AETHLON MEDICAL INC
Form 10-K
July 14, 2011

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

(MARK ONE)

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

For the fiscal year ended March 31, 2011

OR

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

For transition period from _____ to _____

COMMISSION FILE NUMBER 000-21846

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

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

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

(Do not check if a smaller reporting company)

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

The registrant had no revenue for the fiscal year ended March 31, 2011.

The aggregate market value of the common stock held by non-affiliates of the Registrant as of September 30, 2010 was approximately $24.5 million, computed by reference to the closing sale price of the common stock of $0.26 per share on the OTC Bulletin Board on September 30, 2010. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Common Stock of the registrant outstanding as of June 29, 2011 was 97,205,477.

TABLE OF CONTENTS

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL OVERVIEW

The mission of our organization is to create innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components.

The Aethlon ADAPT™ System Pipeline

At present, the Aethlon ADAPT™ system product pipeline consists of two proposed devices and one clinical stage device. A device that would reduce the onset of sepsis has been proposed to the Defense Advanced Research Projects Agency (DARPA) and is currently pending a potential contract award. We have also responded to a U.S. Army initiative to create a device that would meet the objectives of a development program entitled “Blood Purification for Organ Failure”. On May 25, 2011, we introduced the Aethlon ADAPT™ system to the drug industry at the C21 Life Sciences Partnering Conference.

The genesis of the Aethlon ADAPT™ system is our lead therapeutic candidate, the Aethlon Hemopurifier®, a medical device that has demonstrated broad-spectrum capabilities against viral pathogens, immunosuppressive glycoproteins and exosomes secreted by cancer and other life-threatening disease conditions.

The Aethlon Hemopurifier®

The Aethlon Hemopurifier® is a first-in-class medical device that removes infectious viruses, immunosuppressive proteins and disease-enhancing exosomes from the entire circulatory system. Safety of the device has been demonstrated in over 80 human treatment experiences conducted at research hospitals in Delhi, India. In these studies, Hemopurifier® therapy also provided significant viral load reductions in HIV and hepatitis C virus (HCV) infected individuals without the administration of antiviral drugs. We are now focused on advancing our Hemopurifier® as an adjunct strategy to improve the benefit of infectious disease and cancer treatment regimens. Based on studies conducted by both government and non-government research organizations, our Hemopurifier® also provides broad-spectrum capabilities against all tested bioterror and pandemic threats. The Hemopurifier® is a single-use disposable cartridge designed for implementation within the established infrastructure of dialysis machines and other blood pump systems already located in hospitals and clinics worldwide. To initiate Hemopurifier® therapy, blood circulation is accessed via a catheter or other blood access device. In design, the Hemopurifier® contains lectin affinity agents that bind to high-mannose structures unique to glycoproteins that coat viruses and immunosuppressive exosomes that are secreted by cancerous tumors. The affinity agents are immobilized to surround approximately 2,800 porous hollow fibers that run the interior length of our device. During Hemopurifier® therapy, viral and exosomal targets are separated from circulation through the fiber walls and away from blood cells and other essential blood components. Once separated, viruses, immunosuppressive glycoproteins, and exosomes are then selectively bound from circulation by immobilized affinity agents prior to the occurrence of cell and organ infection or apoptosis of immune cells.

In 2010, we established "good manufacturing practice" (GMP) for the manufacture of the Hemopurifier® in an FDA-approved facility in San Diego, California. We are currently conducting an HCV treatment program that would lead to potential commercialization in India, and we are advancing strategies to initiate clinical programs in the United

States and the European Union. We believe our Hemopurifier® is positioned to address four significant market opportunities:

1.) Cancer:

We believe our Hemopurifier® is the first therapeutic strategy to address immunosuppressive cancer exosomes and that the removal of these exosomes from circulation would likely improve patient responsiveness to established cancer therapies. 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. In vitro studies have demonstrated activity against exosomes underlying ovarian, breast, lymphoma, melanoma, and colorectal cancer.

2.) Hepatitis-C Virus (HCV):

We are currently conducting an HCV clinical treatment program at the Medanta-Medicity, which is one of India's largest multi-super specialty institutes. The goal of our study is to demonstrate the utility of our Hemopurifier(R) as an adjunct therapy to accelerate viral load reduction when administered at the outset of standard of care drug therapy. Our study calls for the treatment of up to 30 patients and positive clinical outcomes will lead to the first commercialization of Hemopurifier® in India. Based on previous HCV treatment experiences, we believe our Hemopurifier® inhibits viral replication through selective removal of all genotypes of circulating HCV and augments immune response by removing immunosuppressive proteins shed by HCV. HCV represents our primary Hemopurifier® treatment focus based on previous human treatment outcomes, the size of the HCV market opportunity, and clinical validations that reinforce the benefit of HCV viral filtration on patient outcomes.

3.) Human Immunodeficiency Virus (HIV):

Antiviral drug regimens provide HIV infected patients with an effective tool to inhibit disease progression. However, many patients inevitably become resistant to their drug therapies and are left with limited treatment options. We believe our Hemopurifier(R) provides a device-based antiviral and immunotherapeutic mechanism to inhibit the spread of all HIV strains, thus providing fully drug resistant patients with a treatment strategy to inhibit disease progression. In a proof of principal treatment study, our Hemopurifier® reduced viral load by 93% in an HIV-AIDS infected individual without the administration of antiviral drug therapy. The study protocol provided for 12 Hemopurifier® treatments, each four hours in duration, to be administered over the course of one month.

4.) Bioterror and Pandemic Threats:

Based on human safety data and pre-clinical studies conducted by government and non-government research institutes, we believe our Hemopurifier® represents the most advanced broad-spectrum treatment countermeasure against bioterror and pandemic threats, and the sole therapeutic strategy against viral threats that are not treatable with drug or vaccine therapies. Pre-clinical in vitro studies have demonstrated the ability of our Hemopurifier® to capture Ebola Virus, Dengue Virus, Lassa Virus, West Nile Virus, Monkeypox Virus, H5N1 Avian Influenza Virus, the 2009 H1N1 Swine Flu Virus, and the reconstructed H1N1 Spanish Flu of 1918 virus. We have submitted an Investigational Device Exemption ("IDE") to the FDA related to a proposed human safety study of the Hemopurifier® in the United States related to such bioterror and pandemic threats. We are scheduled to meet with FDA officials on July 19th, 2011 to discuss the clinical programs we have proposed in the United States.

EXOSOME SCIENCES, INC.

We established Exosome Sciences (ESI) in October of 2009 as a wholly owned subsidiary to advance diagnostic tools created by our researchers to identify the presence of exosomes in blood and other fluids. The research diagnostic tool resulting from the efforts of our researchers is ELLSA™, an Enzyme Linked Lectin Specific Assay that has been validated to identify the presence of exosomes underlying the human immunodeficiency virus (HIV), tuberculosis (TB), and various forms of cancer, including ovarian, melanoma, breast, lymphoma, and colorectal.

RECENT EXPANSION OF REVENUE SOURCES

During the course of 2011, we expanded our sources of early revenue generation to include opportunities beyond our lead Hemopurifier® treatment technology. In this regard, we established three new business channels that may generate revenue for us in the future:

1. The introduction of the Aethlon ADAPTTM system provides a basis to develop new selective therapeutic filtration devices through drug industry collaborations. Potential revenues resulting from such collaborations may include product development fees, income from research, regulatory and manufacturing support, and potential royalties from products that become commercialized in the marketplace;

2. Non-dilutive U.S. Government contract or grant income. On April 1, 2011 we applied for and are now pending a potential contract award from the Defense Advanced Research Projects Agency resulting from our response to a program entitled "Dialysis-Like Therapeutics." On May 31st, 2011, we submitted a request to the Biomedical Advanced Research and Development Authority (BARDA) to fund our biodefense and pandemic threat clinical programs in the United States through broad agency announcement CBRN BAA-11-100-00009, and on June 29th of this year, we submitted a response to a U.S. Army funding program entitled, "Blood Purification for Organ Failure."

3. Our wholly owned subsidiary, Exosome Sciences, Inc. may choose to license or initiate sales of ELLSA™ research diagnostic assays that identify the presence of exosomes in blood and other fluids.

CORPORATE HISTORY

On March 10, 1999, Aethlon, Inc., a California corporation ("Aethlon"), Hemex, Inc., a Delaware corporation ("Hemex"), the accounting predecessor to the Company, and Bishop, Inc. ("Bishop"), a publicly traded "shell" company, completed a n 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.

In October 2009, we established a new wholly owned subsidiary, Exosome Sciences, Inc., a Nevada corporation, as a corporate vehicle for our exosome-related diagnostic activities.

RESEARCH AND DEVELOPMENT

The cost of research and development, all of which has been charged to operations, amounted to approximately $978,000 over the last two fiscal years.

INTELLECTUAL PROPERTY

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. We also own certain trademarks.

U.S. PATENTS

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

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

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

PATENTS ISSUED IN THE UNITED STATES

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

PATENT APPLICATIONS IN THE UNITED STATES

| APPLICATION # | APPLICATION NAME | FILING DATE | OWNED OR LICENSED |
|---|---|---|---|
| 11/756543 | Method for removal of viruses from blood by lectin affinity hemodialysis | 05/31/07 | Owned |
| 12/600236 | Device and method for purifying virally infected blood | 11/13/09 | Owned |
| 60/989043 | Affinity capture of circulating cancer biomarkers | 12/20/08 | Owned |
| 12/282152 | Extracorporeal removal of microvesicular particles (exosomes) | 05/26/09 | Licensed |
| PCT/US2006/027746 | Removal of growth factors during surgery | 07/20/08 | Licensed |
| 61/470,998 | Methods and Devices Comprising Extracorporeal Blood Flow | 04/01/11 | Owned |

INTERNATIONAL PATENTS

INTERNATIONAL PATENTS ISSUED

| PATENT # | PATENT NAME | ISSUANCE DATE | OWNED OR LICENSED |
|---|---|---|---|
| 2,353,399 | Method for removal of viruses from blood by lectin affinity hemodialysis | 01/20/04 | Owned |
| 770,344 | Method for removal of HIV and other viruses from blood | 06/03/04 | Licensed |
| 69929986.1-08 | Method for removal of HIV and other viruses from blood | 02/22/06 | Licensed |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | Licensed |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | Licensed |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | Licensed |
| 1,109,564 | Method for removal of HIV and other viruses from blood | 02/22/06 | Licensed |
| 2342203 | Method for removal of HIV and other viruses from blood | 03/01/11 | Licensed |

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

| APPLICATION # | APPLICATION NAME | FILING DATE | OWNED OR LICENSED |
|---|---|---|---|
| 4,703,673 | | 01/20/04 | Owned |

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

In certain countries, medical devices are not patentable or only recently have become patentable, and enforcement of intellectual property rights in some countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries can be expected to be problematic or unpredictable. We cannot guarantee that any patents issued or licensed to us will provide us with competitive advantages or will not be challenged by others. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

TRADEMARKS

We have obtained registered trademarks in the United States for the Hemopurifier®, Aethlon Medical® and Aethlon Medical, Inc. and have adopted the Aethlon ADAPT and ELLSA trademarks in the United States. We have applied for a trademark on Hemopurifier in India and that application Is currently pending.

INDUSTRY

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

COMPETITION

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

LICENSING AGREEMENTS

Effective January 1, 2000, we entered into an agreement with a related party under which an invention and related patent rights for a method of removing HIV and other viruses from the blood using the Hemopurifier(R) were assigned to us by the inventors in exchange for a royalty to be paid on future sales of the patented product or process

and shares of our common stock. On March 4, 2003, the related patent was issued and we issued 196,078 shares of restricted common stock.

On February 9, 2006, we entered into an option agreement with the Trustees of Boston University which provides for the right to negotiate an exclusive license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." On February 8, 2007 we entered into an amendment to this agreement to extend its term until August 9, 2007. On April 22, 2008, we entered into the actual license agreement for this patent and as the initial payment under this license we issued shares of our common stock equivalent to 115% of $5,000.

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

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

GOVERNMENT REGULATION IN THE U.S.

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

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

CLINICAL TRIALS IN THE U.S.

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

PERVASIVE AND CONTINUING U.S. REGULATION

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

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

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

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

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

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

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

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

FRAUD AND ABUSE

We may also directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General ("OIG") has issued a series of regulations, known as the "safe harbors." These safe harbors set forth provisions that, if met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

INTERNATIONAL REGULATIONS AND CLINICAL TRIALS

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

With respect to our efforts in India, we have been informed that since our device has successfully completed safety studies in India and based on current Indian regulations on medical devices; we will be able to commercialize our product as a medical device in India on a hospital by hospital basis with approval of the institutional review boards (IRBs) of such hospitals. We believe that we will need to reach a successful conclusion to our current Hepatitis-C-oriented clinical trial at the Medanta Medicity Hospital in Delhi, India before approaching the IRBs of other hospitals regarding commercial sales of the Hemopurifier®.

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

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 not yet initiated clinical trials in the European Union nor do we have a current commitment to conduct such trials.

PRODUCT LIABILITY

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

SUBSIDIARIES

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

EMPLOYEES

At June 29, 2011, we had six full-time employees, comprised of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, a research scientist and an executive assistant. We utilize, whenever appropriate, contract and part-time professionals in order to conserve cash and resources. We currently contract a Director of Corporate Communications on a full-time basis. We believe our employee relations are good. None of our employees are represented by a collective bargaining unit.

ITEM 1A. RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

We have yet to establish any history of profitable operations. We have not had any significant revenues from our principal operations. We have incurred net losses of $5,711,435 and $4,573,315 for the fiscal years ended March 31, 2011 and 2010, respectively. At March 31, 2011 and 2010, we had an accumulated deficit of $(48,471,945) and $(42,760,510), respectively.

Future profitability, if any, 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, 2011 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, 2011 describes management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This explanatory paragraph about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as it may cause investors to lose faith in our long-term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

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

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

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

WOULD ADVERSELY AFFECT OUR BUSINESS PROSPECTS AND THE VALUE OF YOUR INVESTMENT IN OUR SECURITIES.

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

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

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

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

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

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

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

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

WE HAVE ISSUED NUMEROUS PROMISSORY NOTES THAT ARE CURRENTLY OVERDUE AND IN DEFAULT; FAILURE TO CURE SUCH DEFAULTS COULD ADVERSELY AFFECT OUR ABILITY TO RAISE NEW CAPITAL AND TO CONTINUE OPERATIONS

We have issued and outstanding convertible promissory notes in the aggregate principal amount of $1,440,689, which are currently overdue. We have no means to repay the notes unless and until we raise new capital or generate revenues. Although the majority of these notes are convertible into our common stock at various rates and prices, there can be no assurance that the holders of these notes will opt to convert some or all of the principal and interest due and owing on the notes in lieu of cash repayment. If we are unable to raise new capital we may be unable to satisfy these note obligations. We may become the subject of multiple litigation claims seeking to recover payment on the notes. New investors may be reluctant to fund new capital to the Company while these notes are overdue and outstanding. We will attempt to negotiate extensions for the payment and other restructure of the notes as a method of curing the defaults, but there can be no assurance that such extensions or restructures will be on terms favorable to the Company, if at all. If we are unable to satisfy the notes, or restructure them, we may be unable to raise new capital and we may be subject to litigation claims, either of which could cause us to cease operations.

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. In 2010, we established GMP for the manufacture of Hemopurifiers® in an outsourced FDA-approved facility in San Diego, California. To date, we have manufactured devices on a small scale for testing purposes and have begun to utilize the services of that contract manufacturer. There can be no assurance that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. Any failure to address such problems could delay or prevent commercialization of our products and would have a material adverse effect on us.

OUR HEMOPURIFIER(R) TECHNOLOGY MAY BECOME OBSOLETE.

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

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

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

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

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce, our Chief Science Officer, Richard H. Tullis and our President, Rodney S. Kenley. 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, Mr. Joyce and/or Mr. Kenley 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 Dr. Tullis have signed employment agreements providing for their continued service to our company, these agreements will not preclude them from leaving our company. We do not currently carry key man life insurance policies on any of our key executive officers which would assist us in recouping our costs in the event of the loss of those officers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If we were to become a U.S. Government contractor, we would be required to comply with applicable laws, regulations and standards relating to our accounting practices and would be subject to periodic audits and reviews. As part of any such audit or review, the U.S. Government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, estimating, compensation

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

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

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

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

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

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

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

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

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

The Hemopurifier(R) is protected by three issued U.S. patents and eight 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, 2011, our intellectual property assets comprise 89% of our non-current assets, and 25% 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 and legislation 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 changes in accounting rules and/or legislation 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 ONCE COMMERCIALLY AVAILABLE 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 effect 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, 2011, the high and low closing sale prices of a share of our common stock were $0.37 and $0.12, 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 16.2% OF OUR OUTSTANDING COMMON SHARES AS OF JUNE 29, 2011, WHICH MAY LIMIT YOUR ABILITY OR THAT OF OTHER SHAREHOLDERS, WHETHER ACTING INDIVIDUALLY OR TOGETHER, TO PROPOSE OR DIRECT THE MANAGEMENT OR OVERALL DIRECTION OF OUR COMPANY. ADDITIONALLY, THIS CONCENTRATION OF OWNERSHIP COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN YOU RECEIVING A PREMIUM OVER THE MARKET PRICE FOR YOUR COMMON SHARES.

As of June 29, 2011, our officers and directors beneficially own or control approximately 16.2% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). In addition, our Board has approved the grant of 4,000,000 shares of restricted stock to our Chief Executive Officer, and upon such issuance in full of such shares, the beneficial ownership of our officers and directors will increase to 18.0%. 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, 2011, there are outstanding purchase options and warrants entitling the holders to purchase 58,608,729 common shares at a weighted average exercise price of $0.28 per share. That figure includes 1,405,230 warrants that are conditional upon the exercise of other warrants or conversion of certain convertible debt instruments.

There are 20,924,703 shares underlying promissory notes convertible into common stock at a weighted average exercise price of $0.16. The exercise price for all of the aforesaid warrants may be less than your cost to acquire our common shares. In the event of the exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants.

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

We are entitled under our certificate of incorporation to issue up to 250,000,000 shares of common stock. We have reserved for issuance 79,533,432 shares of common stock for existing options, warrants and convertible notes. We have issued and outstanding, as of March 31, 2011, 77,467,361 shares of common stock. As a result, as of March 31, 2011 we have 92,992,207 common shares available for issuance to new investors. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

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

Our board may generally issue shares of common stock to pay for debt or services, without further approval by our shareholders based upon such factors that our board of directors may deem relevant at that time. For the past four years, we issued a total of 21,454,416 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 24.7% and 40.0% for the years ended March 31, 2011 and 2010, respectively.

For the past four fiscal years we issued a total of 6,650,624 shares as payment for services. The average price (premium)/discount of common stock issued for services during this period, weighted by the number of shares issued was (16.9)% and 6.0% for the years ended March 31, 2011 and 2010, respectively. It is likely that we will issue additional securities to pay for services and reduce debt in the future. We cannot give you any assurance that we will not issue additional shares of common stock under circumstances we may deem appropriate at the time.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of $6,256 per month on a four-year lease that expires in September 2013. We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego,

California 92121 at the rate of $2,084 per month on a two-year lease that expires in October 2011.

ITEM 3. LEGAL PROCEEDINGS

We may be involved from time to time in various claims, lawsuits, disputes with third parties or breach of contract actions incidental to the normal course of business operations. Except as set forth below, 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.

On June 23, 2011, a complaint was filed in the Superior Court of California, San Diego County entitled John Barsall v. Aethlon Medical, Inc. We have not yet been served with a copy of the complaint. We believe that the case relates to two Subscription Agreements and two 10% Convertible Promissory Notes issued to Mr. Barsall on June 19, 2009 and June 30, 2009 in the aggregate principal amount of $200,000 (the “Barsall Notes”). The Barsall Notes matured on December 31, 2010 and payment on the Barsall Notes has not been made. If and when we are properly served with a copy of the complaint, we will determine what actions to take in response to the complaint.

ITEM 4. REMOVED AND RESERVED

PART II

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

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

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

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

| | BID PRICE | |
|---|---|---|
| PERIOD | HIGH | LOW |
| Calendar 2011: | | |
| First Quarter | $0.22 | $0.12 |
| | | |
| Calendar 2010: | | |
| Fourth Quarter | 0.32 | 0.18 |
| Third Quarter | 0.32 | 0.21 |
| Second Quarter | 0.38 | 0.15 |
| First Quarter | 0.48 | 0.29 |
| | | |
| Calendar 2009: | | |
| Fourth Quarter | 0.73 | 0.23 |
| Third Quarter | 0.36 | 0.23 |
| Second Quarter | 0.36 | 0.19 |
| First Quarter | 0.27 | 0.12 |

There were approximately 154 record holders of our common stock at June 29, 2011. The number of registered shareholders includes any beneficial owners of common shares held in street name.

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

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

RECENT SALES OF UNREGISTERED SECURITIES

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act or Regulation D of the Securities Act during the fiscal year ended March 31, 2011. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

COMMON STOCK AND WARRANTS

Common Stock Issuances in the Fiscal Year Ended March 31, 2011:

During the fiscal year ended March 31, 2011, we issued 1,844,903 shares of restricted stock under warrant exercises by an accredited investor in exchange for cash proceeds of $320,433. As an inducement to this warrant holder, we agreed to issue to him 1,599,348 replacement warrants on the same terms as 1,599,348 of the warrants that he exercised and to reduce the purchase price to a current market price on the other 245,555 warrants.

During the fiscal year ended March 31, 2011, we issued 8,857,408 shares of restricted common stock to noteholders in exchange for the conversion of principal and interest of several notes payable and convertible notes payable in an aggregate amount of $1,563,102 at an average conversion price of $0.18 per share based upon the conversion formulae in the respective notes.

During the fiscal year ended March 31, 2011, we issued 614,123 restricted shares of common stock to service providers for investor relations or advisory services valued at $190,795 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately $0.31 per share.

In June 2010, we issued 1,586,040 shares of restricted common stock and 1,586,040 warrants to purchase our common stock at a price of $0.20 per share to the holders of our Amended and Restated Series A 12% Convertible Notes as a Unit payment of accrued and prepaid interest and liquidated damages (see Note 5 to the Financial Statements). That aggregate amount included an issuance of 31,040 shares of restricted common stock and 31,040 warrants to purchase our common stock at a price of $0.20 per share to the law firm representing the holders of our Amended and Restated Series A 12% Convertible Notes.

In December 2010, we issued 600,000 shares of common stock to our CEO in connection with the restricted share incentive agreement that he received in June 2009.

In January 2011, we issued 78,767 shares of restricted common stock to the owner of a patent as a patent license payment valued at $11,500.

In the fiscal year ended March 31, 2011, we issued 71,542 restricted shares of common stock to consultants as compensation under stock-based compensation expense for investor relations services valued at $20,000 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately $0.28 per share.

Warrant Issuances in the Fiscal Year Ended March 31, 2011:

In April 2010, we entered into a one-year consulting agreement with an individual for media relations services. We agreed to pay the consultant 22,727 warrants to purchase our common stock at a fixed exercise price of $0.33 per share on a monthly basis. The agreement values these warrant issuances at $5,000 per month. Through March 31, 2011, we have recorded warrants to purchase 249,997 shares of our stock per this agreement.

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received three-year warrants to purchase 300,000 unregistered shares of our common stock at a price of $0.25 per share.

In May 2010, a warrant holder exercised warrants to purchase 1,599,348 shares of common stock at the agreed exercise prices, which resulted in proceeds of $283,600. As an inducement to this warrant holder, we agreed to issue to him 1,599,348 replacement warrants on the same terms as the warrants that he exercised.

In June 2010, we issued 1,586,040 shares of restricted common stock and 2,981,598 warrants to purchase our common stock at a price of $0.20 per share to the holders of our Amended and Restated Series A 12% Convertible Notes and to their law firm. 1,586,040 of those warrants were issued as a Unit payment of accrued and prepaid interest and liquidated damages (see Note 5 to the Financial Statements).

In July 2010, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor"), whereby we issued and sold, and the Investor purchased: (i) a Convertible Promissory Note of the Company in the principal amount of $890,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant").

In September 2010, we entered into a Subscription Agreement with three accredited investors (the “Purchasers”) providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The initial closing under the Subscription Agreement resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise

price of $0.43575 per share.

In November 2010, as part of a settlement agreement involving our February 2010 Convertible Note(see Note 5 to the financial statements) we issued warrants to purchase 2,727,272 shares of common stock in exchange for the return and cancellation of a warrant to purchase 660,000 shares of common stock.

In November 2010, five noteholders of our May & June 2009 10% Convertible Notes (see Note 5 to the Financial Statements) elected to convert $100,000 of principal and $15,039 of accrued interest to common stock at the agreed conversion price of $0.20 per share. As a result of those conversions, we issued those noteholders warrants to purchase 500,000 shares of common stock at the agreed exercise price of $0.20 per share.

EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth March 31, 2011 information on our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2) | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) 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 | -- | $ -- | 490,000 |
| Equity compensation plans not approved bysecurity holders (1)(3) | 19,933,560 | $ 0.28 | 4,625,401 |
| Totals | 19,933,560 | $ 0.28 | 5,115,401 |

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

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

(3) On June 8, 2009, our board of directors approved the grant to Mr. Joyce of 4,000,000 shares of restricted common stock. The market price of our stock on the grant date was $0.24 per share and the shares vest in equal installments over a thirty-six-month period commencing June 30, 2010. Mr. Joyce may, from time to time, defer acceptance of the shares. However, all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six-month vesting period. As of June 29, 2011, 675,000 of these shares have been issued.

2000 STOCK OPTION PLAN

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, 2011, all of the grants previously made under the Plan had expired and 10,000 restricted shares had been issued under the 2000 Stock Option Plan, with 490,000 available for future issuance.

2003 CONSULTANT STOCK PLAN

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

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

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

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

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

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

At March 31, 2011 we had 21,565 shares remaining under the 2003 Consultant Stock Plan.

2010 STOCK INCENTIVE PLAN

In August 2010, we adopted the 2010 Stock Incentive Plan (the "Incentive Plan"), which provides incentives to attract, retain and motivate employees and directors whose present and potential contributions are important to the success of the Company by offering them an opportunity to participate in our future performance through awards of options, the right to purchase common stock, stock bonuses and stock appreciation rights and other awards. A total of 3,500,000 common shares were initially reserved for issuance under the Incentive Plan.

In August 2010, we filed a registration statement on Form S-8 for the purpose of registering 3,500,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

At March 31, 2011 we had 2,840,514 shares remaining under the 2010 Stock Incentive Plan.

2005 DIRECTORS COMPENSATION PROGRAM

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

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

At March 31, 2011 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 an aggregate grant amount of 5,303,275. Of those grants, 514,550 outside director’s options had been forfeited, 867,175 employee-director’s options had been forfeited, 250,000

outside directors options had been exercised and 3,671,550 options remained outstanding.

STAND-ALONE GRANTS

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

On June 8, 2009, our board of directors approved the grant to Mr. Joyce of 4,000,000 shares of restricted common stock at a price per share of $0.24, the vesting and issuance of which will occur in equal installments over a thirty-six-month period commencing June 30, 2010. Mr. Joyce may, from time to time, defer acceptance of the shares. However, all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six-month vesting period. As of June 29, 2011, Mr. Joyce has accepted 675,000 of such shares.

To date we have issued 18,943,158 options (of which 2,581,148 have been exercised or cancelled) and authorized the issuance of 4,000,000 shares of restricted stock outside of the 2005 Directors Compensation Plan, the 2000 Stock Option Plan, the 2003 Consultant Stock Plan and the 2010 Incentive Stock Plan.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- our ability to attract and retain the qualified personnel to implement our growth strategies;
- our ability to obtain approval from the Food and Drug Administration for our products;
- our ability to protect the patents on our proprietary technology;
- our ability to fund our short-term and long-term operating needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned "RISK FACTORS" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS".

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

revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

Overview

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

Results of Operations

Operating Expenses

Consolidated operating expenses were $4,557,116 for the fiscal year ended March 31, 2011 compared to $2,848,892 in the comparable period one year ago, an increase of $1,708,224, or 60%. The net increase of $1,708,224 was due to an increase in payroll expense of $1,643,843, an increase in general and administrative expense of $39,612 and an increase in professional fees of $24,769.

The $1,643,843 increase in payroll and related expenses was principally driven by an increase in stock compensation expense of $1,357,097. This stock compensation increase in turn was largely related to stock option grants in September 2010 that included a large upfront component and short vesting terms. The remainder of the increase was due to the hiring of a full time CFO in July 2010 and a President in October 2010.

The $39,612 increase in general and administrative expenses arose from a number of factors, including an $85,075 increase in insurance costs, almost all in the medical insurance area, due to increased premiums compounded by headcount increases and in investor relations expense of $45,929 due to increased activity in that area. Those increases were partially offset by a $25,000 decrease in contributions, a $21,433 reduction in lab supplies, an $11,333 decrease in net rent expense, a $9,715 decrease in moving expenses and a $7,804 decrease in utility expenses.

The $24,769 increase in our professional fees arose from a number of factors, including $66,000 in stock-based payments to our government services firm without a comparable expense in the prior fiscal year, a $50,618 increase in our legal fees and a $50,000 increase in fees recorded to our outside directors. Those increases were partially offset by a $93,970 decrease in charges by our contract manufacturer as we had fewer cartridges produced in the recent fiscal year than in the prior period, a $44,895 decrease in fees paid to an outside executive services firm, a $12,672 decrease in the cost of temporary workers and a $12,617 decrease in fees from our independent accounting firm.

Other Expenses

In the fiscal year ended March 31, 2011, we recognized an other expense of $1,154,319 compared to $1,724,423 of other expense in the fiscal year ended March 31, 2010. The following table breaks out the various components of our other expense over the fiscal years ended March 31, 2011 and 2010:

| | Components of Other Expense in Fiscal Year Ended | | |
|---|---|---|---|
| | March 31, 2011 | March 31, 2010 | Change |
| LOSS ON EXTINGUISHMENT OF DEBT AND ON SETTLEMENT OF ACCRUED INTEREST AND DAMAGES | 3,306,346 | -- | 2,964,362 |
| CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY | (6,079,772) | (178,723) | (5,901,049) |
| INTEREST AND OTHER DEBT EXPENSES | 3,951,352 | 1,564,301 | 2,387,051 |
| INTEREST INCOME AND OTHER | (23,607) | (3,139) | (20,468) |
| TOTAL OTHER EXPENSE | $1,154,319 | $1,724,423 | $(570,104) |

We recorded losses on extinguishment of debt equaling $3,237,643 in the fiscal year ended March 31, 2011 without any comparable debt extinguishments in the prior year. The debt extinguishment activity related to two modifications to our February 2010 convertible note and to an extension and modification to our Amended and Restated Series A Convertible Notes.

We recorded losses on settlement of accrued interest and damages in both years. Those expenses related to the payment of accrued interest and damages in the form of common stock and warrant issuances to the holders of our Amended Series A 10% Convertible Notes.

Both periods include changes in the fair value of derivative liability. For the fiscal year ended March 31, 2011, the change in the estimated fair value of derivative liability was a gain of $6,079,772 and for the fiscal year ended March 31, 2010, the change in estimated fair value was a gain of $178,723.

We recorded a $20,468 increase in interest income and other income primarily due to the interest recorded on the higher level of notes receivable in the fiscal year ended March 31, 2011 than in the prior period.

Our interest and other debt expense increased by $2,387,051. The following table breaks out the various components of our interest expense over the fiscal years ended March 31, 2011 and 2010:

| | Components of Interest Expense in Fiscal Year Ended March 31, 2011 | March 31, 2010 | Change |
|---|---|---|---|
| INTEREST EXPENSE | 446,588 | 339,934 | 106,654 |
| AMORTIZATION OF DEFERRED FINANCING COSTS | 322,191 | 61,313 | 260,878 |
| AMORTIZATION OF NOTE DISCOUNTS | 1,705,432 | 638,505 | 1,066,927 |
| WARRANTS ISSUED UPON CONVERSION OF DEBT | 74,652 | 31,549 | 43,103 |
| NON CASH INTEREST EXPENSE | 1,252,689 | -- | 1,252,689 |
| ACCRUED LIQUIDATED DAMAGES | 149,800 | 493,000 | (343,200) |
| TOTAL INTEREST EXPENSE | $3,951,352 | $1,564,301 | $2,387,051 |

As a result of the above factors, our net loss increased from $(4,573,315) for the fiscal year ended March 31, 2010 to $(5,711,435) for the fiscal year ended March 31, 2011.

Liquidity and Capital Resources

At March 31, 2011, we had a cash balance of $15,704 and a working capital deficit of $6,132,674. This compares to a cash balance of $67,950 and a working capital deficit of $4,868,542 at March 31, 2010. Between April 1, 2011 and June 29, 2011, we raised aggregate proceeds of $385,000 through private debt financing transactions and also collected $200,000 from a note receivable. Our cash at March 31, 2011 plus additional funds raised to date subsequent to March 31, 2011 are not sufficient to meet our funding requirements during the next twelve months. Significant additional financing must be obtained in order to provide a sufficient source of operating capital and to allow the Company to continue to operate as a going concern.

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

Beyond the immediate future, we currently believe that the following four areas may generate revenue for us:

(1) Developing future products using the Aethlon ADAPTTM system with drug industry collaborators. Revenues in this area could come from product development fees, fees from research, regulatory and manufacturing support or

from downstream royalties;

(2) Applying for and winning U.S. Government grant or contract income. We have applied for a contract award under the Defense Advanced Products Development Agency's broad agency announcement entitled: DARPA-BAA-11-30 Dialysis-Like Therapeutics and under BARDA's CBRN BAA-11-100-00009. We also applied for the U.S. Army's Blood Purification for Organ Failure SBIR at the end of June 2011;

(3) Licensing or selling our ELLSA research diagnostic tools that identify and quantify exosomes;

(4) Commercializing the Hemopurifier® in India following a successful result in our Hepatitis-C-oriented clinical trial currently being conducted in that country.

Cash Flows

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

| | (In thousands) For the year ended | |
|---|---|---|
| | March 31, 2011 | March 31, 2010 |
| Cash (used in) provided by: | | |
| Operating activities | $(1,968) | $(1,978) |
| Investing activities | (9) | (30) |
| Financing activities | 1,925 | 2,070 |
| Net (decrease) increase in cash | $(52) | $62 |

NET CASH FROM OPERATING ACTIVITIES. We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $1,968,000 in fiscal 2011 compared to net cash used in operating activities of approximately $1,978,000 in fiscal 2010.

NET CASH FROM INVESTING ACTIVITIES. During the fiscal year ended March 31, 2011, our investing activities consisted of using approximately $2,000 in cash for purchases of equipment and $7,000 in cash in patents and patents pending. During the fiscal year ended March 31, 2010, we used approximately $13,000 in patents and patents pending and approximately $17,000 in purchases of equipment.

NET CASH FROM FINANCING ACTIVITIES. Net cash generated from financing activities decreased from approximately $2,070,000 the fiscal year ended March 31, 2010 to approximately $1,925,000 in the fiscal year ended March 31, 2011. Included in net cash provided by financing activities in fiscal 2011 were $1,105,000 in proceeds from the issuance of convertible notes payable, $500,000 from the collection of notes receivable associated with certain convertible note transactions and approximately $320,000 from the issuance of common stock. In fiscal 2010, we received approximately $1,978,000 in proceeds from the issuance of convertible notes payable and approximately $115,000 from the issuance of common stock.

CONVERTIBLE NOTES PAYABLE AND WARRANTS

AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated 12% Series A Convertible Promissory Notes (the "Amended and Restated Notes") with the holders of certain promissory notes previously issued by the Company (“Amended Series A 10% Convertible Notes” or the "Prior Notes"), and all amendments to the Prior Notes.

The Amended and Restated Notes, in the principal amount of $900,000, are convertible into an aggregate of 4,500,000 shares of our common stock and matured on December 31, 2010. In connection with the restructuring we paid $54,001 of accrued and default interest through the date of the restructuring, liquidated damages of $205,000 and $54,003 of prepaid interest through the expiration date in the aggregate amount of $313,004 through the issuance of units ("Units") at a fixed rate of $0.20 per Unit, each Unit consisting of one share of our common stock and one common stock purchase warrant to purchase one share of our common stock at a fixed exercise price of $0.20 per share as prescribed in the Amended and Restated Note Agreement. At March 31, 2011, interest payable on the Amended Series A 10% Convertible Notes totalled $33,750.

In addition to the extension of the expiration date of the Amended and Restated Notes to December 31, 2010, we agreed to increase the annual interest rate from ten percent to twelve percent. We also agreed to change the exercise prices on all of the warrants held by the noteholders to $0.20 per share, to change certain formerly contingent warrants to non-contingent warrants and to extend the expiration date of their warrants to February 2016. The following table summarizes the number of shares of our common stock issuable upon the conversion of the Amended and Restated Notes or the exercise of the various warrants issued or issuable pursuant to the Amended and Restated Notes.

| | |
|---|---|
| Note Conversion | 4,500,000 |
| Warrants | 11,646,125 |
| Total | 16,146,125 |

For accounting purposes, the amendment of the 12% Series A Convertible Notes was treated as a debt extinguishment in accordance with FASB ASC 470-50, Debt-Modifications and Extinguishments, as the terms of the restructured agreements were deemed to be substantially different than those of the prior agreements.

Based on conversion and exercise price re-set provisions included in the Amended and Restated Notes warrant agreements, the embedded conversion feature and the related warrants, with an aggregate estimated fair value of approximately $3,089,000, were classified as derivative liability instruments (See Note 1 to the Financial Statements). Consequently, at the amendment date we recorded a loss on extinguishment of $2,226,924 as follows:

| | |
|---|---|
| Reacquisition price | $ 4,385,925 |
| Less carrying value of notes and related instruments | (2,159,001) |
| Loss on extinguishment | $ 2,226,924 |

As of December 31, 2010, the Amended and Restated Notes matured and as of March 31, 2011 are in default. We have begun discussions with the noteholders regarding an extension to the notes but there can be no assurance that we will be able to do so on terms that we deem acceptable or at all. At March 31, 2011, interest payable on the Amended and Restated Notes totaled $33,750.

2008 10% CONVERTIBLE NOTES

One 2008 10% Convertible Note in the amount of $25,000 which matured in January 2010 remains outstanding at March 31, 2011. This note is convertible into our common stock at $0.50 per share. During the fiscal year ended March 31, 2011 we agreed to convert the $20,000 principal and related accrued interest of $5,562 of one holder of the 2008 10% Convertible Note into 127,808 shares of common stock based upon a conversion ratio of $0.20 per share rather than at the stated conversion ratio of $0.50 per share. As a result of this change, we recorded a charge of $15,337 as interest expense in the fiscal year ended March 31, 2011.

At March 31, 2011, the remaining principal balance of $25,000 is in default and interest payable on the note totaled $7,917.

DECEMBER 2006 10% CONVERTIBLE NOTES

At March 31, 2011, $17,000 of the December 2006 10% Notes remained outstanding and in default. These notes are convertible into our common stock at $0.17 per share. At March 31, 2011, the remaining principal balance of $17,000 is in default and interest payable on the note totaled $10,696.

MAY & JUNE 2009 10% CONVERTIBLE NOTES

In May and June 2009, we raised an aggregate amount of $350,000 from the sale to accredited investors of 10% convertible notes ("May & June 2009 10% Convertible Notes"). The May & June 2009 10% Convertible Notes matured at various dates between November 2010 through December 2010 and are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. Upon conversion of the May and June 2009 10% Convertible Notes the note holders will receive a matching three year warrant to purchase unregistered shares of our common stock at a price of $0.20 per share.

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

The following conversions of the May & June 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $50,000 | $100,000 |
| Accrued interest converted | $2,803 | $15,039 |
| Warrants issued | 250,000 | 500,000 |

As a result of the warrant issuances we recorded charges of $31,550 and $74,652 as additional interest expense in the fiscal years ended March 31, 2010 and 2011, respectively.

At March 31, 2011, the remaining principal balance of $200,000 is in default and interest payable on these notes totaled $33,292.

JULY & AUGUST 2009 10% CONVERTIBLE NOTES

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

Based on the initial estimated fair value of the conversion feature and warrants, we recorded a discount associated with the derivative liability of $475,762, which was amortized using the effective interest method over the one year term of the notes. Deferred financing costs incurred in connection with this financing totaled $60,750, which were capitalized and amortized using the effective interest method over the one year term of the notes.

The following conversions of the July & August 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $330,000 | $250,750 |
| Accrued interest converted | $22,559 | $10,698 |

At March 31, 2011, the remaining principal balance of $87,500 is in default and interest payable on these notes totaled $32,020.

OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible Notes mature at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investors also received matching three year warrants to purchase unregistered shares of our common stock at a price of $0.25 per share. We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the notes.

The following conversions of the October & November 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $70,000 | $175,000 |
| Accrued interest converted | $22,559 | $8,750 |

Deferred financing costs of $20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the $20,250 of deferred financing costs and are amortizing them over the term of the notes using the effective interest method. At March 31, 2011, interest payable on these notes totaled $30,788.

JANUARY 2010 10% CONVERTIBLE NOTES

In January 2010, we raised $250,000 from the sale to an accredited investor of two 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the notes.

In July 2010, the holder of the January 2010 10% Convertible Notes elected to convert the entire principal balance of $250,000 and $12,500 of accrued interest into 1,050,000 shares of common stock based upon the conversion formula of the notes. As a result of this conversion, we accelerated the amortization of the remaining debt discount and recognized interest expense totaling $249,938 based on the unamortized debt discount at the time of conversion.

FEBRUARY 2010 10% CONVERTIBLE NOTE

On February 12, 2010, we raised $280,015 in cash and received a secured promissory note in the amount of $300,000 in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to Gemini Master Fund, Ltd. ("Gemini"). The Note included an original issue discount of ten percent, or $60,000, and an origination fee of three percent, or $9,000. We also paid legal fees of $10,985. The Note issued by the Company matured in February 2011. The terms of the promissory note included a maturity date of April 1, 2011, and allowed for prepayments of principal and interest by Gemini beginning on September 1, 2010.

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

The Note also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences. The Note contains standard events of default related to payment, performance of certain covenants and bankruptcy events. W recorded a debt discount associated with the derivative liability and warrants of $478,476 associated with the conversion feature, which was amortized using the effective interest method over the term of the note.

In November 2010, certain terms of the Note were modified pursuant to a Settlement Agreement (the "Agreement") which provides for the modification of the conversion price formula to equal eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. on the Principal Market for the twenty (20) trading days preceding the conversion date in lieu of the ten (10) trading days preceding the conversion date.

According to the modified terms, the previous conversion floor price was replaced with a maximum share limitation under which the maximum number of shares of common stock that may be issued to the holder of the Note pursuant to a conversion of the Note, combined with an exercise of the Exchange Warrant (as defined below), shall not exceed a cap determined by (a) dividing the sum of (i) the face amount of the Note, plus (ii) an amount equal to all interest that would accrue under the Note during its term (assuming no payments of principal or interest are made prior to the maturity date of the Note), by a price per share of common stock equal to $0.16 (subject to equitable adjustment) and (b) then adding the sum calculated pursuant to the foregoing clause (a) to the maximum number of warrant shares (as defined in the Exchange Warrant) that may be acquired by the holder thereof upon exercise of the Exchange Warrant (regardless of whether such exercise is a cashless exercise). In addition, the "maximum ownership percentage" under the Note was increased to 9.99%.

In addition to the modifications of the note, we agreed to exchange the original warrant for a new common stock purchase warrant (the "Exchange Warrant") for the purchase of 2,727,272 shares of common stock at an initial exercise price of $0.231 per share. The Exchange Warrant provides for anti-dilution adjustment to the exercise price in the event of the issuance of securities by the Company below the exercise price, subject to certain exceptions as set forth in the Exchange Warrant.

In addition, the Agreement provided that Gemini deliver to us $253,794.09 by wire transfer in full payment of the promissory note, which represents the outstanding principal balance thereof plus all accrued but unpaid interest

thereon less the origination fee due to the Gemini under the original transaction documents less reimbursement of Gemini's legal expenses. In accordance with the settlement, we delivered to Gemini 286,483 freely tradable shares of common stock in full satisfaction of the remaining number of shares of common stock due under certain conversion notices, for a total of $75,000, previously delivered by Gemini to the Company. The Agreement provided for the mutual release of all claims related to the dispute and the revocation of all prior notices of default sent by the Company and Gemini to each other.

In connection with the modification to the note and the issuance of the Exchange Warrant, the maximum number of shares issuable pursuant to the maximum share limitation and the exercise in full of the Exchange Warrant was 7,241,377.

As a result of the issuance of the Exchange Warrant and the changes to the conversion terms of the Note and also as a result of the Extension Agreement, we recorded a loss on extinguishment of debt in the amount of $963,018 in the fiscal year ended March 31, 2011. That charge was calculated based on the change in fair value of the embedded conversion feature of the Note and in the warrants exchanged both immediately prior to and immediately after the Settlement dates, as follows:

| | |
|---|---|
| Reacquisition price | $ 1,854,767 |
| Less carrying value of notes and related instruments | (891,749) |
| Loss on extinguishment | $ 963,018 |

On March 21, 2011, we entered into an Extension Agreement (the "Agreement") with Gemini. The Agreement provides for, among other things, the extension of the Maturity Date to October 1, 2011, and an amendment and restatement of the Note to reflect the revised principal amount of $740,578, which amount includes accrued interest of $58,981, the remaining principal balance of $585,000 and a 15% premium to the principal and accrued interest amount in consideration for the extension. In addition, the Note as amended provides for a new "share cap formula" such that the number of shares of Common Stock issuable upon conversion of the Note shall not exceed a cap determined by (a) dividing the sum of (i) the revised principal amount of the Note ($740,578), plus (ii) an amount equal to all interest that would accrue under the Note during its term (assuming no payment of principal or interest are made after March 21, 2011 but prior to the Maturity Date), by a price per share of Common Stock equal to $0.16 (subject to adjustment as set forth in the Note) and (b) then adding the sum calculated pursuant to the foregoing clause to the maximum aggregate number of shares of Common Stock issuable under certain warrants held by Gemini (regardless of whether such exercise is a cashless exercise).

As a result of the Extension Agreement and the changes to the conversion terms of the Note and also as a result of the Extension Agreement, we recorded a loss on extinguishment of debt in the amount of $47,701 in the fiscal year ended March 31, 2011. That charge was calculated based on the change in fair value of the embedded conversion feature of the Note and in the warrants exchanged both immediately prior to and immediately after the Settlement dates, as follows:

| | |
|---|---|
| Reacquisition price | $ 773,582 |
| Less carrying value of notes and related instruments | (725,881) |
| Loss on extinguishment | $ 47,701 |

At March 31, 2011, interest payable on this Note totaled $59,273.

APRIL 2010 10% CONVERTIBLE NOTE

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 unregistered shares of our common stock at a price of $0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the note.

At March 31, 2011, interest payable on this note totaled $7,063.

JUNE 2010 12% CONVERTIBLE NOTES

In June 2010, in connection with the present and past negotiations with the law firm representing the holders of the "Amended and Restated Notes," we issued two convertible notes to that law firm (“June 2010 12% Convertible Notes”) totaling $64,153 on the same terms as the Amended and Restated Notes. That amount represented the amount of their legal fees plus accrued interest. During the fiscal year ended March 31, 2011, the holder converted to common stock one of the convertible notes in the amount of $42,964.

At March 31, 2011, interest payable on this note totaled $636.

JULY 2010 6% CONVERTIBLE NOTES

In July 2010, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor") whereby we issued and sold, and the Investor purchased: (i) a Convertible Promissory Note of the Company in the principal amount of $890,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant"). As consideration for the issuance and sale of the Company Note and Warrant, the Investor paid cash in the amount of $400,000 and issued two Secured Trust Deed Notes to us (the "Trust Notes") each in the principal amount of $200,000. The variance of $90,000 represents fees and expenses paid by us and an original issue discount.

The Company Note is convertible into shares of our common stock, at the option of the Investor, at a price per share equal to (a) the principal and interest due under the Company Note divided by (b) 80% of the average of the closing bid price for the three (3) trading days with the lowest closing bid prices during the twenty (20) trading days immediately preceding the conversion date (the “Conversion Price”). In no event shall the Conversion Price be greater than the "Ceiling Price", which is $0.30 per share. The Company Note bears interest at a rate of 6% per annum. The maturity date of the Company Note is July 15, 2011.

The Company Note contains "anti-dilution" protection, such that if we issue and sell common stock, or securities convertible into or exercisable for our common stock, at a price per share that is less than the applicable Conversion Price, then the Conversion Price is adjusted downward to match such lower issuance price. However, in no event will the Conversion Price based on anti-dilution adjustments be lower than the "Floor Price" which is $0.20 per share.

The number of shares of Common Stock that may be issued to the lender pursuant to a conversion of this Note, combined with an exercise of the Warrant, shall not exceed a cap determined by (a) dividing the sum of (i) the face amount of this Note, plus (ii) an amount equal to all interest that would accrue under this Note during its term (assuming no payments of principal or interest are made prior to the Maturity Date), by a price per share of Common Stock equal to $0.20 (the “Floor Price”).

The Company Note also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences. The Company Note contains standard events of default related to payment, performance of certain covenants and bankruptcy events. We have granted the Investor a security interest in the Trust Notes under the terms of the Security Agreement. The sole collateral for the Company's payment and performance obligation under the Company Note is the Trust Notes. The Warrant entitles the Investor to purchase 3,636,364 shares of common stock at an exercise price of $0.231 per share. The Warrant contains "anti-dilution" protection, such that if we issue and sell common stock, or securities convertible into or exercisable for common stock of the Company, at a price per share that is less than the price, then the price is adjusted downward to match such lower issuance price. The Warrant also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences.

Based on the reset provisions of the embedded conversion feature of this note and the warrants issued in connection with this note, the conversion feature and the warrants were recorded as derivative liabilities with initial estimated fair values of $386,463 and $783,225, respectively. Of the total derivative liability recorded, $890,000 was recorded as a debt discount, which is being amortized to interest expense over the term of the note, and $279,688 was charged directly to interest expense.

At March 31, 2011, interest payable on this note totaled $35,107.

SEPTEMBER 2010 10% CONVERTIBLE NOTES

On September 3, 2010, we entered into a Subscription Agreement with three accredited investors (the “Purchasers”) providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The initial closing under the Subscription Agreement resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.43575 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and mature on September 3, 2011. The aggregate gross cash proceeds were $650,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than $0.30 nor less than $0.20.

At March 31, 2011, interest payable on these notes totaled $42,709.

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, 2011 we issued 2,128,862 common shares for services of which 227,792 were restricted and were for investor relations services. We also issued 8,857,408 common shares for the retirement or conversion of notes payable and convertible notes payable and 78,767 for licensing rights. Included in the 2,128,862 common shares

issued for services are 1,901,070 shares, registered under a Form S-8 registration statement, Which were issued as follows: 372,163 for regulatory consulting, 157,775 for financial and scientific consulting, 411,153 for business development consulting, 690,443 for administration and corporate communications services and 269,536 for legal expenses. The average price (premium)/discount of common shares issued for these services, weighted by the number of shares issued for services in this period, was approximately (16.94)%.

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, 2011 we issued 8,857,408 restricted common shares for repayment in full of notes, including accrued interest, in the aggregate amount of $1,563,102. The price discount of the common stock issued for debt was approximately 24.7%.

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, 2011 consolidated financial statements that our working capital deficiency and significant deficiency accumulated during the development stage are conditions that, among others, raise substantial doubt about our ability to continue as a going concern.

CRITICAL ACCOUNTING POLICIES

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

Fair Value Measurements

We measure the fair value of applicable financial and non-financial instruments based on the following fair value hierarchy:

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

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

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

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

The fair value of derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a Level 3 classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, in connection with our February 2010 note restructurings, our Amended and Restated 12% Series A Convertible Promissory Notes, our July and August 2009 convertible notes, our July 2010 convertible note and our September 2010 convertible notes and with respect to warrant and embedded conversion option derivative instruments utilizing the Binomial Lattice option pricing model:

| | Fiscal Year Ended March 31, 2011 |
|---|---|
| Risk free interest rate | 0.12% - 2.58% |
| Average expected life | 0.13 - 5 years |
| Expected volatility | 42.0% - 115.1% |
| Expected dividends | None |

We also obtained a third party valuation, which is a Level 3 classification as it was based on unobservable inputs that are not corroborated by market data.

During the fiscal year ended March 31, 2011 our independent valuation firm began to use the Binomial Lattice valuation technique to value warrants. In prior fiscal years, they used the Black-Scholes technique to value warrants. In both fiscal years they used the Binomial Lattice method to value the embedded derivatives within our convertible debt instruments.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. This guidance also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. Management noted no indicators requiring review for impairment during the fiscal year ended March 31, 2011.

Stock Purchase Warrants

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

Beneficial Conversion Feature of Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We measure the estimated fair value of the BCF in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

Share-based Compensation

We account for share-based compensation awards using the fair-value method and record such expense based on the grant date fair value in the consolidated financial statements over the requisite service period. For the fiscal year ended March 31, 2011, we recognized $1,862,030 of share-based compensation expense.

DERIVATIVE INSTRUMENTS

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

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

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other expense (income).

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations,

liquidity, capital expenditures or capital resources and would be considered material to investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of a date (the "Evaluation Date") within 90 days prior to filing the Company's March 31, 2011 Form 10-K.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

The Company's management, with the participation of its Chief Executive Officer, assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2011. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of The Treadway Commission 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, 2011 due to control deficiencies that constituted material weaknesses.

Management in assessing its internal controls and procedures for fiscal 2011 identified a material weakness relating to 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 also identified a material weakness relating to 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.

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.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes made in our internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect these controls.

ITEM 9B. OTHER INFORMATION

During the fourth quarter of the year ended March 31, 2011, we issued the following securities that were not registered under the Securities Act and have not been included previously in a Current Report on Form 8-K. We did not employ any form of general solicitation or advertising in connection with the offer and sale of the securities described below. In addition, we believe the recipients of the securities are "accredited investors" as defined in Rule 501(a) of the Securities Act. For these reasons, among others, the offer and sale of the following securities were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act or Regulation D promulgated by the SEC under the Securities Act: On January 6, 2011, we issued 78,767 shares of restricted common stock to the owner of a patent as a patent license payment valued at $11,500. On February 14, 2011, we issued 245,555 shares of restricted common stock to a warrant holder upon exercise of a warrant for cash proceeds of $38,833.

On March 11, 2011, we issued 156,250 shares of restricted common stock to a broker-dealer in payment of a fee of $25,000 for financial consulting services.

On various dates between January 5, 2011 and March 30, 2011, we issued 3,987,962 shares of restricted common stock to noteholders in exchange for the conversion of principal and interest of several notes payable and convertible notes payable in an aggregate amount of $487,552 at an average conversion price of $0.12 per share based upon the conversion formulae in the respective notes.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on our review of copies of the Section 16(a) reports filed for the fiscal year ended March 31, 2011, we believe that all filing requirements applicable to our officers, directors, and greater than 10% beneficial owners were complied with except as follows:

- Mr. Franklyn S. Barry, Jr., one of our directors, did not timely file one report on Form 4 pertaining to nine late-reported transactions. The deemed execution dates of the transactions were between March 18, 2010 and March 30, 2010.The relevant report was filed on April 2, 2010.

- Mr. Edward G. Broenniman, one of our directors, did not timely file two reports on Form 4 pertaining to fifteen late-reported transactions. The deemed execution dates of the transactions were between March 18, 2010 and April 1, 2010and between April 5, 2010 and April 9, 2010. The relevant reports were filed onApril 6, 2010 and April 14, 2010.

34

DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS

The names, ages and positions of our directors and executive officers as of June 29, 2011 are listed below:

| NAMES | TITLE OR POSITION | AGE |
|---|---|---|
| James A. Joyce (1) | Chairman, Chief Executive Officer and Secretary | 49 |
| Richard H. Tullis, PhD (2) | Vice President, Chief Science Officer and Director | 66 |
| Rodney S. Kenley (3) | President and Director | 61 |
| James B. Frakes (4) | Chief Financial Officer and Senior Vice President - Finance | 54 |
| Franklyn S. Barry, Jr. | Director | 71 |
| Edward G. Broenniman | Director | 75 |

(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. Mr. Joyce resigned from the position of President upon the appointment of Mr. Kenley to such position on October 27, 2010.

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

(3) Effective October 27, 2010, Mr. Kenley was appointed as our President.

(4) Effective September 27, 2010, Mr. Frakes was appointed as our Chief Financial Officer.

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

Resumes of Management:

James A. Joyce, Chairman, CEO and Secretary.

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

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

Dr. Tullis has been Vice President and a director of the Company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen Research, a wholly-owned subsidiary of Aethlon Medical, Inc. Previously, Dr. Tullis co-founded Molecular

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

Rodney S. Kenley, President and Director

Mr. Kenley has been President and a Director since October 2010. He has 34 years of experience in healthcare, most of which have been spent in the extracorporeal blood purification arena. Mr. Kenley held several positions at Baxter Healthcare (Travenol) from 1977 through 1990 including International Marketing Manager, Business Unit Manager for Peritoneal and Hemodialysis products, Manager of New Business Development, Director of Worldwide Product Planning, Director of Advanced Product Development, and VP of Electronic Drug Infusion. During this tenure he conceived of and managed the launch of several new products that have been highly commercially successful including the HomeChoice peritoneal dialysis cycler.

Mr. Kenley founded Aksys Ltd. in January 1991 to develop and commercialize his concept of a daily home hemodialysis system which was commercially launched in 2002 as the PHD system. In 2004, Mr. Kenley initiated the development of a second-generation home hemodialysis system in partnership with DEKA Research & Development Corporation in Manchester, New Hampshire. In 2007, the assets of Aksys Ltd. were acquired by DEKA, where Mr. Kenley was employed prior to joining Aethlon.

Mr. Kenley is the recipient of over 30 patents.

Mr. Kenley received his Bachelor of Arts degree in Biology and Chemistry from Wabash College, a Masters of Science degree in Molecular Biology from Northwestern University and a Masters of Management from the Kellogg School of Management, also at Northwestern University.

James B. Frakes, Chief Financial Officer and Senior Vice President – Finance

Mr. Frakes joined Aethlon Medical in January 2008 and brought 16 consecutive years of financial responsibility for publicly traded companies, as well as specific knowledge and experience in equity and debt transactions, acquisitions, public reporting and Sarbanes-Oxley section 404 internal control requirements.

He previously served as the CFO for Left Behind Games Inc., a start-up video game company. Prior to 2006, he served as CFO of NTN Buzztime, Inc., an interactive entertainment company with $40 million in sales, where he played a key role in acquisitions that doubled the company's revenue. Mr. Frakes received an MBA from the University of Southern California and completed his BA with Honors at Stanford University.

Franklyn S. Barry, Jr.

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

Edward G. Broenniman

Mr. Broenniman became a director of Aethlon Medical on March 10, 1999. Mr. Broenniman has 30 years of management and executive experience with high-tech, privately-held growth companies where he has served as a CEO, COO, or corporate advisor, using his expertise to focus management on increasing profitability and stockholder value. He is the Managing Director of The Piedmont Group, LLC, a venture advisory firm. Mr. Broenniman recently

served on the Board of Directors of publicly-traded QuesTech (acquired by CACI International), and currently serves on the Boards of four privately-held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter.

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

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

Under the Directors Compensation Program, a newly elected director will receive a one-time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the Board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person or 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, 2011 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

FAMILY RELATIONSHIPS.

There are no family relationships between or among the directors, executive officers or persons nominated or chosen 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 or 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 understandings 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.

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.

Claudio Ronco, M.D.

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

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

INVOLVEMENT IN LEGAL PROCEEDINGS.

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

CODE OF ETHICS.

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

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors formed an audit committee in May of 1999 (the "Audit Committee"). Mr. Franklyn S. Barry, Jr. (the Chairman of the Committee) and Mr. Edward Broenniman serve as members of the Committee. We believe

that each of Mr. Broenniman and Mr. Barry is an "audit committee financial expert" as that term is defined by Item 407 of Regulation S-K.

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

COMPENSATION COMMITTEE

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

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

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following executive compensation disclosure reflects all compensation awarded to, earned by or paid to the executive officers below for the fiscal year ended March 31, 2011 and March 31, 2010. The following table summarizes all compensation for fiscal year 2011 and 2010 received by our Chief Executive Officer, and the Company's two most highly compensated executive officers who earned more than $100,000 in fiscal year 2011.

SUMMARY COMPENSATION TABLE FOR 2011 AND 2010 FISCAL YEARS

| NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION | YEAR | SALARY ($) | BONUS ($) | STOCK AWARDS ($) | OPTION AWARDS ($) | NON-EQUITY INCENTIVE PLAN COMPENSATION ($) | NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($) | ALL OTHER COMP. ($) | TOTAL ($) |
|---|---|---|---|---|---|---|---|---|---|
| James A. Joyce (1) CHIEF EXECUTIVE OFFICER | 2011 | $ 325,000 | $ 5,120 | -- | $ 580,522 (4) | $ -- | $ -- | $ -- | $ 910,642 |
| | 2010 | $ 290,000 | $ -- | $ 960,000 (3) | $ -- | $ -- | $ -- | $ -- | $ 1,250,000 |
| Richard H. Tullis, Ph.D (2) VICE PRESIDENT AND CHIEF SCIENCE OFFICER | 2011 | $ 195,000 | $ -- | $ -- | $ 232,209 (5) | $ -- | $ -- | $ -- | $ 427,209 |
| | 2010 | $ 175,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ 175,000 |
| | 2011 | $ 150,291 | $ -- | $ 49,659 (7) | $ 116,104 (8) | $ -- | $ -- | $ -- | $ 316,054 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| James B. Frakes (6)<br>CHIEF FINANCIAL OFFICER AND SVP-FINANCE | | | | | | | | | |
| Rodney S. Kenley (9)<br>PRESIDENT | 2011 | $ 100,000 | $ -- | $ -- | $ 210,000(10) | $ -- | $ -- | $ -- | $ 310,000 |

_____

(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2011 is 675,000 (of the 4,000,000 share restricted stock grant – see note 3) and 12,088,243.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2011 is zero and 2,897,175.

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

(4) This option award to purchase 2,500,000 shares at $0.25 per share was for service as an officer and the fair value on the grant date of September 27, 2010 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 113.2%, risk free interest rate of 0.66% and a 10-year life.

(5) This option award to purchase 1,000,000 shares at $0.25 per share was for service as an officer and the fair value on the grant date of September 15, 2010 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 113.2%, risk free interest rate of 0.66% and a 10 year life.

(6) Mr. Frakes was appointed as Chief Financial Officer on September 27, 2010 after previously serving as Senior Vice President-Finance on a part-time basis. The aggregate number of stock awards and stock option awards outstanding as of March 31, 2011 is 49,659 and 500,000.

(7) The stock issuances to Mr. Frakes during the fiscal year ended March 31, 2011 were given as compensation prior to his acceptance of the CFO position.

(8) This option award to purchase 500,000 shares at $0.25 per share was for service as an officer and the fair value on the grant date of September 15, 2010 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 113.2%, risk free interest rate of 0.66% and a 10-year life.

(9) Mr. Kenley was appointed President on October 27, 2011. The aggregate number of stock awards and stock option awards issued to Mr. Kenley and outstanding as of March 31, 2011 is zero and 1,000,000.

(10) This option award to purchase 1,000,000 shares at $0.25 per share was for service as an officer and the fair value on the grant date of October 27, 2010 was calculated through a binomial lattice pricing model. Significant assumptions used in determining the fair value included: volatility of 114.7%, risk free interest rate of 0.64% and a 10-year life.

In addition, Mr. Joyce was granted 4,000,000 shares of restricted common stock, at a price per share of $0.24, which began vesting in equal installments over a thirty-six month period commencing June 30, 2010; however Mr. Joyce may, from time to time, defer acceptance of the shares. All shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period. As of June 29, 2011, Mr. Joyce has accepted 675,000 of such shares.

We began recording the stock-based compensation expense associated with this grant in June 2010.

EMPLOYMENT AGREEMENTS

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

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

proposals to the FDA and the filing of a patent application. Effective April 1, 2006, Dr. Tullis salary was increased to $180,000 per year. Effective April 1, 2010, his salary was increased from $180,000 to $195,000 per year.

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

On September 27, 2010, Mr. Frakes was appointed our Chief Financial Officer. We have not entered into a written employment agreement with Mr. Frakes. As Chief Financial Officer, Mr. Frakes receives an annual salary of $180,000 and medical insurance benefits. In addition, in connection with his appointment, we granted Mr. Frakes an option to acquire up to 500,000 shares of our common stock. The option vested as to 250,000 shares on the grant date and will vest as to the remaining 250,000 shares one year from the grant date.

Mr. Kenley was appointed our President on October 27, 2010. Pursuant to a written offer of employment executed by us and Mr. Kenley, he receives an annual salary of $240,000 and medical insurance benefits. Effective October 27, 2010, he also was granted an option to acquire up to 1,000,000 shares of our common stock. The option will vest as to 250,000 shares on October 27, 2011 and as to 20,833 shares each month thereafter.

OUTSTANDING EQUITY AWARDS AT 2011 FISCAL YEAR-END

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

OUTSTANDING EQUITY AWARDS AT 2011 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 | 02/23/15 |
| | 557,775(1) | -- | -- | $ 0.38 | 02/23/15 |
| | 557,775(1) | -- | -- | $ 0.38 | 02/23/15 |
| | 2,857,143(1) | -- | -- | $ 0.21 | 12/18/15 |
| | 2,500,000(2) | -- | -- | $ 0.36 | 09/21/17 |
| | 2,000,000(3) | -- | -- | $ 0.25 | 02/21/19 |
| | 1,000,000(4) | 1,500,000 | -- | $ 0.25 | 09/27/20 |
| Richard H. Tullis | 250,000(5) | -- | -- | $ 1.90 | 03/12/12 |
| | 433,588(6) | -- | -- | $ 0.38 | 02/23/15 |
| | 433,587(6) | -- | -- | $ 0.38 | 02/23/15 |
| | 250,000(7) | 500,000 | -- | $ 0.41 | 06/14/18 |
| James B. Frakes | 250,000(8) | 250,000 | -- | $ 0.25 | 09/27/20 |
| Rodney S. Kenley | --(9) | 1,000,000 | -- | $ 0.25 | 10/27/20 |

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

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

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

(4) The option vested 1,000,000 at grant, with 500,000 vesting on each anniversary date through September 27, 2013.

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

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

(7) The option was fully vested as of June 4, 2011.

(8) The option vested 250,000 at grant with the remaining 500,000 shares vesting on September 27, 2011.

(9) The option vests 250,000 on October 27, 2011 and 250,000 each anniversary date thereafter through 2014.

| | STOCK AWARDS | | | |
|---|---|---|---|---|
| NAME | NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#) | MARKET VALUE OF SHARES OR UNITS THAT HAVE NOT VESTED ($) | EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED (#) | EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED ($) |
| James A. Joyce | 3,000,000 (1) | $720,000 | -- | $-- |
| Richard H. Tullis, PhD | -- | $-- | -- | $-- |
| James B. Frakes | -- | $-- | -- | $-- |
| Rodney S. Kenley | -- | $-- | -- | $-- |

(1) On June 8, 2009, Mr. Joyce was granted 4,000,000 shares of restricted common stock, at a price per share of $0.24, which shall vest in equal installments over a thirty-six month period commencing June 30, 2010; however Mr. Joyce may, from time to time, defer acceptance of the shares. All shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period. As of March 31, 2011, 1,000,000 had vested under this restricted stock grant although Mr. Joyce has only elected to receive 675,000 shares.

DIRECTOR COMPENSATION FOR 2011 FISCAL YEAR

The following director compensation disclosure reflects all compensation awarded to, earned by or paid to the directors below for the fiscal year ended March 31, 2011.

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| James A. Joyce (1) | -- | -- | -- | -- | -- | -- | -- |
| Richard H. Tullis (2) | -- | -- | -- | -- | -- | -- | -- |
| Rodney S. Kenley (3) | -- | -- | -- | -- | -- | -- | -- |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Edward G. Broenniman (4) | 35,000 | -- | $ | 139,325 | -- | -- | -- | $ 174,325 |
| Franklyn S. Barry, Jr. (5) | 35,000 | -- | $ | 116,104 | -- | -- | -- | $ 151,104 |

(1) All compensation received by Mr. Joyce in fiscal year 2011 is disclosed in the Summary Compensation Table above. Mr. Joyce received no compensation as a director in fiscal year 2011.

(2) All compensation received by Dr. Tullis in fiscal year 2011 is disclosed in the Summary Compensation Table above. Dr. Tullis received no compensation as a director in fiscal year 2011.

(3) All compensation received by Mr. Kenley in fiscal year 2011 is disclosed in the Summary Compensation Table above. Mr. Kenley received no compensation as a director in fiscal year 2011.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2011 are 0 and 1,411,725. Mr. Broenniman received a stock option grant of 600,000 shares on September 27, 2010 for his service as an outside director. The option vested 300,000 at grant, with 100,000 vesting on each anniversary date through September 27, 2013.

(5) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2011 are 0 and 1,266,417. Mr. Barry received a stock option grant of 500,000 shares on September 27, 2010 for his service as an outside director. The option vested 250,000 at grant, with 83,333 vesting on each anniversary date through September 27, 2013.

Directors Compensation Program

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

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

At March 31, 2011 under the 2005 Directors Compensation Program we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

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

The following table sets forth information as of June 29, 2011, with respect to the ownership of our common stock, by (i) each person known by us to be the beneficial owner of more than five percent (5%) of the outstanding shares of each class of our capital stock, (ii) each of our directors and director nominees (if any), (iii) each of our named executive officers and (iv) all of our executive officers and directors as a group. The term "executive officer" is defined as the President/Chief Executive Officer, Secretary, Chief Financial Officer/Treasurer, any vice-president in charge of a principal business function (such as administration or finance), or any other person who performs similar policy making functions for the Company. We believe that each individual or entity named has sole investment and voting power with respect to shares of common stock indicated as beneficially owned by them, subject to community property laws where applicable, excepted where otherwise noted:

| TITLE OF CLASS | NAME AND NATURE OF BENEFICIAL OWNERSHIP(1)(2) | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)(2) | PERCENT OF CLASS |
|---|---|---|---|
| Common Stock | James A. Joyce, Chief Executive Officer and Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 12,543,799 shares(3) | 11.6% |
| Common Stock | Richard H. Tullis, Chief Scientific Officer and Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 2,885,925 shares(4) | 2.9% |

| | | | |
|---|---|---|---|
| Common Stock | Rodney S. Kenley, President and Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 20,000 shares(5) | *% |
| Common Stock | James B. Frakes, Chief Financial Officer<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 260,000 shares(6) | *% |
| Common Stock | Edward G. Broenniman, Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 1,393,899 shares(7) | 1% |
| Common Stock | Franklyn S. Barry, Jr., Director<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 1,122,510 shares(8) | 1% |
| Common Stock | Ellen R. Weiner Family Revocable Trust(9)<br>10645 N. Tatum Blvd. Suite 200-166<br>Phoenix, Arizona 85028 | 10,555,438 shares(10) | 9.9% |

| | | | |
|---|---|---|---|
| Common Stock | Estate of Allan S. Bird(9)<br>PO Box 371179<br>Las Vegas, Nevada 89137 | 3,823,070 shares(10) | 3.8% |
| Common Stock | Phillip A. Ward (9)<br>P.O. Box 3322<br>Rancho Santa Fe, CA 92067 | 4,940,602 shares(11) | 4.99% |
| Common Stock | Alan R. Albrecht (9)<br>8910 University Center Lane, Suite 660<br>San Diego, CA 92122 | 5,105,308 shares(12) | 4.99% |
| Common Stock | Gemini Master Fund Ltd.(9)<br>619 South Vulcan, Suite 203<br>Encinitas, California 92024 | 8,090,806 shares(13) | 7.7% |
| | | | |
| Common Stock | Tonaquint, Inc.(9)<br>303 East Wacker Drive, Suite 1200<br>Chicago, Illinois 60601 | 5,965,750 shares | 6.1% |
| | | | |
| Directors and Executive Officers as a Group (6 members) | | 18,226,133 shares | 16.2% |

* Less than 1%.

1. Based on 97,205,477 shares of Common Stock outstanding on the transfer records as of June 29, 2011.

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

3. Includes 2,231,100 stock options exercisable at $0.38 per share, 2,857,143 stock options exercisable at $0.21 per share, 2,500,000 stock options exercisable at $0.36 per share and 3,000,000 stock options exercisable at $0.25 per share. An additional 1,500,000 stock options (exercisable at $0.25 per share) granted to Mr. Joyce are excluded from the above table as that portion will vest after 60 days from June 29, 2011.

In addition, Mr. Joyce has been granted 4,000,000 shares of restricted common stock, which vest over a 36 month period commencing June 30, 2010; however, such shares will not be issued until Mr. Joyce requests delivery of such vested shares. The above table includes 1,555,556 shares, representing 14 months of vesting under the 4,000,000 share grant. As of June 29, 2011, Mr. Joyce has accepted 675,000 of such shares.

4. Includes 250,000 stock options exercisable at $1.90 per share, 867,175 stock options exercisable at $0.38 per share, 750,000 stock options exercisable at $0.41 per share and 500,000 shares exercisable at $0.25 per share. An additional 500,000 stock options (exercisable at $0.25 per share) granted to Dr. Tullis are excluded from the table as that portion will vest after 60 days from June 29, 2011.

5. Excludes 1,000,000 stock options from the table as they vest after 60 days from June 29, 2011.

6. Includes 250,000 stock options exercisable at $0.25 per share. An additional 250,000 stock options (exercisable at $0.25 per share) granted to Mr. Frakes are excluded from the table as that portion will vest after 60 days from June 29, 2011.

7. Includes 3,000 stock options exercisable at $1.78 per share, 308,725 stock options exercisable at $0.38 per share, 500,000 stock options exercisable at $0.41 per share and 300,000 stock options exercisable at $0.25 per share. An additional 300,000 stock options (exercisable at $0.25 per share) granted to Mr. Broenniman are excluded from the table as that portion will vest after 60 days from June 29, 2011.

8. Includes 1,867 stock options exercisable at $1.84 per share, 264,550 stock options exercisable at $0.38 per share, 500,000 stock options exercisable at $0.41 per share and 250,000 stock options exercisable at $0.25 per share. An additional 250,000 stock options (exercisable at $0.25 per share) granted to Mr. Barry are excluded from the table as that portion will vest after 60 days from June 29, 2011.

9. More-than-5% shareholder.

10. Includes certain shares issuable upon conversion of a convertible note and exercise of warrants held by the Ellen R. Weiner Family Revocable Trust (the "Trust") and all shares issuable upon conversion of a convertible note and exercise of warrants held by the Estate of Allan S. Bird (the "Estate"). The Trust owns a convertible promissory note in the principal amount of $660,000 convertible into 3,300,000 shares at $0.20 per share and 8,769,897 warrants to purchase common shares at $0.20 per share. The Estate owns a convertible promissory note in the principal amount of $225,000 convertible into 1,125,000 shares at $0.20 per share and 2,698,070 warrants to purchase common shares at $0.20 per share. Beneficial ownership by each of the Trust and the Estate is limited contractually to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by either to exceed 9.9%. Accordingly, beneficial ownership for the Trust does not reflect 2,654,792 shares underlying the convertible notes and warrants that would cause the number of shares beneficially owned by the Trust to be 12.1% of our outstanding shares. Mr. Bird was Ms. Weiner's father-in-law. The Ellen R. Weiner Family Trust disclaims any beneficial ownership of the Estate's notes, associated warrants and underlying common stock. The Estate of Mr. Bird disclaims any beneficial ownership of such Trust's notes and associated warrants.

11. Includes certain shares issuable upon the exercise of warrants held by Phillip A. Ward. Mr. Ward owns warrants to purchase 100,000 shares of common stock at an exercise price of $0.176; warrants to purchase 194,118 shares of common stock at an exercise price of $0.17;warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; warrants to purchase 555,556 shares of common stock at an exercise price of $0.18; and warrants to purchase 194,118 shares of common stock at an exercise price of $0.17. Mr. Ward's beneficial ownership is limited contractually to the extent that exercise of such warrants would cause the aggregate number of shares of common stock beneficially owned by Mr. Ward to exceed 4.99% of our outstanding shares. Accordingly, beneficial ownership for Mr. Ward does not reflect 350,317 shares underlying such warrants that would cause the number of shares beneficially owned by Mr. Ward to be 5.3% of our outstanding shares.

12. Includes certain shares issuable upon the conversion of convertible notes and exercise of warrants held by Alan R. Albrecht. Mr. Albrecht owns two convertible promissory notes in the aggregate principal amount of $125,000 convertible into 500,000 shares at $0.25 per share and warrants to purchase 5,395,000 shares of common stock at an average exercise price of $0.26 per share. Mr. Albrecht's beneficial ownership is limited contractually to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by Mr. Albrecht to exceed 4.99% of our outstanding shares. Accordingly, beneficial ownership for Mr. Albrecht does not reflect 789,692 shares underlying such notes and such warrants that would cause the number of shares beneficially owned by Mr. Albrecht to be 5.7% of our outstanding shares.

13. Includes certain shares issuable upon the conversion of convertible notes and exercise of warrants held by Gemini Master Fund Ltd. (Gemini). Gemini owns a convertible promissory note in the aggregate principal amount of $515,578 convertible into 1,730,807 shares subject to a maximum share issuance cap and warrants to purchase 6,359,999 shares of common stock at an average exercise price of $0.125 per share.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The following describes all transactions since April 1, 2009, and all proposed transactions, in which the Company was or is to be a participant and the amount involved exceeds the lesser of $120,000 or one percent of the average of the Company's total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

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

In addition, on June 8, 2009, the Board of Directors had approved the grant of 4,000,000 shares of restricted common stock, at a price per share of $0.24 to Mr. James Joyce, our Chief Executive Officer, with the shares vesting over a thirty-six month period commencing June 30, 2010. On May 21, 2010, the Board of Directors agreed that Mr. Joyce may, from time to time, defer acceptance of the shares under the vesting schedule provided that all shares must be issued and accepted by Mr. Joyce by the expiration of the thirty-six month vesting period. As of June 29, 2011, Mr. Joyce has accepted 675,000 of such shares.

On September 27, 2010, our Board of Directors granted the following stock options, all with an exercise price of $0.25 per share, the closing price of our common stock on that date:

To our CEO, an option to acquire an aggregate of 2,500,000 shares of our common stock. The option vested as to 1,000,000 shares on the grant date and will vest as to the remaining 1,500,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To our CSO, an option to acquire an aggregate of 1,000,000 shares of our common stock. The option vested as to 500,000 shares on the grant date and will vest as to the remaining 500,000 shares one year from the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To Mr. Franklyn S. Barry, Jr., one of the Company’s non-employee directors, an option to acquire an aggregate of 500,000 shares of our common stock. The option vested as to 250,000 shares on the grant date and will vest as to the remaining 250,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To Mr. Edward G. Broenniman, another of our non-employee directors, an option to acquire an aggregate of 600,000 shares of our common stock. The option vested as to 300,000 shares on the grant date and will vest as to the remaining 300,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To James Frakes, appointed as CFO on September 27, 2010, an option to acquire an aggregate of 500,000 shares of our common stock. The option vested as to 250,000 shares on the grant date and will vest as to the remaining 250,000 shares one year from the grant date.

On October 27, 2010, our Board of Directors granted Rodney S. Kenley, our president, an option to acquire an aggregate of 1,000,000 shares of our common stock with an exercise price of $0.25 per share. One-fourth of the option, or 250,000 shares, will vest on the one year anniversary and the remainder will vest quarterly over the following three years. Unless earlier exercised or terminated, the option will expire October 27, 2020.

Director Independence

Each of Mr. Barry and Mr. Broenniman is an independent director as that term is defined by NYSE Rule 303A.02(a). The Company currently has a compensation and audit committee. Of the members of the Company's board of directors, each of Mr. Barry and Mr. Broenniman meets the NYSE's independence standards for members of such committees.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services billed by Squar, Milner, Peterson, Miranda & Williamson LLP ("Squar Milner") for the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year 2011 | Ended March 31, 2010 |
|---|---|---|
| Audit Fees (1) | $117,417 | $92,400 |
| Audit Related Fees (2) | 4,320 | 41,600 |

| | | |
|---|---|---|
| Tax Fees (3) | 7,262 | 27,000 |
| All Other Fees (4) | -- | -- |
| | $128,999 | $161,000 |

(1) Audit fees include fees and expenses for professional services rendered in connection with the audit of our financial statements for fiscal 2011 and 2010 and for reviews of the financial statements included in each of our quarterly reports on Form 10-Q during fiscal 2011 and 2010.

(2) Audit Related Fees consist of fees billed for assurance related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." Included in Audit Related Fees for fiscal 2011 and 2010 are fees and expenses related to reviews of registration statements and SEC filings other than Forms 10-K and 10-Q.

(3) Tax fees include the aggregate fees billed during fiscal year 2011 and 2010 for professional services for tax compliance and advisory services.

(4) All Other Fees consist of fees paid for products and services other than the Services reported above. No such fees were billed by Squar, Milner, Perterson, Miranda & Williamson, LLP for fiscal 2011 or 2010.

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

Our audit committee of the Board of Directors is responsible for pre-approving all audit, audit-related, tax and other permitted non-audit services to be performed for us by our independent auditor. The audit committee approved all of the services for which Squar Milner billed us as set forth in the above table.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS

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

1. Consolidated Financial Statements for the periods ended March 31, 2011 and 2010:

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

2. Exhibits

| | |
|---|---|
| 2.1 | Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (1) |
| 2.2 | Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (1) |
| 2.3 | Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Syngen Research, Inc. (2) |
| 2.4 | Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Cell Activation, Inc. (3) |
| 3.1 | Articles of Incorporation of Aethlon Medical, Inc., as amended (4) |
| 3.2 | Bylaws of Aethlon Medical, Inc. (4) |
| 4.1 | Amended and Restated 2003 Consultant Stock Plan (5) |
| 4.2 | 2010 Stock Incentive Plan (6) |
| 10.1 | Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (7)++ |
| 10.2 | Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (8) |
| 10.3 | Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis (8)++ |
| 10.4 | Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University (9) |
| 10.5 | Stock Option Agreement by and between Aethlon Medical, Inc. and James A Joyce (10)++ |
| 10.6 | Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (10)++ |
| 10.7 | Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. (10)++ |

| | |
|---|---|
| 10.8 | Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (10)++ |
| 10.9 | Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce(11)++ |
| 10.10 | Option Agreement by and between Aethlon Medical, Inc. and Trustees of Boston University (12) |
| 10.11 | Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (13)++ |
| 10.12 | Option Suspension Agreement dated June 29, 2009 (14)++ |

| | |
|---|---|
| 10.13 | Form of Class C Common Stock Purchase Warrant (15) |
| 10.14 | Form of 10% Convertible Note (15) |
| 10.15 | Stock Option Agreement of James A. Joyce (16)++ |
| 10.16 | Stock Option Agreement of Franklyn S. Barry (16)++ |
| 10.17 | Stock Option Agreement of Edward G. Broenniman (16)++ |
| 10.18 | Stock Option Agreement of Richard H. Tullis (16)++ |
| 10.19 | Modification and Amendment Agreement dated December 30, 2008 (17) |
| 10.20 | Form of Interest Note dated December 30, 2008 (17) |
| 10.21 | Form of Liquidated Damages Note dated December 30, 2008 (17) |
| 10.22 | Form of Common Stock Purchase Warrant (18) |
| 10.23 | Form of Unit Subscription Agreement (18) |
| 10.24 | Form of Convertible Note dated July 10, 2009 (19) |
| 10.25 | Form of Common Stock Purchase Warrant dated July 10, 2009 (19) |
| 10.26 | Form of Subscription Agreement dated August 24, 2009 (20) |
| 10.27 | Form of Convertible Promissory Note dated August 24, 2009 (20) |
| 10.28 | Form of Common Stock Purchase Warrant dated August 24, 2009 (20) |
| 10.29 | Office Lease by and between Glenborough Aventine, LLC and Aethlon Medical, Inc. dated September 16, 2009 (4) |
| 10.30 | Standard Industrial Net Lease by and between Sorrento Business Complex and Aethlon Medical, Inc. dated September 28, 2009 (4) |
| 10.31 | Form of 10% Convertible Note (21) |
| 10.32 | Form of Class C Common Stock Purchase Warrant (21) |
| 10.33 | First Amendment to Lease by and between Glenborough Aventine, LLC and Aethlon Medical, Inc. dated February 1, 2010 (21) |
| 10.34 | Securities Purchase Agreement by and between Aethlon Medical, Inc. and Gemini Master Fund, Ltd. dated February 12, 2010 (21) |
| 10.35 | |

| | |
|---|---|
| | Convertible Promissory Note issued by Aethlon Medical, Inc. to Gemini Master Fund, Ltd. dated February 12, 2010 (21) |
| 10.36 | Warrant to Purchase Common Stock issued by Aethlon Medical, Inc. to Gemini Master Fund, Ltd. dated February 12, 2010 (21) |
| 10.37 | Secured Promissory Note issued to Aethlon Medical, Inc. by Gemini Master Fund, Ltd. dated February 12, 2010 (21) |
| 10.38 | Form of Amended and Restated 12% Convertible Note(22) |
| 10.39 | Form of Amended and Restated Warrant (22) |
| 10.40 | Form of Amended and Restated Warrant (QB) (22) |

| | |
|---|---|
| 10.41 | Form of Amended and Restated Registration Rights Agreement (22) |
| 10.42 | Note and Warrant Purchase Agreement by and between Aethlon Medical, Inc. and Tonaquint, Inc. dated July 15, 2010 (23) |
| 10.43 | Secured Convertible Promissory Note issued by Aethlon Medical, Inc. to Tonaquint, Inc. dated July 15, 2010 (23) |
| 10.44 | Warrant to Purchase Shares of Common Stock issued by Aethlon Medical, Inc. to Tonaquint, Inc. dated July 15, 2010 (23) |
| 10.45 | Buyer Trust Deed Note #1 issued to Aethlon Medical, Inc. by Tonaquint, Inc. dated July 15, 2010 (23) |
| 10.46 | Form of Buyer Trust Deed Note #2 dated July 15, 2010 (23) |
| 10.47 | Trust Deed issued by Tonaquint, Inc. for the benefit of Aethlon Medical, Inc. dated July 15, 2010 (23) |
| 10.48 | Escrow Agreement by and among Tonaquint, Inc., Aethlon Medical, Inc. and Griffiths & Turner/GT Title Services, Inc. dated July 15, 2010 (23) |
| 10.49 | Deed of Reconveyance executed by Tonaquint, Inc. in favor of Aethlon Medical, Inc. dated July 15, 2010 (23) |
| 10.50 | Form of Request for Full Reconveyance (23) |
| 10.51 | Irrevocable Instructions to Transfer Agent dated July 15, 2010 (23) |
| 10.52 | Form of Subscription Agreement dated September 2010 (24) |
| 10.53 | Form of Class [A/B] Common Stock Purchase Warrant dated September 2010 (24) |
| 10.54 | Form of Convertible Promissory Note dated September 2010 (24) |
| 10.55 | Offer of Employment by and between Aethlon Medical, Inc. and Rodney S. Kenley dated October 27, 2010 (25)++ |
| 10.56 | Stock Option Agreement of Rodney S. Kenley dated October 27, 2010 (25)++ |
| 10.57 | Settlement Agreement by and between Aethlon Medical, Inc. and Gemini Master Fund, Ltd. dated November 22, 2010 (26) |
| 10.58 | Warrant to Purchase Shares of Common Stock issued by Aethlon Medical, Inc. to Gemini Master Fund, Ltd. dated November 22, 2010 (26) |
| 10.59 | Extension Agreement by and between Aethlon Medical, Inc. and Gemini Master Fund, Ltd. dated March 21, 2011 (27) |
| 10.60 | Amended and Restated Convertible Promissory Note issued by Aethlon Medical, Inc. to Gemini Master Fund, Ltd. dated February 15, 2011 (27) |

| | |
|---|---|
| 10.61 | Form of Subscription Agreement dated April 1, 2011 (28) |
| 10.62 | Form of Convertible Promissory Note dated April 1, 2011 (28) |
| 10.63 | Form of Class A Common Stock Purchase Warrant dated April 1, 2011 (28) |
| 10.64 | Form of Class B Common Stock Purchase Warrant dated April 1, 2011 (28) |
| 14 | Code of Ethics (29) |
| 21 | List of subsidiaries (22) |

| | |
|---|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm (Squar, Milner, Peterson, Miranda & Williamson, LLP) * |
| 31.1 | Certification of our Chief Executive 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.* |
| 31.2 | Certification of our Chief Financial Officer, pursuant to Securities Exchange Act rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.* |
| 32.1 | Statement of our Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)* |
| 32.2 | Statement of our Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)* |

_____

* Filed herewith

++ Indicates a management contract or compensatory plan or arrangement

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

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

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

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

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

(6) Filed with the Company’s Registration Statement on Form S-8 (File No. 333-168481) filed on August 2, 2010 and incorporated by reference.

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

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

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

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

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

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

(13) Filed with the Company's Registration Statement on Form S-8 (File No. 333-168483) filed on August 2, 2010 and incorporated by reference.

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

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

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

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

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

(19) Filed with the Company's Quarterly Report on Form 10-Q filed on August 14, 2009 for the period ended June 30, 2009 and incorporated by reference.

(20) Filed with the Company's Current Report on Form 8-K dated August 25, 2009 and incorporated by reference.

(21) Filed with the Company's Quarterly Report on Form 10-Q filed on February 16, 2010 for the period ended December 31, 2009 and incorporated by reference.

(22) Filed with the Company’s Annual Report on Form 10-K filed on July 2, 2010 for the year ended March 31, 2010 and incorporated by reference.

(23) Filed with the Company’s Current Report on Form 8-K dated July 16, 2010 and incorporated by reference.

(24) Filed with the Company’s Current Report on Form 8-K dated September 3, 2010 and incorporated by reference.

(25) Filed with the Company’s Current Report on Form 8-K dated November 1, 2010 and incorporated by reference.

(26) Filed with the Company’s Current Report on Form 8-K dated November 26, 2010 and incorporated by reference.

(27) Filed with the Company’s Current Report on Form 8-K dated March 25, 2011 and incorporated by reference.

(28) Filed with the Company’s Current Report on Form 8-K dated April 7, 2011 and incorporated by reference.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of July, 2011.

| | | |
|---|---|---|
| | By: | /s/ JAMES A. JOYCE<br>James A. Joyce<br>Chairman, Chief Executive officer |

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

| Signature | Title | Date |
|---|---|---|
| /s/ JAMES A. JOYCE<br>James A. Joyce | Chairman of the Board | July 14, 2011 |
| /s/ FRANKLYN S. BARRY, JR.<br>Franklyn S. Barry, Jr. | Director | July 14, 2011 |
| /s/ EDWARD G. BROENNIMAN<br>Edward G. Broenniman | Director | July 14, 2011 |
| /s/ RICHARD H. TULLIS<br>Richard H. Tullis | Director | July 14, 2011 |
| /s/ RODNEY S. KENLEY<br>Rodney S. Kenley | Director | July 14, 2011 |

AETHLON MEDICAL, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Aethlon Medical, Inc. and Subsidiary (the "Company"), a development stage company, as of March 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended March 31, 2011 and for the period January 31, 1984 (Inception) through March 31, 2011. 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 audits 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 Subsidiary as of March 31, 2011 and 2010 and the consolidated results of their operations and cash flows for each of the years in the two-year period ended March 31, 2011 and for the period January 31, 1984 (Inception) through March 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred continuing losses from operations, is in default on certain debt agreements, and has negative working capital of approximately $6,133,000 and a deficit accumulated during the development stage of approximately $48,472,000 at March 31, 2011. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

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

SAN DIEGO, CALIFORNIA
JULY 14, 2011

F-2

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

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $15,704 | $67,950 |
| Deferred financing costs | 157,732 | 99,672 |
| Interest receivable | 7,096 | 1,932 |
| Note receivable | 200,000 | - |
| Prepaid expenses | 29,711 | 10,139 |
| TOTAL CURRENT ASSETS | 410,243 | 179,693 |
| NON-CURRENT ASSETS | | |
| Note receivable | -- | 300,000 |
| Property and equipment, net | 7,785 | 15,182 |
| Patents, net | 139,981 | 142,340 |
| Deposits | 9,210 | 8,786 |
| TOTAL ASSETS | $567,219 | 646,001 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $308,413 | $232,313 |
| Due to related parties | 617,570 | 579,267 |
| Notes payable | 190,000 | 290,000 |
| Convertible notes payable, net of discounts | 2,181,852 | 1,631,999 |
| Derivative liabilities | 2,002,896 | 1,054,716 |
| Accrued liquidated damages | 437,800 | 493,000 |
| Other current liabilities | 804,386 | 766,940 |
| TOTAL CURRENT LIABILITIES | 6,542,917 | 5,048,235 |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock,$0.001 par value, 250,000,000 shares authorized;77,467,361 and 61,913,508 issued and outstanding at March 31, 2011 and 2010, respectively | 77,469 | 61,914 |
| Additional paid-in capital | 42,418,778 | 38,296,362 |
| Deficit accumulated during the development stage | (48,471,945 ) | (42,760,510 ) |
| TOTAL STOCKHOLDERS' DEFICIT | (5,975,698 ) | (4,402,234 ) |

| | | |
|---|---|---|
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $567,219 | $646,001 |

See accompanying notes to the consolidated financial statements.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | Years Ended March 31, | | January 31, 1984 (Inception) Through |
|---|---|---|---|
| | 2011 | 2010 | March, 2011 |
| Grant income | $— | $— | $1,424,012 |
| Subcontract income | — | — | 73,746 |
| Sale of research and development | — | — | 35,810 |
| | — | — | 1,533,568 |
| | | | |
| OPERATING EXPENSES | | | |
| Professional fees | 1,112,476 | 1,087,707 | 9,992,642 |
| Payroll and related | 2,902,415 | 1,258,572 | 15,286,713 |
| General and administrative | 542,225 | 502,613 | 6,942,920 |
| Impairment | - | - | 1,313,528 |
| | 4,557,116 | 2,848,892 | 33,535,528 |
| OPERATING LOSS | (4,557,116) | (2,848,892) | (32,001,960) |
| | | | |
| OTHER (INCOME) EXPENSE | | | |
| Loss on extinguishment of debt | 3,306,346 | 341,984 | 7,016,912 |
| Change in fair value of derivative liabilities | (6,079,772) | (178,723) | (4,636,877) |
| Interest and other debt expenses | 3,951,352 | 1,564,301 | 13,870,423 |
| Interest income and other | (23,607) | (3,139) | 219,527 |
| | 1,154,319 | 1,724,423 | 16,469,985 |
| | | | |
| NET LOSS | $(5,711,435) | $(4,573,315) | $(48,471,945) |
| | | | |
| Basic and diluted net loss per share | $(0.08) | $(0.08) | |
| | | | |
| Weighted average number of common shares outstanding - basic and diluted | 69,610,635 | 56,618,667 | |

See accompanying notes to the consolidated financial statements.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Balance, January 31, 1984 (Inception) | — | $ — | $ — | $ — | $ — | $ — |
| Common stock issued for cash | 29,178 | 31 | 1,335,993 | — | — | 1,336,024 |
| 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 | 2,861 | 3 | 548,666 | — | — | 548,669 |
| 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 ) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| 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 in connection with notes payable | — | — | 816,204 | — | — | 816,204 |
| Beneficial conversion feature of convertible notes payable | — | — | 150,000 | — | — | 150,000 |
| Options issued to directors for services as board members | — | — | 14,163 | — | — | 14,163 |
| 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 $1per 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 ) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.
continued…….

F-6

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Common stock, warrants and options issued for accounts payable and accrued liabilities | 21,750 | $ 22 | $ 243,353 | $ — | $ — | $ 243,375 |
| Issuance of common stock and warrants for services | 97,214 | 97 | 248,690 | — | — | 248,787 |
| 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 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 |
| Options issued to consultant for services | — | — | 562,000 | — | — | 562,000 |
| 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 |
| 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) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| 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 | 570,124 | 570 | 292,085 | — | — | 292,655 |
| Estimated fair market value of options issued for services | — | — | 114,000 | — | — | 114,000 |
| Issuance of common stock for cash | 488,830 | 489 | 129,911 | — | — | 130,400 |
| Issuance of common stock for services | 265,309 | 265 | 144,735 | — | — | 145,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Adjustment booked | — | — | (99,995) | — | 100,000 | 5 |
| Net loss | — | — | — | — | (2,461,116) | (2,461,116) |
| BALANCE - MARCH 31, 2003 | 6,694,960 | $6,695 | $ 11,894,228 | $ — | $ (15,526,515) | $ (3,625,594) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| 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 in connection with the conversion of notes payable, including interest | 1,627,655 | 1,628 | 502,507 | — | — | 504,135 |
| Issuance of common stock for cash | 1,451,000 | 1,451 | 385,674 | — | — | 387,125 |
| Issuance of common stock for services | 335,714 | 335 | 137,823 | — | — | 138,158 |
| Debt discount recorded in connection with beneficial conversion feature | — | — | 324,800 | — | — | 324,800 |
| Net loss | — | — | — | — | (1,518,798 ) | (1,518,798 ) |
| BALANCE - MARCH 31, 2004 | 10,649,329 | $ 10,649 | $ 13,379,492 | $ — | $ (17,045,313 ) | $ (3,655,174 ) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| 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 with warrants at $0.36 per unit for cash | 55,556 | 56 | 19,944 | — | — | 20,000 |
| Issuance of common stock for cash | 2,922,867 | 2,923 | 1,185,878 | — | — | 1,188,801 |
| Issuance of common stock to Fusion Capital for fees and for "commitment" shares | 468,604 | 469 | (469) | — | — | — |
| Issuance of common stock in connection with the conversion of notes payable, including interest | 847,755 | 849 | 318,079 | — | — | 318,928 |
| Issuance of common stock for deferred consulting services | 126,666 | 127 | 59,873 | (60,000) | — | — |
| Issuance of common stock for services | 794,855 | 793 | 327,957 | — | — | 328,750 |
| Issuance of common stock at $0.39 per share for employee bonus | 22,500 | 22 | 8,754 | — | — | 8,776 |
| 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 | $17,013 | $ 16,088,285 | $ (30,000) | $ (19,142,264) | $ (3,066,966) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Issuance of common stock in connection with the conversion of notes payable, including interest | 314,716 | $315 | $ 69,628 | $ — | $ — | $ 69,943 |
| Issuance of common stock for cash | 4,090,807 | 4,088 | 1,450,326 | — | — | 1,454,414 |
| Issuance of common stock for services | 3,574,318 | 3,576 | 917,155 | (49,000) | — | 871,728 |
| Loss on settlement of accrued legal liabilities | — | — | 142,245 | — | — | 142,245 |
| 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 iwth detachable warrants | — | — | 119,610 | — | — | 119,610 |
| Interest expense related to beneficial conversion feature | — | — | 222,375 | — | — | 222,375 |
| Professional fees related to registration staement | — | — | (76,732) | — | — | (76,732) |
| Amortization of deferred consulting fees | — | — | — | 34,083 | — | 34,083 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Relassification 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 | $25,378 | $ 20,322,503 | $ (44,917) | $ (22,062,447) | $ (1,759,483) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Issuance of common stock for cash | 4,538,662 | $4,539 | $ 1,292,208 | $ — | $ — | $ 1,296,747 |
| Issuance of common stock services | 821,996 | 824 | 274,088 | — | — | 274,912 |
| 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 |
| Adjustment for issuance of cashless warrants | (144,099) | (140) | 140 | — | — | — |
| Issuance of commitment shares | 1,050,000 | 1,050 | (1,050) | — | — | — |
| Debt discount recorded in connection with 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 patient | 40,000 | 40 | 10,760 | — | — | 10,800 |
| Stock compensation expense | — | — | 38,132 | — | — | 38,132 |
| Issuance of common stock at $0.20 per share | 114,130 | 114 | 22,997 | — | — | 23,111 |

| | | | | | | |
|---|---|---|---|---|---|---|
| in settlement of accrued liabilities | | | | | | |
| 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 | $31,913 | $ 20,963,420 | $ — | $ (28,086,992) | $ (7,091,659) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Issuance of common stock for cash | 2,560,000 | $2,660 | $ 1,287,740 | $ — | $ — | $ 1,290,400 |
| Issuance of common stock for services | 589,350 | 589 | 319,568 | — | — | 320,157 |
| Exercise of cashless warrants | 49,414 | 49 | (49) | — | — | — |
| Issuance of common stock for option exercised 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 |
| Issuance of common stock in exchange for licensing rights | 15,152 | 15 | 4,985 | — | — | 5,000 |
| Stock compensation expense | —7 | — | 487,093 | — | — | 487,093 |
| Issuance of common stock in connection with the conversion of notes payable | 3,365,500 | 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 | $ — | $ — | $ (3,322,264) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Issuance of common stock under licensing agreements | 34,415 | 34 | 11,466 | — | — | 11,500 |
| Issuances of common stock in connection with the conversion of accounts payable due to related parties | 1,015,050 | 1,015 | 331,264 | — | — | 332,279 |
| Issuance of common stock and warrants in connection with the payment of interest and damages to convertible noteholders | 1,135,500 | 1,136 | 928,628 | — | — | 929,764 |
| Issuance of common stock at $0.50 per share under warrant exercises | 970,000 | 970 | 241,530 | — | — | 242,500 |
| Record warrants and discount on convertible notes | — | — | 154,652 | — | — | 154,652 |
| Reclass remainder of derivative liabiltiy to additional paid-in capital due to registration of warrants | — | — | 419,192 | — | — | 419,192 |
| Estimated value of equity instruments granted in debt restructuring | — | — | 711,541 | — | — | 711,541 |
| Issuance of common stock for cash | 3,020,000 | 3,020 | 873,910 | — | — | 876,930 |
| | 1,281,547 | 1,281 | 322,088 | — | — | 323,369 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Issuance of common stock for services | | | | | | |
| Issuances of common stock under conversions of notes payable | 2,801,760 | 2,802 | 719,304 | — | — | 722,106 |
| Stock-based compensation expense | 204,708 | 205 | 733,084 | — | — | 733,289 |
| Net loss | — | — | — | — | (6,084,158) | (6,084,158) |
| BALANCE - MARCH 31, 2009 | 49,454,131 | $49,455 | $ 34,312,659 | $ — | $ (38,311,414) | $ (3,949,300) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Cumulative effect of change in accounting principle | — | $—-- | $ (403,320) | $ — | $ 124,219 | $ (279,101) |
| Issuance of common stock at $0.18 per share upon warrant exercise | 555,556 | 555 | 99,445 | — | — | 100,000 |
| Issuance of common stock for cash | 80,000 | 80 | 15,120 | — | — | 15,200 |
| Issuance of common stock under licensing agreement at $0.31 per share | 36,683 | 37 | 11,463 | — | — | 11,500 |
| Issuance of common stock in connection with the payment of interest to convertible noteholders | 731,251 | 731 | 487,504 | — | — | 488,235 |
| Issuance of common stock at $0.25 per share as grant to research institute | 100,000 | 100 | 24,900 | — | — | 25,000 |
| Issuances of common stock upon conversions of accrued expenses | 29,878 | 30 | 8,933 | — | — | 8,963 |
| Issuances of common stock upon conversions of notes payable | 8,429,748 | 8,430 | 1,623,165 | — | — | 1,631,595 |
| Issuance of common stock for services | 2,496,261 | 2,496 | 646,026 | — | — | 648,522 |
| Issuance of warrants and recording discount on | — | — | 933,985 | — | — | 933,985 |

| | | | | | | |
|---|---|---|---|---|---|---|
| convertible notes | | | | | | |
| Issuance of warrants upon conversion of debt into common stock | — | — | 31,549 | — | — | 31,549 |
| Stock-based compensation expense | — | — | 504,933 | — | — | 504,933 |
| Net loss | — | — | — | — | (4,573,315) | (4,573,315) |
| BALANCE - MARCH 31, 2010 | 61,913,508 | $61,914 | $ 38,296,362 | $ — | $ (42,760,510) | $ (4,402,234) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID IN CAPITAL | DEFERRED CONSULTING FEES | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|
| Issuance of common stock under warrant exercises | 1,844,903 | $1,845 | $ 318,588 | $ — | $ — | $ 320,433 |
| Issuances of common stock upon conversions of notes payable | 8,857,408 | 8,858 | 1,622,947 | — | — | 1,631,805 |
| Issuance of warrants upon conversion of debt into common stock | — | — | 74,652 | — | — | 74,652 |
| Issuance of common stock for services | 2,236,389 | 2,235 | 582,750 | — | — | 584,985 |
| Issuance of common stock in connection with debt restructuring | 1,555,000 | 1,555 | 449,395 | — | — | 450,950 |
| Adjustment to paid in capital in connection with debt restructuring | — | — | (1,000,000 ) | — | — | (1,000,000 ) |
| Issuance of convertible notes in settlement of accrued legal fees | 31,040 | 31 | 8,971 | — | — | 9,002 |
| Issuance of common stock as grant to research institute | 78,767 | 79 | 17,171 | — | — | 17,250 |
| Issuance of shares in connection with restricted stock grant to officer | 600,000 | 600 | (600 ) | — | — | — |
| Debt discount recorded in connection with beneficial conversion feature | — | — | 90,339 | — | — | 90,339 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost incurred in connection with warrant extensions | — | — | 96,525 | — | — | 96,525 |
| Stock-based compensation expense | 350,346 | 352 | 1,861,678 | — | — | 1,862,030 |
| Net loss | — | — | — | — | (5,711,435) | (5,711,435) |
| BALANCE - MARCH 31, 2011 | 77,467,361 | $77,469 | $ 42,418,778 | $ — | $ (48,471,945) | $ (5,975,698) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011

| | 2011 | 2010 | January 31, 1984 (Inception) Through March 31, 2011 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (5,711,435) | $ (4,573,315) | $ (48,471,945) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 19,102 | 13,653 | 1,077,979 |
| Amortization of deferred consulting fees | — | — | 179,000 |
| Gain on settlement of debt | — | — | (131,175) |
| Loss on debt extinguishment | 3,306,250 | 341,984 | 7,016,816 |
| Non-cash interest expense | 1,252,689 | — | 1,252,689 |
| Donation of shares to research institute | — | — | 25,000 |
| Legal fees paid through the issuance of convertible debt | 63,412 | — | 63,412 |
| Loss on settlement of accrued legal liabilities | — | — | 142,245 |
| Gain on sale of property and equipment | — | — | (13,065) |
| Change in estimated fair value of derivative liabilities | (6,079,772) | (178,723) | (4,761,096) |
| Fair market value of warrants issued in connection with accounts payable and debt related costs | — | — | 2,715,736 |
| Fair market value of equity instruments issued for services, grants and accrued interest | 584,985 | 654,271 | 5,344,700 |
| Costs associated with issuance of warrants | 74,652 | 31,549 | 106,201 |
| Stock based compensation | 1,862,030 | 504,933 | 4,049,739 |
| Patent license fees paid in stock | 17,250 | 11,500 | 45,250 |
| Liquidated damages | 149,800 | 493,000 | 685,800 |
| Amortization of debt discount and deferred financing costs | 2,027,623 | 627,060 | 6,653,465 |
| 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 | 37,563 | 26,872 | 218,920 |
| Other assets | (5,588) | 2,483 | (16,306) |
| Accounts payable and accrued liabilities | 394,801 | 122,845 | 2,973,812 |
| Due to related parties | 38,305 | (55,629) | 1,268,383 |
| | | | |
| Net cash used in operating activities | (1,968,333) | (1,977,517) | (18,113,964) |
| | | | |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (2,541) | (17,068) | (292,459) |

| | | | |
|---|---|---|---|
| Patents and patents pending | (6,805) | (13,087) | (407,235) |
| Proceeds from the sale of property and equipment | — | — | 17,065 |
| Cash of acquired company | — | — | 10,728 |
| Net cash used in investing activities | (9,346) | (30,155) | (671,901) |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued…….

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2011 (CONTINUED)

| | 2011 | 2010 | January 31, 1984 (Inception) Through March 31, 2011 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net proceeds from the issuance of notes payable | — | | 2,350,000 |
| Principal repayments of notes payable | — | (24,000) | (376,500) |
| Proceeds from the issuance of convertible notes payable | 1,105,000 | 1,978,265 | 5,651,265 |
| Proceeds from the collection of secured notes receivable | 500,000 | — | 500,000 |
| Net proceeds from the issuance of common stock | 320,433 | 115,200 | 10,753,535 |
| Professional fees related to registration statements | — | — | (76,731) |
| Net cash provided by financing activities | 1,925,433 | 2,069,465 | 18,801,569 |
| Net (decrease) increase in cash | (52,246) | 61,793 | 15,704 |
| Cash at beginning of period | 67,950 | 6,157 | — |
| Cash at end of period | $15,704 | $67,950 | $15,704 |
| Supplemental disclosure of cash flow information - Cash paid during the period for: | | | |
| Interest | $— | $— | $266,975 |
| Income taxes | $— | $— | $13,346 |
| Supplement schedule of noncash investing and financing activities: | | | |
| Conversion of debt, accrued liabilities and accrued interest to common stock | $1,563,102 | $1,640,559 | $6,722,853 |
| Debt discount on notes payable associated with embedded conversion feature and detachable warrants | $1,750,540 | $1,867,973 | $4,923,460 |
| Issuance of note receivable in connection with convertible debt financing | $400,000 | $300,000 | $700,000 |
| Licensing rights acquired with common stock issuance | $17,250 | $11,500 | $56,050 |
| Stock option exercise by director for accrued expenses | $— | $— | $95,000 |
| Conversion of amounts due to officers and directors into common stock | $— | $— | $332,279 |
| Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties | $— | $— | $1,003,273 |
| Reclassification of derivative liability to additional paid-in capital | $— | $— | $419,192 |
| | $— | $— | $573,211 |

| | | | |
|---|---|---|---|
| Additional convertible debt issued in connection with debt restructuring | | | |
| 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 | $— | $— | $856,845 |
| Patent pending acquired for 12,500 shares of common stock | $— | $— | $100,000 |
| Common stock issued for prepaid expenses | $— | $— | $161,537 |

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ORGANIZATION

Aethlon Medical, Inc. ("Aethlon", the "Company", "we" or "us") is a medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components. Approval to embark on human trials is still needed to reach commercial viability of the Hemopurifier® and approval by the U.S. Food and Drug Administration ("FDA"). Successful outcomes of human trials will be required by the regulatory agencies of certain foreign countries where we intend to sell this device will be required. We have submitted an Investigational Device Exemption ("IDE") to the FDA. Some of our patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, we believe 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.

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

### PRINCIPLES OF CONSOLIDATION

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

We formed Exosome Sciences, Inc. in December 2009 to conduct our future cancer-related activities. Intercompany balances have been eliminated in consolidation.

### GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the we 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. We have incurred continuing losses from operations, are in default on certain debt agreements, and have negative working capital of approximately $6,133,000, and a deficit accumulated during the development stage of approximately $48,472,000 at March 31, 2011. These factors, among other matters, raise substantial doubt about our ability to continue as a going concern. A significant amount of additional capital will be necessary to advance the development of our products to the point at which they may become commercially viable. We intend to fund operations, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts

due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2012 through debt and/or equity financing arrangements.

We are currently addressing its liquidity issue by seeking additional investment capital through private placements of common stock and debt and by applying for grants issued by government agencies in the United States. We believe that our cash on hand and funds expected to be received from additional private investment and/or government grants will be sufficient to meet our liquidity needs for fiscal 2012. However, no assurance can be given that we will receive any funds in addition to the funds it has received to date.

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

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

RISKS AND UNCERTAINTIES

We operate in an industry that is subject to intense competition, government regulation and rapid technological change. Our 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

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

CASH AND CASH EQUIVALENTS

Accounting standards define "cash and cash equivalents" as any short-term, highly liquid investment that is both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. For the purpose of financial statement presentation, we consider all highly liquid investment instruments with original maturities of three months or less when purchased, or any investment redeemable without penalty or loss of interest to be cash equivalents. As of March 31, 2011 and 2010, we had no assets that were classified as cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of our cash, accounts payable and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of the note receivable approximates its fair value due to the short maturity of the note and as the interest rate approximates current market interest rates for similar instruments. Derivative liabilities recorded in connection with warrants and embedded conversion features of certain convertible notes payable are reported at their estimated fair value, with changes in fair value being reported in results of operations (see Note 13).

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

CONCENTRATIONS OF CREDIT RISKS

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

March 31, 2011 and 2010.

PROPERTY AND EQUIPMENT

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

INCOME TAXES

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized. We believe no impairment charges were necessary during the fiscal years ended March 31, 2011 and 2010.

LOSS PER SHARE

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

As of March 31, 2011 and 2010, a total of 79,533,432 and 53,669,525 potential common shares, consisting of shares underlying outstanding stock options, warrants and convertible debentures were excluded as their inclusion would be antidilutive.

SEGMENTS

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

DEFERRED FINANCING COSTS

Costs related to the issuance of debt are capitalized and amortized to interest expense over the life of the related debt using the effective interest method.

STOCK-BASED COMPENSATION

Employee stock options and rights to purchase shares under stock participation plans are accounted for under the fair value method. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the OTCBB on the date of grant. Compensation cost recognized by the Company includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of the then current accounting standards, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of subsequent accounting standards. We use a Binomial Lattice option pricing model for estimating fair value of options granted (see Note 6).

The following table summarizes share-based compensation expenses relating to shares and options granted and the effect on loss per common share during the years ended March 31, 2011 and 2010:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| Vesting of Stock Options | $ 961,340 | $ 504,933 |
| Incremental fair value of option Modifications | 491,377 | -- |
| Vesting Expense Associated with CEO Restricted Stock Grant | 322,222 | -- |
| Direct Stock Grants | 87,091 | -- |
| Total Stock-Based Compensation Expense | $ 1,862,030 | $ 504,933 |
| | | |
| Basic and diluted loss per common share | $ (0.03) | $ (0.01) |

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

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

a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).

b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.

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

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 31, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the fiscal year ended March 31, 2011 was insignificant.

PATENTS

Patents include both foreign and domestic patents. There were several patents pending at March 31, 2011. We capitalize the cost of patents and patents pending, some of which were acquired, and amortize such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent. The unamortized costs of patents and patents pending is written off when we determine there is no future benefit to those assets.

STOCK PURCHASE WARRANTS

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

DERIVATIVE INSTRUMENTS

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

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

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other expense (income).

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We measure the estimated fair value of the BCF in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

REGISTRATION PAYMENT ARRANGEMENTS

We account for contingent obligations to make future payments or otherwise transfer consideration under a registration payment arrangement separately from any related financing transaction agreements, and any such contingent obligations are recognized only when it is determined that it is probable that the Company will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated (see Note 8).

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

RESEARCH AND DEVELOPMENT EXPENSES

We incurred approximately $440,000 and $538,000 of research and development expenses for the years ended March 31, 2011 and 2010, respectively, which are included in various operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

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

CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE

Effective April 1, 2009, we adopted new accounting guidance as codified within Accounting Standards Codification ("ASC") 815-40, "Derivatives and Hedging Instruments - Contracts in Entities' Own Equity" relating to determining whether an instrument or embedded feature is indexed to a company's own stock. The adoption of this new accounting guidance standard's requirements can affect the accounting for warrants or convertible debt that contain provisions that protect holders from a decline in the stock price (or "down-round" protection). For example, warrants with such provisions will no longer be recorded in equity. Down-round protection provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise or conversion price. We evaluated whether convertible debt or warrants to acquire stock of the Company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise or conversion price and/or shares to be issued under the respective agreements based on a variable that is not an input to the fair value of a "fixed-for-fixed" option. We determined our warrants outstanding at the adoption date do not contain such protective features. However, we determined that we had several convertible debt agreements in which the terms provide for a possible adjustment to the conversion price, and as such, the embedded conversion feature fails to be indexed solely to our stock under this new accounting guidance. As a result of the adoption of this standard, we classified the estimated fair value of the embedded conversion feature of the convertible debt agreement described above, which was determined to be $279,101, as a derivative liability on April 1, 2009 and recorded a cumulative effect adjustment to retained earnings (accumulated deficit) of $124,219 based on the difference between amounts recognized at the date of issuance and April 1, 2009.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

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

Other recent accounting pronouncements and/or authoritative guidance issued by the FASB (including its Emerging Issues Task Force) or 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.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year’s financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

2. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| Furniture and office equipment at cost | $ 287,296 | $ 284,755 |
| Accumulated depreciation | (279,511) | (269,573) |
| | $ 7,785 | $ 15,182 |

Depreciation expense for the years ended March 31, 2011 and 2010 approximated $10,000 and $4,000, respectively.

3. PATENTS

Patents consist of the following:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| Patents | $ 157,442 | $ 157,442 |
| Patents pending and trademarks | 54,202 | 47,397 |
| Accumulated amortization | (71,663) | (62,499) |
| | $ 139,981 | $ 142,340 |

Amortization of patents for the years ended March 31, 2011 and 2010 approximated $9,000. Future amortization expense on patents is estimated to be approximately $9,000 per year based on the estimated life of the patents.

4. NOTES PAYABLE

Notes payable consist of the following:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| 12% Notes payable, all past due | $ 185,000 | $ 285,000 |
| 10% Note payable, all past due | 5,000 | 5,000 |
| Total Notes Payable | $ 190,000 | $ 290,000 |

12% NOTES

From August 1999 through May 2005, we entered into various borrowing arrangements for the issuance of notes payable from private placement offerings (the "12% Notes"). On April 21, 2010, a holder of $100,000 of the 12% Notes converted his principal balance and $71,758 of accrued interest into 687,033 shares of common stock at an agreed conversion price of $0.25 per share. We incurred a loss upon this conversion of $68,703 since the closing price of our common stock was $0.35 at the date of conversion. At March 31, 2011, 12% Notes with a principal balance of $185,000 are outstanding, all of which are past due, in default, and bearing interest at the default rate of 15%. At

March 31, 2011, interest payable on the 12% Notes totaled $270,562.

10% NOTES

At December 31, 2010, one 10% Note in the amount of $5,000, which is past due and in default, remained outstanding. At March 31, 2011, interest payable on this note totaled $4,875.

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consist of the following at March 31, 2011:

| | Principal | Discount | Net Amount |
|---|---|---|---|
| Amended Series A 10% Convertible Notes, past due | $ 900,000 | $ -- | $ 900,000 |
| 2008 10% Convertible Notes, past due | 25,000 | -- | 25,000 |
| December 2006 10% Convertible Notes, past due | 17,000 | -- | 17,000 |
| May & June 2009 10% Convertible Notes, past due | 200,000 | -- | 200,000 |
| July & August 2009 10% Convertible Notes, past due | 87,500 | -- | 87,500 |
| October & November 2009 10% Convertible Notes | 205,250 | (17,226) | 188,024 |
| February 2010 10% Convertible Note | 715,578 | -- | 715,578 |
| April 2010 10% Convertible Note | 75,000 | (73,222) | 1,778 |
| June 2010 12% Convertible Notes, past due | 21,189 | -- | 21,189 |
| July 2010 6% Convertible Notes | 495,343 | (494,770) | 573 |
| September 2010 10% Convertible Notes | 739,200 | (713,990) | 25,210 |
| Total - Convertible Notes | $ 3,481,060 | $ (1,299,208) | $ 2,181,852 |

All of the Convertible Notes Payable in the above table are presently past due or will be due within one year of the March 31, 2011 balance sheet date. As a result, we expect to amortize all of the remaining discounts during the fiscal year ending March 31, 2012.

During the fiscal year ended March 31, 2011, we recorded interest expense of $349,242 related to the contractual interest rates of our convertible notes and interest expense of $1,677,193 related to the amortization of debt discounts on the convertible notes for a total of $2,026,435.

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

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

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated 12% Series A Convertible Promissory Notes (the "Amended and Restated Notes") with the holders of certain promissory notes previously issued by the Company (“Amended Series A 10% Convertible Notes” or the "Prior Notes"), and all amendments to the Prior Notes.

The Amended and Restated Notes, in the principal amount of $900,000, are convertible into an aggregate of 4,500,000 shares of our common stock and matured on December 31, 2010. In connection with the restructuring we paid $54,001 of accrued and default interest through the date of the restructuring, liquidated damages of $205,000 and $54,003 of prepaid interest through the expiration date in the aggregate amount of $313,004 through the issuance of units ("Units") at a fixed rate of $0.20 per Unit, each Unit consisting of one share of our common stock and one common stock purchase warrant to purchase one share of our common stock at a fixed exercise price of $0.20 per share as prescribed in the Amended and Restated Note Agreement. At March 31, 2011, interest payable on the Amended Series A 10% Convertible Notes $33,750.

In addition to the extension of the expiration date of the Amended and Restated Notes to December 31, 2010, we agreed to increase the annual interest rate from ten percent to twelve percent. We also agreed to change the exercise prices on all of the warrants held by the noteholders to $0.20 per share, to change certain formerly contingent warrants to non-contingent warrants and to extend the expiration date of their warrants to February 2016. The following table summarizes the number of shares of our common stock issuable upon the conversion of the Amended and Restated Notes or the exercise of the various warrants issued or issuable pursuant to the Amended and Restated Notes.

| | |
|---|---|
| Note Conversion | 4,500,000 |
| Warrants | 11,646,125 |
| Total | 16,146,125 |

For accounting purposes, the amendment of the 12% Series A Convertible Notes was treated as a debt extinguishment in accordance with FASB ASC 470-50, Debt-Modifications and Extinguishments, as the terms of the restructured agreements were deemed to be substantially different than those of the prior agreements.

Based on conversion and exercise price re-set provisions included in the Amended and Restated Notes warrant agreements, the embedded conversion feature and the related warrants, with an aggregate estimated fair value of approximately $3,089,000, were classified as derivative liability instruments (See Note 1).

Consequently, at the amendment date we recorded a loss on extinguishment of $2,226,924 as follows:

| | | |
|---|---|---|
| Reacquisition price | $ | 4,385,925 |
| Less carrying value of notes and related instruments | | (2,159,001) |
| Loss on extinguishment | $ | 2,226,924 |

As of December 31, 2010, the Amended and Restated Notes matured and as of March 31, 2011 are in default.

We have begun discussions with the noteholders regarding an extension to the notes but there can be no assurance that we will be able to do so on terms that we deem acceptable or at all.

At March 31, 2011, interest payable on the Amended and Restated Notes totaled $33,750.

2008 10% CONVERTIBLE NOTES

One 2008 10% Convertible Note in the amount of $25,000 which matured in January 2010 remains outstanding at March 31, 2011. This note is convertible into our common stock at $0.50 per share. During the fiscal year ended March 31, 2011 we agreed to convert the $20,000 principal and related accrued interest of $5,562 of one holder of the 2008 10% Convertible Note into 127,808 shares of common stock based upon a conversion ratio of $0.20 per share rather than at the stated conversion ratio of $0.50 per share. As a result of this change, we recorded a charge of $15,337 as interest expense in the fiscal year ended March 31, 2011.

At March 31, 2011, the remaining $25,000 principal balance was in default and interest payable on the remaining note totaled $7,917.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

DECEMBER 2006 10% CONVERTIBLE NOTES

At March 31, 2011, $17,000 of the December 2006 10% Notes remained outstanding and in default. These notes are convertible into our common stock at $0.17 per share. At March 31, 2011, the $17,000 balance of the notes was in default and interest payable on those notes totaled $10,696.

MAY & JUNE 2009 10% CONVERTIBLE NOTES

In May and June 2009, we raised an aggregate amount of $350,000 from the sale to accredited investors of 10% convertible notes ("May & June 2009 10% Convertible Notes"). The May & June 2009 10% Convertible Notes matured at various dates between November 2010 through December 2010 and are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. Upon conversion of the May and June 2009 10% Convertible Notes the note holders will receive a matching three year warrant to purchase unregistered shares of our common stock at a price of $0.20 per share.

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

The following conversions of the May & June 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $ 50,000 | $ 100,000 |
| Accrued interest converted | $ 2,803 | $ 15,039 |
| Warrants issued | 250,000 | 500,000 |

As a result of the warrant issuances we recorded charges of $31,550 and $74,652 as additional interest expense in the fiscal years ended March 31, 2010 and 2011, respectively.

At December 31, 2010, the remaining principal balance of $200,000 was in default and interest payable on these notes totaled $33,292.

JULY & AUGUST 2009 10% CONVERTIBLE NOTES

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

instruments.

Based on the initial estimated fair value of the conversion feature and warrants, we recorded a discount associated with the derivative liability of $475,762, which was amortized using the effective interest method over the one-year term of the notes. Deferred financing costs incurred in connection with this financing totaled $60,750, which were capitalized and are being amortized using the effective interest method over the one-year term of the notes.

The following conversions of the July & August 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $ 330,000 | $ 250,750 |
| Accrued interest converted | $ 22,559 | $ 10,698 |

At March 31, 2011, the remaining principal balance of $87,500 was in default and interest payable on those notes totaled $32,020.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible Notes mature at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investors also received matching three year warrants to purchase unregistered shares of our common stock at a price of $0.25 per share. We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the notes.

The following conversions of the October & November 2009 10% Convertible Notes have taken place during the fiscal years ended March 31, 2011 and 2010:

| | Fiscal Year Ended March 31, 2010 | Fiscal Year Ended March 31, 2011 |
|---|---|---|
| Principal converted | $ 70,000 | $ 175,000 |
| Accrued interest converted | $ 22,559 | $ 8,750 |

Deferred financing costs of $20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the $20,250 of deferred financing costs and are amortizing them over the term of the notes using the effective interest method. At March 31, 2011, interest payable on these notes totaled $30,788.

JANUARY 2010 10% CONVERTIBLE NOTES

In January 2010, we raised $250,000 from the sale to an accredited investor of two 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the notes.

In July 2010, the holder of the January 2010 10% Convertible Notes elected to convert the entire principal balance of $250,000 and $12,500 of accrued interest into 1,050,000 shares of common stock based upon the conversion formula of the notes. As a result of this conversion, we accelerated the amortization of the remaining debt discount and recognized interest expense of $249,938 based on the unamortized debt discount at the time of conversion .

FEBRUARY 2010 10% CONVERTIBLE NOTE

On February 12, 2010, we raised $280,015 in cash and received a secured promissory note in the amount of $300,000 in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to Gemini Master Fund, Ltd. ("Gemini"). The Note included an original issue discount of ten percent, or $60,000, and an origination fee of three percent, or $9,000. We also paid legal fees of $10,985. The Note issued by the Company matured in February 2011. The terms of the promissory note included a maturity date of April 1, 2011, and allowed for prepayments of principal and interest by Gemini beginning on September 1, 2010.

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

The Note also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences. The Note contains standard events of default related to payment, performance of certain covenants and bankruptcy events.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

We recorded a debt discount of $478,476 based on the estimated fair value of the derivative liabilities associated with the warrants and embedded conversion feature which was amortized using the effective interest method over the term of the note.

In November 2010, certain terms of the Note were modified pursuant to a Settlement Agreement (the "Modified Agreement") which provides for the modification of the conversion price formula to equal eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. on the Principal Market for the twenty (20) trading days preceding the conversion date in lieu of the ten (10) trading days preceding the conversion date.

According to the modified terms, the previous conversion floor price was replaced with a maximum share limitation under which the maximum number of shares of common stock that may be issued to the holder of the Note pursuant to a conversion of the Note, combined with an exercise of the Exchange Warrant (as defined below), shall not exceed a cap determined by (a) dividing the sum of (i) the face amount of the Note, plus (ii) an amount equal to all interest that would accrue under the Note during its term (assuming no payments of principal or interest are made prior to the maturity date of the Note), by a price per share of common stock equal to $0.20 (subject to equitable adjustment) and (b) then adding the sum calculated pursuant to the foregoing clause (a) to the maximum number of warrant shares (as defined in the Exchange Warrant) that may be acquired by the holder thereof upon exercise of the Exchange Warrant (regardless of whether such exercise is a cashless exercise). In addition, the "maximum ownership percentage" under the Note was increased to 9.99%.

In addition to the modifications of the note, we agreed to exchange the original warrant for a new common stock purchase warrant (the "Exchange Warrant") for the purchase of 2,727,272 shares of common stock at an initial exercise price of $0.231 per share. The Exchange Warrant provides for anti-dilution adjustment to the exercise price in the event of the issuance of securities by the Company below the exercise price, subject to certain exceptions as set forth in the Exchange Warrant.

In addition, the Modified Agreement provided that Gemini deliver to us $253,794.09 by wire transfer in full payment of the promissory note, which represents the outstanding principal balance thereof plus all accrued but unpaid interest thereon less the origination fee due to the Gemini under the original transaction documents less reimbursement of Gemini's legal expenses. In accordance with the settlement, we delivered to Gemini 286,483 freely tradable shares of common stock in full satisfaction of the remaining number of shares of common stock due under certain conversion notices, for a total of $75,000, previously delivered by Gemini to the Company. The Modified Agreement provided for the mutual release of all claims related to the dispute and the revocation of all prior notices of default sent by the Company and Gemini to each other.

In connection with the modification to the note and the issuance of the Exchange Warrant, the maximum number of shares issuable pursuant to the maximum share limitation and the exercise in full of the Exchange Warrant was 6,357,272.

As provisions of the Modified Agreement resulted in terms that were deemed to be substantially different from the original terms, the exchange of debt instruments was accounted for as a debt extinguishment and we recorded a loss on extinguishment of debt in the amount of $963,018 in the fiscal year ended March 31, 2011 as shown below:

| | | |
|---|---|---|
| Reacquisition price | $ | 1,854,767 |
| Less carrying value of notes and related instruments | | (891,749) |
| Loss on extinguishment | $ | 963,018 |

On March 21, 2011, we entered into an Extension Agreement (the "Extension Agreement") with Gemini. The Extension Agreement provides for, among other things, the extension of the Maturity Date to October 1, 2011, and an amendment and restatement of the Note to reflect the revised principal amount of $740,578, which amount includes accrued interest of $58,981, the remaining principal balance of $585,000 and a 15% premium to the principal and accrued interest amount in consideration for the extension. In addition, the Note as amended provides for a new "share cap formula" such that the number of shares of Common Stock issuable upon conversion of the Note shall not exceed a cap determined by (a) dividing the sum of (i) the revised principal amount of the Note ($740,578), plus (ii) an amount equal to all interest that would accrue under the Note during its term (assuming no payments of principal or interest are made after March 21, 2011 but prior to the Maturity Date), by a price per share of Common Stock equal to $0.16 (subject to adjustment as set forth in the Note) and (b) then adding the sum calculated pursuant to the foregoing clause to the maximum aggregate number of shares of Common Stock issuable under certain warrants held by Gemini (regardless of whether such exercise is a cashless exercise).

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

As provisions of the Extension Agreement resulted in terms that were deemed to be substantially different from the original terms, the exchange of debt instruments was accounted for as a debt extinguishment and we recorded a loss on extinguishment of debt in the amount of $47,701 in the fiscal year ended March 31, 2011 as shown below:

| | | |
|---|---|---|
| Reacquisition price | $ | 773,582 |
| Less carrying value of notes and related instruments | | (725,881) |
| Loss on extinguishment | $ | 47,701 |

At March 31, 2011, interest payable on this Note totaled $59,273.

APRIL 2010 10% CONVERTIBLE NOTE

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 unregistered shares of our common stock at a price of $0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the note.

At March 31, 2011, the remaining outstanding principal balance is $75,000 and interest payable on this note totaled $7,063.

JUNE 2010 12% CONVERTIBLE NOTES

In June 2010, in connection with the present and past negotiations with the law firm representing the holders of the "Amended and Restated Notes," we issued two convertible notes to that law firm (“June 2010 12% Convertible Notes”) totaling $64,153 on the same terms as the Amended and Restated Notes. That amount represented the amount of their legal fees plus accrued interest. During the fiscal year ended March 31, 2011, the holder converted to common stock one of the convertible notes in the amount of $42,964.

At March 31, 2011, the remaining outstanding principal balance is $21,189 and interest payable on this note totaled $636.

JULY 2010 6% CONVERTIBLE NOTES

In July 2010, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor") whereby we issued and sold, and the Investor purchased: (i) a Convertible Promissory Note of the Company in the principal amount of $890,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant"). As consideration for the issuance and sale of the Company Note and Warrant, the Investor paid cash in the amount of $400,000 and issued two Secured Trust Deed Notes to us (the "Trust Notes") each in the principal amount of $200,000. The variance of $90,000 represents fees and expenses paid by us and an original issue discount which was recorded as deferred offering costs.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

The Company Note is convertible into shares of the Company's common stock, at the option of the Investor, at a price per share equal to (a) the principal and interest due under the Company Note divided by (b) 80% of the average of the closing bid price for the three (3) trading days with the lowest closing bid prices during the twenty (20) trading days immediately preceding the conversion date (the “Conversion Price”). In no event shall the Conversion Price be greater than the "Ceiling Price", which is $0.30 per share. The principal and interest subject to conversion under the Note shall be eligible for conversion in tranches ("Tranches"), as follows: (1) an initial Tranche in an amount equal to $450,000 and any interest and/or fees accrued thereon under the terms of the Company Note and the other Transaction Documents (as defined below and in the Purchase Agreement), and (2) two additional subsequent Tranches each in an amount equal to $220,000 and any interest or fees accrued thereon under the terms of the Company Note or the other Transaction Documents. The first subsequent Tranche shall correspond to payment of the first Trust Note and the second subsequent Tranche shall correspond to payment of the second Trust Note (as defined in the Purchase Agreement). The Investor's right to convert any of the subsequent Tranches is conditioned upon the Investor’s payment in full of the Trust Notes corresponding to such subsequent Tranche. Accordingly, principal and interest under the Company Note may only be converted by the Investor in proportion to the amounts paid under each of the Trust Notes. However, up to $450,000 may be converted at the Investor's option at any time, representing amounts paid by the Investor on the closing of the transaction on July 15, 2010 (the "Closing"). The Company Note bears interest at a rate of 6% per annum. The maturity date of the Company Note is July 15, 2011. The Company Note contains "anti-dilution" protection, such that if the Company issues and sells common stock, or securities convertible into or exercisable for common stock of the Company, at a price per share that is less than the applicable Conversion Price, then the Conversion Price is adjusted downward to match such lower issuance price. However, in no event will the Conversion Price based on anti-dilution adjustments be lower than the "Floor Price" which is $0.20 per share.

The number of shares of Common Stock that may be issued to the lender pursuant to a conversion of this Note, combined with an exercise of the Warrant, shall not exceed a cap determined by (a) dividing the sum of (i) the face amount of this Note, plus (ii) an amount equal to all interest that would accrue under this Note during its term (assuming no payments of principal or interest are made prior to the Maturity Date), by a price per share of Common Stock equal to $0.20 (the Floor Price).

The Company Note also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences. The Company Note contains standard events of default related to payment, performance of certain covenants and bankruptcy events. We have granted the Investor a security interest in the Trust Notes under the terms of the Security Agreement. The sole collateral for the Company's payment and performance obligation under the Company Note is the Trust Notes. The Warrant entitles the Investor to purchase 3,636,364 shares of common stock at an exercise price of $0.231 per share. The Warrant contains "anti-dilution" protection, such that if we issue and sell common stock, or securities convertible into or exercisable for common stock of the Company, at a price per share that is less than the price, then the price is adjusted downward to match such lower issuance price. The Warrant also contains other standard adjustment features for stock splits, recapitalizations and similar occurrences.

We recorded a debt discount of $890,000 based on the estimated fair value of the derivative liabilities associated with the warrants and embedded conversion feature which was amortized using the effective interest method over the term of the note.

At March 31, 2011, the remaining principal balance was $495,000 and interest payable on this note totaled $35,107. Subsequent to March 31, 2011, this note and accrued interest were fully converted into common stock (see Note 15).

SEPTEMBER 2010 10% CONVERTIBLE NOTES

On September 3, 2010, we entered into a Subscription Agreement with three accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The initial closing under the Subscription Agreement resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.43575 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and mature on September 3, 2011. The aggregate gross cash proceeds were $650,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than $0.30 nor less than $0.20. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

At March 31, 2011, interest payable on these notes totaled $42,709.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

6. EQUITY TRANSACTIONS

2003 CONSULTANT STOCK PLAN

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

On March 29, 2004, we filed a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933. On August 29, 2005, we filed a Form S-8 for the purpose of registering an additional 2,000,000 shares, for a total of 3,000,000 common shares reserved under the Plan. On August 9, 2007, we filed a Form S-8 for the purpose of registering an additional 2,000,000 shares, for a total of 5,000,000 common shares reserved under the Plan. On July 10, 2009, we filed a Form S-8 for the purpose of registering an additional 1,000,000 shares, for a total of 6,000,000 common shares reserved under the Plan. On February 17, 2010, we filed a Form S-8 for the purpose of registering an additional 1,500,000 shares, for a total of 7,500,000 common shares reserved under the Plan.

2005 DIRECTORS COMPENSATION PROGRAM

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

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

At March 31, 2011 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 an aggregate grant amount of 5,303,275. Of those grants, 514,550 outside director’s options had been forfeited, 867,175 employee-director’s Options had been forfeited, 250,000 outside directors options had been exercised and 3,671,550 options remained outstanding.

2010 STOCK INCENTIVE PLAN

In August 2010, we adopted the 2010 Stock Incentive Plan (the "Incentive Plan"), which provides incentives to attract, retain and motivate employees and directors whose present and potential contributions are important to the success of the Company by offering them an opportunity to participate in our future performance through awards of options, the right to purchase common stock, stock bonuses and stock appreciation rights and other awards. A total of 3,500,000

common shares were initially reserved for issuance under the Incentive Plan.

In August 2010, we filed a registration statement on Form S-8 for the purpose of registering 3,500,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

At March 31, 2011 we had 2,862,079 shares remaining under the combination of the 2003 Consultant Stock Plan and the 2010 Stock Incentive Plan. We had issued the remaining 1,250,649 shares available under the 2003 Consultant Stock Plan and 637,921 shares available under the 2010 Stock Incentive Plan.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

COMMON STOCK

Fiscal Year Ended March 31, 2010:

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

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

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

In January 2010, we issued 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at $0.20 per share to repay $146,250 of interest on certain convertible debentures accrued through January 31, 2010 (see Note 5).

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

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

In the fiscal year ended March 31, 2010, we issued 8,429,748 shares of stock to holders of convertible notes payable to convert $1,631,596 of principal and related accrued interest to equity. The average conversion price was approximately $0.19 per share. These shares were issued to accredited investors.

In the fiscal year ended March 31, 2010, we issued 2,496,261 shares of stock to service providers for services valued at $648,522 based upon the fair value of the shares issued. The services were for regulatory affairs, corporate communications, business development and financial consulting. The average issuance price was approximately $0.26 per share.

In June 2009, we committed to issue 4,000,000 shares of restricted common stock, to Mr. Joyce at a price per share of $0.24, to begin vesting in equal installments over a thirty six month period commencing June 30, 2010. As of June 29, 2011, Mr. Joyce has accepted 675,000 of such shares.

In July 2009, we registered 1,000,000 additional shares under our 2003 Consultant Stock Plan through the filing of a Form S-8 Registration Statement.

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

shares of our common stock per the conversion formula in the notes (see Note 5).

Fiscal Year Ended March 31, 2011:

During the fiscal year ended March 31, 2011, we issued 1,844,903 shares of restricted stock under warrant exercises by an accredited investor in exchange for cash proceeds of $320,433. As an inducement to this warrant holder, we agreed to issue to him 1,599,348 replacement warrants on the same terms as 1,599,348 of the warrants that he exercised and to reduce the purchase price to a current market price on the other 245,555 warrants.

During the fiscal year ended March 31, 2011, we issued 8,857,408 shares of restricted common stock in exchange for the conversion of principal and interest of several notes payable and convertible notes payable in an aggregate amount of $1,631,805 at an average conversion price of $0.18 per share based upon the conversion formulae in the respective notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

On August 2, 2010, we filed a registration statement on Form S-8 for the purpose of registering under the Securities Act of 1933 the 4,000,000 common shares underlying the restricted stock grant to our CEO.

Additionally on August 2, 2010, we registered 13,416,060 shares underlying our then outstanding stock options through the filing of a Form S-8 Registration Statement.

During the fiscal year ended March 31, 2011, we issued 2,236,389 shares of stock to service providers for services valued at $569,985 based upon the fair value of the shares issued. Of that aggregate number, 1,622,266 shares of common stock were issued to consultants pursuant to our S-8 registration statements covering our Amended and Restated 2003 Consultant Stock Plan or 2010 Stock Incentive Plan for services valued at $379,190 based upon the fair value of the shares issued. The services were for regulatory, affairs, corporate communications and business development. The average issuance price on the S-8 issuances was approximately $0.27 per share. Additionally, we issued 614,123 restricted shares of common stock to services providers for investor relations or advisory services valued at $190,795 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately $0.31 per share.

In June 2010, we issued 1,586,040 shares of restricted common stock and 1,586,040 warrants to purchase our common stock at a price of $0.20 per share to the holders of our Amended and Restated Series A 12% Convertible Notes as a Unit payment of accrued and prepaid interest and liquidated damages (see Note 5). That aggregate amount included an issuance of 31,040 shares of restricted common stock and 31,040 warrants to purchase our common stock at a price of $0.20 per share to the law firm representing the holders of our Amended and Restated Series A 12% Convertible Notes.

In December 2010, we issued 600,000 shares of common stock to our CEO in connection with the restricted share incentive agreement that he received in June 2009.

In January 2011, we issued 78,767 shares of restricted common stock as a patent license payment valued at $11,500.

In the fiscal year ended March 31, 2011 we issued 350,346 shares of stock to consultants as compensation under stock-based compensation expense for services valued at $87,091 based upon the fair value of the shares issued. Of that aggregate amount, 278,804 shares of common stock were issued to pursuant to our S-8 registration statements covering our Amended and Restated 2003 Consultant Stock Plan or 2010 Stock Incentive Plan for corporate communication services valued at $67,091 based upon the fair value of the shares issued. The average issuance price on the S-8 issuances was approximately $0.24 per share. Additionally, we issued 71,542 restricted shares of common stock to those consultants for investor relations services valued at $20,000 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately $0.28 per share.

WARRANTS

Fiscal Year Ended March 31, 2010:

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

strike price if that warrant is exercised.

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

In May 2009, we raised an aggregate amount of $135,000 from the sale to accredited investors of 10% convertible notes. The notes are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the noteholders exercise their conversion privilege, we agreed to issue a matching three year warrant carrying a strike price of $0.20 per share.

In June 2009, we raised an aggregate amount of $215,000 from the sale to an accredited investor of a 10% convertible note. The notes are convertible into our common stock at a fixed conversion price of $0.20 per share prior to maturity. If the noteholders exercises their conversion privilege, we agreed to issue a three year warrant carrying a strike price of $0.20 per share equal to fifty percent warrant coverage.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

In July 2009, we issued a convertible promissory note in the principal amount of $330,000 to an accredited investor. The note is convertible into shares of our common stock at a price per share that is equal to the lesser of (i) $0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of $0.15 per share. The investor also received warrants to purchase 660,000 shares of our common stock at an exercise price of $0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In August 2009, we issued two convertible promissory notes in the principal amount of $338,250 to two accredited investors. These notes are convertible into shares of our common stock at a price per share that is equal to the lesser of (i) $0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of $0.15 per share. The investors also received warrants to purchase 676,500 shares of our common stock at an exercise price of $0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In October and November 2009, we raised $430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of $0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at $0.25 per share. We also issued to a finder as deferred offering costs a convertible note for $20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling $70,000 to 280,000 shares of our common stock per the conversion formula in the notes (see Note 5).

In January 2010, we raised $250,000 from the sale to an accredited investor of 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received matching three year warrants to purchase 1,000,000 unregistered shares of our common stock at a price of $0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued $700,250 in 10% convertible notes in that financing round.

In January 2010, we issued 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at $0.20 per share to repay $146,250 of interest on certain convertible debentures accrued through January 31, 2010 (see Note 5).

On February 12, 2010, we raised $300,000 in cash and received a secured promissory note in the amount of $300,000 in exchange for the issuance by the Company of a $660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of $0.30 and a minimum price per share of $0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of $0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at $0.50 per share. The Note was issued in a private placement.

Fiscal Year Ended March 31, 2011:

In April 2010, we entered into a one year consulting agreement with an individual for media relations services. We agreed to pay the consultant 22,727 warrants to purchase our common stock at a fixed exercise price of $0.33 per

share on a monthly basis. The agreement values these warrant issuances at $5,000 per month. Through March 31, 2011, we have recorded warrants to purchase 249,997 shares of our stock per this agreement.

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 unregistered shares of our common stock at a price of $0.25 per share.

In May 2010, a warrant holder exercised warrants to purchase 1,599,348 shares of common stock at the agreed exercise prices, which resulted in proceeds of $283,600. As an inducement to this warrant holder, we agreed to issue to him 1,599,348 replacement warrants on the same terms as the warrants that he exercised.

In June 2010, we issued 1,586,040 shares of restricted common stock and 2,981,598 warrants to purchase our common stock at a price of $0.20 per share to the holders of our Amended and Restated Series A 12% Convertible Notes and to their law firm.  1,586,040 of those warrants were issued as a Unit payment of accrued and prepaid interest and liquidated damages (see Note 5).

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

In July 2010, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor") whereby we issued and sold, and the Investor purchased: (i) a Convertible Promissory Note of the Company in the principal amount of $890,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant"). The Warrant entitles the Investor to purchase 3,636,364 shares of common stock at an exercise price of $0.231 per share.

In September 2010, we entered into a Subscription Agreement with three accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The initial closing under the Subscription Agreement resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.43575 per share.

In November 2010, as part of a settlement agreement involving our February 2010 Convertible Note(see Note 5) we issued warrants to purchase 2,727,272 shares of common stock in exchange for the return and cancellation of a warrant to purchase 660,000 shares of common stock.

In November 2010, five noteholders of our May & June 2009 10% Convertible Notes (see Note 5) elected to convert $100,000 of principal and $15,039 of accrued interest to common stock at the agreed conversion price of $0.20 per share. As a result of those conversions, we issued those noteholders warrants to purchase 500,000 shares of common stock at the agreed exercise price of $0.20 per share.

A summary of the aggregate warrant activity for the years ended March 31, 2011 and 2010 is presented below:

| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Warrants | Weighted Average Exercise Price | Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 25,987,465 | $ 0.31 | 19,193,965 | $ 0.29 |
| Granted | 19,430,579 | $ 0.28 | 8,489,863 | $ 0.28 |
| Exercised | (2,344,903) | $ 0.22 | (655,556) | $ 0.19 |
| Cancelled/Forfeited | (4,397,972) | $ 0.46 | (1,040,807) | $ 0.82 |
| Outstanding, end of year | 38,675,169 | $ 0.26 | 25,987,465 | $ 0.31 |
| Exercisable, end of year | 38,675,169 | $ 0.26 | 25,987,465 | $ 0.31 |
| Weighted average estimated fair value of warrants granted | | $ 0.28 | | $ 0.22 |

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

| | Years Ended March 31, |
|---|---|

| | 2011 | 2010 |
|---|---|---|
| Risk free interest rate | 0.12%-2.58% | 1.28%-2.58% |
| Average expected life | 0.13 to 5 years | 2 to 5 years |
| Expected volatility | 42.0% - 115.1% | 78.8% - 96.28% |
| Expected dividends | None | None |

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

The detail of the warrants outstanding and exercisable as of March 31, 2011 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 |
| $0.15 - $0.19 | 6,576,404 | 2.89 | $0.16 | 6,576,404 | $0.16 |
| $0.20 - $0.33 | 26,800,565 | 2.58 | $0.23 | 26,800,565 | $0.23 |
| $0.34 - $0.50 | 5,298,200 | 3.05 | $0.45 | 5,298,200 | $0.45 |
| | 38,675,169 | | | 38,675,169 | |

Options

At March 31, 2011 we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors under the 2005 Directors Compensation Program. Of the options issued to employee-directors, 867,175 had expired. Of the options issued to outside directors, 514,550 options had expired or been forfeited, 250,000 options had been exercised and 3,671,550 options remain outstanding.

From time to time, our Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

In August 2000, we adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of our stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of our common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At March 31, 2011, we had granted 47,500 options under the 2000 Stock Option Plan of which All 47,500 have been forfeited and also granted 10,000 shares to employees under the plan, with 457,500 available for future issuance.

In March 2002, the Board of Directors granted our Chief Executive Officer ("CEO") and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 250,000 shares of common stock each, at an exercise price of $1.90 per share (the estimated fair value of the underlying common stock at grant date) and expire March 2012. Awards are earned upon achievement of certain financial and/or research and development milestones. On July 1, 2005, the Company's CEO forfeited all of his aforementioned 250,000 options.

In February 2005, our Board of Directors granted our CEO and CSO non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of $0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition

Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry, Jr. and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, we recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005.

On September 9, 2005, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,857,143 shares of common stock, at an exercise price of $0.21 per share, in exchange for the extinguishment of $300,000 of accrued related-party liabilities. The fair value of such options approximated the value of the accrued related-party liability.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

On October 2, 2006, our Board of Directors granted our President non-qualified stock options to purchase up to 500,000 shares of common stock, at an exercise price of $0.27 per share. 166,667 of the options vested on July 18, 2007 with the remaining shares of the grant vesting at a rate of 13,889 shares per month. Due to our President ceasing his employment with us in November 2008, the option grant was subsequently forfeited.

On June 13, 2007, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,500,000 shares of common stock, at an exercise price of $0.36 per share. 1,000,000 options vested immediately, 500,000 options vested in June 2008 and 500,000 options vested in June 2009. Unless terminated earlier in accordance with the agreement, the option, to the extent unexercised, will expire on June 13, 2017.

On December 15, 2008, our Board of Directors granted our CEO non-qualified stock options to purchase up to 2,000,000 shares of common stock, at an exercise price of $0.25 per share. The exercise price was set based on the closing price of our common stock on November 13, 2008, the date on which our Board of Directors approved the grant of the option. The option vested on December 15, 2008, the date of grant, with respect to 1,000,000 shares. Another 500,000 shares vested on December 31, 2009 and will vest as to the remaining 500,000 shares on December 31, 2010. Unless terminated earlier in accordance with the agreement, the option, to the extent unexercised, will expire on November 13, 2018.

Also on December 15, 2008, we entered into separate agreements with Franklyn S. Barry, Jr. and Edward G. Broenniman, two of our non-employee directors, pursuant to which we granted to each such director a non-statutory stock option to acquire an aggregate of 500,000 shares of the Company's common stock at an exercise price of $0.41 per share. The exercise price was set based on the closing price of our common stock on June 4, 2008, the date on which our Board of Directors approved the grant of each option. In the case of each grant, the option vested on December 15, 2008, the date of grant, with respect to 333,333 shares and vested as to the remaining 166,667 shares on June 4, 2009. Unless terminated earlier in accordance with its respective agreement, each option, to the extent unexercised, will expire on June 4, 2018.

Additionally, on December 15, 2008, our Board of Directors granted our CSO and another employee non-statutory stock options at an exercise price of $0.41 per share to acquire an aggregate of 750,000 shares and 300,000 shares of our common stock, respectively. The exercise price was set based on the closing price of our common stock on June 4, 2008, the date on which our Board of Directors approved the option grants. The one-third of the options vested on June 4, 2009, one-third will vest on June 4, 2010 and the final one-third will vest on June 4, 2011. Unless terminated earlier in accordance with the agreements, the options, to the extent unexercised, will expire on June 4, 2018.

In June 2009, our Chief Executive Officer agreed to suspend the exercise of up to 9,588,243 of his stock options, which allowed us to utilize the shares underlying those stock options in capital raising activities while we presented our stockholders with a proposal to increase the number of authorized shares from 100,000,000 to 250,000,000. That proposal was approved by our stockholders at our Annual Meeting on September 16, 2009. Following that approval we extended the Chief Executive Officer's stock options by 100 days that he had unreserved his shares. We determined the change in fair value of his stock options due to this extension, and based on the change in fair value, recorded an increase to our stock based compensation expense in the quarter ended September 30, 2009 of $64,678 for his vested options. For his unvested options, we recorded an increase to fair value of $15,308 which will be expensed over the remaining vesting period of those options.

On May 21, 2010, the Board of Directors of the Company amended the expiration terms of certain outstanding stock options such that all outstanding stock options of the Company shall have a term that is for not less than ten (10) years following the original date of grant. No other terms or features of the stock options were modified or amended. Stock options held by Mr. James Joyce, our Chief Executive Officer and Chairman of the Board of Directors, Dr. Richard Tullis, our Chief Science Officer and member of the Board of Directors, Mr. Franklyn Barry, a member of the Board of Directors, and Mr. Edward Broenniman, a member of the Board of Directors, were modified accordingly. Of the foregoing (i) options to purchase 2,231,100 shares held by Mr. Joyce were extended to February 23, 2015; (ii) options to purchase 867,175 shares held by Dr. Tullis were extended to February 23, 2015; (iii) options to purchase 308,725 shares held by Mr. Broenniman were extended to February 23, 2015; and (iv) options to purchase 264,550 shares held by Mr. Barry were extended to February 23, 2015. All of the foregoing options are at an exercise price of $0.38 per share. The foregoing represents only a portion of the total options and shares owned by our directors and officers.

This option extension resulted in an additional charge of $491,377 in the fiscal year ended March 31, 2011 based upon the change in the fair value resulting from the extension to the term of the options based upon the binomial lattice option valuation model.

On September 27, 2010, our Board of Directors granted the following stock options, all with an exercise price of $0.25 per share, the closing price of our common stock on that date:

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

To our CEO, an option to acquire an aggregate of 2,500,000 shares of our common stock. The option vested as to 1,000,000 shares on the grant date and will vest as to the remaining 1,500,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To our CSO, an option to acquire an aggregate of 1,000,000 shares of our common stock. The option vested as to 500,000 shares on the grant date and will vest as to the remaining 500,000 shares one year from the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To Mr. Franklyn S. Barry, Jr., one of the Company's non-employee directors, an option to acquire an aggregate of 500,000 shares of our common. The option vested as to 250,000 shares on the grant date and will vest as to the remaining 250,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To Mr. Edward G. Broenniman, another of our non-employee directors, an option to acquire an aggregate of 600,000 shares of our common stock. The option vested as to 300,000 shares on the grant date and will vest as to the remaining 300,000 shares one-third each year over three years on each anniversary of the grant date. Unless earlier exercised or terminated, the option will expire September 27, 2020.

To James Frakes, appointed as CFO on September 27, 2010, an option to acquire an aggregate of 500,000 shares of our common stock. The option vested as to 250,000 shares on the grant date and will vest as to the remaining 250,000 shares one year from the grant date.

To three employees, options to acquire an aggregate of 450,000 shares of our common stock. The options vested as to 225,000 shares on the grant date and will vest as to the remaining 225,000 shares one year from the grant date.

On October 27, 2010, our Board of Directors granted our new president an option to acquire an aggregate of 1,000,000 shares of our common stock with an exercise price of $0.25 per share. One-fourth of the option, or 250,000 shares, will vest on the one year anniversary and the remainder will vest quarterly over the following three years. Unless earlier exercised or terminated, the option will expire October 27, 2020.

The following is a summary of the stock options outstanding at March 31, 2011 and 2010 and the changes during the two years then ended:

| | Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 13,416,060 | $ 0.37 | 14,489,060 | $ 0.37 |
| Granted | 6,550,000 | $ 0.25 | -- | $ -- |
| Exercised | -- | $ -- | -- | $ -- |
| Cancelled/Forfeited | (32,500) | $ 2.65 | (1,073,000) | $ 0.38 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Outstanding, end of year | 19,933,560 | $ | 0.32 | 13,416,060 | $ | 0.37 |
| Exercisable, end of year | 15,558,560 | $ | 0.34 | 11,716,060 | $ | 0.37 |
| Weighted average estimated fair value of options granted | | $ | 0.23 | | $ | -- |

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

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, 2011 and March 31, 2010:

| | Years Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Risk free interest rate | 0.64%-0.66% | 2.08% |
| Average expected life | 10.0 years | 3.8 years |
| Expected volatility | 113.12%-114.72% | 96% |
| Expected dividends | None | None |

The detail of the options outstanding and exercisable as of March 31, 2010 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 - $0.25 | 11,407,143 | 8.15 years | $0.24 | 7,382,143 | $0.23 |
| $0.36 - $0.41 | 8,221,550 | 4.58 years | $0.38 | 7,871,550 | $0.36 |
| $1.78 - $2.25 | 304,867 | 0.88 years | $1.96 | 304,867 | $1.96 |
| | 19,933,560 | | | 15,558,560 | |

We recorded stock-based compensation expense related to share issuances and to options granted outside of our Stock Option Plan totaling $1,823,946 and $504,933 for the fiscal years ended March 31, 2011 and 2010, respectively. These expenses were recorded as stock compensation included in payroll and related expenses in the accompanying consolidated statement of operations for the years ended March 31, 2011 and 2010.

Our total stock-based compensation for fiscal year ended March 31, 2011 includes the following:

| | | |
|---|---|---|
| Incremental fair value of option modifications | $ | 491,377 |
| Vesting of restricted stock grant | | 322,222 |
| Direct stock grants to consultant | | 87,091 |
| Vesting of stock options | | 961,340 |
| Total Stock-Based Compensation | $ | 1,862,030 |

As of March 31, 2011, we had $1,474,517 of remaining unrecognized stock option expense, which is expected to be recognized over a weighted average remaining vesting period of 1.65 years.

On March 31, 2011, our stock options had an intrinsic value of approximately $4,035,000 (comparing the closing price of our stock on that date of $0.12 per share to the weighted average exercise price of our stock options).

7. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

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

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

8. ACCRUED LIQUIDATED DAMAGES

We account for contingent obligations to make future payments or otherwise transfer Consideration under a registration payment arrangement separately from any related financing transaction agreements, and any such contingent obligations are recognized only when it is determined that it is probable that we will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated.

We have entered into registration payment arrangements in connection with certain financing arrangements, pursuant to which we raised an approximate aggregate amount of $2,020,000, that require us to register the shares of common stock underlying the convertible debt and warrants issued in these financing transactions. Under these agreements we are liable for liquidated damages to the investors if we fail to file and/or maintain effective registration statements covering the specified underlying shares of common stock as noted below:

- With respect to a $1,000,000 financing agreement – damages accrue at a rate of 1% - 1.5% per month until such time as the underlying shares of common stock would have been eligible for sale under Rule 144.
- With respect to financing agreements totaling $715,000 – damages accruing at a rate of 2% per month, subject to an aggregate maximum liquidated damages amount of $150,000.

- With respect to equity investments totaling $305,000 – damages accruing at a rate of 2% per month until the expiration dates of warrants issued in connection with this financing, which range from December 31,2010 through February 8, 2011 and are payable in common stock.

Since we have either failed to file, or failed to maintain the registration obligations under these agreements, as of March 31, 2011 we have accrued estimated aggregate liquidated damages of $437,800 in connection with the liquidated damage provisions of these agreements, which we believe represents our maximum exposure under these provisions. Accordingly, we do not expect to accrue any further liquidated damages in connection with these agreements. The actual amount of liquidated damages paid, if any, may differ from our estimates as it is our intention to negotiate with the investors the settlement of liquidated damages due and, as such, the ultimate amounts we may actually pay may be less than the amount currently accrued.

9. OTHER CURRENT LIABILITIES

At March 31, 2011 and 2010, other current liabilities were comprised of the following items:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| Accrued interest | $ 525,336 | $ 452,339 |
| Accrued legal fees | 179,465 | 236,902 |
| Other accrued liabilities | 99,585 | 77,699 |
| Total other current liabilities | $ 804,386 | $ 766,940 |

10. INCOME TAXES

On July 13, 2006, the FASB issued FIN 48, subsequently codified in ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 is effective for fiscal years beginning after December 15, 2006.

We adopted the provisions of ASC 740 relating to uncertain tax provisions on April 1, 2007, and have commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, no additional tax liabilities have been recorded. There are no unrecognized tax benefits as of March 31, 2011 or March 31, 2010. As of March 31, 2011, we have not yet completed our analysis of the deferred tax assets relating to federal and state net operating losses of $29.8m and $27m, respectively, and we believe that it is more likely than not that an ownership change may have occurred. As such, this amount and the offsetting valuation allowance have been removed from our deferred tax assets. We plan to complete a Section 382 analysis regarding the limitation of the net operating loss prior to utilizing any net operating losses.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

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

We are subject to taxation in the U.S. and state jurisdictions. Our tax years for 2007 and forward are subject to examination by the U.S. and 2006 and forward by California tax authorities due to the carryforward of unutilized net operating losses. We are currently not under examination by any taxing authorities.

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the twelve months ended March 31, 2011, we did not recognize any interest or penalties relating to tax matters. Upon adoption of ASC 740 on April 1, 2007, we did not record any interest or penalties.

At March 31, 2011, we had net deferred tax assets of approximately $6.7 million. These deferred tax assets are primarily composed of capitalized research and development costs and other accruals. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a full valuation has been established to offset the net deferred tax asset. Additionally, the future utilization of the our net operating loss carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future.

Significant components of our net deferred tax assets at March 31, 2011 are shown below (in thousands). A valuation allowance of $6.7 million has been established to offset the net deferred tax assets as of March 31, 2011, as realization of such assets is uncertain.

| | YEAR ENDED MARCH 31, | |
|---|---|---|
| | 2011 | 2010 |
| Deferred tax assets: | | |
| Capitalized research and development | $ 3,442 | $ 3,445 |
| Other | 3,340 | 1,301 |
| Total deferred tax assets | 6,782 | 4,746 |
| | | |
| Total deferred tax liabilities | -- | -- |
| | | |
| Net deferred tax assets | 6,782 | 4,746 |
| Valuation allowance for deferred tax assets | (6,782) | (4,746) |
| | | |
| Net deferred tax assets | $ -- | $ -- |

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at March 31, 2011, due to the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Federal income taxes at 34% | $ (1,941) | $ (1,539) |
| State income tax, net of federal benefit | (333) | (265) |

| | | |
|---|---|---|
| Tax effect on non-deductible expenses and credits | (1,762) | (70) |
| Increase in valuation allowance | 4,036 | 1,874 |
| | $ -- | $ -- |

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

11. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

We entered into an employment agreement with our Chairman of the Board effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days notice, will be in effect until the employee retires or ceases to be employed by us. The Chairman of the Board was appointed President and CEO effective June 1, 2001 upon which the base annual salary was increased from $120,000 to $180,000. Effective January 1, 2005, the CEO's salary was increased from $180,000 to $205,000 per year. The CEO is eligible for an annual bonus at the discretion of the Board of Directors, of which $0 and $20,000 was earned during each of the years ended March 31, 2007 and 2006, respectively. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary. Effective April 1, 2006, the CEO's salary was increased from $205,000 to $240,000 per year. His salary was subsequently increased to $265,000 per year and effective May 1, 2008, his salary was increased from $265,000 to $290,000 per year. On April 1, 2010, his salary was increased from $290,000 to $325,000 per year.

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer ("CSO"). His compensation under the agreement was modified in June 2001 from $80,000 to $150,000 per year. Effective January 1, 2005 Dr. Tullis' salary was increased from $150,000 to $165,000 per year Under the terms of the agreement, his employment continues at a salary of $165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Dr. Tullis was granted 250,000 stock options to purchase the Company's common stock in connection the completing certain milestones, such as the initiation and completion of certain clinical trials, the submission of proposals to the FDA and the filing of a patent application. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of twelve months base salary. Effective April 1, 2006, the CSO's salary was increased from $165,000 per year to $185,000 per year. On April 1, 2010, his salary was increased from $185,000 to $195,000 per year.

LEASE COMMITMENTS

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of $6,256 per month on a four year lease that expires in September 2013. We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of $2,084 per month on a two year lease that expires in October 2011.

Rent expense approximated $102,000 and $96,000 for the fiscal years ended March 31, 2011 and 2010, respectively. Our commitments under the rent agreements for the next four fiscal years are as follows:

OPERATING LEASE COMMITMENTS

| | FISCAL YEAR ENDED MARCH 31, | | | |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| 8910 University Center Lane, Suite 660, San Diego, CA 92122 office lease | $ 76,388 | $ 79,062 | $ 40,211 | $ -- |

| | | | | | |
|---|---|---|---|---|---|
| 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 office lease | 14,586 | - | - | | -- |
| Total Lease Commitments | $ 90,974 | $ 79,062 | $ 40,211 | $ | -- |

We sublet a portion of the Sorrento Valley Road location for $500 per month to an independent third party under a month to month sublease. We record this sub rental income as an offset to our general and administrative expenses.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

LITIGATION

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. Except as set forth below, 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.

On June 23, 2011, a complaint was filed in the Superior Court of California, San Diego County entitled John Barsall v. Aethlon Medical, Inc. We have not yet been served with a copy of the complaint. We believe that the case relates to two Subscription Agreements and two 10% Convertible Promissory Notes issued to Mr. Barsall on June 19, 2009 and June 30, 2009 in the aggregate principal amount of $200,000 (the “Barsall Notes”). The Barsall Notes matured on December 31, 2010 and payment on the Barsall Notes has not been made. If and when we are properly served with a copy of the complaint, we will determine what actions to take in response to the complaint.

12. NOTE RECEIVABLE

In February 2010, we received a full recourse secured promissory note ("Investor Note") in the amount of $300,000 in connection with the issuance by us of a $660,000 principal amount 10% convertible promissory note to one accredited investor (See Note 5). The Investor Note bore interest payable to us at five percent per annum and had a maturity date of April 1, 2011. We recognized interest income on the Investor Note as it was earned under the terms of the note.

At March 31, 2010, we had accrued interest income relating to the Investor Note of $1,932.

In November 2010, the investor paid the balance of the $300,000 note receivable and related accrued interest income.

On July 15, 2010, we received two Secured Trust Deed Notes to us (the "Trust Notes") each in the principal amount of $200,000 in connection with our issuance of a $890,000 principal amount 6% convertible promissory note to one accredited investor (See Note 5). The Trust Notes bear interest payable to us at five percent per annum and have maturity dates of September 15, 2011 and November 15, 2011. We recognize interest income on the Investor Note and Trust Notes as it is earned under the terms of the notes. The Investor Note and Trust Notes have prepayment options.

In February 2011, the investor paid the initial $200,000 amount to us along with related accrued interest of $5,945. At March 31, 2011, we had accrued interest income of $7,096 relating to the remaining $200,000 outstanding note receivable.

13. FAIR VALUE MEASUREMENTS

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

ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories: We measure the fair value of applicable financial and non-financial assets based on the following fair value hierarchy:

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

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

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

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

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

The fair value of our recorded derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a Level 3 classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

Fair Value Measurements at Reporting Date Using

| Description | March 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivative Liabilities | $ -- | $ -- | $ -- | $ 2,002,896 |
| Total Assets | $ -- | $ -- | $ -- | $ 2,002,896 |

Prior to the third fiscal quarter ended December 31, 2010 (“Q3 2011”), the fair value estimate relating to an aggregate of 25,066,944 warrants classified as derivative liabilities had been based on a Black-Scholes valuation model. During Q3 2011, we changed to a binomial lattice model for valuation of these warrants as we determined that use of a binomial lattice model was more representative of fair value in the circumstances. In accordance with accounting guidance in ASC 820-10, Fair Value Measurements and Disclosures, this was accounted for as a change in accounting estimate.

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, in connection with our February 2010 note restructurings, our Amended and Restated 12% Series A Convertible Promissory Notes, our July and August 2009 convertible notes, our July 2010 convertible note and our September 2010 convertible notes and with respect to warrant and embedded conversion option derivative instruments utilizing the Binomial Lattice option pricing model:

| | Fiscal Year Ended March 31, 2011 |
|---|---|
| Risk free interest rate | 0.12% - 2.58% |
| Average expected life | 0.13 - 5 years |
| Expected volatility | 42.0% - 115.1% |
| Expected dividends | None |

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the year ended March 31, 2011:

| | Recorded | Change in estimated fair value recognized |
|---|---|---|

| | April 1, 2010 | New Derivative Liabilities | in results of operations | March 31, 2011 |
|---|---|---|---|---|
| Derivative liabilities | $ 1,054,716 | $ 7,027,952 | ($ 6,079,772) | $2,002,896 |

The fair value of derivative liabilities that we recorded in the fiscal year ended March 2011 was related to the restructuring of the Amended and Restated Convertible Notes and to the restructurings of our February 2010 Convertible Note and to the embedded derivatives and associated warrants related to a number of our convertible note offerings (see Note 5) and was based upon an independent valuation report.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

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

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

The fair value of derivative liabilities that we recorded in the fiscal year ended March 2010 was related to the restructuring of the Amended and Restated Convertible Notes and to the embedded derivatives and associated warrants related to a number of our convertible note offerings (see Note 5) and was based upon an independent valuation report.

14. SIGNIFICANT FOURTH QUARTER ADJUSTMENTS

During the fourth quarter of fiscal year ended March 31, 2011, we recorded the following unusual or infrequently occurring items or adjustments that were deemed to be material to the fourth quarter results:

- A gain of $3,980,818 relating to the change in fair value of derivative liabilities.
- A charge of $378,850 relating to the acceleration of debt discount amortization in connection with the conversion of underlying convertible debt.

- Reduction of accrued liquidated damages of $242,200.

During the fourth quarter of fiscal year ended March 31, 2010, we recorded the following unusual or infrequently occurring items or adjustments that were deemed to be material to the fourth quarter results:

- An increase in derivative liabilities of $478,476 based on the classification of the embedded conversion feature and warrants associated with the February 2010 10% convertible debt agreement as derivative liabilities.
- A gain on the write off of the conversion options classified as derivative liabilities of $200,645 as a result of the conversion of the related convertible note.

15. SUBSEQUENT EVENTS

In April 2011, the investor paid the final $200,000 note receivable to us along with related accrued interest of $7,863.

In April 2011, we entered into a Subscription Agreement with two accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $385,000. The closing under the Subscription Agreement resulted in the issuance and sale by us of (i) convertible promissory notes in the aggregate principal amount of $385,000, (ii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of $0.125 per share, and (iii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of $0.175 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and mature on April 1, 2012. The aggregate gross cash proceeds to us $350,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of common stock of the Registrant at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than $0.20 nor less than $0.10. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

In addition, we issued (i) five-year warrants to purchase an aggregate of 812,500 shares of our common stock at an exercise price of $0.125 per share, and (iii) five-year warrants to purchase an aggregate of 812,500 shares of our common stock at an exercise price of $0.175 per share to the Purchasers. These warrants were issued as an antidilution adjustment under certain common stock purchase warrants held by Purchasers that were acquired us in September 2010.

AETHLON MEDICAL, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

During the period April 1, 2011 through June 29, 2011, we issued 14,136,647 shares of restricted common stock in exchange for the partial or full conversion of principal and interest of several convertible notes payable in an aggregate amount of $1,195,802 at an average conversion price of $0.08 per share based upon the conversion formulae in the respective notes.

During the period April 1, 2011 through June 29, 2011, we issued 1,826,554 shares of stock to service providers for services valued at $345,371 based upon the fair value of the shares issued. Of that aggregate number, 1,399,013 shares of common stock were issued to consultants pursuant to our S-8 registration statements covering our Amended and Restated 2003 Consultant Stock Plan or 2010 Stock Incentive Plan for services valued at $277,871 based upon the fair value of the shares issued. The services were for regulatory affairs and corporate communications. The average issuance price on the S-8 issuances was approximately $0.20 per share. Additionally, we issued 427,541 restricted shares of common stock to service providers for investor relations valued at $67,500 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately $0.16 per share.

During the period April 1, 2011 through June 29, 2011, we issued 75,000 shares of common stock to our CEO in connection with the restricted share incentive agreement that he received in June 2009.

During the period April 1, 2011 through June 29, 2011, we issued 3,699,914 shares of restricted common stock related to net warrant exercises.

In April 2011, we entered into a consulting agreement with a consultant to provide media relations services. The term of the agreement is six months and it calls for monthly payments of $2,500 and 10,000 restricted shares of our common stock.

In April 2011, we entered into an investor relations agreement with Lippert/Heilshorn & Associates, Inc. The term of the agreement is four months and it expires on August 31, 2011 unless extended. The agreement calls for a monthly fee of $10,000.

In May 2011, we agreed to modify three warrants held by an institutional investor as the result of antidilution protection. Gemini warrant modification

In May 2011, our Board ratified a six month consulting agreement with a consultant to provide public relations and corporate communications services. We agreed to pay the consultant a monthly fee of $1,500 in cash and a one-time stock-based payment of six months' worth of shares based upon a rate of $5,000 per month, or a total of $30,000, to be paid in restricted stock. Based upon the closing price of the date of the approval by our Board, the one-time restricted share payment was in the amount of 200,000 restricted shares.

In June 2011, we entered into an advisory and investment banking services agreement with Maxim Group LLC ("Maxim"). The agreement calls for a monthly fee of $10,000 paid by us to Maxim and the agreement may be terminated by either party on 30 days' notice after August 1, 2011. Maxim will retain the right to act as lead book manager for any capital raises by us for a six month period following the termination of the agreement conditioned upon Maxim having raised a minimum of $4 million of gross proceeds for us during the term of the agreement.

On June 28, 2011, we entered into a Termination Agreement with Tonaquint, Inc. (see Note 5) that eliminates a minimum of 10.8 million shares of common stock that would have been issuable under the warrant exercise formula. Both parties agreed to terminate the warrant to prevent continuing dilution of our common stock and to eliminate confusion or disagreement as to the number of shares of common stock available for issuance under the warrant in the future. Accordingly, under the Termination Agreement we issued 3,599,913 shares of common stock upon the final exercise of the warrant, whereupon the warrant was terminated and is of no further force or effect. The Termination Agreement also provides for a "Common Stock Sale Limitation" on all of our common stock held by Tonaquint, Inc. Under the "Common Stock Sale Limitation", the daily limitation on the number of shares of common stock which Tonaquint, Inc. may sell into the market on any trading day is limited to the greater of (i) $5,000 of sales amount, or (ii) 10% of the Average Daily Volume of our common stock sold on the Over The Counter Bulletin Board, where the Average Daily Volume shall mean the average daily volume for the prior three month period as reported on each trading day on Yahoo Finance with respect to our common stock. Under the terms of the Termination Agreement, Tonaquint, Inc. has waived and released us from any obligation to pay or perform, any fees, penalties, costs, or assessments that were or are due, or would have become due, under the convertible note, the warrant and the note purchase agreement. In consideration of the termination of the warrant, we agreed to issue an unsecured non-convertible promissory note (the "New Note") in the principal amount of $360,185, which provides for annual interest at a rate of 6%, payable monthly in either cash or our stock, at our option. The New Note has a maturity date of April 30, 2012.