R). These patents comprise a majority of our assets. At March 31, 2008, our intellectual property assets comprise 86% of our non-current assets, and 28% of total assets. If our existing patents are invalidated or if they fail to provide significant commercial benefits, it will severely hurt our financial condition as a majority of our assets would lose their value. Further, since the financial value of our patents is written down for accounting purposes over the course of their term until they expire, our assets comprised of patents will continually be written down until they lose value altogether.

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

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

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

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

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

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

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

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

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

that the dividends will be paid.

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

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

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

Our common shares have historically been sporadically or "thinly-traded" on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that

will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

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

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended March 31, 2008, the high and low closing sale prices of a share of our common stock were $0.88 and $0.46, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to

a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of revenue or profit to date, and the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as a viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

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

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

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN OR CONTROL APPROXIMATELY 21.5% OF OUR OUTSTANDING COMMON SHARES AS OF MARCH 31, 2008, WHICH MAY LIMIT YOUR ABILITY OR THAT OF OTHER SHAREHOLDERS, WHETHER ACTING INDIVIDUALLY OR TOGETHER, TO PROPOSE OR DIRECT THE MANAGEMENT OR OVERALL DIRECTION OF OUR COMPANY. ADDITIONALLY, THIS CONCENTRATION OF OWNERSHIP COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN YOU RECEIVING A PREMIUM OVER THE MARKET PRICE FOR YOUR COMMON SHARES.

As of March 31, 2008, our officers and directors beneficially own or control approximately 21.5% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). These persons will have the ability to substantially influence all matters submitted to our shareholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

A LARGE NUMBER OF COMMON SHARES ARE ISSUABLE UPON EXERCISE OF

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

As of March 31, 2008, there are outstanding purchase options and warrants entitling the holders to purchase 25,900,899 common shares at a weighted average exercise price of $0.36 per share. There are 4,794,118 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 March 31, 2008, our convertible notes, outstanding options and outstanding warrants we will be entitled to issue up to 30,695,017 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 that our board of directors may deem relevant at that time. For the past four years, we issued a total of 4,094,078 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 59.3% and 46.34% for the years ended March 31, 2008 and 2007, respectively.

For the past four fiscal years we issued a total of 6,398,289 shares as payment for services. The average price discount of common stock issued for services during this period, weighted by the number of shares issued was 12.8% and 4.54% for the years ended March 31, 2008 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, that we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO"), who is also our acting Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in 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, 2008 Form 10-KSB.

Based upon that evaluation, our CEO concluded that, as of March 31, 2008, 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.

Internal Control over Financial Reporting

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

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

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

The Company's management, with the participation of its Chief Executive Officer, assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2008. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of The Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment under such criteria, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2008 due to control deficiencies that constituted material weaknesses.

Management in assessing its internal controls and procedures for fiscal 2008 identified a lack of sufficient segregation of duties, particularly in cash disbursements. Specifically, this material weakness is such that the design of controls over the area of cash disbursements relies primarily on detective controls and could be strengthened by adding preventative controls to properly safeguard company assets.

Management has identified a lack of sufficient personnel in the accounting function due to the limited resources of the Company with appropriate skills, training and experience to perform the review processes to ensure the complete and proper application of generally accepted accounting principles,

particularly as it relates to taxes. Specifically, this material weakness led to segregation of duties issues and resulted in audit adjustments to the annual consolidated financial statements and revisions to related disclosures, including tax reporting.

The Company is in the process of developing and implementing remediation plans to address its material weaknesses.

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

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

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

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

This annual report does not include an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for certain public companies.

CHANGES IN CONTROLS AND PROCEDURES

There were no significant changes made in our internal controls over financial reporting during the quarter ended March 31, 2008 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.

ITEM 8B. OTHER INFORMATION

None

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, 2008, 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 July 7, 2008 are listed below:

NAMES	TITLE OR POSITION	AGE
James A. Joyce (1)	Chairman, Chief Executive Officer, Principal Accounting Officer and Secretary	45
Harold H. Handley, PhD (2)	President	58
Richard H. Tullis, PhD (3)	Vice President, Chief Science Officer and Director	62
Franklyn S. Barry, Jr.	Director	68
Edward G. Broenniman	Director	72

(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.

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

Resumes of Management:

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

Mr. Joyce is the founder of Aethlon Medical, and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce with the additional role of CEO. During the quarter ended December 31, 2007, our chief financial officer resigned and Mr. Joyce assumed the role of principal accounting officer. In 1992, Mr. Joyce founded and was the sole shareholder of James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate of the University of Maryland.

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 develop 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 at Los Angeles.

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

Dr. Tullis has been Vice President and a director of the Company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen

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

Franklyn S. Barry, Jr.

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

Edward G. Broenniman

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

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

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our 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, 2008 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 4,744,550 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.

SCIENCE ADVISORY BOARD

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

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

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

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

Charles Bailey, Ph.D.

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

Dr. Bailey as one of the top five biological warfare experts in the nation.

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

Dr. Cowgill is a Professor in the Department of Medicine and Epidemiology at the School of Veterinary Medicine, University of California at Davis and has nearly 30 years of experience as a clinical instructor in small animal internal medicine, nephrology and hemodialysis. He currently Heads the Companion Animal Hemodialysis Units at the Veterinary Medical Teaching Hospital at UC Davis and the UC Veterinary Medical Center at San Diego. Dr. Cowgill is also Associate Dean for Southern California Clinical Programs and is Co-Director of the University of California Veterinary Medical Center at San Diego. Prior to his appointment at the University of California, he was a National Institutes of Health (NIH) Special Research Fellow at the University of Pennsylvania School of Veterinary Medicine and at the Renal Electrolyte Section at the University of Pennsylvania School of Medicine, where he conducted research in basic renal physiology and clinical nephrology. Dr. Cowgill received his D.V.M. from the University of California at Davis School of Veterinary Medicine and his Ph.D. in Comparative Medical Sciences from the University of Pennsylvania, where he also completed his internship and Residency training in Small Animal Internal Medicine. He became a Diplomate of the American College of Veterinary Internal Medicine in 1977. Dr. Cowgill has published extensively in the area of veterinary nephrology and has established a Clinical Fellowship in Renal Medicine and Hemodialysis, which is the first of its kind in veterinary Medicine.

Pedro Cuatrecasas, M.D.

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

Nathan W. Levin, M.D.

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

Raveendran (Ravi) Pottathil, Ph.D.

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

diagnostics company he founded in 1996.

Claudio Ronco, M.D.

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

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

INVOLVEMENT IN LEGAL PROCEEDINGS.

To the best of our knowledge, during the past 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, 2008 and March 31, 2007. The following table summarizes all compensation for fiscal year 2008 and 2007 received by our Chief Executive Officer, and the Company's three most highly compensated executive officers who earned more than $100,000 in fiscal year 2008.

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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)	2008	$256,010	$ --	$ --	$ --	$ --	$ --	$ --	$256,010
CHIEF EXECUTIVE OFFICER AND PRINCIPAL ACCOUNTING OFFICER	2007	240,000	--	--	--	--	--	--	240,000
Richard H. Tullis, Ph.D (2)	2008	$172,500	$ --	$ --	$ --	$ --	$ --	$ --	$172,500
VICE PRESIDENT AND CHIEF SCIENCE OFFICER	2007	180,000	--	--	--	--	--	--	180,000

Harold H. Handley, Ph.D. (3)	2008	$172,500	$ --	$ --	$ --	$ --	$ --	$ --	$172,500
PRESIDENT	2007	127,500	--	--	--	--	--	--	127,500
James W. Dorst (4)	2008	$109,571	$ --	$ --	$ --	$ --	$ --	$ --	$109,571
CHIEF FINANCIAL OFFICER	2007	150,000	--	--	--	--	--	--	150,000

(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2008 is zero and 7,588,243.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2008 is zero and 2,014,350.

(3) The aggregate number of stock awards and stock option awards issued to Dr. Handley and outstanding as of March 31, 2008 is zero and 500,000.

(4) The aggregate number of stock awards and stock option awards issued to Mr. Dorst and outstanding as of March 31, 2008 is 0 and 0. Effective December 5, 2007, Mr. James W. Dorst resigned as the Chief Financial Officer of the Company.

EMPLOYMENT AGREEMENTS

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

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.

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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
	1,000,000(2)	1,500,000	--	$ 0.36	06/13/17
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
Harold H. Handley	166,667(3)	333,333	--	$ 0.27	10/02/16

(1) This option was fully vested as of March 31, 2008.
(2) The option vested 1,000,000 shares at grant, with 500,000 shares vesting each annual anniversary date through June 13, 2010.
(3) 166,667 options vest each year on July 18 starting July 18, 2007.

NAME	STOCK AWARDS: NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#)	STOCK AWARDS: 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, Ph.D	--	$ --	--	$ --

OPTION GRANTS TO EXECUTIVE OFFICERS IN 2008

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. No other options were granted to our executive officers in fiscal year 2008.

DIRECTOR COMPENSATION

The following director compensation disclosure reflects all compensation awarded to, earned by or paid to the directors below for the fiscal years ended March 31, 2008 and 2007.

	Fees Earned or	Non-Equity	Change in Pension Value and Nonqualified

Name	Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Incentive Plan Compensation ($)	Deferred Compensation Earnings ($)	All Other Compensation ($)	Total
James A. Joyce (1)	--	--	--	--	--	--	--
Richard H. Tullis (2)	--	--	--	--	--	--	--
Franklyn S. Barry (3)	--	--	--	--	--	--	--
Edward G. Broenniman (4)	--	--	--	--	--	--	--

</TABLE>

(1) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2008 are 0 and 7,588,243.

(2) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2008 are 0 and 2,014,350.

(3) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2008 are 0 and 516,417.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2008 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,

2008 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 4,744,550 remained outstanding. A portion of the employee-director options was 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 July 7, 2008, 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:

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AMOUNT AND NATURE OF TITLE OF CLASS	NAME	BENEFICIAL OWNERSHIP(1)(2)	PERCENT OF CLASS
Common Stock	James A. Joyce, Chief Executive Officer and Director 3030 Bunker Hill Street, Suite 4000,	7,188,243 shares(3)	15%

	San Diego, CA 92109		
Common Stock	Richard H. Tullis, Chief Scientific Officer and Director 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109	2,072,350 shares(4)	5%
Common Stock	Franklyn S. Barry, Director 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109	773,010 shares(5)	2%
Common Stock	Edward G. Broenniman, Director 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109	655,924 shares(6)	2%
Common Stock	Harold H. Handley, President 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109	250,000 shares(7)	*
All Current Directors and Executive Officers as a Group (5 members)		10,939,527 shares	22%

* Less than 1%.

1. Based on 40,286,480 shares of Common Stock outstanding on the transfer records as of July 7, 2008.

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 1,500,000 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 264,550 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 250,000 stock options exercisable at $0.27 per share.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

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, 2008 and 2007:

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 (23)

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 (24)

10.43 Registration Rights Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007(24)

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(24)

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(24)

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(24)

10.48 Private Placement Agreement with Fusion Capital Fund II, LLC (25)

14 Code of Ethics (24)

21 List of subsidiaries (22)

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

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

32 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 (26)

* 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 14, 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 26, 1999 and incorporated by reference.

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

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

(8) Filed with the Company's Current Report on Form 8-K dated June 9, 2004 and incorporated by reference.

(9) Filed with the Company's Current Report on Form 8-K dated May 23, 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 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 Current Report on Form 8-K filed on May 1, 2008 and incorporated by reference.

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

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

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

(25) Filed with the Company's Registration Statement on Form S-1 filed on February 11, 2008 and incorporated by reference.

(26) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2006 and incorporated 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, 2008 and 2007 and fees billed for other services rendered by Squar Milner during such years:

	Fiscal Year Ended March 31, 2008	2007
Audit Fees	$ 85,000	$ 93,000
Audit Related Fees	20,000	35,625
Tax Fees	30,000	--
All Other Fees	--	--
	$135,000	$128,625

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 15th day of July, 2008.

BY: /S/ JAMES A. JOYCE

JAMES A. JOYCE
CHAIRMAN, CHIEF EXECUTIVE OFFICER
AND ACTING 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 - --- JAMES A. JOYCE	CHAIRMAN OF THE BOARD	JULY 15, 2008
/S/ FRANKLYN S. BARRY, JR. - --- FRANKLYN S. BARRY, JR.	DIRECTOR	JULY 15, 2008
/S/ EDWARD G. BROENNIMAN - --- EDWARD G. BROENNIMAN	DIRECTOR	JULY 15, 2008
/S/ RICHARD H. TULLIS - --- RICHARD H. TULLIS	DIRECTOR	JULY 15, 2008

AETHLON MEDICAL, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

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, 2008 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, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2008 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, 2008, 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 incurred continuing losses from operations, is in default on certain debt agreements, has negative working capital of approximately $3,481,000 and a deficit accumulated during the development stage of approximately $32,227,000 at March 31, 2008. 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.

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

NEWPORT BEACH, CALIFORNIA
JULY 14, 2008

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
MARCH 31, 2008

ASSETS

CURRENT ASSETS	
Cash	$ 254,691
Deferred financing costs	71,139
Prepaid expenses	3,600
TOTAL CURRENT ASSETS	329,430
NON-CURRENT ASSETS	
Property and equipment, net	8,313
Patents, net	137,162
Deposits	13,200
TOTAL ASSETS	$ 488,105

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 1,442,070
Due to related parties	949,063
Notes payable, net of discounts	633,611
Convertible notes payable, net of discounts	152,530
Warrant obligation	633,095
TOTAL CURRENT LIABILITIES	3,810,369
COMMITMENTS AND CONTINGENCIES (Note 9)	
STOCKHOLDERS' DEFICIT	
Common stock, par value of $0.001, 100,000,000 shares authorized; 38,991,151 issued and outstanding	38,992
Additional paid-in capital	28,866,000
Deficit accumulated during the development stage	(32,227,256)
TOTAL STOCKHOLDERS' DEFICIT	(3,322,264)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 488,105

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	2008	2007	JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008
Grant income	$ --	$ --	$ 1,424,012
Subcontract income	--	--	73,746
Sale of research and development	--	--	35,810
	--	--	1,533,568
OPERATING EXPENSES			
Professional fees	1,005,442	700,092	6,943,669
Payroll and related	1,363,950	889,192	9,499,147
General and administrative	523,196	494,970	5,450,197
Impairment	--	--	1,313,253
	2,892,588	2,084,254	23,206,266
OPERATING LOSS	(2,892,588)	(2,084,254)	(21,672,698)
OTHER (INCOME) EXPENSE			
Loss on extinguishment of debt	547,119	1,216,748	1,763,867
Change in fair value of warrant liability	(637,179)	2,112,575	1,835,521
Interest expense	1,319,487	390,968	6,581,907
Interest income	--	--	(17,415)
Other	18,249	220,000	390,678
	1,247,676	3,940,291	10,554,558
NET LOSS	$ (4,140,264)	$ (6,024,545)	$(32,227,256)
Basic and diluted net loss per share attributable to common stockholders	$ (0.12)	$ (0.22)	
Weighted average number of common shares outstanding	34,395,562	26,937,727	

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, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

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

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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	COMMON STOCK		ADDITIONAL PAID IN	DEFERRED CONSULTING	DEFICIT ACCUMULATED DURING DEVELOPMENT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	CAPITAL	FEES	STAGE	(DEFICIT)
Other warrant transactions	--	--	(32,715)	--	--	(32,715)
Net loss	--	--	--	--	(3,995,910)	(3,995,910)
BALANCE - MARCH 31, 2002	5,170,697	$ 5,171	$ 10,962,692	$ --	$(13,165,399)	$(2,197,536)
Proceeds from the issuance of common stock at $0.50 per share in connection with the exercise of options	200,000	200	99,800	--	--	100,000
Interest expense related to beneficial conversion feature	--	--	150,000	--	--	150,000
Pro-rata value assigned to warrants issued in connection with conversion of accounts payable	--	--	71,000	--	--	71,000
Pro-rata value assigned to warrants issued in connection with note payable	--	--	30,000	--	--	30,000
Issuance of common stock at $1.25 per share in connection with the conversion of accounts payable	150,124	150	187,505	--	--	187,655
Issuance of common stock at $1.25 per share in connection with the conversion of notes payable	420,000	420	104,580	--	--	105,000
Estimated fair market value of options issued for services	--	--	114,000	--	--	114,000
Issuance of common stock at $0.25 per share for cash	461,600	462	114,938	--	--	115,400
Issuance of common stock at $0.26 per share for cash	19,230	19	4,981	--	--	5,000
Issuance of common stock at $1.25 per share for cash	8,000	8	9,992	--	--	10,000

Issuance of common stock at $0.65 per share for services	69,231	69	44,931	--	--	45,000
Issuance of common stock at $0.51 per share for services	196,078	196	99,804	--	--	100,000
Adjustment booked	--	--	(100,000)	--	100,000	--
Net loss	--	--	--	--	(2,461,116)	(2,461,116)
BALANCE - MARCH 31, 2003	6,694,960	$ 6,695	$ 11,894,223	$ --	$(15,526,515)	$(3,625,597)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	DEFERRED CONSULTING FEES	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT				
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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	DEFERRED CONSULTING FEES	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT				
BALANCE - MARCH 31, 2004	10,649,329	$ 10,649	$ 13,379,487	$ --	$(17,045,313)	$ (3,655,177)
Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants	1,126,564	1,127	280,515	--	--	281,642
Issuance of common stock at $0.44 per share for cash	1,415,909	1,416	621,584	--	--	623,000
Issuance of common stock at $0.25 per share for cash	40,233	40	9,960	--	--	10,000
Issuance of common stock at $0.28 per share for cash	35,947	36	9,964	--	--	10,000
Issuance of common stock at $0.29 per share for cash	69,431	69	19,931	--	--	20,000
Issuance of common stock at $0.32 per share for cash	94,449	94	29,906	--	--	30,000
Issuance of common stock at $0.33 per share for cash	60,620	61	19,939	--	--	20,000

Issuance of common stock at $0.35 per share for cash	172,824	173	59,826	--	--	59,999
Issuance of common stock at $0.36 per share for cash	223,756	224	79,776	--	--	80,000
Issuance of common stock at $0.37 per share for cash	108,079	108	39,892	--	--	40,000
Issuance of common stock at $0.38 per share for cash	26,549	27	9,973	--	--	10,000
Issuance of common stock at $0.39 per share for cash	51,748	52	19,948	--	--	20,000
Issuance of common stock at $0.40 per share for cash	25,233	25	9,975	--	--	10,000
Issuance of common stock at $0.42 per share for cash	143,885	144	59,857	--	--	60,001
Issuance of common stock at $0.43 per share for cash	70,467	70	29,930	--	--	30,001
Issuance of common stock at $0.45 per share for cash	22,455	22	9,978	--	--	10,000
Issuance of common stock at $0.46 per share for cash	43,944	44	19,956	--	--	20,000
Issuance of common stock at $0.47 per share for cash	128,836	129	59,872	--	--	60,001
Issuance of common stock at $0.52 per share for cash	95,502	96	49,904	--	--	49,999
Issuance of common stock with warrants at $0.36 per unit for cash	55,556	56	19,944	--	--	20,000
Issuance of common stock at $0.27 per share for cash	90,000	90	24,210	--	--	24,300
Issuance of common stock at $0.50 per share for cash	3,000	3	1,497	--	--	1,500
Issuance of common stock to Fusion Capital for "commitment" shares	50,000	50	(50)	--	--	--

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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.....

FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	DEFERRED CONSULTING FEES	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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 $0.29 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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	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
Adjustment for issuance of cashless warrants	(144,099)	(144)	144	--	--	--
Issuance of commitment shares	1,050,000	1,050	(1,050)	--	--	--
Interest expense related to beneficial conversion feature	--	--	50,000	--	--	50,000
Amortization of deferred consulting fees	--	--	--	44,917	--	44,917
Issuance of common stock for option to obtain licensing rights to cancer patent	40,000	40	10,760	--	--	10,800
Stock compensation expense	--	--	38,132	--	--	38,132
Issuance of common stock at $0.20 per Share in settlement of accrued liabilities	114,130	114	22,997	--	--	23,111
Reclassification of derivative liabilities upon registration of shares underlying warrants	--	--	(1,090,000)	--	--	(1,090,000)
Net loss	--	--	--	--	(6,024,545)	(6,024,545)
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.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	COMMON STOCK		ADDITIONAL PAID IN	DEFERRED CONSULTING	DEFICIT ACCUMULATED DURING DEVELOPMENT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	CAPITAL	FEES	STAGE	(DEFICIT)
BALANCE - MARCH 31, 2007	31,912,153	$ 31,912	$ 20,963,410	$ --	$(28,086,992)	$(7,091,670)
Issuance of common stock at $0.50 per share for cash	2,560,000	2,560	1,187,840	--	--	1,190,400
Issuance of common stock at $1.00 per						

share for cash	100,000	100	99,900	--	--	100,000
Issuance of common stock at $0.24 per share for services	71,045	71	16,980	--	--	17,051
Issuance of common stock at $0.48 per share for services	41,999	42	19,958	--	--	20,000
Issuance of common stock at $0.49 per share for services	13,017	13	6,399	--	--	6,413
Issuance of common stock at $0.50 per share for services	45,380	45	22,645	--	--	22,690
Issuance of common stock at $0.53 per share for services	75,000	75	39,675	--	--	39,750
Issuance of common stock at $0.57 per share for services	7,895	8	4,492	--	--	4,500
Issuance of common stock at $0.58 per share for services	36,487	36	21,164	--	--	21,200
Issuance of common stock at $0.60 per share for services	120,033	120	71,490	--	--	71,610
Issuance of common stock at $0.61 per share for services	103,106	103	62,791	--	--	62,894
Issuance of common stock at $0.63 per share for services	10,174	10	6,440	--	--	6,450
Issuance of common stock at $0.65 per share for services	4,601	5	2,995	--	--	3,000
Issuance of common stock at $0.68 per share for services	17,127	17	11,583	--	--	11,600
Issuance of common stock at $0.69 per share for services	7,246	7	4,993	--	--	5,000
Issuance of common stock at $0.76 per share for services	17,061	17	12,983	--	--	13,000
Issuance of common stock at $0.78 per share for services	19,179	19	14,981	--	--	15,000
Exercise of cashless warrants	49,414	49	(49)	--	--	--
Issuance of common stock for option exercises by director	250,000	250	94,750	--	--	95,000
Common stock units issued under renegotiation of convertible notes	2,149,582	2,150	5,390,514	--	--	5,392,664
Beneficial conversion feature on convertible debt	--	--	38,197	--	--	38,197

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	DEFICIT ACCUMULATED	TOTAL

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	DEFERRED CONSULTING FEES	DEVELOPMENT STAGE	EQUITY (DEFICIT)
	SHARES	AMOUNT				
Issuance of common stock in exchange for licensing rights	15,152	15	4,985	--	--	5,000
Stock compensation expense	--	--	487,093	--	--	487,093
Issuance of common stock in connection with the conversion of notes payable	1,365,500	1,366	279,782	--	--	281,148
Net loss	--	--	--	--	(4,140,264)	(4,140,264)
BALANCE - MARCH 31, 2008	38,991,151	$ 38,992	$ 28,866,000	$ --	$(32,227,256)	$ (3,322,264)

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, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008

	2008	2007	January 31, 1984 (Inception) Through March 31, 2008
Cash flows from operating activities:			
Net loss	$ (4,140,264)	$ (6,024,545)	$(32,227,256)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	21,550	23,400	1,028,943
Amortization of deferred consulting fees	--	44,917	109,000
Gain on settlement of debt	--	--	(131,175)
Loss on settlement of accrued legal liabilities	--	--	142,245
Gain on sale of property and equipment	--	--	(13,065)
Change in estimated fair value of warrant liability	(637,179)	2,112,575	1,835,521
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	325,157	274,914	3,812,073
Stock based compensation	487,093	38,132	949,487
Loss on debt extinguishment	547,119	1,216,748	1,763,867
Amortization of debt discount	1,195,863	177,762	2,481,650
Impairment of patents and patents pending	--	--	416,026
Impairment of goodwill	--	--	897,227
Deferred compensation forgiven	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	970	27,652	157,937
Other assets	--	4,000	(13,200)
Accounts payable and accrued liabilities	140,355	535,166	2,189,471
Due to related parties	(44,936)	(149,625)	1,277,564
Net cash used in operating activities	(2,104,272)	(1,718,904)	(12,390,726)
Cash flows from investing activities:			
Purchases of property and equipment	(4,746)	(17,810)	(271,443)
Patents and patents pending	(6,797)	(6,294)	(376,924)
Proceeds from the sale of property and equipment	--	--	17,065
Cash of acquired company	--	--	10,728

Net cash used in investing activities	(11,543)	(24,104)	(620,574)

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, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2008 (CONTINUED)

	2008	2007	January 31, 1984 (Inception) Through March 31, 2008
Cash flows from financing activities:			
Net proceeds from the issuance of notes payable	640,000	--	2,350,000
Principal repayments of notes payable	(60,000)	--	(352,500)
Proceeds from the issuance of convertible notes payable	60,000	50,000	2,138,000
Net proceeds from the issuance of common stock	1,290,400	1,296,737	9,207,222
Professional fees related to registration statements	--	--	(76,731)
Net cash provided by financing activities	1,930,400	1,346,737	13,265,991
Net increase (decrease) in cash	(185,415)	(396,271)	254,691
Cash at beginning of period	440,106	836,377	--
Cash at end of period	$ 254,691	$ 440,106	$ 254,691
Supplemental disclosure of cash flow information			
- Cash paid during the period for:			
Interest	$ 3,717	$ --	$ 266,975
Income taxes	$ --	$ --	$ 13,346
Supplement schedule of noncash investing and financing activities:			
Debt and accrued interest converted to common stock	$ 316,375	$ 43,750	$ 2,797,086
Stock option exercise by director for accrued expenses	$ 95,000	$ --	$ 95,000
Debt discount on notes payable associated with detachable warrants	$ --	$ 50,000	$ 1,154,860
Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties	$ --	$ 23,111	$ 1,003,273
Reclassification of derivative liability to (from) additional paid-in capital	$ --	$ (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	$ 5,000	$ 10,800	$ 15,800

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

</TABLE>

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

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 Financial Industry Regulatory Authority ("OTCBB") under the symbol "AEMD.OB."

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its 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 incurred continuing losses from operations, is in default on certain debt agreements, has negative working capital of approximately $3,481,000, recurring losses from operations and a deficit accumulated during the development stage of approximately $32,227,000 at March 31, 2008, 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, 2009. Therefore, the Company will be required to seek additional funds to finance its current and long-term operations.

The Company is currently addressing its liquidity issue by continually seeking investment capital through private placements of common stock and debt. The Company believes that its cash on hand and funds expected to be received from additional private investment will be sufficient to meet its liquidity needs for fiscal 2009. 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 and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The fair value of certain convertible notes at March 31, 2008 approximates $6,668,601 based upon a third party valuation report that we commissioned.

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 $155,000 exceeding this limit at March 31, 2008.

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.

In May 2007, the FASB issued Staff Position FIN 48-1, "Definition of SETTLEMENT in FASB Interpretation No. 48" ("FSP FIN 48-1"), which amends FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109" ("FIN 48," together with FSP FIN 48-1 referred as "FIN 48, as amended"). As of April 1, 2007, we adopted the provisions of FIN 48, as amended, which clarify 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 48, as amended, prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position an entity takes or expects to take in a tax return. To recognize a tax position, the tax position must be more-likely-than-not sustainable upon examination by the relevant taxing authority, and the relevant measurement of the position must be the largest amount of benefit that we would more than 50% likely realize upon settlement. We would recognize the benefit of a position in the interim reporting period during which it meets the threshold, unless we effectively settle it earlier through examination, negotiation, or litigation or the applicable statute of limitations period expires.

The Company did not recognize any additional liability for unrecognized tax benefit as a result of the implementation. As of March 31, 2008, the Company did not increase or decrease liability for unrecognized tax benefit related to tax positions in prior period nor did the company increase its liability for any tax positions in the current year. Furthermore, there were no adjustments to the liability or lapse of statute of limitation or settlements with taxing authorities.

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

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, 2008 and 2007.

EARNINGS (LOSS) PER SHARE

Under SFAS No. 128, "Earnings per Share," basic earnings (loss) per share is computed by dividing net income available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted earnings (loss) 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. In each of the years ended March 31, 2008 and 2007, 9,865,775 and 12,885,453 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, and additional common stock equivalents have been excluded as their effect would be antidilutive.

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.

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

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, 2008, 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 $487,093 for the fiscal year ended March 31, 2008. This expense was recorded as stock compensation included in payroll and related expenses in the accompanying March 31, 2008 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.

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

STOCK BASED COMPENSATION (continued)

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, 2008	Fiscal Year Ended March 31, 2007
Payroll and related	$ 487,093	$ 38,132
Net share-based compensation effect in net loss from operations	$ 487,093	$ 38,132
Basic and diluted loss per common share	$ (0.01)	$ (0.00)

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.

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, 2008 was insignificant.

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

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.

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.

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." As of March 31, 2008, we have accrued $368,487 for liquidated damages.

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately $792,136 and $673,614 of research and development expenses during the years ended March 31, 2008 and 2007, 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.

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

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. The adoption of this interpretation did not have a material impact on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company plans to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 expands the scope of specific types of assets and liabilities that an entity may carry at fair value on its statement of financial position, and offers an irrevocable option to record the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS No. 159 is effective for fiscal

years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, SFAS No. 159 will have on its financial statements.

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

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In November 2007, the EITF issued a consensus on EITF 07-1, "Accounting for Collaborative Arrangements" ("EITF 07-1"). The Task Force reached a consensus on how to determine whether an arrangement constitutes a collaborative arrangement, how costs incurred and revenue generated on sales to third parties should be reported by the partners to a collaborative arrangement in each of their respective income statements, how payments made to or received by a partner pursuant to a collaborative arrangement should be presented in the income statement, and what participants should disclose in the notes to the financial statements about a collaborative arrangement. This issue shall be effective for annual periods beginning after December 15, 2008. Entities should report the effects of applying this Issue as a change in accounting principle through retrospective application to all periods to the extent practicable. Upon application of this issue, the following should be disclosed: a) a description of the prior-period information that has been retrospectively adjusted, if any, and b) the effect of the change on revenue and operating expenses (or other appropriate captions of changes in the applicable net assets or performance indicator) and on any other affected financial statement line item. We are currently evaluating the impact, if any, of the adoption of EITF 07-1 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141(revised 2007), "Business Combinations" ("SFAS 141(R)"). This statement requires an acquiror to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141(R) replaces the cost-allocation process of SFAS No. 141, "Business Combinations" ("SFAS 141") which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. This statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited.

The Sarbanes-Oxley Act of 2002 ("the Act") introduced new requirements regarding corporate governance and financial reporting. Among the many requirements of the Act is for management to annually assess and report on the effectiveness of its internal control over financial reporting under Section 404(a) and for its registered public accountant to attest to this report under Section 404(b). The SEC has modified the effective date and adoption requirements of Section 404(a) and Section 404(b) implementation for non-accelerated filers multiple times, such that we are first required to issue our management report on internal control over financial reporting in this annual report on Form 10-KSB for the fiscal year ending March 31, 2008. Based on current SEC requirements, we will not be required to have our auditor attest to management's assessment until our fiscal year ending March 31, 2010.

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

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2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2008:

Furniture and office equipment	$ 266,280
Accumulated depreciation	(257,967)
	$ 8,313

Depreciation expense for the years ended March 31, 2008 and 2007 approximated $12,000 and 16,500, respectively.

3. PATENTS

Patents include both foreign and domestic patents. There were several patents pending at March 31, 2008 and 2007. The unamortized cost of patents and patents pending is written off when management determines there is no future benefit. At March 31, 2008, the gross carrying amount of patents and patents in process totaled approximately $181,000 and the related accumulated amortization totaled approximately $44,000. Amortization of patents approximated $11,000 and $7,000 during the years ended March 31, 2008 and 2007, 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. 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, two of the 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, 2008, $347,500 of principal balance of the 12% Notes were outstanding and delinquent, in default, and bore interest at the default rate of 15%.

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 required 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. One remaining 10% Note in the amount of $5,000 was past due and in default at March 31, 2008. At March 31, 2008, interest payable on this note totaled $3,375.

4. NOTES PAYABLE (continued)

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 at the option of the noteholder. On March 31, 2008 this $150,000 note along with $66,375 of accrued interest was converted into 865,500 shares of common stock at the agreed conversion price of $0.25 per share.

8% NOTES

In December 2007, the Company issued notes payable ("8% Notes") to two accredited investors in the aggregate amount of $495,000 with 8% interest maturing on September 5, 2008. In conjunction with the issuance of the 8% Notes, the Company also issued three year warrants to acquire 1,485,000 shares of Common Stock at $0.50 per share.

Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, 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 warrantswere valued at $693,050 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability with an offsetting debt discount recorded against the $495,000 face amount of the 8% Notes and the remaining $198,050 recorded as interest expense. The debt discount will be expensed over the term of the 8% Notes.

2008 9% Notes

In January 2008, the Company issued notes payable ("2008 9% Notes") to an accredited investor in the amount of $220,000 with 9% interest maturing on October 19, 2008. In conjunction with the issuance of the 2008 9% Notes, the Company also issued three year warrants to acquire 660,000 shares of Common Stock at $0.50 per share.

Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, 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 warrant was valued at $222,450 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability with an offsetting debt discount recorded against the $220,000 face amount of the 2008 9% Notes and the remaining $2,450 recorded as interest expense. The debt discount will be expensed over the term of the 2008 9% Notes.

4. NOTES PAYABLE (continued)

Notes payable consist of the following at March 31, 2008:

	Face Amount of	Notes Payable,

	Notes Payable	Note Discounts	Net of Discounts
12% Notes payable, all past due	$ 347,500	--	$ 347,500
10% Note payable, past due	5,000	--	5,000
8% Note payable	495,000	275,000	220,000
2008 9% Note payable	220,000	158,889	61,111
Total Notes Payable	$ 1,067,500	$ 433,889	$ 633,611

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.

5. 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 beneficial conversion feature to be $34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the beneficial conversion feature were accreted to interest expense over the term of the December 10% Notes. Interest expense on the December 10% Notes resulting from accretion of such debt discounts totaled approximately $50,000 for the fiscal year ended March 31, 2007.

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5. CONVERTIBLE NOTES PAYABLE (continued)

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 fixed conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date.

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 for the fiscal year ended March 31, 2007, which completed the amortization of such discount.

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5. CONVERTIBLE NOTES PAYABLE (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, 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 consolidated statement of operations for the year ended March 31, 2006.

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. 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.

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 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, 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 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.

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5. CONVERTIBLE NOTES PAYABLE (continued)

10% SERIES A CONVERTIBLE NOTES AMENDMENT

On November 2007, the Company entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Amended Notes") with the holders of certain promissory notes previously issued by the Company (the "Prior Notes"), and all amendments to the Prior Notes, including on March 5, 2007.

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

The Amended Notes also provided for the payment of liquidated damages through November 29, 2007 in the aggregate amount $269,336 to be paid in units ("Damages Units") at a fixed rate of $0.40 per Damages Unit, each Damages Unit consisting of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant") to purchase on share of the Company's Common Stock at a fixed exercise price of $0.40 per share. If the Holders exercise the Class A-1 Warrants on or before February 15, 2010, the Company will issue them one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant") for every two Class A-1 Warrants exercised. The Class B-1 Warrants will have a fixed exercise price of $0.40 per share.

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

The following table summarizes the number of shares of the Company's Common Stock issuable upon the conversion of the Amended Notes or the exercise of the various warrants issued or issuable pursuant to the Amended Notes.

Note Conversion	5,000,000
Accrued Interest	1,476,242
Liquidated Damages	673,340
Class A Warrants	1,476,242
Class A-1 Warrants	673,340
Class A Principal Warrants	5,000,000
Class B Warrants	738,121
Class B-1 Warrants	336,670
Total	15,373,955

The Company was obligated to register the shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and to register the Class B-1 Warrants with the SEC by the 30th day following the issuance date of such warrants. Since the Company failed to effect a registration statement by March 31, 2008, it is recording liquidated damages of $15,000 per month.

5. CONVERTIBLE NOTES PAYABLE (continued)

For accounting purposes, the amendment of the 10% Series A Convertible Notes was treated as an extinguishment pursuant to EITF Issue No. 06-6. The changes in the note agreements, conversion feature and warrants were considered substantive as prescribed in that consensus. Consequently, at the amendment date the Company initially recorded an estimated loss on extinguishment of $489,013 as follows:

Reacquisition Price (Fair value of new notes and warrants)	$ 5,392,664
Less amounts relieved at date of extinguishment:	
Carrying amount of the unamortized notes	(166,667)
Carrying amount of derivative liability	(4,172,400)
Accrued interest and liquidated damages	(564,584)
Loss on extinguishment	$ 489,013

Subsequently, the Company engaged a third party valuation firm to value the various components of the amendment of the Series A Convertible Notes. As a result of that valuation, the Company recorded an additional $58,106 of loss on extinguishment of debt with the offset being recorded to additional paid-in capital.

The new warrants issued in connection with the Amended Notes were evaluated pursuant to EITF Issue No. 00-19 and classified as equity instruments. In connection with the new warrants, the Company recorded $4,392,664 as an increase to additional paid in capital, based on the estimated fair value at issuance. The amended conversion feature contains a beneficial conversion at the date of the Amended Notes; consequently, the Company recorded a discount of $1,000,000 against the notes and a corresponding increase in additional paid in capital. Through March 31, 2008, the Company amortized approximately $109,000 of such discount into interest expense using the effective interest method.

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

Convertible Notes Payable consists of the following at March 31, 2008:

	Principal	Discount	Net Amount
Amended Series A 10% Convertible Notes	$ 900,000	$(797,470)	$ 102,530
December 10% Convertible Notes	50,000	--	50,000
Total - Convertible Notes	$ 950,000	$(797,470)	$ 152,530

6. 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.

COMMON STOCK

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

registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In April 2004, the Company issued 17,143 shares at $1.75 per share to an accredited individual investor for investor relations services in the amount of $30,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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

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

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

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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

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

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

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

In November and December 2004, the Company issued 80,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at $0.25 per share for consideration of a $20,000

reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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

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

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

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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

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

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

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

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

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

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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

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

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

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

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

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

In August 2005, the Company issued 21,368 shares of common stock pursuant to the

Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.23 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

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

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

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

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

In November 2005, the Company issued 19,948 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.38 per share in payment for regulatory affairs consulting services to the Company valued at $7,660.

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

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

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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

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

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

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

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

In January 2006, the Company issued 13,889 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.36 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

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

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

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

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

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

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

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

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

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

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

In December 2006, the Company issued 40,000 shares of restricted common stock at $0.25 per share in exchange for license and development rights related to certain intellectual property valued at $10,800 based on the fair market value of the intellectual property license.

During December 2006, the Company issued 118,360 shares of common stock at prices between $0.25 and $0.26 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for net cash proceeds totaling $30,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In January 2007, the Company issued 15,248 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.28 per share in payment for regulatory affairs consulting

services to the Company valued at $4,300 based on the value of the services.

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.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In March 2007, the Company issued 15,723 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.318 per share in payment for regulatory affairs consultant services to the Company valued at $5,000 based on the value of the services.

In March 2007, the Company issued 4,934 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.608 per share in payment for regulatory affairs consultant services to the Company valued at $3,000 based on the value of the services.

In March 2007, the Company issued 21,078 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.51 per share in payment for regulatory affairs consultant services to the Company valued at $10,750 based on the value of the services.

In March 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.578 per share in payment for regulatory affairs consultant services to the Company valued at $5,000 based on the value of the services.

During March 2007, the Company issued 92,379 shares of common stock at prices between $0.36 and $0.44 per share to Fusion Capital under its $6,000,000 common

stock purchase agreement for net cash proceeds totaling $36,745. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In March 2007, the Company issued 1,333,333 shares of common stock at $0.30 per share to Fusion Capital for net cash proceeds of $400,000. In addition, the Company issued 1,050,000 of common shares as a commitment fee under a common stock purchase agreement.

In April 2007, the Company issued 30,617 shares of restricted common stock as the result of a cashless exercise of 80,000 warrants held by a former noteholder.

In April 2007, the Company issued 15,152 shares of restricted common stock at $0. 33 per share in payment of an option agreement valued at $5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In April 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $5,000 based on the value of the services.

In April 2007, the Company issued 3,937 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In May 2007, the Company issued 13,124 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.76 per share in payment for regulatory affairs consulting services to the Company valued at $10,000 based on the value of the services.

In May 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In June 2007, the Company issued 41,999 shares of restricted common stock at between $0.30 and $0.74 per share in payment for investor relations services to the Company valued at $20,000 based on the value of the services.

In June 2007, the Company issued 17,526 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $10,200 based on the value of the services.

In June 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.58 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services.

In June 2007, the Company issued 10,174 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.63 per share in payment for regulatory affairs consulting services to the Company valued at $6,450 based on the value of the services.

In August 2007, the Company issued 1,630,000 shares of common stock for cash proceeds of $815,000 ($757,950 net of commissions). The shares were issued to accredited investors in the form of Units comprised of two shares of common

stock and one three-year warrant to acquire common stock at an exercise price of $0.50. The offering price of each Unit was $1.00.

In August 2007, the Company issued 107,153 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at an average price of $0.37 per share in payment of grant writing and regulatory consulting services to the Company valued at $39,963 based upon the value of the services.

In August of 2007, the Company issued 103,106 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.59 per share in payment of legal fees related to general corporate legal services to the Company valued at $62,894 based upon the value of the services provided.

In August 2007, the Company issued 21,020 shares of restricted common stock at prices between $0.68 and $0.78 per share in payment for investor relations services to the Company valued at $15,000 based on the value of the services.

In September 2007, the Company issued 14,000 shares of common stock to an accredited investor at $0.50 per share in payment of commissions related to the August Private Placement transaction valued at $7,000 based upon the value of services provided.

In September 2007, the Company issued 5,294 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $3,600 based on the value of the services provided.

In October 2007, the Company issued 4,601 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.65 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

In December 2007, the Company issued 330,000 shares of common stock for cash proceeds of $165,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

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6. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In January 2008, the Company issued 21,992 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.68 per share in payment for regulatory affairs consulting services to the Company valued at $15,000 based on the value of the services provided.

In January 2008, the Company issued 200,000 shares of common stock for cash proceeds of $100,000. The shares were issued to an accredited investor and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In January 2008, the Company issued 500,000 shares of common stock for a conversion of $100,000 of Amended Series A 10% Convertible Notes at the agreed conversion price of $0.20 per share (see Note 6).

In January 2008, the Company issued 18,797 shares of restricted common stock as the result of a cashless exercise of 55,556 warrants held by a former

noteholder.

In February 2008, the Company issued 400,000 shares of common stock for cash proceeds of $200,000. The shares were issued to accredited investors and were in the form of Units comprised of two shares of common stock and one three-year warrant per Unit to acquire common stock at a fixed exercise price of $0.50 per share. The offering price of each Unit was $1.00.

In February 2008, the Company issued 1000,000 shares of common stock for cash proceeds of $100,000. The shares were issued to a corporate investor.

In February 2008, the Company issued 25,380 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $12,690 based on the value of the services provided.

In March 2008, the Company issued 6,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.50 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

In March 2008, the Company issued 7,895 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.57 per share in payment for regulatory affairs consulting services to the Company valued at $4,500 based on the value of the services provided.

In March 2008, the Company issued 50,000 shares of common stock to an accredited investor at $0.53 per share in payment of commissions related to the August Private Placement transaction valued at $26,500 based upon the value of services provided.

In March 2008, the Company issued 25,000 shares of common stock to an accredited investor at $0.53 per share in payment of commissions related to the August Private Placement transaction valued at $13,250 based upon the value of services provided.

In March 2008, the Company issued 92,188 shares of restricted common stock at an average price of $0.60 in payment for investor relations services to the Company valued at $55,000 based on the value of the services.

In March 2008, the Company issued 250,000 shares to a Director under a stock option exercise at a strike price of $0.38 per share through the conversion of $95,000 in accounts payable owed to such Director.

In March 2008, the Company issued 865,500 shares of common stock for a conversion of $150,000 of 9% Convertible Notes and $66,375 of accrued interest at the agreed conversion price of $0.25 per share (see Note 6).

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6. EQUITY TRANSACTIONS (continued)

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.

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.

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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

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 incremental value 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 warrants to purchase 555,556 shares of restricted common stock at an exercise price of $0.18. If such warrants are exercised on or before November 14, 2007, the warrant holder will receive five-year warrants to purchase an additional 555,556 shares of restricted common stock at an exercise price of $0.18.

On December 15, 2006, as an inducement to enter into a $100,000 10% convertible note, the Company granted noteholders five-year warrants to purchase 294,118 shares of restricted common stock at an exercise price of $0.17. If such warrants are exercised on or before December 15, 2007, the noteholders will receive five-year warrants to purchase an additional 294,118 shares of restricted common stock at an exercise price of $0.17.

In March 2007, an investor exercised 160,000 warrants in two cashless transactions.

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 agreed to also pay all accrued interest, through February 15, 2007 and each calendar quarter thereafter, in the form of units (the "Units")at the rate of $0.20 per Unit (the "Interest Payment Rate"). The Notes were convertible into Units at any time prior to the Maturity Date at the conversion price of $0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expires on January 2, 2011 and is exercisable to purchase one share of Common Stock at a price of $0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, 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.

At various points over the fiscal year ended March 31, 2007, 669,000 warrants Expired.

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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

In August 2007, as part of the purchase of 815,000 units, we issued 815,000 warrants to investors.

At various points in the three months ended December 31, 2007, 144,443 warrants expired.

In December 2007, we issued 1,650,000 warrants in association with debt and equity financings.

In January 2008, we issued 760,000 warrants in association with debt and equity financings.

In February 2008, an investor exercised 55,556 warrants to receive 30,617 shares in a cashless transaction.

In February 2008, we issued 200,000 warrants in connection with equity financings.

In March 2008, 90,000 warrants expired.

A summary of the aggregate warrant activity for the years ended March 31, 2008 and 2007 is presented below:

<TABLE>
<S> <C>

	Year Ended March 31,			
	2008		2007	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	4,497,910	$ 0.46	3,791,908	$ 0.61
Granted	3,589,346	$ 0.47	1,535,002	$ 0.19
Exercised	(55,556)	$ 0.44	(160,000)	$ 0.50
Cancelled/Forfeited	(234,443)	$ 0.69	(669,000)	$ 0.72
Outstanding, end of year	7,797,257	$ 0.46	4,497,910	$ 0.46
Exercisable, end of year	7,797,257	$ 0.46	4,497,910	$ 0.46
Weighted average estimated fair value of warrants granted		$ 0.36		$ 0.29

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

	Years Ended March 31, 2008	2007
Risk free interest rate	1.79%-4.03%	4.47%-4.57%
Average expected life	3 years	4.4 years
Expected volatility	84.0% - 88.6%	90.7% - 93.4%
Expected dividends	None	None

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6. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

The detail of the warrants outstanding and exercisable as of March 31, 2008 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	1,799,348	3.07	$ 0.18	1,799,348	$ 0.18
$0.25 - $0.44	718,365	1.38	$ 0.25	718,365	$ 0.25
$0.50 - $0.90	5,279,544	1.82	$ 0.59	5,279,544	$ 0.59
	7,797,257			7,797,257	

</TABLE>

OPTIONS

At March 31, 2008 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. Of the options issued to outside directors, 308,725 options had been forfeited and 250,000 options had been exercised.

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, 2008, 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 fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, the Company recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005.

6. EQUITY TRANSACTIONS (continued)

OPTIONS (continued)

On September 9, 2005, the Company granted 2,857,143 options to James A. Joyce, it's 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.

The following is a summary of the stock options outstanding at March 31, 2008 and 2007 and the changes during the two years then ended:

<TABLE>
<S> <C>

	Year Ended March 31,			
	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	9,204,060	$ 0.38	9,012,785	$ 0.38
Granted	2,500,000	$ 0.36	500,000	0.27
Exercised	(250,000)	$ 0.38	--	--
Cancelled/Forfeited	(500,000)	$ 0.23	(308,725)	2.74
Outstanding, end of year	10,954,060	$ 0.38	9,204,060	$ 0.38
Exercisable, end of year	9,231,839	$ 0.38	8,369,060	$ 0.39
Weighted average estimated fair value of options granted		$ 0.26		$ 0.23

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to stock options utilizing the Binomial Lattice option pricing model for the years ended March 31, 2008 and March 31, 2007:

	Years Ended March 31, 2008	2007
Risk free interest rate	4.85%	4.84%
Average expected life	3 years	10 years
Expected volatility	91%	92%
Expected dividends	None	None

The detail of the options outstanding and exercisable as of March 31, 2008 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 - $0.27	3,357,143	7.61 years	$ 0.22	3,134,922	$ 0.23
$0.36 - $0.38	7,244,550	5.24 years	$ 0.37	5,744,550	$ 0.36
$1.78 - $3.75	352,367	3.57 years	$ 2.02	352,367	$ 2.02
	10,954,060			9,231,839	

</TABLE>
As of March 31, 2008, we had $538,002 of remaining unrecognized stock option expense, which is expected to be recognized over a weighted average period of 2.08 years.

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7. 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 balance sheet.

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

8. INCOME TAXES

INCOME TAXES

On July 13, 2006, the FASB issued Interpretation No. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES - AN INTERPRETATION OF FASB STATEMENT NO. 109 ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, ACCOUNTING FOR INCOME Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on April 1, 2007, and has commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, the Company has recorded no additional tax liability. There are no unrecognized tax benefits as of April 1, 2007, or as of March 31, 2008. As of March 31, 2008 the Company has not yet completed its analysis of the deferred tax assets for net operating losses. As such, this amount and the offsetting valuation allowance have been removed from the Company's deferred tax assets. The Company will complete a Section 382 analysis regarding the limitation of the net operating loss, if the company utilizes the net operating loss.

Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact the Company's effective tax rate.

The Company is subject to taxation in the U.S. and state jurisdictions. The Company's tax years for 1993 and forward are subject to examination by the U.S. and 2003 and forward by California tax authorities due to the carryforward of unutilized net operating losses. The Company is currently not under examination by any taxing authorities.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the twelve months ended March 31, 2008, the Company did not recognize any interest or penalties. Upon adoption of FIN 48 on April 1, 2007, the Company did not record any interest or penalties.

8. INCOME TAXES (continued)

The adoption of FIN 48 did not impact the Company's financial condition, results of operations or cash flows. At March 31, 2008, the Company had net deferred tax assets of approximately $3,123 million. These deferred tax assets are primarily composed of capitalized research and development costs and other accruals. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation has been established to offset the net deferred tax asset. Additionally, the future utilization of the company's net operating loss carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company has not yet determined whether such an ownership change has occurred. Until this analysis has been completed the Company has removed the deferred tax assets associated with these carryforwards from its deferred tax asset schedule and has recorded a corresponding decrease to their valuation allowance.

Significant components of the Company's net deferred tax assets at March 31, 2008 are shown below (in thousands). A valuation allowance of $3.1 million has been established to offset the net deferred tax assets as of March 31, 2008, as realization of such assets is uncertain.

	YEAR ENDED MARCH 31, 2008
Deferred tax assets:	
Net operating loss carryforwards	$ --
Capitalized research and development	2,987
Other	136
Total deferred tax assets	3,123
Total deferred tax liabilities	--
Net deferred tax assets	3,123
Valuation allowance for deferred tax assets	(3,123)
Net deferred tax assets	$ --

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at March 31, 2008, due to the following (in thousands):

	2008	2007
Federal income taxes at 34%	$ (1,323)	$ (2,048)
Derivative expense	--	718
Debt extinguishment	--	414
State income tax, net of federal benefit	(223)	(162)
Tax effect on non-deductible expenses and credits	57	--
Increase in valuation allowance (1)	1,489	1,078
	$ --	$ --

(1) The removal of the valuation allowance related to the net operating losses

is not included in the increase in the valuation allowance. See above for explanation.

Pursuant to Internal Revenue Code Sections 382, use of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period.

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9. 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. His salary was subsequently increased to $265,000 per year and effective May 1, 2008, his salary was increased from $265,000 to $290,000 per year.

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 the rate of $7,744 per month under an operating lease agreement which expired in July 2007. The Company is presently leasing its space on a month to month basis, at the same terms.

Rent expense approximated $91,000 and $105,000 for the years ended March 31, 2008 and 2007, respectively.

10. SUBSEQUENT EVENTS

In April 2008, the Company entered into a license agreement with the Trustees of Boston University which provides for an exclusive license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." The agreed initial payment under this license will be an issuance of shares of common stock equivalent to 115% of $5,000.

In April 2008, the Company issued 10,170 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.59 per share in payment for regulatory affairs consulting

services to the Company valued at $6,000 based on the value of the services provided.

In April 2008, the Company issued 6,667 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.45 per share in payment for regulatory affairs consulting services to the Company valued at $3,000 based on the value of the services provided.

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10. SUBSEQUENT EVENTS (continued)

In May 2008, the Company entered into a Private Placement Agreement with Fusion Capital Fund II, LLC, an Illinois limited liability company ("Fusion Capital"), for the sale of 1,000,000 shares of our common stock for an aggregate purchase price of $500,000.00. There were no placement agent or other similar fees paid or payable in connection with this private placement. The Company did not grant any registration rights or issue any warrants in connection with this transaction. The Private Placement Agreement does not contain any anti-dilution provisions, price reset provisions, negative covenants or restrictions on future fundings. The proceeds received by the Company under the Private Placement Agreement will be used for working capital and general corporate purposes.

On March 21, 2007, we entered into a common stock purchase agreement (the "Purchase Agreement") with Fusion Capital for the purchase of up to $8.4 million of our common stock. On May 1, 2008, we entered into a Mutual Termination Agreement with Fusion Capital to terminate the Purchase Agreement and all of each party's rights and obligation to buy and sell shares of common stock thereunder. The SEC did not declare effective the registration statement related to the Purchase Agreement which we withdrew in connection with the termination of the Purchase Agreement. There were no costs or fees paid or payable by either party in connection with the termination of the Purchase Agreement.

In May 2008, the Board of Directors approved the issuance to the director of investor relations of an option to purchase 100,000 shares of common stock at $0.63 per share.

In May 2008, we agreed to issue 232,033 shares of common stock to a 10% convertible noteholder in order to convert the $33,000 principal balance and $6,446 of accrued interest of the convertible note to equity.

In June 2008, the Company issued 25,610 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at $0.41 per share in payment for regulatory affairs consulting services to the Company valued at $10,500 based on the value of the services provided.

In June 2008, the Board of Directors approved the following recommendations of the Compensation Committee:

1. The issuance of 750,000 non-qualified stock options to Dr. Richard Tullis, Chief Scientist and a director and 300,000 non-qualified options to a research scientist both with a an exercise price of $0.41 per share, which was the closing price on the day of the meeting.
2. An increase in the compensation for James Joyce, Chief Executive Officer, from $265,000 per annum to $290,000 per annum effective May 2008.
3. The issuance of non-qualified stock options of 500,000 shares to the outside directors. 4. The issuance of 5,000 stock grants to two employees (research scientists).

In June 2008, we issued the two 5,000 stock grants to two employees (research scientists) as approved in the June Board of Directors meeting.

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. 333-145290 and 333-127911 and 333-114017 and 333-49896) of our report, dated July 14, 2008 on the consolidated financial statements of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2008 and for each of the two years in the period ended March 31, 2008 and the period January 31, 2004 (inception) through March 31, 2008 appearing in this Annual Report on Form 10-KSB of Aethlon Medical, Inc. for the year ended March 31, 2008.

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

Squar, Milner, Peterson, Miranda & Williamson, LLP

Newport Beach, California
July 14, 2008

EXHIBIT 31.1

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

I, James Joyce, certify that:

1. I have reviewed this report on Form 10-KSB of Aethlon Medical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 15, 2008

/S/ JAMES A. JOYCE

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

EXHIBIT 32.1

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

In connection with the Annual Report of Aethlon Medical, Inc. on Form 10-KSB for the fiscal year ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. Based on my knowledge, the Annual Report fully complies with 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 Aethlon Medical, Inc.

Date: July 15, 2008

By: /s/ James A. Joyce

James A. Joyce
Chief Executive Officer and Chief Accounting Officer

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