SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
AMENDMENT NO. 1 TO FORM KSB

(MARK ONE)

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

For the fiscal year ended March 31, 2004

OR

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

For transition period from _____ to _____

COMMISSION FILE NUMBER 0-21846

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

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

ISSUER'S TELEPHONE NUMBER (858) 459-7800

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

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

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

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

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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.[ ]

Revenues of the registrant for the fiscal year ended March 31, 2004 were $0.

The aggregate market value of the Common Stock held by non-affiliates was approximately $4,502,469 based upon the closing price of the Common Stock of $0.50, as reported by the NASDAQ Over-the-Counter Bulletin Board ("OTCBB") on August 30, 2004.

The number of shares of the Common Stock of the registrant outstanding as of August 20, 2004 was 13,453,550.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE):

Yes [ ] No [X]

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FORWARD - LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-KSB/A are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The safe harbor for forward looking statements provided by the Private Securities Litigation Reform Act of 1995 does not apply to us. We note, however, that such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Aethlon Medical, Inc. ("Aethlon Medical", "We" or the "Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Form 10-KSB/A. Such potential risks and uncertainties include, without limitation, Food and Drug Administration ("FDA") and other regulatory approval of our products, patent protection on our proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of our filings with the Securities and Exchange Commission. Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our Company and our business made elsewhere in this annual report as well as other public reports filed with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-KSB/A, and we assume no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL

Aethlon Medical, Inc. ("Aethlon Medical" "We" or the "Company"), formerly Bishop Equities, Inc. ("Bishop"), was incorporated in Nevada in April 1991 to provide a public vehicle for participation in a business transaction through a merger with or acquisition of a private company. In March 1993, we successfully offered our common stock at $6.00 per share through an initial public offering. In March 1999, Bishop began doing business as "Aethlon Medical, Inc." In March 2000, the Company's Articles of Incorporation were amended to formally change the name of the Company from "Bishop Equities, Inc." to "Aethlon

Medical, Inc."

BUSINESS DEVELOPMENT/ACQUISITIONS

On March 10, 1999, (1) Aethlon, Inc., a California corporation ("Aethlon"), (2) Hemex, Inc., a Delaware corporation ("Hemex"), the accounting predecessor to the Company, and (3) Bishop, a publicly traded "shell" company, completed an Agreement and Plan of Reorganization (the "Plan") structured to result in Bishop's acquisition of all of the outstanding common shares of Aethlon and Hemex (the "Reorganization"). The Reorganization was intended to qualify as a tax-free transaction under Section 368 (a)(1)(B) of the 1986 Internal Revenue Code, as amended. Under the Plan's terms, Bishop issued 733,500 and 1,350,000 shares of its common stock to the common stock shareholders of Aethlon and Hemex, respectively, such that Bishop then owned 100% of each company.

Effective January 1, 2000, we entered into an agreement with Dr. Julian Ambrus, the son of Dr. Clara Ambrus who was the original founder of Hemex, Inc. Under this agreement, an invention and related patent rights for a method of removing HIV and other viruses from the blood were assigned to us. This invention further expands the established blood filtration patents already owned by us. In addition to certain royalty payments equal to 8.75% of net sales of the patented product, the consideration for the acquired rights included the additional issuance of shares of our common stock to the inventors upon the issuance of the patent. The term of the agreement expires on the expiration date of the patents or any patent applications filed in connection with the invention. There have been no sales of the patented product as of August 25, 2004. We initially issued 12,500 shares of restricted common stock to the inventors upon the execution of the agreement. On March 4, 2003, the related patent was issued and we issued 196,078 shares of restricted common stock to the inventors.

On January 10, 2000, we acquired all the outstanding common stock of Syngen Research, Inc. ("Syngen") in exchange for 65,000 shares of our common stock in order to establish research facilities in San Diego, California, as well as employ Dr. Richard Tullis, the founder of Syngen. Dr. Tullis is a recognized research scientist in the area of DNA synthesis and antisense. Syngen had no significant assets, liabilities, or operations, and primarily served as the entity through which Dr. Tullis performed research consulting services. As such, the acquisition has been accounted for as an acquisition of assets in the form of an employment contract with Dr. Tullis and not as a business combination. Dr. Tullis was appointed to the Board of Directors of Aethlon Medical and was elected its Vice President for Business Development. Effective June 1, 2001, Dr. Tullis was appointed Chief Scientific Officer of Aethlon Medical, replacing Dr. Clara Ambrus, who retired from the Company.

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

BUSINESS OF ISSUER

We are a development stage therapeutic device company focused on expanding the applications of our Hemopurifier (TM) platform technology, which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. In this regard, our core focus is the development of therapeutic devices that treat HIV/AIDS, Hepatitis-C, and pathogens targeted as potential biological warfare agents. In pre-clinical testing, we have published that our HIV-Hemopurifier removed 55% of HIV from human blood in three hours and in excess of 85% of HIV in twelve hours. Additionally, the HIV-Hemopurifier captured 90% of gp120, a toxic protein that depletes human immune cells, during a one-hour pre-clinical blood study. We have also published pre-clinical blood studies of its HCV-Hemopurifier, which documented the ability to capture 58% of the Hepatitis-C virus from infected blood in two hours. Our potential customers may not accept our interpretation of results from our test sites until our customers repeat the tests and independently verify the tests. Since inception, our only source of revenue has been grants from certain agencies of the Federal Government, subcontract revenue and sale of research and development. No grant revenues have been received after 1999. Since then, from time to time, we have applied for, but have not been awarded, any such grants. Since our current focus is to develop, test and obtain approval of our products, we do not expect to obtain subcontract revenue, nor do we expect to sell our research and development expertise. Any future income derived from grant submissions is likely to be the primary source of revenues until such time that our Hemopurifier has been approved for sale in the marketplace.

THE HEMOPURIFIER(TM)

The Hemopurifier(TM) is an expansive platform technology that converges the established scientific principles of affinity chromatography (method of selective capture of proteins, sugars, fats and organic compounds) and hemodialysis (artificial kidneys) as a means to augment the natural immune response of clearing infectious viruses and toxins from the blood before cells and organs can be infected. The therapeutic goal of each Hemopurifier(TM) application is to improve patient survival rates by reducing viral load and preserving the immune function. We feel that the Hemopurifier(TM) will enhance and prolong the benefit of current infectious disease drug therapies, and fill the void for patients who inevitably become resistant to drug therapies. The Hemopurifier(TM) is also being positioned to treat patients that might become infected by a biological agent with no established drug or vaccine treatment.

Traditionally, hemodialysis has been used to remove urea and other small metabolic toxins that build up in the blood of patients with acute or chronic kidney failure. Acute renal failure is generally handled in the intensive care unit using continuous renal replacement therapy (CRRT) while chronic renal is treated using intermittent, thrice-weekly hemodialysis (IHD) in a stand-alone dialysis clinic.

While there are several variations of technique, a catheter is most often the primary method utilized to gain access to the blood, which is then pumped through a hollow-fiber hemodialysis cartridge. Within the cartridge, toxic salts, urea and excess water pass through small pores in the walls of the hollow-fibers and are removed. Proteins and blood cells that are too large to pass through the membrane are retained. The purified blood is then returned back into circulation.

There are two issues in kidney dialysis as it is practiced today that limit its application to a wide array of toxins and pathogens. Both issues are related to the separation membranes. First, hemodialysis cartridges non-selectively remove substances of a particular size from the blood. Thus in addition to removing toxins, the dialyzer may also remove important substances that the body would prefer to retain. Second, many important toxins are too large pass through the dialysis membrane and are therefore not removed even when it would be desirable.

We have solved these problems by designing a Hemopurifier(TM) cartridge which has pores large enough to let the largest toxins pass through (i.e. particles as large as whole viruses), yet selective enough to remove only the targeted toxins. Materials such as antibodies, which bind only to their corresponding antigen, provide selectivity, while the use of a sealed cartridge allows the process to use large pore sizes that are normally incompatible with kidney dialysis.

The binding antibodies or other selective agents are chemically bound to the surface of glass or plastic beads located on the outside of the hollow-fibers. This effectively prevents the active materials from entering the bloodstream. Viruses and toxins in the blood diffuse or are transported through the pores in the hollow-fibers and become trapped by the immobilized antibody.

In this way, materials of very large sizes are allowed enter the cartridge while non-toxic materials of similar size readily leave and re-enter the bloodstream. Blood cells and platelets, which are too large to enter the membrane, remain in the hollow-fiber and are returned to the patient. Importantly, the Hemopurifier(TM) cartridge does not require the development of any new equipment. The cartridge fits directly onto the global infrastructure of dialysis machines already located in hospitals and clinics.

INFECTIOUS DISEASE

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

Our Hemopurifier(TM) technology represents a new approach to treating viral diseases. The treatment is designed to work with current treatments to remove infectious virus, toxic viral proteins and injurious immunological mediators directly from the blood of the patient. By removing circulating virus and toxins from the blood, the Hemopurifier(TM) cartridge prevents virus from infecting unaffected tissues and cells, thereby allowing the body's natural

defenses a chance to recover and reject the disease.

BIOLOGICAL WEAPONS

On January 29, 2004, we announced that it we are developing treatments to combat infectious agents that may be used in biological warfare and terrorism. This expands our intent to treat infectious diseases beyond HIV/AIDS and Hepatitis-C. We are working to design Hemopurifiers(TM) that can be rapidly deployed by armed forces as wearable post-exposure treatments on the battlefield, as well as dialysis-based treatments for civilian populations. We are focusing our bio-defense strategy on treating "Category A" agents, which are considered by the Centers for Disease Control (CDC) to be the worst bioterror threats. These agents include the viruses that cause Smallpox, hemorrhagic fevers such as Ebola and Marburg, the Anthrax bacteria, and Botulinum toxin which is a gangrene toxin. Each treatment device will be based on the same proprietary Hemopurifier(TM) filtration technology that is utilized in advancing our HIV/AIDS, and Hepatitis-C treatments. We have not yet published any data related to the treatment of any "Category A" agent.

Viral and bacterial illnesses have always been with us and have sometimes been used as weapons. In recent times, some nations have refined and weaponized several pathogens for use in warfare. Although there are specific differences between bioweapons grade organisms in the way they are transmitted or how they are designed to kill, nearly all result in sepsis.

Sepsis is essentially a dysregulation of the immune system, often described as a septic shock. Microbial invasion sets off an immunological chain reaction mediated by proteins produced by cells and tissues. Overexpression of these protein immunological mediators "confuses" the immune system, ultimately resulting in major organ failure and death. Hemodialysis has been used for many years as a treatment in septic shock, which is generally acknowledged to be beneficial. Unfortunately, the technique is limited in the size of the toxins is can remove and inherently non-selective, making it less than completely effective.

Our Hemopurifier(TM) is capable of selectively targeting specific immune mediators responsible for shock and returning the system to functional levels. At the same time, our Hemopurifier(TM) can remove viral and bacterial fragments or toxins that are too large to be removed by normal hemodialysis. Thus, our Hemopurifier(TM) adds the capability of removing the antigens that are responsible for generating immune mediator production in the first place, effectively removing the source of the problem.

Perhaps just as important is the speed with which new treatment options can be developed. Each new bioweapon comes without a corresponding treatment. Typical biowarfare pathogens have been genetically engineered to contain genes that make them resistant to available drugs and vaccines. This presents a substantial problem since the development of new drugs or vaccines usually takes several years. However, our Hemopurifier(TM), when targeted to the new pathogen can often be constructed within a matter of a few months. All that is required is the existence of an antibody or binding protein that selectively adheres to the surface of the target pathogen or toxin. In this regard, our Hemopurifier(TM) is positioned as a rapid response countermeasure against untreatable pathogens that are released as biowarfare agents.

On March 4, 2004, we announced that we have entered into a cooperative agreement with the National Center for Biodefense (NCBD) at George Mason University in Manassas, Virginia. The purpose of the agreement is to broaden scientific resources, and jointly pursue business and funding opportunities within the federal government. Under the terms of the agreement, each party will contribute to the preparation of proposals. One party will be designated as having the primary responsibility for the preparation of all technical and non-technical aspects of the proposal including but not limited to (i) marketing and promotional effort, (ii) proposal content, assembly and production, (iii) liaison with government customer personnel, and (iv) oral discussions and negotiations, if held. The party designated as the subcontractor shall contribute to the preparation of the proposal to the extent necessary to assure the inclusion of a thorough and accurate description of its responsibilities to the proposed project. We will each bear our own expenses for our own performance of proposal and related work under the cooperative agreement. There are proprietary data provisions which prohibit George Mason University and us from using certain information other than in the submission of proposals to government agencies or reports that must be submitted in connection with George Mason University's performance. The duration of the agreement last until earliest of the following events to occur:

a) The failure or inability of either party to provide the support for the preparation of identified proposal opportunities.

b) Mutual consent of the parties to terminate the agreement.

c) Lapse of 24 months from the effective date of this agreement without award of a contract to support one or more projects unless procurement is still open.

d) The indictment, suspension, or debarment by the federal government of either party.

e) A receiver, trustee in bankruptcy or other custodian of the property or assets of a party hereto is appointed, or if either party hereto commits an act of bankruptcy or is adjudicated bankrupt or insolvent.

f) During the term of the agreement, it is determined that either party may be ineligible for award due to a conflict of interest.

MANUFACTURING

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

TREATMENT CLASSIFICATION

Aethlon Medical's treatments for infectious diseases are classified as "IMMUNOTHERAPIES" that augment or mimic the immune system's response of clearing infectious virus, and as "ENTRY INHIBITORS" that curb the re-infection process by physically removing infectious viruses before healthy cells are infected.

Immunotherapy - The "Immunotherapy" classification is a result of our ability to mimic the immune system's natural response of generating antibodies to fight foreign invaders such as viruses. Antibodies are specifically created by the immune system to attach themselves to the antigens (chemical compounds which cause antibodies to be produced e.g. proteins and other component parts of viruses), forming an antigen-antibody complex which neutralizes the invader. The neutralized antigens are then physically removed from the bloodstream by organs such as the liver.

Our treatment technology uses a hemodialysis cartridge (e.g. artificial kidney or plasmapheresis cartridge) modified to contain immobilized antibodies targeted against specific viruses. Plasmapheresis cartridges are utilized to separate blood plasma from blood cells in treating various diseases. Viruses in the blood are captured inside the cartridge through the formation of an antigen-antibody complex, physically removing the virus from circulation. As a result, the physical elimination of infectious virus occurs without the side-effects common in drug therapy.

Entry Inhibitor - Our treatment technology is also classified as an "Entry Inhibitor" since the re-infection process is interrupted when viruses are removed from circulation before cells can be infected. As a result, the replication cycle is inhibited as infectious virus is denied entry into the cells that it seeks to kill. From a therapeutic standpoint, entry inhibitors represent a departure from the traditional drug action of inhibiting viral replication within the cells that have already been infected. The novel therapeutic mechanism offered by "Entry Inhibitors", combined with the high level of treatment resistance to currently approved drugs, positions "Entry Inhibitors" as an important new treatment strategy to assist HIV/AIDS and Hepatitis-C infected individuals in managing their disease.

Heavy Metal Treatments

Historically, the original Hemopurifier(TM) treatment applications were developed to treat individuals burdened with heavy metal intoxicants. Products developed in this category include treatments for iron overload, aluminum intoxication, lead poisoning, and cisplatin removal. Cisplatin is a platinum compound used to treat cancers but can be toxic in large amounts. The plan to commercialize the iron and aluminum applications of the Hemopurifier(TM) were discontinued when our research and development activities were realigned. In fiscal year 2001, we realigned our research and development activities from developing Hemopurifiers(TM) to treat harmful metals to developing Hemopurifiers(TM) for the treatment of HIV/AIDS and Hepatitis-C. Additionally, our management changed as the board of directors appointed Mr. Joyce to replace Mr. Barry as the President and CEO in June of 2001. We are not currently pursuing the commercialization of these products as we are focused on developing infectious disease related Hemopurifiers(TM).

RESEARCH AND DEVELOPMENT

In fiscal year 2001, we realigned our research and development activities from developing Hemopurifiers(TM) to treat harmful metals to developing Hemopurifiers(TM) for the treatment of HIV/AIDS and Hepatitis-C. As a result of this strategic realignment, we initiated the consolidation of all scientific and administrative functions into our San Diego facilities during the fourth quarter of fiscal 2001. This consolidation was completed during the first quarter of fiscal 2002 and our facilities in Buffalo, N.Y. were closed. In 2004, we expanded our research effort to include the development of Hemopurifiers(TM) as countermeasures against biological weapons.

The cost of research and development, all of which has been charged to operations, amounted to approximately $400,000 over the last two fiscal years.

PATENTS

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(TM) 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. We have applied for and obtained several patents relating to our HIV-Hemopurifier(TM) and related technology. Any resulting medical device or process will require approval by the FDA, and we have not yet begun efforts to obtain FDA approval on any infectious disease related Hemopurifier(TM). Since many of our patents were issued in the 1980's, they may expire before FDA approval, if any, is obtained. However, we believe that certain patent applications filed and/or other patents issued more recently will help to protect the proprietary nature of the Hemopurifier(TM) treatment technology. The Hemopurifier(TM) is protected by seven issued patents in the United States, Europe and Japan. Three additional patent applications deal with treatments for virus infection and manufacturing methods. The following is a list of patents and patent applications we currently hold. Patent Issuance #7 below, and application #9 are exclusively licensed to us.

ISSUED PATENTS:

1. Ambrus CA and Horvath C (1986) Removing heavy metal ions from blood. USA No. 4,612,122 (Issued September 16, 1986).

2. Ambrus CA and Horvath C (1986) Removing heavy metal ions from blood. Europe No. 0,073,888 (Issued April 23, 1986).

3. Ambrus CA and Horvath C (1986) Removing heavy metal ions from blood. Japan No: 110,047/82 (Issued June 7, 1994).

4. Ambrus CA and Horvath C (1987) Blood purification. US Patent No. 4,714,556 (Issued December 22, 1987)

5. Ambrus CA and Horvath C (1988) Blood purification. US Patent No. 4,787,974 (Issued November 29, 1988)

6. Ambrus CA and Stadler A (2000) Process for immobilizing a chelator on silica device containing immobilized chelator and use thereof. US Patent 6,071,412 (June 6, 2000).

7. Ambrus JL and Scammurra D (2003) Method for removing HIV and other viruses from blood. US Patent 6,528,057 (issued March 4, 2003);

PATENT APPLICATIONS:

8. Ambrus CA and Stadler A (2000) Process for immobilizing a chelator on silica device containing immobilized chelator and use thereof. International Application PCT/US99/17125

9. Ambrus JL and Scamurra D (2003) Method for removing HIV and other viruses from blood. International Application PCT/US99/19448 (filed August 30, 1999)

10. Tullis, R.H. (2003) Lectin affinity hemodialysis method for removal of HIV other viruses from blood. US Patent Application, filed January 3, 2003.

The issued patents cover a range of applications of the Hemopurifier(TM) and variations thereof. The initial applications (Ambrus and Horvath, 1986 and related issues) refer to methods and constructions for removing heavy metals from blood. The U.S. patent will expire on September 16, 2006. The Japanese patent will expire on June 7, 2011. The European patent expired on April 23rd of 2003.

Ambrus and Horvath (1987 and 1988) refer to methods and constructions for using

modified hollow-fiber dialysis devices for removing antigenically reactive substances from blood (e.g. antibodies, antigens, toxins and pathogens such as bacteria or viruses). These patents will expire on March 13, 2005 and October 22, 2007, respectively.

Ambrus and Stadler (2000) refers to improved methods for attaching chelators to glass beads (silica) in order to more efficiently remove heavy metals (e.g. iron, lead and aluminum). This patent will expire on July 27, 2018. Ambrus and Scammura (2003) is a patent that speaks to the removal of viruses and viral fragments from the blood of infected patients using a modified hollow-fiber dialysis device. This patent will expire in March 5, 2019. The European application is ongoing.

Tullis R.H. (2003) is a patent application that covers the use of lectins as an improved means of removing HIV and other viruses from blood. This patent is not yet issued.

INDUSTRY

The industry for treating infectious disease is extremely competitive, and companies developing new treatment procedures are faced with severe regulatory challenges. In this regard, only a small percentage of companies that are developing new treatments will actually obtain approval from the FDA to market their treatments in the United States. Currently, the market for treating HIV/AIDS and Hepatitis-C (HCV) is comprised of drugs designed to reduce viral load by inhibiting viral replication or by inhibiting viruses from infecting healthy cells. Unfortunately, these drugs are toxic, they are expensive to develop, and inevitably, infected patients will develop viral strains that become resistant to drug treatment. As a result, patients are left without treatment options.

COMPETITION

We are advancing our Hemopurifier(TM) technology as a treatment to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. The Hemopurifier(TM) is also designed to prolong life for infected patients who have become drug resistant and have no other treatment options. Therefore, we do not believe that the Hemopurifier(TM) competes with the current drug therapy treatment standard. However, if the industry considered the Hemopurifier(TM) to be a potential replacement for drug therapy, then the marketplace for the Hemopurifier would be extremely competitive. We are also pursuing the development of Hemopurifiers(TM) to be utilized as treatment countermeasures against biological weapons. In this regard, we are targeting the treatment of pathogens in which current treatments are either limited or do not exist. We believe that we are the sole developer of viral filtration systems (Hemopurifiers(TM)) to treat HIV-AIDS, Hepatitis-C, and Biological weapons.

GOVERNMENT REGULATION

Our activities and products are significantly regulated by a number of governmental entities, including the FDA in the United States. These entities regulate, among other things, the manufacture, testing, safety, effectiveness, labeling, documentation, advertising and sale of our future commercial products. We must obtain regulatory approval for a product in all of these areas before we can commercialize the product. Product development within this regulatory framework takes a number of years and involves the expenditure of substantial resources. Many products that initially appear promising ultimately do not reach the market because they are found to be unsafe or ineffective when tested. Our inability to commercialize a product would impair our ability to earn future revenues.

In the United States, vaccines and immunotherapeutics for human use are subject to FDA approval as "biologics" under the Public Health Service Act and "drugs" under the Federal Food, Drug and Cosmetic Act. The steps required before a new product can be commercialized include: pre-clinical studies in animals, clinical trials in humans to determine safety and efficacy and FDA approval of the product for commercial sale.

Data obtained at any stage of testing is susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Moreover, during the regulatory process, new or changed drug approval policies may cause unanticipated delays or rejection of our product. We may not obtain necessary regulatory approvals within a reasonable period of time, if at all, or avoid delays or other problems in testing our products. Moreover, even if we received regulatory approval for a product, the approval may require limitations on use, which could restrict the size of the potential market for the product.

A product's safety and effectiveness in one test is not necessarily indicative of its safety and effectiveness in another test. Moreover, we may not discover all potential problems with a product even after completing testing on it. Some of our products and technologies have undergone only pre-clinical testing. As a result, we do not know whether they are safe or effective for humans. Also, regulatory authorities may decide, contrary to our findings that a product is unsafe or not as effective in actual use as its test results indicated. This could prevent the product's widespread use, require its withdrawal from the market or expose us to liability.

The FDA requires that the manufacturing facility that produces a licensed product meet specified standards, undergo an inspection and obtain an establishment license prior to commercial marketing. Subsequent discovery of previously unknown problems with a product or its manufacturing process may result in restrictions on the product or the manufacturer, including withdrawal of the product from the market. Failure to comply with the applicable regulatory requirements can result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution.

We have completed preclinical studies that demonstrate the removal of HIV and Hepatitis C virus from infected human blood. We are now in the process of developing our manufacturing protocols and seeking to obtain regulatory approval from the FDA to initiate clinical trials. The following outline references an anticipated clinical path required to obtain market clearance from the FDA so that we can begin sales of the Hemopurifier(TM) within the United States.

For HIV and Hepatitis C Virus treatment

- Animal Safety Trials - complete July 1, 2005
- IDE Submission and FDA Approval for Human Safety Trial - November 1, 2005
- Human Safety Trial - 90-120 days - complete February 1, 2006
- FDA Market Clearance - complete July 1, 2006

For Biodefense applications

- Animal Trials - complete April 1, 2005
- IDE Submission and FDA Approval for Human Safety Trial - July, 2005
  oHuman Safety Trial - 90-120 days - complete November 1, 2005
- FDA Market Clearance - complete April 15, 2006

We have estimated the direct costs for performing the proposed submissions and clinical tests on the timetable given at $5,001,465 through the end of 2005.

Because we may market our products abroad, we will be subject to varying foreign regulatory requirements. Although international efforts are being made to harmonize these requirements, applications must currently be made in each country. The data necessary and the review time varies significantly from one country to another. Approval by the FDA does not ensure approval by the regulatory bodies of other countries.

Any future collaborators will also be subject to all of the above-described regulations in connection with the commercialization of products utilizing our technology.

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 do not have 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 liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

SUBSIDIARIES

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

EMPLOYEES

At March 31, 2004, we had two full-time employees, comprised of our Chief Executive Officer and our Chief Science Officer. Subsequently, as of September 7, 2004, we have added additional full-time employees comprised of our Director of Administrative Services, a research scientist, a research associate and our senior bioengineer and a molecular biologist. We utilize, whenever appropriate, contract and part time professionals in order to conserve cash and resources. We believe that our employee relations are good. None of our employees is represented by a collective bargaining unit.

WHERE YOU CAN FIND MORE INFORMATION

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

ITEM 2. DESCRIPTION OF PROPERTY

We currently rent approximately 3,200 square feet of executive office space and laboratory space at 3030 Bunker Hill Street, Suite 4000, San Diego, California 92109 at the rate of $7,520 per month on a lease that expires on July 12, 2006.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

LIMITED PUBLIC MARKET FOR SHARES OF COMMON STOCK

Our Common Stock is quoted on the 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.

	HIGH	LOW
2004		
2nd Quarter	$ 1.70	$ 0.54
1st Quarter	$ 4.25	$ 0.37
2003		
4th Quarter	$ 0.55	$ 0.36
3rd Quarter	$ 1.01	$ 0.25
2nd Quarter	$ 0.60	$ 0.20
1st Quarter	$ 0.56	$ 0.15
2002		
4th Quarter	$ 0.85	$ 0.15
3rd Quarter	$ 1.05	$ 0.65
2nd Quarter	$ 1.95	$ 0.55
1st Quarter	$ 2.30	$ 1.15

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.

There are approximately 800 record holders of our Common Stock at August 20, 2004. The number of registered shareholders includes any beneficial owners of common shares held in street name.

The transfer agent and registrar for our common stock is Computershare Trust Company, located in Denver, Colorado.

PENNY STOCK

Until our shares qualify for inclusion in the NASDAQ system, the public trading, if any, of our common stock will be on the OTC Bulletin Board. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of, our common stock offered. Our common stock is subject to provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stocks, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines "penny stock" to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. If our common stock is deemed to be a penny stock, trading in the shares will be subject to additional sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. "Accredited investors" are persons 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, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document, prepared by the SEC, relating to the penny stock market. A 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 for the penny stocks held in an account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of a broker-dealer to trade and/or maintain a market in our common stock and may affect the ability of our shareholders to sell their shares.

RECENT SALES OF UNREGISTERED SECURITIES

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act or Regulation D of the Securities Act during the three year period ending on the date of filing of this registration statement. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

CONVERTIBLE DEBT

In April 2003, we issued a 9% convertible note in the amount of $150,000 issued to Ms. Jill Brodersen, an accredited investor. The note was convertible at $0.25 until June 30, 2003, at which time the conversion feature expired. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2004, we issued a 10% convertible note to RP Capital, LLC, an accredited investor, in the amount of $50,000 for cash. The note was due on April 30, 2004 and was converted at $0.44 per share in May 2004. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK AND WARRANTS

In April 2003, we issued 600,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $150,000 to Mr. Rod Tompkins, an accredited individual investor. In connection with the issuance of these shares, we granted Mr. Tompkins 600,000 warrants to purchase our common stock at $0.25 per share. The warrants vested immediately and expire in April 2005. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2003, we issued 40,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $10,000 to entities controlled by Mr. Calvin Leung, et al, an accredited individual investor. Mr. Leung is a director of Aethlon Medical, Inc. In connection with the issuance of these shares, we granted the entities 40,000 warrants to purchase common stock of the Company at $0.25 per share. The warrants vested immediately and expire in May 2004. This transaction was exempt from registration pursuant to Regulation D promulgated

under the Securities Act of 1933.

In May 2003, we issued 10,000 shares of restricted common stock at a price of $0.25 per share for services valued at $2,500 to Comprehensive Communications, an accredited corporate investor. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In July 2003, we issued 380,000 shares of restricted common stock at prices between $0.25-$0.30 per share for cash totaling $100,000. 100,000 shares of restricted common stock were issued to Mr. John D. Garber, an accredited individual investor, for $30,000 and 280,000 shares of restricted common stock were issued to entities controlled by Calvin Leung, et al, an accredited individual investor, for $70,000. Mr. Leung is a director of Aethlon Medical, Inc. In connection with the issuance of these shares, we granted these stockholders a total of 380,000 warrants to purchase our common stock at amounts and prices equal to their shares and purchase prices herein. The warrants vested immediately and expire in July 2004. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In September 2003, we issued 160,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $40,000 to Mr. Rod Tompkins, an accredited investor. In connection with the issuance of these shares, we granted Mr. Tompkins 160,000 warrants to purchase our common stock at a price of $0.25 per share. The warrants vested immediately and expire in September 2004. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In September 2003, we issued 60,000 shares of restricted common stock for cash totaling $15,000 to entities controlled by Mr. Calvin Leung, an accredited individual investor, in connection with the exercise of 60,000 warrants to purchase our common stock at $0.25 per share. Mr. Leung is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In October 2003, we issued 80,000 shares of restricted common stock for cash totaling $20,000 to Mr. Rod Tompkins, an accredited investor, in connection with the exercise of 80,000 warrants to purchase our common stock at $0.25 per share. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November 2003, we issued 100,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $25,000. 60,000 shares of restricted common stock were sold to Mr. Phillip Ward, an accredited individual investor, and 40,000 were sold to entities controlled by Mr. Calvin Leung, an accredited individual investor. Mr. Leung is a director of Aethlon Medical, Inc. In connection with the issuance of these shares, we granted the stockholders 100,000 warrants to purchase our common stock at a price of $0.25 per share. The warrants vested immediately and expire in November 2004. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November 2003, we issued 11,017 shares of restricted common stock at a price of $0.50 per share to Mr. Paul Hastings, an accredited individual investor in connection with the conversion of $5,000 of notes payable plus accrued interest. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November 2003, we issued 100,000 shares of restricted common stock for cash totaling $25,000, in connection with the exercise of 100,000 warrants to purchase our common stock at $0.25 per share. Mr. John D. Garber, an accredited individual investor, exercised 60,000 of the warrants and an entity controlled by Mr. Calvin Leung, an accredited individual investor, exercised 40,000 warrants. Mr. Leung is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November 2003, we issued 40,000 shares of restricted common stock for cash totaling $10,000, to entities controlled by Mr. Calvin Leung, an accredited individual investor, in connection with the exercise of 40,000 warrants to purchase our common stock at $0.25 per share. Mr. Leung is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In December 2003, we issued 20,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $5,000 to two accredited investors. In connection with the issuance of these shares, we granted the stockholders 20,000 warrants to purchase our common stock at a price of $0.25 per share. The warrants vested immediately and expire in December 2004. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In December 2003, we issued 461,667 shares of restricted common stock at a price of $0.25 per share and 461,667 warrants to purchase common stock at an exercise price of $0.25 per share, to Provident Life Sciences Sector Fund, LP, an institutional investor, in connection with the conversion of $100,000 of convertible notes payable plus accrued interest. The warrants vested immediately and are exercisable through December 2004. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In December 2003, we issued 120,000 shares of restricted common stock for cash totaling $30,000, in connection with the exercise of 120,000 warrants to purchase our common stock at $0.25 per share. Mr. John D. Garber, an accredited individual investor, exercised 40,000 of the warrants and Mr. Rod Tompkins, an accredited individual investor, exercised 80,000 of the warrants. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In January 2004, we issued 26,000 shares of restricted common stock at a price of $0.25 per share for cash totaling $6,500 three entities controlled by Mr. Calvin Leung, an accredited investor. Mr. Leung is a director of Aethlon Medical, Inc. In connection with the issuance of these shares, we granted the entities 6,500 warrants to purchase our common stock at a price of $0.25 per share. The warrants vested immediately and expire in January 2005. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In January 2004, we issued 161,334 shares of restricted common stock at a price of $0.25 per share and 161,334 warrants to purchase common stock at an exercise price of $0.25 per share, in connection with the conversion of $35,000 of notes payable plus accrued interest to Mr. Rob Edward, who held $30,000 in notes and Ms. Linda Price, who held $5,000 in notes, both accredited individual investors. The warrants vested immediately and are exercisable through January 2005. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In January 2004, we issued 62,000 shares of restricted common stock at a price of $0.40 per share for services in the amount of approximately $25,000. 50,000 shares of restricted common stock were issued to executives of Innovative Health Solutions who provided consulting on biodefense marketing and 12,000 shares of restricted common stock were issued to Ms. Deborah Porter, a consultant who provided consulting on technical solutions. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2004, we issued 100,000 shares of restricted common stock for cash totaling $25,000, in connection with the exercise of 100,000 warrants to purchase our common stock at $0.25 per share. Mr. Rod Tompkins, an accredited individual investor, exercised 60,000 of the warrants and an entity controlled by Mr. Calvin Leung, an accredited investor, exercised 40,000 of the warrants. Mr. Leung is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In February 2004, we issued 139,063 shares of restricted common stock at a price of $0.25 per share and 139,063 warrants to purchase common stock at an exercise price of $0.25 per share, in connection with the conversion of $25,000 of notes payable plus accrued interest to Mr. Robb Newman, an accredited individual investor. The warrants vested immediately and are exercisable through February 2005. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In February 2004, we issued 190,185 shares of restricted common stock at a prices between $0.50 - $0.54 per share for services in the amount of approximately $105,000. 185,185 shares were issued to executives of The Research Works, Inc, who provided research report and investor relations consulting and 5,000 shares were issued to Ms. Cherry Kau, a consultant, for investor relations conference services. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2004, we issued 125,000 shares of restricted common stock at prices between $0.30 - $1.125 per share to Mr. Phillip Ward 80,000 shares at $0.30, Mr. Lance Hall 40,000 shares at $0.525, Mr. Jonathan LeBaron 5,000 shares at $1.125, all accredited individual investors for cash totaling $50,625. In connection with the issuance of these shares, we granted the stockholders 125,000 warrants, equal in amount and price to their shares, to purchase our common stock at prices between $0.30 - $1.125 per share. The warrants vested immediately and expire in March 2005. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2004, we issued 80,000 shares of restricted common stock for cash totaling $20,000, in connection with the exercise of 80,000 warrants to purchase our common stock at $0.25 per share to Mr. Rod Tompkins, an accredited

investor. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2004, we issued 854,574 shares of restricted common stock at prices between $0.35-$0.65 per share in connection with the conversion of $242,500 of notes payable plus accrued interest. 813,790 of the shares of restricted common stock were issued to LH Financial (Esquire Trade and Finance), an accredited institutional investor, in conjunction with the conversion of $225,000 in principal amount of notes, plus accrued interest, at $0.35 per share, in accordance with their convertible note agreement. 27,059 shares of restricted common stock were issued to Mr. Robert B. Martin for conversion of $12,500 of convertible notes, plus accrued interest at $0.65 per share and 13,725 shares of restricted shares of common stock were issued at $0.42 per share to Ms. Pamella Fine for conversion of $5,000 of convertible notes, plus accrued interest. We issued 40,784 warrants to purchase our common stock at exercise prices ranging from $0.42 (13,725 to Ms. Fine) to $0.65 (27,059 to Mr. Martin) per share. These warrants vested immediately and are exercisable through March 2005. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2004, we issued 73,529 shares of restricted common stock at a price of $0.34 per share for legal services in the amount of approximately $25,000 to Richardson & Patel, LLP, our corporate counsel. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth March 31, 2004 information on our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

<TABLE>
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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))(3)
Equity compensation plans approved by security holders	47,500	$2.75	452,500
Equity compensation plans not approved by security holders (1)	5,121,809	2.29	N/A
Totals	5,169,309	2.32	452,500

</TABLE>

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

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

(3) This column does not include 926,475 shares of common stock that remain to be issued under the 2003 Consultant Stock Plan.

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, 2004, we had granted 47,500 options under the Plan, with 452,500 available for future

issuance.

2003 CONSULTANT STOCK PLAN

Our 2003 Consultant Stock Plan (the "Stock Plan"), adopted by us in August 2003, advances our interests by helping us obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Consultants or advisors are eligible to receive grants under the plan program only if they are natural persons providing bona fide consulting services to us, with the exception of any services they may render in connection with the offer and sale of our securities in a capital-raising transaction, or which may directly or indirectly promote or maintain a market for our securities.

We reserved a total of 1,000,000 common shares for issuance under the Stock Plan. The Stock Plan provides for the grants of common stock. No awards may be issued after the ten year anniversary of the date we adopted the Stock Plan, the termination date for the plan.

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

STAND-ALONE GRANTS

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

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

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

Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and involve risks and uncertainties. Although we believe that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements contained in this Form 10-KSB are qualified in their entirety by this statement.

PLAN OF OPERATION

We are a development stage therapeutic device company that has not yet engaged in significant commercial activities. The primary focus of our resources is the advancement of our proprietary Hemopurifier(TM) platform treatment technology, which is designed to rapidly reduce the presence of infectious viruses and toxins in human blood. Our main focus during fiscal 2004 was to prepare our HIV-Hemopurifier(TM) to treat HIV/AIDS, and our HCV-Hemopurifier(TM) to treat Hepatitis-C for human clinical trials. We are also working to advance pathogen filtration devices to treat infectious agents that may be used in biological warfare and terrorism. See Item 1, " BUSINESS".

We plan to continue our research and development activities related to our Hemopurifier(TM) platform technology, with particular emphasis on the advancement of our lead product candidates for the treatment of HIV/AIDS. We plan to continue our pre-clinical trials for both our HIV/AIDS Hemopurifier(TM) products as well as for our biodefense Hemopurifier(TM) products. We plan to start small human clinical trials for HIV patients in fiscal 2005. We also plan to implement a regulatory strategy for the use of our Hemopurifier(TM) for biodefense treatments in fiscal 2005 pursuant to a recent rule implemented by the FDA for medical countermeasures to weapons of mass destruction. Under this rule, in situations where it is deemed unethical to conduct efficacy studies in humans, a treatment can be reviewed for approval on the basis of efficacy in the most relevant animal species and safety data in humans.

We expect to add approximately seven additional employees in the next twelve months, associated with our expanded research and development effort that will include expanding our goal beyond treating infectious diseases HIV/AID and

Hepatitis-C and new applications to combat infectious agents that may be used in biological warfare and terrorism. This will involve designing Hemopurifier(TM) products that can be rapidly deployed by armed forces as wearable post-exposure treatments on the battlefield, as well as dialysis-based treatments for civilian populations. This will entail developing the new treatment device based on the same proprietary Hemopurifier(TM) filtration technology that is utilized in advancing our HIV/AIDS, and Hepatitis-C treatments. An important part of this will include our cooperative agreement with the National Center for Biodefense at George Mason to jointly pursue business and funding opportunities within the federal government.

Accordingly, due to this increase in activity during the next twelve months, we anticipate increasing our spending on research and development during the next twelve months. Additionally, associated with our anticipated increase in research and development expenditures, we anticipate purchasing significant amounts of equipment and tenant improvements, during this period to support our laboratory and testing operations.

Our operations to date have consumed substantial capital without generating revenues, and we will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(TM) products, and to market any of those products that receive regulatory approval. We do not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Our future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our 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, and 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.

We recorded a consolidated net loss of $(1,518,798) or ($0.19) per share and $(2,361,116) or ($0.43) per share for the fiscal years ended March 31, 2004 and 2003, respectively.

Our consolidated operating expenses for fiscal 2004 were $995,549 versus $1,871,385 for fiscal 2003. This decrease in operating expenses of $875,836 or 46.8% is largely attributable to a reduction in our professional fees by $321,162, or 48.6%, principally due to lower investor relations fees, lower patent royalty fees, and lower legal, accounting, technical and other professional services; lower payroll by $132,231, or 24%, principally due to fewer full time executive and administrative personnel and lower general and administrative expenses in the amount of $88,245, or 27% due to lower insurance and warrant costs all totaling $641,532, and the absence of the patent impairment charge of $234,304 incurred in fiscal 2003. Our capital equipment expenditures were insignificant in fiscal 2003 and 2002.

In fiscal year 2003, we incurred non-cash expenses in the amount of $234,304 related to the impairment of the carrying value of patents pending. 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. We write off unamortized cost of patents and patents pending when we determine there is no future benefit.

In fiscal year 2003, we also incurred non-cash expenses in the amount of $114,000 related to options granted to a consultant. These expenses represented a significant portion of the professional fees that we incurred during fiscal 2003.

Our current plan of operation is to fund our anticipated increased research and development activities and operations for the near future through the $673,000 private placement of common stock and the common stock purchase agreement with Fusion Capital Fund II, LLC ("Fusion Capital") in May 2004, whereby Fusion Capital has committed to buy up to an additional $6,000,000 of our common stock over a 30-month period, commencing, at our election, after the Securities and Exchange Commission has declared effective a registration statement covering such shares. However, no assurance can be given that we will receive any additional funds under our agreement with Fusion Capital. Based on our projections of additional employees for operations and to complete research, development and testing associated with our Hemopurifier(TM) products, we anticipate that these funds will satisfy our cash requirements, including this anticipated increase in operations, in excess of the next twelve months. However, due to market conditions, and to assure availability of funding for operations in the long term, we may arrange for additional funding, subject to acceptable terms, during the next twelve months.

GOING CONCERN

Our independent registered public accounting firm has stated in their audit report on the Company's March 31, 2004 consolidated financial statements, that we have a working capital deficit and a significant deficit accumulated during the development stage. These conditions, among others, raise substantial doubt about our ability to continue as a going concern.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and the accompanying notes. The amounts of assets and liabilities reported on our balance sheet and the amounts of revenues and expenses reported for each of our fiscal periods are affected by estimates and assumptions, which are used for, but not limited to, the accounting for the issuance of convertible notes payable and various equity instruments. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements:

ACCOUNTING FOR TRANSACTIONS INVOLVING STOCK COMPENSATION

Financial Accounting Standards Board ("FASB") Interpretation No. 44 ("FIN 44"), "ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION, AN INTERPRETATION OF APB 25" clarifies the application of APB 25 for (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence for various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain provisions cover specific events that occur after either December 15, 1998, or January 12, 2000.

Under Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES," compensation expense is the excess, if any, of the estimated fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

Statement of Financial Accounting Standards ("SFAS") 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," if fully adopted, changes the method of accounting for employee stock-based compensation plans to the fair value based method. For stock options and warrants, fair value is estimated using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option or warrant, stock volatility and the annual rate of quarterly dividends. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period. The adoption of the accounting methodology of SFAS 123 is optional and the Company has elected to continue accounting for stock-based compensation issued to employees using APB 25; however, pro forma disclosures, as the Company adopted the cost recognition requirement under SFAS 123, are required to be presented.

SFAS 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE, AN AMENDMENT OF FASB STATEMENT NO. 123," was issued in December 2002 and is effective for fiscal years ending after December 15, 2002. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

The Company granted warrants in connection with the issuance of certain notes payable. Under Accounting Principles Board Opinion No. 14, " ACCOUNTING FOR CONVERTIBLE DEBT AND DEBT ISSUED WITH STOCK PURCHASE WARRANTS," the relative estimated fair value of such warrants represents a discount from the face amount of the notes payable.

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"). Pursuant to Emerging Issues Task

Force Issue No. 98-5 ("EITF Issue No. 98-5"), "ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIO" and Emerging Issues Task Force Issue No. 00-27, " APPLICATION OF EITF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

SFAS 144, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. The Company adopted SFAS 144 on January 1, 2002. The provisions of this pronouncement relating to assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to plan to sell or dispose of such asset, as defined, by management. As a result, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements with respect to future disposal decisions, if any. Management believes no impairment exists at March 31, 2004.

INCOME TAXES

Under SFAS 109, "ACCOUNTING FOR 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. The Company records a valuation allowance for deferred income tax assets when, based on management's best estimate of taxable income in the foreseeable future, it is more likely than not that some portion of the deferred income tax assets may not be realized.

OFF-BALANCE SHEET ARRANGEMENTS

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

RISK FACTORS

We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this annual report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this annual report should be considered carefully in evaluating our company and our business and the value of our securities.

RISKS RELATING TO OUR BUSINESS

WE HAVE ACCUMULATED LOSSES SINCE OUR INCEPTION, AND CURRENTLY HAVE NO PRODUCTS OR SERVICES ON THE MARKET THAT ARE CURRENTLY GENERATING REVENUES.

Our inability to generate revenues and profits from products we have recently introduced onto the market could cause us to go out of business and for you to lose your entire investment. We have not had any revenues for the past three years. To date, we have engaged primarily in research, development and clinical testing. Since our inception, we have not been profitable, and we cannot be certain that we will ever achieve or sustain profitability. We have incurred a cumulative net loss in the amount of $17,045,313 from our inception through March 31, 2004. We have no products or services on the market that are currently generating revenues. Our failure to generate meaningful revenues and ultimately profits from potential products and applications of our technology could force us to reduce or suspend our operations and ultimately go out of business. Developing our product candidates will require significant additional research and development, including non-clinical testing and clinical trials, as well as regulatory approval. We expect these activities, together with our

general and administrative expenses, to result in operating losses for the foreseeable future.

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

Our independent auditors noted in their report accompanying our financial statements for our fiscal year ended March 31, 2004 that we had net losses since our inception, 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 addressed management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This opinion about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as such an opinion may cause investors to lose faith in our long term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

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

The U.S. Government has undertaken commitments to help secure improved countermeasures against bioterrorism. We have submitted two Small Business Innovative Research grant proposals, one in 2002 and the other in April 2004, with the National Institutes of Health that relate to the use of our Hemopurifier(TM) as a countermeasure treatment against certain biological weapons and anticipate submitting further proposals on U.S. Government contracts. We have not had any material discussions with the National Institutes of Health. The Hemopurifier(TM) has not been approved for use by any government agency, nor have we received any contracts to purchase the Hemopurifier(TM). Since inception, we have not generated revenues from the sale of any product based on our Hemopurifier(TM) technology platform. The process of obtaining government contracts is lengthy and uncertain and we must compete for each contract. Accordingly, we cannot be certain that we will be awarded any future government contracts utilizing our Hemopurifier(TM) platform technology. If the U.S. Government makes significant future contract awards to our competitors our business will be harmed.

In addition, the determination of when and whether a product is ready for large scale purchase and potential use will be made by the government through consultation with a number of governmental agencies, including the Food and Drug Administration (the "FDA"), the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security.

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

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

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

Our business plan to provide biodefense product candidates and HIV-Hemopurifier(TM) 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.

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(TM) product candidates we are developing. our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases that 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(TM) 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 either that are 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' recent passage of the $5.6 billion 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, biotechnology companies, 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, adversely impact our margins or lead to a reduction in our market share, any of which may harm our business.

OUR HEMOPURIFER(TM) TECHNOLOGY MAY BECOME OBSOLETE.

Our Hemopurifier(TM) products may be made unmarketable by new scientific or technological developments where new treatment modalities are introduced that are more efficacious or more economical than our Hemopurifier(TM) 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(TM) cartridges and HIV and Hepatitis C infected plasma samples used in preclinical test of the Hemopurifier(TM). 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 do not carry 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 success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce, our Chief Financial Officer, Edward C. Hall and our Chief Science Officer, Richard H. Tullis. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The loss of Dr. Tullis was harm the clinical development of our products due to his unique experience with the Hemopurifier technology. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although Mr. Joyce and Mr. Tullis have signed employment agreements providing for their continued service to the company, these agreements will not preclude them from leaving the company. Mr. Hall is a part-time employee and his employment is severable by either party upon 30-days notice. 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 seven full time employees consisting of our Chief Executive Officer, our Chief Science Officer, our Director of Administrative Services, a research scientist, a research associate, a senior bioengineer and a molecular biologist as well as other personnel employed on a contract basis. Although we believe that these employees, together with the consultants currently engaged by our company, will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer-term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies. 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 VERY 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 not carry directors and officers liability insurance. Directors and officers liability insurance has recently become much more expensive and difficult to obtain. If we are unable to obtain 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. 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.

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

Our pathogen filtration devices, or Hemopurifier(TM) products, are subject to extensive government regulations related to development, testing, manufacturing and commercialization in the United States and other countries. The determination of when and whether a product is ready for large scale purchase and potential use will be made by the government through consultation with a number of governmental agencies, including the FDA, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the FDA to be commercially marketed and sold. The process of obtaining and complying with FDA and other governmental regulatory approvals and regulations is costly, time consuming, uncertain and subject to unanticipated delays. 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(TM) 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(TM) 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 vaccine 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(TM) 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 vaccine candidates. These independent investigators may also have relationships with other commercial entities, some of which may compete with us. If these independent investigators assist our competitors at our expense, it could harm our competitive position.

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

We are developing product candidates based upon current governmental policies regulating these medical countermeasure treatments. For instance, we intend to pursue FDA approval of our proprietary pathogen filtration devices to treat infectious agents under requirements published by the FDA that allow the FDA to approve certain vaccines 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(TM) 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 and too take advantage of the sense of greater sense of urgency surrounding infectious diseases. Our pending products face similar challenges of obtaining successful clinical trials in route to gaining FDA approval prior to commercialization.

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.

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 especially with the upcoming presidential elections, both in terms of how to approach bioterrorism and the amount funding the government should provide for any programs involving homeland protection. Government funding for products on bioterrorism could be reduce which would hinder our ability to obtain governmental grants.

OUR INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS 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 patent, patent pending, copyright, 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 can 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. Since many of our patents were issued in the 1980's, they may expire before FDA approval, if any, is obtained. However, we believe that certain patent applications filed and/or other patents issued more recently will help to protect the proprietary nature of the Hemopurifier treatment technology.

The Hemopurifier(TM) is protected by seven issued patents, in the United States, Europe and Japan, six of which we own and one which we own the exclusive license. Three additional patent applications deal with treatments for virus infection and manufacturing methods, two of which we own and one which we own the exclusive license.

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.

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

The Hemopurifier(TM) is protected by seven issued patents, in the United States, Europe and Japan, six of which we own and one which we own the exclusive license. These patents comprise a majority of our 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 our patents are written down over the course of their term until they expire, our assets comprised of patents will continually be written down until they lose value altogether.

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

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

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

Our Hemopurifier(TM) 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 an inappropriate design, we may be subject to lawsuits seeking significant compensatory and punitive damages. Any product recall or lawsuit seeking significant monetary damages may have a material affect on our business and financial condition.

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

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

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

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

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

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

Our common shares have historically been sporadically or "thinly-traded" on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. As of August 19, 2004, our average trading volume per day for the past three months was approximately 31,000 shares a day with a high of 249,853 shares traded and a low of zero shares traded. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

In May 2004, Fusion Capital committed to buy up to $6,000,000 of our common stock. (SEE "PLAN OF OPERATIONS"). Fusion Capital's purchase of $10,000 of our common stock each trading day could cause our common stock price to decline due to the additional shares available in the market, particularly in light of the relatively thin trading volume of our common stock. The market price of our common stock could decline and the voting power and value of your investment would be subject to continual dilution if Fusion Capital purchases the shares and resells those shares into the market. Any adverse affect on the market price of our common stock would increase the number of shares issuable to Fusion Capital each trading day which would increase the dilution of your investment. Although we have the right to reduce or suspend Fusion Capital purchases at any time, our financial condition at the time may require us to waive our right to suspend purchases even if there is a decline in the market price. Additionally, up to 2,372,728 shares of our common stock will be registered by other selling shareholders with the shares committed to by Fusion Capital. Sales of large amount of these shares in the public market could substantially depress the prevailing market prices for our shares. If that were to happen, the value of your investment could decline substantially.

Contractual 9.9% beneficial ownership limitations prohibit Fusion Capital, together with its affiliates, from beneficially owning more than 9.9% of our outstanding common stock. This 9.9% limitation does not prevent Fusion Capital from purchasing shares of our common stock and then reselling those shares in stages over time where Fusion Capital and its affiliates do not, at any given time, beneficially own shares in excess of the 9.9% limitation. Consequently, these limitations will not necessarily prevent substantial dilution of the voting power and value of your investment.

WE MAY NOT HAVE ENOUGH AUTHORIZED SHARES TO ISSUE ALL OF THE SHARES ELIGIBLE TO BE SOLD TO FUSION CAPITAL.

Our Articles of Incorporation currently authorize the Board of Directors to issue up to 25,000,000 shares of common stock. As of August 20, 2004, we have 13,453,550 shares of common stock outstanding and common share purchase options and warrants entitling the holders to purchase up to 5,513,749 common shares. Additionally, there are 303,000 shares underlying promissory notes convertible into common stock. Under our agreement with Fusion Capital, we will be registering 7,431,819 shares of our common stock for the daily purchases by Fusion Capital. If Fusion Capital were to purchase all 7,431,810 shares and holders exercised all of the common share purchase options and warrants or converted the promissory notes, we would exceed the number of shares we are authorized to issue. We would need to amend our Articles of Incorporation which could prove costly and would require shareholder approval. Any delay in amending our Articles of Incorporation could harm our business by preventing us from raising capital from the issuance of our common stock or delay the payment of services via issuance of our common stock.

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

MARKET. YOU MAY BE UNABLE TO SELL YOUR COMMON SHARES AT OR ABOVE YOUR PURCHASE PRICE, WHICH MAY RESULT IN SUBSTANTIAL LOSSES TO YOU.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended August 19, 2004, the high and low sale prices of a share of our common stock were $4.25 and $0.25, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of revenues or profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

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

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

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

OUR OFFICERS AND DIRECTORS OWN OR CONTROL APPROXIMATELY 22% (EXCLUDING ALL OPTIONS AND WARRANTS EXERCISABLE WITHIN 60 DAYS OF AUGUST 20, 2004) OF OUR OUTSTANDING COMMON SHARES, WHICH MAY LIMIT THE ABILITY OF YOURSELF OR OTHER SHAREHOLDERS, WHETHER ACTING SINGLY 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 August 20, 2004, our officers and directors beneficially own or control approximately 22% (excluding all options and warrants exercisable within sixty days of August 20, 2004) of our outstanding common shares. These persons will have the ability to control substantially all matters submitted to our shareholders for approval and to control our management and affairs, including

extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

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

As of August 20, 2004, there are outstanding non-variable priced common share purchase options and warrants entitling the holders to purchase 5,513,749 common shares at a weighted average exercise price of $2.10 per share. The exercise price for all of the aforesaid warrants, both variable and non-variable priced, may be less than your cost to acquire our common shares. In the event of the exercise or conversion of these convertible 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 25,000,000 shares of common stock. After taking into consideration our outstanding common stock at August 20, 2004, we will be entitled to issue up to 11,546,450 additional common shares. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional common, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

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

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

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

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

ITEM 7. FINANCIAL STATEMENTS

The financial statements listed in the accompanying Index to Financial Statements are attached hereto and filed as a part of this Report under Item 13.

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

FINANCIAL DISCLOSURE

None

ITEM 8A. EVALUATION OF CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act as of a date (the "Evaluation Date") within 90 days prior to filing the Company's March 31, 2004 Form 10-KSB/A. Based upon that evaluation, our CEO and CFO concluded that, as of March 31, 2004, our disclosure controls and procedures were effective in timely alerting management to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic filings with the SEC. Based on their most recent evaluation as of the Evaluation Date, our CEO and the CFO have also concluded that there are no significant deficiencies in the design or operation of internal controls over financial reporting, at the reasonable assurance level, which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information, and such officers have identified no material weaknesses in our internal controls over financial reporting.

CHANGES IN CONTROLS AND PROCEDURES

There were no significant changes made in our internal controls over financial reporting during the quarter ended March 31, 2004 that have materially affected or are reasonably likely to materially affect these controls. Thus, no corrective actions with regard to significant deficiencies or material weaknesses were necessary.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROL

Our management, including the CEO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Aethlon Medical have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances, and/or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

PART III

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

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16 (a) of the Securities Exchange Act of 1934 requires our officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC and Nasdaq. Officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16 (a) forms they file. We believe that all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were complied with.

EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The names, ages and positions of our directors and executive officers as of August 20, 2004 are listed below:

NAMES	TITLE OR POSITION	AGE
James A. Joyce (1)	Chairman, President, Chief Executive Officer and Secretary	42

Richard H. Tullis, PhD (2)	Vice President, Chief Science Officer and Director	59
Edward C. Hall (3)	Vice President, Chief Financial Officer	63
Franklyn S. Barry, Jr.	Director	64
Edward G. Broenniman	Director	67
Calvin M. Leung (4)	Director	66

(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. Barry also served as a consultant to us on strategic business issues from June 1, 2001 to May 31, 2003.

(2) Also effective June 1, 2001, Dr. Tullis was appointed as the Company's Chief Science Officer, replacing Dr. Clara M. Ambrus, who retired.

(3) Effective August 14, 2002 Mr. Hall was elected our Vice President and Chief Financial Officer, replacing Robert S. Stefanovich, who resigned July 26, 2002.

(4) Effective June 30, 2003 Mr. Leung was elected to our board of directors.

RESUMES OF MANAGEMENT:

James A. Joyce, Chairman, President and CEO

Mr. Joyce is the founder of Aethlon Medical, and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce with the additional roles of President and CEO. In February of 1993, Mr. Joyce founded James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, Mr. Joyce was Chief Executive Officer of Mission Labs, Inc., and a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate from the University of Maryland.

Edward C. Hall, Vice President, Chief Financial Officer

Mr. Hall has been Vice President, Chief Financial Officer of the Company since August 2002 on a part-time basis. Mr. Hall has held senior financial executive positions with both public and privately-held life sciences and technology companies for over 25 years. Prior to his appointment as Chief Financial Officer of Aethlon Medical, he served as Vice President and Chief Financial Officer of Chromagen, Inc, a private biotech tools company which develops proteomic and genomic assays for use in drug discovery. Prior to that Mr. Hall was Vice President, Finance and Chief Financial Officer of Cytel Corporation, a public biotech company and developer of anti-inflammatory drugs. Prior to that, Mr. Hall was Vice President, Finance and Chief Financial Officer of Medical Device Technologies, a public medical device company. Mr. Hall is also Vice President, Chief Financial Officer of Alliance Pharmaceutical Corp., a public research-based pharmaceutical development company, and he is a Partner of Tatum CFO Partners, LLP.

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

from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and The Scripps Research Institute.

Franklyn S. Barry, Jr.

Mr. Barry has over 25 years of experience in managing and building companies. He was President and Chief Executive Officer of Hemex from April 1997 through May 31, 2001 and our President and CEO from March 10, 1999 to May 31, 2001. He became a director of Aethlon Medical on March 10, 1999. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro-D, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of Merchants Mutual Insurance Company.

Edward G. Broenniman

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

Calvin M. Leung

Mr. Leung became a director of Aethlon Medical on June 30, 2003. He is the President of Mandarin Investment Corporation, specializing in investment, development and management of mobile home and recreational vehicle parks in California, Arizona and the Midwest since 1975. He has syndicated a number of land and housing developments in the western United States.

Mr. Leung, born in Hong Kong, received his advanced education in the United States where he was awarded a doctorate degree in psychology specializing in experimental research. He taught at the university level for several years.

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 our next Annual Meeting of Shareholders. Our Board of Directors presently has an Audit Committee and a Compensation Committee on each of which Messrs. Barry and Broenniman and Leung serve. Mr. Barry is Chairman of the Audit Committee, and Mr. Broenniman is Chairman of the Compensation Committee.

Non-employee Board members are accruing stock options and cash compensation according to the plan approved in August 2000. Employee directors receive no compensation.

FAMILY RELATIONSHIPS.

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

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

REGULATORY AND CLINICAL ADVISOR

Kenneth R. Michael, Pharm.D., R.A.C.

Dr. Michael is the President of KRM Associates LLC, a regulatory and

clinical affairs consulting organization. He is the former VP of Regulatory Affairs and Quality Assurance at Siemens Medical Systems, and he is the founder, past President and Chairman of The Regulatory Affairs Professional Society. He is also the founder of the San Diego Regulatory Affairs Network.

SCIENTIFIC 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(TM) 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.

Jean-Claude Chermann, Ph.D.

Dr. Chermann is a pioneer in the study of retroviruses, and was the principal investigator of the research team that collaborated in the first isolation and characterization of HIV at the Pasteur Institute in 1983. Dr. Chermann was also the Director of Research of INSERM (French National Institute of Health and Medical Research) and also held the position of Director of Research of Unit INSERM U322 on "Retrovirus and Associated Diseases" from 1989 until June 2001 when he accepted his current role as Chief Scientific Director of Urrma Biopharma based in Montreal, Canada, and Research & Development Director of URRMA R&D, based in Aubagne, France.

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

Pedro Cuatrecasas, M.D.

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 10 years, he was VP/R&D and Director, of the Burroughs Wellcome Company. During his career in pharmaceutical research, he was involved in the discovery, development and marketing registration of more than 40 novel medicines. Dr. Cuatrecasas is widely recognized for the invention and development of affinity chromatography which is a method for the selective capture of proteins, sugars, fats and inorganic compounds. He is a member of the National Academy of Sciences, The Institute of Medicine, and the American Academy of Arts & Sciences, and he has authored more than 400 original publications.

Nathan W. Levin, M.D.

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

Raveendran (Ravi) Pottathil, Ph.D.

Dr. Pottathil was the Section Manager for Retroviruses (focus on HIV

and HCV) and Tumor markers and PCR diagnostics at Hoffman La Roche from 1985 to 1992. He then co-founded Specialty Biosystems, Inc, a venture of Specialty Labs, one of the largest independent reference laboratories in California. Dr. Pottathil has also advised the World Health Organization's Sexually Transmitted Diseases and Global Vaccination Program. Dr. Pottathil has worked with Dr. Robert Huebner of the NIH in immunology and virology at The Jackson Laboratory, and with Drs. David Lang and Wolfgang Joklik at Duke University on interferons, anti-tumor RNAs and antigenic suppression of tumorigenic retroviruses. Academic positions include: Assistant Professor at the University of Maryland School of Medicine; Associate Professor at the City of Hope Medical Center in Duarte, California where he published extensively with Dr. Pedro Cuatrecasas (one of developers of affinity chromatography); and Adjunct Professor in Cellular and Molecular Biology at Down State Medical Center and Rutgers University. As a virologist and molecular biologist, Dr. Pottathil has over 40 refereed publications to his credit and has been a Director of OncQuest, Inc., GeneQuest, Inc., Specialty Laboratories Asia in Singapore and Specialty Ranbaxy in India. Currently, Dr. Pottathil is the President of AccuDx, Inc. a pharmaceutical diagnostics company he founded in 1996.

Claudio Ronco, M.D.

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

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

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

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

Charles Bailey, Ph.D.

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

Members of the Scientific Advisory Board do not receive any compensation for service on the Board. From time to time, as management sees fit, we may engage them on consulting assignments for a fee on specific projects.

INVOLVEMENT IN LEGAL PROCEEDINGS.

To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended

or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

CODE OF ETHICS

Our Board of Directors is in the process of preparing a code of ethics which would apply to all of our officers, directors and employees.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth compensation received for the fiscal years ended March 31, 2002 through 2004 by our Chief Executive Officer and all executive officers.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION			
					AWARDS			
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)(1)	BONUS ($)	OTHER ANNUAL COMPENSATION ($)	RESTRICTED STOCK ($)	OPTIONS SARs (#)	PAYOUTS/ LTIP PAYOUTS ($)	OTHER COMPENSATION (1)
James A. Joyce	2004	180,000	-			-		
Chairman,	2003	180,000	-			250,000		
President/CEO	2002	180,000						
Richard H. Tullis,	2004	150,000	-			-		
Ph.D. Vice President,	2003	150,000	-			250,000		
Chief Scientific Officer	2002	150,000				30,000		
Edward C. Hall (2)	2004	28,530(2)	-			-		
Vice President, Chief	2003	25,000						
Financial Officer	2002	N/A						

(1) The remuneration described in the above table does not include our cost of benefits furnished to the named executive officers, including premiums for health insurance and other personal benefits provided to such individuals that are extended to all our employees in connection with their employment. Perquisites and other personal benefits, securities, or property received by an executive officer are either the lesser of $50,000 or 10% of the total salary and bonus reported for each named executive officer, except as otherwise disclosed.

(2) Mr. Hall became a part-time employee and was elected CFO of the Company on August 14, 2002. He is compensated on an hourly basis, a portion of which, amounting to $5,706 in fiscal 2004, is paid to Tatum CFO Partners, LLP of which he is a partner.

OPTION/SAR GRANTS IN THE LAST FISCAL YEAR

None.

AGGREGATED OPTIONS/SAR EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

The following table sets forth the number of common stock options, both exercisable and unexercisable, held by each of our Named Executive Officers and the value of any in-the-money options at March 31, 2004, utilizing a value of $1.35 per share, the closing price of our common stock on the OTCBB on March 31, 2004:

		NUMBER OF UNEXERCISED OPTIONS AT MARCH 31, 2004	VALUE OF IN-THE-MONEY OPTIONS AT MARCH 31, 2004
SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	(EXERCISABLE/	(EXERCISABLE/

	(#)	($)	UNEXERCISABLE)	UNEXERCISABLE)
James A. Joyce	--	$ --	250,000/--	$0.0/$0.0
Richard H. Tullis	--	$ --	280,000/--	$0.0/$0.0
Edward C. Hall	--	$ --	N/A	N/A

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Mr. Joyce effective April 1, 1999. Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer and his base annual salary was increased from $120,000 to $180,000. Under the terms of the agreement, his employment continues at a salary of $180,000 per year for successive one year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement.

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. Under the terms of the agreement, his employment continues at a salary of $150,000 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.

Both Mr. Joyce 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 us, for a period of two years following the termination of their employment with us.

Effective August 14, 2002, Mr. Hall was elected our Vice President, Chief Financial Officer. His employment is subject to 30 days' notice, with no severance pay provisions, in accordance with his employment agreement. He receives no medical or other benefits from us.

STOCK OPTION GRANTS

Our 2000 Stock Option Plan (the "Plan"), adopted by us in August 2000, provides for the grant of incentive stock options ("ISOs") to 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 our 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 our Common Stock on the date of grant. The amount available under the Plan is 500,000 options.

At March 31, 2004, we had granted 47,500 options under the Plan, with 452,500 available for future issuance. We issued the remaining 1,966,415 options (of which 637,800 have been exercised or cancelled) outside of the Plan.

At March 31, 2004, we had outstanding options to purchase 1,376,115 shares of our Common Stock. See Item 11, "Security Ownership of Certain Beneficial Owners and Management."

OUTSTANDING STOCK PURCHASE WARRANTS

Common Stock purchase warrants

At March 31, 2004, we had outstanding a total of 3,907,764 warrants, exercisable at prices between $0.25 - 6.50 per share and with expiration dates from 2004 - 2007.

See Item 11, "Security Ownership of Certain Beneficial Owners and Management."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the

beneficial ownership of our Common Stock as of August 20, 2004 for:

- each person known by us to be the beneficial owner of 5% or more of our Common Stock;

- each of our Directors and each of our executive officers whose name appears in the summary compensation table (the "Executive Officers"); and

- all of our Directors and the Executive Officers as a group.

Except as otherwise noted in the footnotes below, the entity, individual Director or Executive Officer has sole voting and investment power over such securities.

	COMMON (VOTING)	
NAME AND ADDRESS OF BENEFICIAL OWNERS (1) (2)	AMOUNT	%(3)
Calvin M. Leung (5)(6)(7) P.O. Box 2366 Costa Mesa, CA 92628	2,352,643	17.1%
Rod Tompkins (6)(8) 420 Douglas Wayne, NE 68787	1,520,000	11.3%
Fusion Capital Fund II, LLC (6)(9) 222 Merchandise Mart Plaza, Suite 9-112 Chicago, IL 60654	1,604,966	9.9%
James A. Joyce (4)(5)(6)(10)	850,000	6.2%
Franklyn S. Barry, Jr. (5)(11)	418,593	3.0%
Richard H. Tullis (4)(5)(12)	330,000	2.4%
Edward G. Broenniman (5)(13)	261,374	1.9%
Edward C. Hall(4)	0	*
Directors and executive officers, as a group (6 members)	4,212,610	28.7%

* Less than one percent.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act and is generally determined by voting power and/or investment power with respect to securities. Except as indicated by footnote and subject to community property laws where applicable, we believe that the persons named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Unless otherwise indicated, the address of each shareholder is 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109.

(2) A person is deemed to be the beneficial owners of securities that can be acquired by such person within 60 days from August 20, 2004 upon the exercise of warrants or options. Each beneficial owner's percentage ownership is determined by assuming that options and warrants that are held by such person (but not those held by any other person) and that are exercisable within 60 days from August 20, 2004.

(3) Assumes 13,453,550 shares of Common Stock outstanding at August 20, 2004.

(4) Executive officer.

(5) Director.

(6) More-than-5% shareholder.

(7) Includes all shares owned by members of Mr. Leung's family and

entities he controls plus 10,000 warrants at $3.00, expiring on January 1, 2006 and 306,000 warrants at $0.25, expiring on July 11, 2004 and January 29, 2005.

(8) Includes 20,000 warrants to purchase common stock at $0.25 per share, expiring on April 2, 2005.

(9) Includes 568,181 warrants to purchase common stock at $0.76 per share, expiring on the third anniversary of the date of an effective registration statement, the initial filing of which is expected to be on June 29, 2004. Pursuant to the terms of the warrant, Fusion Capital is not entitled to exercise the warrants to the extent such exercise would cause the aggregate number of shares of common stock beneficially owned by the Fusion Capital to exceed 9.9% of the outstanding shares of the common stock following such exercise.

(10) Includes 250,000 stock options exercisable at $1.90 per share.

(11) Includes options to purchase 412,500 shares at $3.00.

(12) Includes 250,000 stock options exercisable at $1.90 per share and 30,000 stock options exercisable at $2.56 per share. (13) Includes 53,885 shares owned by Mr. Broenniman's wife and his options to purchase 3,000 shares at $1.78 and 2,500 shares at $3.75.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Franklyn S. Barry, Jr., a director and shareholder of Aethlon Medical, was engaged as a consultant to the Company on strategic and business issues from June 1, 2001 to May 31, 2003 and was paid $60,000 per year. Mr. Barry had been our original President and Chief Executive Officer and served in such capacities until 2001. See Item 9, "Directors and Executive Officers" and Item 11, "Security Ownership of Certain Beneficial Owners and Management."

Calvin M. Leung, a director and shareholder of Aethlon Medical, was previously engaged as our consultant and he and his affiliates have invested approximately $939,500 in Aethlon Medical to date, through equity and convertible debt securities. $448,000 was invested via convertible promissory notes from November 2001 through May 2002. The notes accrued interest at rates ranging from 6.75% to 12% per annum. Mr. Leung invested $300,000 via the exercise of stock options received while our consultant for which he received 600,000 shares of restricted common stock. Mr. Leung and his affiliates also invested during 2003 a total of $146,500 in cash for 586,000 shares of our restricted common stock. Finally, Mr. Leung and his affiliates invested approximately $45,000 from September 2003 to February 2004 via the exercise of warrants that resulted in the issuance of 180,000 shares of our restricted common stock. Mr. Leung worked as our consultant from January 7, 2001 to January 7, 2003. We do not expect Mr. Leung to provide consulting services now that he is a member of our board of directors. He currently owns 2,036,643 of our common shares and 316,000 warrants to purchase common stock at prices between $0.25 to $3.00 per share. (See ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT)

Certain of our officers and other related parties have advanced us funds, agreed to defer compensation or paid expenses on behalf of us to cover short-term working capital deficiencies in the aggregate amount of approximately $1.7 million. These non interest-bearing liabilities have been included as due to related parties in the accompanying financial statements.

Effective January 1, 2000, we entered into an agreement with Dr. Julian Ambrus, the son of Dr. Clara Ambrus, who was the original founder of Hemex, Inc. Under this agreement, an invention and related patent rights for a method of removing HIV and other viruses from the blood using the Hemopurifier(TM) were assigned to us by the inventors in exchange for (a) a royalty to be paid on future sales of the patented product or process equal to 8.75% of net sales, as defined and (b) 12,500 shares of our restricted common stock. Upon the issuance of the first United States patent relating to the invention, we were obligated to issue an additional 12,500 shares of our restricted common stock to the inventors. If the market price of our common stock on the date the patent was issued was below $8 per share, the number of shares to be issued was that amount which equates to $100,000 of market value. On March 4, 2003, the related patent was issued and, as a result, we issued 196,078 shares of our restricted common stock valued at $100,000 which is included in professional fees in the accompanying consolidated statements of operations.

We believe that each of the related party transactions discussed above is on terms as favorable as could have been obtained from unaffiliated third parties.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

1. Consolidated Financial Statements for the periods ended March 31, 2004 and 2003:

Independent Auditors' Reports
Consolidated Balance Sheet
Consolidated Statements of Operations
Consolidated Statements of Cash Flows
Consolidated Statements of Stockholders' Deficit
Notes to Consolidated Financial Statements

2. Exhibits

The following exhibits are being filed with this Annual Report on Form 10-KSB and/or are incorporated by reference therein in accordance with the designated footnote references:

3.1 Our Articles of Incorporation and Bylaws (1)

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

10.1 Employment Agreement between us and Franklyn S. Barry, Jr. dated April 1, 1999 (3)

10.2 Employment Agreement between us and James A. Joyce dated April 1, 1999 (3)

10.3 Agreement and Plan of Reorganization Between Aethlon Medical and Aethlon, Inc. dated March 10, 1999 (4)

10.4 Agreement and Plan of Reorganization Between us and Hemex, Inc. dated March 10, 1999 (4)

10.5 Agreement and Plan of Reorganization Between us and Syngen Research, Inc. (5)

10.6 Agreement and Plan of Reorganization Between us and Cell Activation, Inc. (6)

10.7 Common Stock Purchase Agreement between Aethlon Medical and Fusion Capital Fund II, LLC. (7)

10.8 Registration Rights Agreement between Aethlon Medical and Fusion Capital Fund II, LLC. (7)

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

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

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

10.12 2003 Consultant Stock Plan (8)

10.13 Lease by and between Aethlon Medical and San Diego Science Center*

10.14 Consulting Agreement by and between Aethlon Medical and Jean-Claude Chermann, PhD.*

10.15 Consulting Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr.*

10.16 Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra*

10.17 Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis*

10.18 Employment Agreement by and between Aethlon Medical, Inc. and Mr. Edward C. Hall*

23.1 Consent of Independent Auditors

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

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

32.1 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)

In accordance with Item 601(b)(32)(ii) of Regulation S-B and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Form 10-KSB and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference

(1) Filed with our Registration Statement on Form SB-2 dated December 18, 2000 and incorporated by reference.

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

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

(4) Filed with our Current Report on Form 8-K dated March 10, 1999 and incorporated by reference.

(5) Filed with our Current Report on Form 8-K dated January 10, 2000 and incorporated by reference.

(6) Filed with our Current Report on Form 8-K dated April 10, 2000 and incorporated by reference.

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

(8) Incorporated by reference from our Registration Statement on Form S-8 (File No. 333-114017) filed on March 29, 2004.

(b) Reports on Form 8-K.

Current Report on Form 8-K dated June 7, 2004 (filed with the SEC on June 7, 2004) relating to our private placement and common stock purchase agreement with Fusion Capital Fund II, LLC

* Filed herewith

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services rendered by Squar, Milner, Reehl & Williamson LLP ("Squar Milner") for the annual audit of our consolidated financial statements as of and for the fiscal years ended March 31, 2004, and 2003 and fees billed for other services rendered by Squar Milner during such years:

	Fiscal Years Ended March 31, 2004	2003
Audit Fees	$55,500	$60,000
Audit Related Fees	2,500 (1)	-
Tax Fees	-	-
All Other Fees	-	-
	$58,000	$60,000

(1) Such amount represents services rendered in connection with Form S-8.

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

Our audit committee of the Board of Directors is responsible for

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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 8th day of September 2004.

BY: /S/ JAMES A. JOYCE

JAMES A. JOYCE
CHAIRMAN, PRESIDENT & CHIEF EXECUTIVE OFFICER

BY: /S/ EDWARD C. HALL

EDWARD C. HALL
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

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

SIGNATURE	TITLE	DATE
/S/ JAMES A. JOYCE JAMES A. JOYCE	CHAIRMAN OF THE BOARD	SEPTEMBER 8, 2004
/S/ FRANKLYN S. BARRY, JR. FRANKLYN S. BARRY, JR.	DIRECTOR	SEPTEMBER 8, 2004
/S/ EDWARD G. BROENNIMAN EDWARD G. BROENNIMAN	DIRECTOR	SEPTEMBER 8, 2004
/S/ RICHARD H. TULLIS RICHARD H. TULLIS	DIRECTOR	SEPTEMBER 8, 2004
/S/ CALVIN M. LEUNG CALVIN M. LEUNG	DIRECTOR	SEPTEMBER 8, 2004

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Aethlon Medical,

Inc. and Subsidiaries (the "Company"), a development stage company, as of March 31, 2004 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2004 and the results of their operations and their cash flows for the each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. At March 31, 2004, the Company has negative working capital of approximately $3,930,000 and a deficit accumulated during the development stage of approximately $17,045,000. As discussed in Note 1 to the consolidated financial statements, a significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As more fully described in Note 12, management has recently determined that $100,000 assigned to certain common stock issued in March 2003 related to the acquisition of a patent was inadvertently expensed. Accordingly, the March 31, 2003 consolidated balance sheet has been restated to report such amount as a charge to additional paid-in capital. In addition, the accompanying consolidated statement of operations for the year then ended has been restated to reduce the fiscal 2003 net loss by $100,000 ($0.01 per common share).

/S/ SQUAR, MILNER, REEHL & WILLIAMSON, LLP
MAY 18, 2004 (except for the fifth paragraph
of this report and the last paragraph of Note 12,
as to which the date is August 31, 2004)

NEWPORT BEACH, CALIFORNIA

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET (AS RESTATED)
March 31, 2004

ASSETS

CURRENT ASSETS	
Cash	$ 1,619
Prepaid expenses	5,582
TOTAL CURRENT ASSETS	7,201
Property and equipment, net	16,741
Patents, net	237,314
Other assets	20,405
TOTAL NONCURRENT ASSETS	274,460
TOTAL ASSETS	$ 281,661

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 1,588,381
Due to related parties	1,673,457
Notes payable	500,000
Convertible notes payable	175,000
TOTAL CURRENT LIABILITIES	3,936,838
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Common stock, par value of $0.001, 25,000,000 shares authorized; 10,649,329 issued and outstanding	10,649
Additional paid in capital (as restated)	13,379,487
Deficit accumulated during the development stage (as restated)	(17,045,313)
TOTAL STOCKHOLDERS' DEFICIT	(3,655,177)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 281,661

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS (As Restated)
For the Years Ended March 31, 2004 and 2003 and
For the Period January 31,1984 (Inception) Through March 31, 2004

	2004	2003	January 31, 1984 (Inception) Through March 31, 2004
Grant income	$ --	$ --	$ 1,424,012
Subcontract income	--	--	73,746
Sale of research and development	--	--	35,810
	--	--	1,533,568
OPERATING EXPENSES			
Professional fees	339,787	660,949	3,666,626
Payroll and related	417,486	549,611	5,570,510
General and administrative	238,276	326,521	3,482,441
Impairment of intangible assets	--	334,304	1,231,531
	995,549	1,871,385	13,951,108
OPERATING LOSS	(995,549)	(1,871,385)	(12,417,540)
OTHER (INCOME) EXPENSE			
Interest expense	523,249	489,731	4,507,581
Interest income	--	--	(17,415)
Other	--	--	137,607
	523,249	489,731	4,627,773
NET LOSS	$ (1,518,798)	$ (2,361,116)	$(17,045,313)
Basic and diluted loss per common share	$ (0.19)	$ (0.43)	
Weighted average number of common shares outstanding	8,181,612	5,553,196	

SEE ACCOMANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

<TABLE>
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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(As Restated) For the Years Ended March 31, 2004 and 2003 and
For the Period January 31, 1984 (Inception) Through March 31, 2004

	COMMON STOCK		ADDITIONAL PAID IN	DEFICIT ACCUMULATED DURING DEVELOPMENT	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	CAPITAL	STAGE	DEFICIT
<S> <C>					
Balance, January 31, 1984 (Inception)	--	$ --	$ --	$ --	$ --
Common stock issued for cash at $1 per share	22,000	22	26,502	--	26,524
Common stock issued for cash at $23 per share	1,100	1	24,999	--	25,000
Common stock issued for cash at $86 per share	700	1	59,999	--	60,000
Common stock issued for cash at $94 per share	160	1	14,999	--	15,000
Common stock issued for cash at $74 per share	540	1	39,999	--	40,000
Common stock issued for cash at $250 per share	4,678	5	1,169,495	--	1,169,500
Capital contributions	--	--	521,439	--	521,439
Common stock issued for compensation at $103 per share	2,600	3	267,403	--	267,406
Conversion of due to related parties to common stock at $101 per share	1,120	1	113,574	--	113,575
Conversion of due to related parties to common stock at $250 per share	1,741	2	435,092	--	435,094
Effect of reorganization	2,560,361	2,558	(2,558)	--	--
Common stock issued in connection with employment contract at $8 per share	65,000	65	519,935	--	520,000
Common stock issued in connection with the acquisition of patents at $8 per share	12,500	13	99,987	--	100,000
Warrants issued to note holders in connection with notes payable	--	--	734,826	--	734,826
Warrantes issued for services	--	--	5,000	--	5,000
Net loss	--	--	--	(4,746,416)	(4,746,416)
BALANCE, MARCH 31, 2000	2,672,500	2,673	4,030,691	(4,746,416)	(713,052)
Common stock and options issued in connection with acquisition of Cell Activation, Inc. at $7.20 per share	99,152	99	1,067,768	--	1,067,867
Warrants issued to note holders in connection with notes payable	--	--	218,779	--	218,779
Warrants issued to promoter in connection with notes payable	--	--	298,319	--	298,319
Beneficial conversion feature of					

convertible notes payable	--	--	150,000	--	150,000
Warrants issued to promoter in connection with convertible notes payable	--	--	299,106	--	299,106
Options issued to directors for services as board members	--	--	14,163	--	14,163
Options and warrants issued for services	--	--	505,400	--	505,400
Common stock issued for services at $3 per share	5,500	5	16,495	--	16,500
Common stock issued for cash at $1 per share	100,000	100	99,900	--	100,000
Net loss	--	--	--	(4,423,073)	(4,423,073)
BALANCE, MARCH 31, 2001	2,877,152	$ 2,877	$ 6,700,621	$ (9,169,489)	$ (2,465,991)

(continued)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(As Restated) For the Years Ended March 31, 2004 and 2003 and
For the Period January 31, 1984 (Inception) Through March 31, 2004 (continued)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' DEFICIT
	SHARES	AMOUNT			
<S> <C>					
BALANCE, MARCH 31, 2001	2,877,152	$ 2,877	$ 6,700,621	$ (9,169,489)	$ (2,465,991)
Common stock, warrants and options issued for accounts payable and accrued liabilities	21,750	22	243,353	--	243,375
Common stock issued for services at $2.65 per share	6,038	6	15,994	--	16,000
Common stock issued for cash at $1.00 per share, net of issuance costs of $41,540 paid to a related party	730,804	731	688,533	--	689,264
Common stock issued for services at $2.75 per share	10,000	10	27,490	--	27,500
Common stock issued in connection with license agreement at $3.00 per share	6,000	6	17,994	--	18,000
Common stock issued to holder of convertible notes payable at $3.00 per share	70,586	71	211,687	--	211,758
Options issued to directors for services as board members	--	--	7,459	--	7,459
Common stock issued for cash at $1.50 per share, net of issuance costs of $2,500	16,667	17	22,483	--	22,500
Beneficial conversion feature of convertible notes payable	--	--	185,000	--	185,000
Common stock issued for conversion of convertible notes payable and accrued interest at an average price of $1.24 per share	134,165	134	166,352	--	166,486

Common stock issued for services at $2.72 per share	9,651	10	26,240	--	26,250
Options issued to consultant for services	--	--	562,000	--	562,000
Common stock and warrants for services at $1.95 per share	62,327	62	161,475	--	161,537
Common stock issued for services at $1.90 per share	9,198	9	17,491	--	17,500
Stock options exercised for cash	400,000	400	199,600	--	200,000
Warrants issued to note holders for 90-day forebearance	--	--	118,000	--	118,000
Common stock and warrants issued to note holders and vendors in the debt-to-equity conversion program at $1.25 per share	816,359	816	1,623,635	--	1,624,451
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)

(continued)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(As Restated) For the Years Ended March 31, 2004 and 2003 and
For the Period January 31, 1984 (Inception) Through March 31, 2004 (continued)

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

Issuance of common stock at $1.25 per share for cash	8,000	8	9,992	--	10,000
Issuance of common stock at $0.65 per share for services	69,231	69	44,931	--	45,000
Issuance of common stock at $0.51 per share for services	196,078	196	(196)	--	--
Net loss (As Restated)	--	--	--	(2,361,116)	(2,461,116)
BALANCE - MARCH 31, 2003 (As Restated)	6,694,960	$ 6,695	$ 11,894,223	$(15,526,515)	$ (3,625,597)

(continued)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(As Restated) For the Years Ended March 31, 2004 and 2003 and
For the Period January 31, 1984 (Inception) Through March 31, 2004 (continued)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' DEFICIT
	SHARES	AMOUNT			
<S> <C>					
BALANCE - MARCH 31, 2003 (As Restated)	6,694,960	6,695	11,894,223	(15,526,515)	(3,625,597)
Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants	540,000	540	134,460	--	135,000
Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,099	300,397	300	74,799	--	75,099
Issuance of common stock at $0.35 per share in connection with the conversion of notes payable, including interest of $59,827	813,790	814	284,013	--	284,827
Issuance of common stock at $0.50 per share in connection with the conversion of notes payable, including interest of $509	11,017	11	5,498	--	5,509
Issuance of common stock at $0.42 per share in connection with the conversion of notes payable, including interest of $696	13,725	14	5,682	--	5,696
Issuance of common stock at $0.65 per share in connection with the conversion of notes payable, including interest of $5,088	27,059	27	17,561	--	17,588
Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,416	461,667	462	114,954	--	115,416
Issuance of common stock at $0.25 per share for cash	1,226,000	1,226	305,274	--	306,500
Issuance of common stock at $0.30 per share for cash	180,000	180	53,820	--	54,000
Issuance of common stock at $0.525 per share for cash	40,000	40	20,960	--	21,000
Issuance of common stock at $1.125 per share for cash	5,000	5	5,620	--	5,625

Issuance of common stock at $0.25 per share for services	10,000	10	2,490	--	2,500
Issuance of common stock at $0.34 per share for services	73,529	73	24,927	--	25,000
Issuance of common stock at $0.40 per share for services	62,000	62	24,763	--	24,825
Issuance of common stock at $0.45 per share for services	185,185	185	83,148	--	83,333
Issuance of common stock at $0.50 per share for services	5,000	5	2,495	--	2,500
Interest expense related to beneficial conversion feature	--	--	324,800	--	324,800
Net loss (As Restated)	--	--	--	(1,518,798)	(1,518,798)
BALANCE - MARCH 31, 2004 (As Restated)	10,649,329	$ 10,649	$ 13,379,487	$(17,045,313)	$ (3,655,177)

(continued)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS (As Restated) For the Years Ended March 31, 2004 and 2003 and For the Period January 31, 1984 (Inception) Through March 31, 2004

	2004	2003	January 31, 1984 (Inception) Through March 31, 2004
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$ (1,518,798)	$ (2,361,116)	$(17,045,313)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	127,000	159,783	909,915
Gain of sale of property and equipment	--	--	(13,065)
Estimated fair value of warrants issued in connection with accounts payable and debt	--	101,000	2,715,736
Estimated fair value of common stock, warrants and options issued for services	138,158	159,000	2,168,592
Beneficial conversion feature of convertible notes payable	324,800	150,000	809,800
Impairment of patents and patents pending	--	334,304	334,304
Impairment of goodwill	--	--	897,227
Deferred compensation forgiven	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	4,728	130,478	155,955
Other assets	(14,800)	(3,650)	(20,405)
Accounts payable and accrued liabilities	138,398	474,054	1,772,671
Due to related parties	258,458	341,644	1,673,457
Net cash used in operating activities	(542,056)	(514,503)	(5,423,903)
Cash flows from investing activities:			
Purchases of property and equipment	(4,782)	(1,198)	(214,166)
Patents and patents pending	--	(49,034)	(352,833)
Proceeds from the sale of property and equipment	--	--	17,065
Cash of acquired company	--	--	10,728
Net cash used in investing activities	(4,782)	(50,232)	(539,206)
Cash flows from financing activities:			
Proceeds from the issuance of notes payable	--	65,000	1,480,000
Principal repayments of notes payable	(180,000)	(10,000)	(190,000)
Proceeds from the issuance of convertible notes payable	200,000	275,000	998,000
Proceeds from the issuance of common stock	522,125	230,400	3,676,728

Net cash provided by financing activities	542,125	560,400	5,964,728
Net (decrease) increase in cash	(4,713)	(4,335)	1,619
Cash at beginning of period	6,332	10,667	--
Cash at end of period	$ 1,619	$ 6,332	$ 1,619
Supplemental disclosure of cash flow information -			
Cash paid during the period for:			
Interest	$ 13,000	$ 13,000	$ 220,492
Income taxes	$ 1,180	$ 1,180	$ 13,346
Supplement schedule of noncash investing activities:			
Debt converted to common stock	$ 407,500	$ 205,000	$ 2,048,094
Issuance of common stock, warrants and options for accounts payable	$ --	$ 87,655	$ 512,816
Issuance of common stock in connection with license agreements	$ --	$ --	$ 18,000
Net assets of entities acquired in exchange for equity securities	$ --	$ --	$ 1,597,867
Debt placement fees paid by issuance of warrants	$ --	$ --	$ 843,538
Patent pending acquired for 12,500 shares of common stock	$ --	$ --	$ 100,000
Common stock issued for prepaid expenses	$ --	$ --	$ 161,537

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Aethlon Medical, Inc. ("Aethlon") engages in the research and development of a medical device known as the Hemopurifier(TM) that removes harmful substances from the blood. Aethlon is in the development stage on the Hemopurifier(TM) and significant research and testing are still needed to reach commercial viability. Any resulting medical device or process will require approval by the U.S. Food and Drug Administration ("FDA"), and Aethlon has not yet begun efforts to obtain any FDA approval, which may take several years. Since many of Aethlon's patents were issued in the 1980's, they are scheduled to expire in the near future. Thus, such patents may expire before FDA approval, if any, is obtained. However, the Company believes that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(TM) treatment technology.

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

Aethlon's common stock is quoted on the Over-the-Counter Bulletin Board administered by the National Association of Securities Dealers ("OTCBB") under the symbol "AEMD."

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its inactive legal wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc., Syngen Research, Inc. and Cell Activation, Inc. (hereinafter collectively referred to as the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the ordinary course of business. The Company has negative working capital of

approximately $3,930,000 and a deficit accumulated during the development stage of approximately $17,045,000 at March 31, 2004, which among other matters, raise substantial doubt about its ability to continue as a going concern. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. The Company intends to fund operations through debt and/or equity financing arrangements, which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2005. Therefore, the Company will be required to seek additional funds to finance its long-term operations.

The Company is currently addressing its liquidity issue by continually seeking investment capital through the public markets, specifically, through private placement of common stock and a common stock purchase agreement with an investor which has committed to buy up to an additional $6,000,000 of the Company's common stock over a 30-month period, commencing, at the Company's election, if and after the Securities Exchange Commission (the "SEC") declares effective a registration statement covering such shares. However, no assurance can be given that the Company will receive any additional funds under such agreement and there is no guarantee that these strategies will enable the Company to meet its obligations for the foreseeable future. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

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

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

RISKS AND UNCERTAINTIES

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

USE OF ESTIMATES

The Company prepares its consolidated financial statements in conformity with GAAP, which require 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 period. Significant estimates made by management include, among others, realization of long-lived assets. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards ("SFAS") No. 107, "DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS," requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amount of the Company's cash, accounts payable, accrued liabilities and notes payable approximates their estimated fair values due to the short-term maturities of those financial instruments. The fair values of amounts due to related parties are not determinable as these transactions are with related parties and were not necessarily consummated at arm's length. .

CONCENTRATIONS OF CREDIT RISKS

Cash is maintained at various financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at each institution for up to $100,000. At times, cash may be in excess of the FDIC insurance limit. The Company had no amounts exceeding this limit at March 31, 2004.

PROPERTY AND EQUIPMENT

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

the related accumulated depreciation with any gain or loss included in the statements of operations. At March 31, 2004, property and equipment consisted exclusively of furniture and equipment with a total cost approximating $209,000 and accumulated depreciation approximating $192,000. Depreciation expense approximated $8,000 and $18,000 for the years ended March 31, 2004 and 2003, respectively.

INCOME TAXES

Under SFAS 109, "ACCOUNTING FOR INCOME TAXES," deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. The Company records a valuation allowance for deferred tax assets when, based on management's best estimate of taxable income in the foreseeable future, it is more likely than not that some portion of the deferred income tax assets may not be realized.

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

LONG-LIVED ASSETS

SFAS 144, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF," addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized.

Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. The Company adopted SFAS 144 on January 1, 2002. The provisions of this pronouncement relating to assets held for disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to sell or dispose of such assets, (as defined), by management. As a result, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements with respect to future disposal decisions, if any. Management believes no impairment exists at March 31, 2004.

EARNINGS PER SHARE

Under SFAS 128, "EARNINGS PER SHARE," basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive (If the Company had net income in each of the years ended March 31, 2004 and 2003, approximately 2,500,000 and 2,900,000 shares would have been considered additional common stock equivalents, respectively, based on the treasury stock method). As the Company had net losses for the period presented, basic and diluted loss per share are the same, as any additional common stock equivalents would be antidilutive.

SEGMENTS

SFAS 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION," changes the way public companies report information about segments of their business in their annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the foreign countries in which it holds significant assets and how the Company reports revenues and its major customers. The Company currently operates in one segment, as disclosed in the accompanying consolidated statements of operations.

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

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation issued to employees using the intrinsic value based method as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock issued to Employees." Under the intrinsic value based method, compensation expense is the excess, if any, of the estimated fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

SFAS 123, "Accounting for Stock-Based Compensation," if fully adopted, changes the method of accounting for employee stock-based compensation plans to the fair value based method. For stock options and warrants, fair value is estimated using an option pricing model that takes into account the stock price at the measurement date, the exercise price, the expected life of the option or warrant, stock volatility and the annual rate of quarterly dividends. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

The adoption of the accounting methodology of SFAS 123 is optional and the Company has elected to continue accounting for stock-based compensation issued to employees using APB 25; however, pro forma disclosures, as if the Company had adopted the cost recognition requirement under SFAS 123, are required to be presented (see below). For stock-based compensation issued to non-employees, the Company uses the fair value method of accounting under the provisions of SFAS 123.

Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB 25" clarifies the application of APB 25 for (a) the definition of employee for purpose of applying APB 25, (b) the criteria for determining whether a plan qualifies as a non compensatory plan, (c) the accounting consequence for various modifications to the terms of a previously fixed stock option or award and (d) the accounting for an exchange of stock compensation awards in a business combination. Management believes that the Company accounts for transactions involving stock-based employee compensation in accordance with FIN 44.

SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123," provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

At March 31, 2004, the Company has one stock-based employee compensation plan (the "Plan"), which is described more fully in Note 7. The Company accounts for the Plan under the recognition and measurement principles of APB 25, and related interpretation. No stock-based employee compensation cost is recognized in net loss. Stock options granted under the Plan have exercise prices equal to or greater than the estimated fair value of the underlying common stock on the dates of grant. The following table illustrates the effect on net loss and loss per common share (as restated for fiscal 2003 - see Note 12) if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

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

STOCK BASED COMPENSATION (continued)

<TABLE>
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	YEAR ENDED MARCH 31,	
	2004	2003

<S>	<C>	<C>
Net loss available to common stockholders, as reported	$ 1,518,798	$ 2,361,116
Pro forma compensation expense	6,000	9,000
Pro forma net loss available to common stockholders	$ 1,524,798	$ 2,370,116
Loss per common share, as reported		
Basic and diluted	$ (0.19)	$ (0.43)
Loss per common share, pro forma		
Basic and diluted	$ (0.19)	$ (0.45)

</TABLE>

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 146, "Accounting for Costs Associated with Exit and Disposal Activities," was issued in June 2002 and is effective for exit and disposal activities initiated after December 31, 2002. The Company is complying with SFAS No. 146.

SFAS No. 147 relates exclusively to certain financial institutions, and thus does not apply to the Company.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the estimated fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while the disclosure requirements became applicable in 2002. The Company is complying with the disclosure requirements of FIN No. 45. The other requirements of this pronouncement did not materially affect the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (1) the equity investors do not have a controlling financial interest; or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. As amended in December 2003, the effective dates of FIN No. 46 for public entities that are small business issuers, as defined ("SBIs"), are as follows: (a) For interests in special-purpose entities ("SPEs": periods ended after December 15, 2003; and (b) For all other VIEs: periods ending after December 15, 2004. The December 2003 amendment of FIN No. 46 also includes transition provisions that govern how an SBI which previously adopted the pronouncement (as it was originally issued) must account for consolidated VIEs. The Company has determined that it does not have any variable interest in any SPEs, and is presently evaluating the other effects of FIN No. 46 (as amended) on its consolidated financial statements.

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

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. This pronouncement is effective for contracts entered into or modified after June 30, 2003 (with certain exceptions), and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity, and is effective for public companies as follows: (i) in November 2003, the FASB issued FASB Staff Position ("FSP") FAS 150-03 ("FSP 150-3"), which defers

indefinitely (a) the measurement and classification guidance of SFAS No. 150 for all mandatorily redeemable non-controlling interests in (and issued by) limited-life consolidated subsidiaries, and (b) SFAS No. 150's measurement guidance for other types of mandatorily redeemable non-controlling interests, provided they were created before November 5, 2003; (ii) for financial instruments entered into or modified after May 31, 2003 that are outside the scope of FSP 150-3; and (iii) otherwise, at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 on the aforementioned effective dates. The adoption of this pronouncement did not have a material impact on the Company's results of operations or financial condition.

Other recent accounting pronouncements are discussed elsewhere in these notes to the consolidated financial statements.

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

PATENTS

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

PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

The Company granted warrants in connection with the issuance of certain notes payable (see Notes 45and 6). Under Accounting Principles Board Opinion No. 14, "ACCOUNTING FOR CONVERTIBLE DEBT AND DEBT ISSUED WITH STOCK PURCHASE WARRANTS," the estimated fair value of such warrants represents a discount from the face amount of the notes payable. Accordingly, the relative estimated fair value of the warrants has been recorded in the financial statements as a discount from the face amount of the notes. The discount is amortized using the effective yield method over the respective lives of the related notes payable.

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

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable (see Notes 5 and 6) provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force Issue No. 98-5 ("EITF Issue No. 98-5"), "ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIO" and Emerging Issues Task Force Issue No. 00-27, "APPLICATION OF EITF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS," the Company has determined the fair value of such BCF to be approximately $325,000 and $450,000 for the years ended March 31, 2004 and 2003, respectively. Accordingly, the relative estimated fair value of the BCF has been recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts were amortized to interest expense in accordance with the related conversion feature.

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately $200,000 of research and development expenses during each of the two years ended March 31, 2004 and 2003, which are included in operating expenses in the accompanying consolidated statements of operations.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statement presentation to correspond to the 2004 format.

2. OTHER ASSETS

Other assets consist of approximately $2,000 of deposits and approximately $18,000 of advances to employees.

3. EMPLOYMENT CONTRACT

On January 10, 2000, the Company completed the acquisition of the assets of Syngen Research, Inc. ("Syngen"). As part of the transaction, the Company executed a two-year employment contract, which was subsequently amended to increase the term to four years, with Syngen's sole shareholder to perform

research. The cost associated with this employment contract was amortized over four years on a straight-line basis and was fully amortized as of March 31, 2004.

4. DEBT-TO-EQUITY CONVERSION PROGRAM

In March 2002, the Company extended an offer to certain note holders and vendors to convert past due amounts into restricted common stock and warrants to purchase common stock of the Company. The offer entails the conversion of liabilities at a rate of one share and one-half of a warrant for every $1.25 converted. The warrants have an exercise price of $2.00 per share and expire three years from the date of issuance.

During the year ended March 31, 2003 and 2002, note holders and vendors representing liabilities of approximately $188,000 and $1,020,000 converted their debt in exchange for 150,124 and 816,359 shares of common stock and 75,061 and 408,180 warrants to purchase common stock, respectively. Such warrants were valued using the Black-Scholes option pricing model based on their estimated pro rata fair value of approximately $71,000 and $339,000. The warrant conversion rate was below estimated fair value for warrants issued during the fiscal year ended March 31, 2002; therefore a BCF approximating $265,000 was recorded during the year ended March 31, 2002.

5. NOTES PAYABLE

12% AND 15% NOTES

The Company entered into arrangements for the issuance of notes payable from private placement offerings (the "12% Notes"). The 12% Notes bear interest at 12% per annum, interest payable quarterly, mature one year from the date of issuance, and carry detachable warrants. At March 31, 2003, all outstanding 12% Notes had matured, and interest on such notes for periods after maturity is accruing at the annual rate of 15%. The total amount of the original notes issued was $422,500. As of March 31, 2004, all of such notes had been converted to common stock and there was no balance outstanding on the 12% notes.

In January 2002, the Company issued warrants to purchase common stock in exchange for an additional ninety days to become current with all past due interest payments related to notes issued in prior years.

During the year ended March 31, 2004, a noteholder converted $12,500 of 15% promissory notes including interest of $5,088 for 27,059 shares of common stock and 27,059 warrants to purchase shares of common stock at $0.65 per share (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative fair value was insignificant and was charged to interest expense upon grant.

During the year ended March 31, 2004, a noteholder converted an aggregate of $25,000 of 15% promissory notes including interest of $9,766 for 139,063 shares of common stock and 139,063 warrants to purchase shares of common stock at $0.25 per share (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative fair value was insignificant and charged to interest expense upon grant. A beneficial conversion feature approximating $37,500 was recorded during the year ended March 31, 2004 related to the conversion of 15% promissory notes.

All of the outstanding 15% Notes were past due and in default at March 31, 2004 and interest payable approximated $138,000 as of such date. Management's plans to satisfy the remaining outstanding balance on these notes include converting the notes to common stock at market value or repayment with available funds.

The total outstanding balance of the 15% Notes at March 31, 2004 was $335,000, which is included in notes payable in the accompanying consolidated balance sheet. The remaining $165,000 in notes payable in the accompanying consolidated balance sheet is comprised of the $150,000 9% Convertible Note (see Note 6), and two 10% Convertible Notes (see Note 6) totaling $15,000, all of which were no longer convertible as of March 31, 2004.

10% NOTES

In December 2002, an existing noteholder increased its advances to the Company by $40,000 to a total of $140,000. In consideration, the Company granted the noteholder warrants (see Note 7), cancelled the noteholder's existing $100,000 of convertible debt and replaced it with a secured $140,000 note payable. A BCF approximating $30,000 was recorded in connection with the issuance of the $140,000 note. The new note was paid by the Company in accordance with its terms and as a result, there was no outstanding balance at March 31, 2004.

6.75% NOTES

On March 18, 2002, the Company issued a promissory note to a stockholder in the amount of $50,000, bearing interest at 6.75% per annum and maturing in May 2002. Such note was converted in March 2003 (see Note 7).

In May 2002, the Company issued notes payable totaling $25,000, bearing interest at 6.75% per annum, maturing in July 2002. The notes were converted into shares of the Company's common stock in March 2003 (see Note 7).

There were no amounts owed under the 6.75% Notes at March 31, 2004.

The Company is currently seeking other financing arrangements to retire all past due notes payable.

6. CONVERTIBLE NOTES PAYABLE

8% CONVERTIBLE NOTE

In November 2000, the Company issued convertible notes payable ("8% Convertible Notes") with original issue amounts totaling $395,000, bearing interest at 8% per annum, with principal and accrued interest due on November 1, 2002. The 8% Convertible Notes require no payment of principal or interest during the term and may be converted to common stock of the Company at any time at the option of the holder. The number of common shares issuable upon conversion is equal to the total principal and unpaid interest as of the date of conversion, divided by the conversion price. The conversion price per common share was changed effective August 31, 2001 to the lesser of (a) 80% of the closing market price for the common stock; or (b) 70% of the average of the three lowest closing market prices for the common stock for the ten trading days prior to conversion. Such change resulted in additional BCF approximating $57,000 during the year ended March 31, 2002.

During fiscal year 2002, the holder converted principal and accrued interest of approximately $49,000 into 40,267 shares of common stock, leaving principal of $350,000 and interest thereon due and outstanding. The average conversion price was approximately $1.22 per common share.

The 8% Convertible Notes required the Company to file an effective registration statement by February 2001. The Company filed a Form SB-2 with the SEC in December 2000; however, such registration statement was never declared effective and was subsequently abandoned. However, as the underlying securities are no longer restricted under Rule 144 of the Securities Act of 1933, the Company no longer plans on filing a registration statement in connection with this transaction. The Company accrued and expensed penalties approximating $150,000 at March 31, 2004 in connection with not filing an effective registration statement. The Company does not believe it will incur any additional charges and is in the process of renegotiating all penalties that have been recorded to date.

In March 2004, the noteholder converted $225,000 of principal and accrued interest in the amount of $59,827 into 813,790 shares of common stock.

At March 31, 2004, there was one outstanding 8% Convertible Note with a balance of $125,000, which is included in convertible notes payable in the accompanying consolidated balance sheets. Interest payable on such note totaled $17,143 at March 31, 2004.

9% CONVERTIBLE NOTE

In April 2003, the Company issued a convertible note in the amount of $150,000 ("9% Convertible Note"), bearing interest at 9% per annum, with principal and interest due in June 2003, which is in default. The 9% Convertible Note required no payment of principal or interest during the term and was convertible into common stock of the Company at the conversion price of $0.25 per share through June 2003 at the option of the shareholder. The Company has recorded a BCF of $150,000 in connection with the issuance of the note and amortized such amount to interest expense upon issuance based on the related conversion feature. As this note is no longer convertible, the outstanding balance totaling $150,000 has been recorded as notes payable in the accompanying consolidated balance sheet. Accrued interest payable on this note approximated $13,500 at March 31, 2004. Therefore, there were no remaining 9% Convertible Notes outstanding as of March 31, 2004.

6. CONVERTIBLE NOTES PAYABLE (continued)

10% CONVERTIBLE NOTES

>From time to time, the Company issued convertible notes payable ("10% Convertible Notes") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Convertible Notes require no payment of principal or interest during the term and may be converted to common stock of the Company at the conversion price of $0.50 per share at any time at the option of the noteholder. The total amount of the original notes issued was $275,000.

In April 2002, the Company issued a 10% Convertible Note in the amount of $50,000. The conversion price of this note was $1.25 at the time of issuance, but in August 2002, the Company reduced the conversion price to $0.50.

During the year ended March 31, 2003, the Company issued additional 10% Convertible Notes totaling $225,000, of which $30,000 was converted into restricted common stock (see Note 7).

In November 2003, a noteholder converted $5,000 of principal and accrued interest of $509 for 11,017 shares of common stock.

In December 2003, a noteholder converted $100,000 of principal and accrued interest of $15,416 for 461,667 shares of common stock and 461,667 warrants to purchase common stock at $0.25 per share (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata fair value was insignificant and was charged to interest expense upon grant.

In January 2004, two noteholders converted $35,000 of principal and accrued interest of $5,333 for 161,334 shares of common stock and 161,334 warrants to purchase common stock at $0.25 per share (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata fair value was insignificant and was charged to interest expense upon grant.

In March 2004, the Company borrowed $50,000 under a non-interest bearing convertible note payable, which was due in April 2004. In June 2004, the note was converted into common stock of the Company at $0.44 per share, in connection with the Company's private placement (see Note 11).

In March 2004, a noteholder converted $5,000 of principal and accrued interest of $696 for 13,725 shares of common stock and 13,725 warrants to purchase common stock at $0.42 per share (see Note 7). These warrants were valued using the Black Scholes option pricing model, the relative pro-rata fair value was insignificant, and charged to interest expense upon grant.

A BCF approximating $137,000 and $150,000 was recorded during each of the years ended March 31, 2004 and 2003, respectively related to the issuance of 10% Convertible Notes.

All of the 10% Convertible Notes, except the $50,000 borrowed in March 2004, were past due and in default at March 31, 2004. As two of these notes were no longer convertible at March, 31, 2004, the outstanding balances totaling $15,000 are included in notes payable in the accompanying consolidated balance sheet (see Note 5). At March 31, 2004, interest payable on these notes totaled $4,125. At March 31, 2004, there was one remaining outstanding 10% Convertible Note with a balance of $50,000 and interest payable totaling $2,083. Management's plans to satisfy the remaining outstanding balance on this note include converting the note to common stock at market value or repayment with available funds.

At March 31, 2004 convertible notes payable in the accompanying consolidated balance sheet totaling $175,000 is comprised of the only remaining 8% Convertible Note and the only remaining 10% Convertible Note with outstanding balances totaling $125,000 and $50,000, respectively (see above).

7. EQUITY TRANSACTIONS

COMMON STOCK

During the year ended March 31, 2003, the Company issued 150,124 shares of restricted common stock in connection with the conversion of amounts owed to

certain vendors and noteholders approximating $188,000 (see Note 4).

During the year ended March 31, 2003, the Company issued 200,000 shares of restricted common stock for cash totaling $100,000 in connection with the exercise of warrants.

During the year ended March 31, 2003, the Company issued 461,600 shares of restricted common stock at $0.25 per share for cash totaling $115,400. In connection with the issuance of certain shares, the Company granted the stockholders warrants to purchase common stock of the Company at $0.25 per share. The warrants vested immediately and expire through March 2004 (see below).

During the year ended March 31, 2003, the Company issued 19,230 shares of restricted common stock at $0.26 per share for cash totaling $5,000.

During the year ended March 31, 2003, the Company issued 8,000 shares of restricted common stock at $1.25 for cash totaling $10,000.

During the year ended March 31, 2003, the Company issued 420,000 shares of restricted common stock in connection with the conversion of $75,000 of 6.75% Notes payable and $30,000 of 10% Convertible Notes (see Notes 4 and 5).

During the year ended March 31, 2003, the Company issued 69,231 shares of restricted common stock for consulting services valued at $45,000 (estimated based on the market price on the date of issue) and recorded such amount as professional fees in the accompanying consolidated financial statements.

During the year ended March 31, 2003, the Company issued 196,078 shares of restricted common stock in connection with the acquisition of a patent in 2000 (see Notes 8 and 12). Such shares were recorded at par value since the original patent acquisition purchase transaction had been measured at $100,000 and recorded as "patents" in the March 2000 consolidated balance sheet. The 196,078 shares merely satisfied a contingent obligation under the original purchase agreement.

During the year ended March 31, 2004, the Company issued 540,000 shares of restricted common stock for cash totaling $135,000 in connection with the exercise of warrants at $0.25 per share.

During the year ended March 31, 2004, the Company issued 1,226,000 shares of restricted common stock at $0.25 per share for cash totaling $306,500. In connection with the issuance of common stock, the Company granted the stockholders warrants to purchase 1,226,000 shares of common stock. The warrants vested upon grant and expire through January 2005.

During the year ended March 31, 2004, the Company issued 180,000 shares of restricted common stock at $0.30 per share for cash totaling $54,000. In connection with the issuance of common stock, the Company granted the stockholders warrants to purchase 180,000 shares of common stock. The warrants vested upon grant and expire through March 2005.

7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (CONTINUED)

During the year ended March 31, 2004, the Company issued 40,000 shares of restricted common stock at $0.525 per share for cash totaling $21,000. In connection with the issuance of common stock, the Company granted the stockholders warrants to purchase 40,000 shares of common stock. The warrants vested upon grant and expire through March 2005.

During the year ended March 31, 2004, the Company issued 5,000 shares of restricted common stock at $1.125 per share for cash totaling $5,625. In connection with the issuance of common stock, the Company granted the stockholders warrants to purchase 5,000 shares of common stock. The warrants vested upon grant and expire through March 2005.

During the year ended March 31, 2004, the Company issued 10,000 shares of restricted common stock at $0.25 for services valued at $2,500.

During the year ended March 31, 2004, the Company issued 73,529 shares of restricted common stock at $0.34 for services valued at $25,000.

During the year ended March 31, 2004, the Company issued 62,000 shares of restricted common stock at $0.40 for services valued at $24,825.

During the year ended March 31, 2004, the Company issued 185,185 shares of restricted common stock at $0.45 for services valued at $83,333.

During the year ended March 31, 2004, the Company issued 5,000 shares of restricted common stock at $0.50 for services valued at $2,500.

During the year ended March 31, 2004, noteholders converted $504,135 of principal and interest into 1,627,655 shares of common stock (see Notes 5 and 6) and warrants to purchase 802,848 shares of common stock (see "Warrants" below).

WARRANTS

In January 2002, the Company issued 335,000 warrants to purchase common stock in exchange for an additional ninety days to become current on all past due interest payments (see Note 5). The warrants have an exercise price of $2.00 per share, vest immediately, and expired twelve months from the date of issuance. Such warrants were valued using the Black-Scholes option pricing model at approximately $118,000, and were recorded as interest expense.

During the year ended March 31, 2002, the Company granted 239,000 warrants for services and the satisfaction of certain liabilities. The warrants have exercise prices ranging from $2.75 through $6.50 per common share, vested immediately and are exercisable through January 2007. The warrants were valued at $118,000, of which $78,000 was recorded as accounts payable and accrued liabilities in fiscal year 2001.

In August 2002, the Company granted warrants to purchase 52,000 shares of the Company's restricted common stock at an exercise price of $0.25 per share in connection with equity fund raising activities. These warrants vested upon grant and were exercisable through March 2004. As such warrants were issued in connection with equity fund raising activities, there was no expense recorded in the accompanying consolidated financial statements.

7. EQUITY TRANSACTIONS (continued)

WARRANTS (CONTINUED)

In December 2002, the Company issued 580,000 warrants to purchase common stock for $0.25 per share, which are exercisable through December 2007 and vested upon grant. The warrants were issued in connection with a short-term secured note payable (see Note 5). In accordance with GAAP, the proceeds of the financing have been allocated to the debt and the warrants based on their relative estimated fair values. Accordingly, a discount of $30,000 has been recorded as a reduction of the debt balance and the off-setting credit has been reported as additional paid-in capital. The debt discount was amortized to interest expense in the year ended March 31, 2003 in accordance with the short-term nature of the note payable.

During the year ended March 31, 2003, the Company granted 240,830 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.25 per share, vest immediately and were exercisable through March 2004. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2003, the Company granted 75,061 warrants to certain vendors in connection with the conversion of amounts owed by the Company into common stock. The warrants were valued at $71,000 (estimated based on the relative fair values as determined by the Black Scholes option pricing model pursuant to SFAS 123), have exercise prices of $2.00, vest immediately and are exercisable through June 2005.

In March 2003, the Company issued 420,000 warrants to purchase common stock for $0.25 per share, which were exercisable through March 2004 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 5 and 6). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant; and was charged to interest expense upon grant.

During the year ended March 31, 2004, the Company granted 1,226,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.25 per share, vest immediately and are exercisable through March 2005. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2004, the Company granted 180,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.30 per share, vest immediately and are exercisable through

March 2005. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2004, the Company granted 40,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.525 per share, vest immediately and are exercisable through March 2005. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2004, the Company granted 5,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $1.125 per share, vest immediately and are exercisable through March 2005. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

As noted under "Common Stock" above, 540,000 of the warrants granted to investors in connection with the purchase of common stock during the year ended March 31, 2004 were exercised.

7. EQUITY TRANSACTIONS (continued)

WARRANTS (CONTINUED)

During the year ended March 31, 2004, the Company issued 762,064 warrants to purchase common stock for $0.25 per share, which are exercisable through March 2005 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 5 and 6). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

In the year ended March 31, 2004, the Company issued 13,725 warrants to purchase common stock for $0.42 per share, which are exercisable through March 2005 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 5 and 6). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

In the year ended March 31, 2004, the Company issued 27,059 warrants to purchase common stock for $0.65 per share, which vested upon grant and expire through March 2005. The warrants were issued in connection with the conversion of notes payable (see Notes 45and 6). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata fair estimated value was insignificant and was charged to interest expense upon grant.

A summary of the aggregate warrant activity for the years ended March 31, 2004 and 2003 is presented below:

<TABLE>
<CAPTION>

	Year Ended March 31,			
	2004		2003	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	2,906,746	$ 2.29	1,873,855	$ 3.65
Granted	2,253,848	0.29	1,367,891	0.35
Exercised	(540,000)	0.25	--	--
Cancelled/Forfeited	(827,400)	0.25	(335,000)	(2.00)
Outstanding, end of year	3,793,194	$ 2.22	2,906,746	$ 2.29
Exercisable, end of year	3,793,194	$ 2.22	2,906,746	$ 2.29
Weighted average estimated fair value of warrants granted		$ 0.40		$ 0.38

</TABLE>

The following outlines the significant assumptions used to estimate the fair

value information presented utilizing the Black-Scholes option pricing model:

	Years Ended March 31, 2004	2003
Risk free interest rate	2.50%	3.50%
Average expected life	3 years	2.5 years
Expected volatility	365%	210%
Expected dividends	None	None

7. EQUITY TRANSACTIONS (continued)

WARRANTS (CONTINUED)

The detail of the warrants outstanding and exercisable as of March 31, 2004 is as follows:

<TABLE>
<CAPTION>
<S> <C>

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.25	1,913,494	1.7	$ 0.25	1,913,494	$ 0.25
$0.30 - $1.13	265,784	0.7	$ 0.39	265,784	$ 0.39
$2.00 - $4.00	711,166	1.3	$ 2.33	711,166	$ 2.33
$5.00 - $6.50	902,750	1.0	$ 5.25	902,750	$ 5.25
	3,793,194			3,793,194	

</TABLE>

OPTIONS

In August 2000, the Company adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of Company stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of the Company's common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory).

In March 2002, the board of directors granted the Company's Chief Executive Officer ("CEO") and Dr. Tullis 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 at grant date) and expire March 2012. Awards are earned upon achievement of certain financial and/or research and development milestones.

In January 2002, the Company granted 400,000 stock options to a consultant for services rendered valued at $562,000 (estimated based on the Black Scholes option pricing model pursuant to SFAS 123) in connection with a consulting agreement. In July 2002, the Company extended the original agreement by six months to expire July 2003 and granted an additional 200,000 stock options valued at $114,000 (estimated based on the Black Scholes option pricing model pursuant to SFAS 123). All 600,000 options have been exercised as of March 31, 2003. The stock options had an exercise price of $0.50, and vested on the grant dates.

7. EQUITY TRANSACTIONS (continued)

OPTIONS (CONTINUED)

The following is a status of the stock options outstanding at March 31, 2004 and the changes during the two years then ended:

<TABLE>
<CAPTION>
<S> <C>

	Year Ended March 31,			
	2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,376,115	$ 2.49	1,376,115	$ 2.49
Granted	--		200,000	0.50
Exercised	--		(200,000)	(0.50)
Cancelled/Forfeited	--		--	--
Outstanding, end of year	1,376,115	$ 2.49	1,376,115	$ 2.49
Exercisable, end of year	1,363,615	$ 2.51	1,283,530	$ 2.50
Weighted average estimated fair value of options granted		--		$ 0.57

The following outlines the significant assumptions used to estimate the fair value information presented utilizing the Black-Scholes option pricing model for the year ended March 31, 2003 (there were no issuances in fiscal 2004):

Risk free interest rate	3.50
Average expected life	3 years
Expected volatility	210%
Expected dividends	None

The detail of the options outstanding and exercisable as of March 31, 2004 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
$0.39	50,848	4.7 years	$ 0.39	50,848	$ 0.39
$1.78 - $2.00	515,267	8.9 years	1.90	515,267	1.90
$2.25 - $3.00	602,500	4.3 years	2.78	590,000	2.78
$3.25 - $3.75	207,500	2.9 years	3.27	207,500	3.27
	1,376,115			1,363,615	

</TABLE>

8. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

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

ROYALTY AGREEMENT AND PATENT ACQUISITION

Effective January 1, 2000, the Company entered into an agreement with Dr. Julian Ambrus, the son of Dr. Clara Ambrus, who was the original founder of Hemex, Inc. under which an invention and related patent rights for a method of removing HIV and other viruses from the blood using the Hemopurifier(TM) were assigned to the

Company by the inventors in exchange for (a) a royalty to be paid on future sales of the patented product or process equal to 8.75% of net sales, as defined and (b) 12,500 shares of the Company's common stock. Upon the issuance of the first United States patent relating to the invention, the Company was obligated to issue additional shares of common stock to the inventors. If the market price of the Company's common stock on the date the patent is issued was below $8 per share, the number of shares to be issued was that amount which equates to $100,000 of market value. On March 4, 2003, the related patent was issued and therefore the Company issued 196,078 shares of common stock recorded at par value since the transaction was measured and reported as "patents" in fiscal 2000 for $100,000. (see Notes 7 and 12)

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

9. INCOME TAX PROVISION

Income tax expense for the years ended March 31, 2004 and 2003 differed from the amounts computed by applying the U.S. Federal income tax rate of 34 percent to the loss from continuing operations before provision for income taxes as a result of the following:

	2004	2003
Computed "expected" tax benefit	$ (516,000)	$ (837,000)
Reduction in income taxes resulting from:		
Equity instruments issued for services	--	39,000
Interest for warrants and BCF	94,000	85,000
Change in deferred tax assets valuation allowance	583,000	897,000
State and local income taxes, net of federal benefit	(134,000)	(162,000)
Other	(27,000)	(22,000)
	$ --	$ --

9. INCOME TAX PROVISION (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at March 31, 2004 are presented below:

Deferred tax assets:	
Capitalized research and development	$ 1,833,000
Net operating loss carryforwards	2,977,000
Total gross deferred tax assets	4,810,000
Less valuation allowance	(4,810,000)
Net deferred tax assets	$ --

The valuation allowance for deferred tax assets from continuing operations as of March 31, 2004 and 2003 was $4,810,000 and $4,227,000, respectively.

As of March 31, 2004, the Company had tax net operating loss carryforwards of approximately $8,000,000 and $3,000,000 available to offset future taxable Federal and state income, respectively. The carryforward amounts expire in various years through 2024.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

10. COMMITMENTS AND CONTINGENCIES

REGISTRATION RIGHTS AGREEMENTS

The Company is obligated under various agreements to register its common stock, including the common stock underlying certain warrants and options. The Company is subject to penalties for failure to register such securities, the amount of which could be material to the Company's financial condition, results of operations and cash flows. The Company filed a registration statement on Form SB-2 with the SEC in December 2000 to register the necessary securities. However, such registration statement was never declared effective and

subsequently abandoned. Management is currently unaware of any claims related to the lack of registration. However, as the underlying securities are no longer restricted under Rule 144 of the Securities Act of 1933, the Company no longer plans on filing a registration statement in connection with this transaction.

EMPLOYMENT CONTRACTS

In addition to the employment contract discussed in Note 3, the Company entered into an employment agreement with its Chairman of the Board effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days notice, will be in effect until the employee retires or ceases to be employed by the Company. The Chairman of the Board was appointed President and Chief Executive Officer ("CEO") effective June 1, 2001 upon which the base annual salary was increased from $120,000 to $180,000. The CEO is eligible for an annual bonus at the discretion of the Board of Directors, of which nil was earned during each of the years ended March 31, 2004 and 2003, 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.

11. SUBSEQUENT EVENTS (unaudited)

In June 2004, the Company completed a $673,000 private placement of common stock with accredited investors, including Fusion Capital Fund II, LLC, a Chicago-based investor. In connection with the private placement, the Company entered into a common stock purchase agreement with Fusion Capital, whereby Fusion Capital has committed to buy up to an additional $6,000,000 of the Company's common stock over a 30-month period, commencing, at the Company's election, after the SEC has declared effective a registration statement covering such shares. The funds the Company has received in connection with this financing, together with any additional funds the Company may receive from Fusion Capital under the common stock purchase agreement, will be used to fund the Company's research and development activities and anticipated operations for the future. The Company has issued 1,529,545 shares of common stock and 1,529,545 warrants to purchase common stock at $0.76 per share, which vested upon grant and are exercisable through May 2007, for the funds the Company has received in connection with this financing.

Subsequent to March 31, 2004, the Company issued 242,143 shares of restricted common stock at prices ranging from $0.44 to $1.75 per share for services approximating $129,000.

Subsequent to March 31, 2004, the Company issued 500,000 shares of restricted common stock for cash totaling $125,000 in connection with the exercise of warrants at $0.25 per share.

12. PATENTS

GENERAL

Patents include both foreign and domestic patents. There were no patents or patents pending acquired during the years ended March 31, 2004 and 2003. Approximately $147,000 of patents pending were approved during fiscal 2003 (excluding the patent discussed in the following paragraph) and there were no patents pending at March 31, 2004 or 2003. The unamortized cost of patents and patents pending is written off when management determines there is no future benefit. During the years ended March 31, 2004 and 2003, zero and $334,000 of capitalized patent costs were written off, respectively. At March 31, 2004, the gross carrying amount of patents and the related accumulated amortization approximated $345,000 and $108,000, respectively. Amortization of patents and patents pending approximated $29,000 and $15,000 during the years ended March 31, 2004 and 2003, respectively. Amortization expense on patents is estimated to be approximately $23,000 per year for the next five fiscal years. The weighted average amortization period for patents was approximately 15 years at March 31, 2004.

RESTATEMENT

In August 2004, management determined that it had inadvertently recorded an additional $100,000 of expense in March 2003 related to the 196,078 shares issued in connection with the Company's acquisition of a patent (see Note 8). The March 31, 2004 consolidated balance sheet and statement of operations for the year ended March 31, 2003 have been restated accordingly. Such restatement reduced fiscal 2003 professional fees and net loss by $100,000 ($0.01) per common share) with a corresponding reduction to the previously reported accumulated deficit at March 31, 2004.

EXHIBIT 10.13

LEASE

[San Diego Science Center / Aethlon Medical, Inc.]

THIS LEASE ("LEASE") is dated for reference purposes only July 1, 2004, by and between SAN DIEGO SCIENCE CENTER LLC, a California limited liability company ("LANDLORD"), and AETHLON MEDICAL, INC., a Nevada corporation ("TENANT").

1. LEASE PREMISES.

1.1 Landlord hereby leases to Tenant and Tenant hereby leases from Landlord during the term of this Lease, on the terms and conditions set forth herein, those certain premises ("PREMISES") consisting of approximately 3,200 square feet of Rentable Area in the building (the "BUILDING") at 3030 Bunker Hill Street, San Diego, California, on real property legally described on EXHIBIT A attached hereto and incorporated herein by this reference. The Premises consist of approximately 811 square feet of Rentable Area on the third floor of the Building and 2,389 square feet of Rentable Area on the first floor of the Building. The Building consists of approximately 105,364 square feet of Rentable Area. The Building, the real property upon which the Building is located, and all landscaping, parking facilities, and other improvements and appurtenances related thereto are hereinafter collectively referred to as the "PROJECT." The site plan for the Project is attached hereto as EXHIBIT B, and the Premises are outlined on EXHIBIT C. All portions of the Project which are for the non-exclusive use of tenants of the Project, including without limitation interior entrance ways, lobbies, corridors, stairwells, elevators, equipment rooms, and rest rooms, and exterior roadways, driveways, sidewalks, parking areas, and landscaped areas, are hereinafter referred to as "COMMON AREAS."

2. BASIC LEASE PROVISIONS.

2.1 For convenience of the parties, certain basic provisions of this Lease are set forth herein, which provisions are subject to the remaining terms and conditions of this Lease and are to be interpreted in light of such remaining terms and conditions.

2.1.1 Rentable Area of the Premises:
Approximately 3,200 square feet.

2.1.2 Basic Annual Rent:
$90,240 ($2.35 per square foot per month for 3,200 square feet of Rentable Area, subject to adjustment pursuant to Sections 6.1 and 8.3)

2.1.3 Monthly Installment of Basic Annual Rent:
$7,520 ($2.35 per square foot per month for 3,200 square feet of Rentable Area, subject to adjustment pursuant to Sections 6.1 and 8.3)

2.1.4 Tenant's Pro Rata Share:
3.04% of the Operating Expenses as determined pursuant to Section 7.3(a) and subject to adjustment pursuant to Section 8.3.

2.1.5 (a) Term Commencement Date:
July 9, 2004

(b) Term Expiration Date:
July 8, 2006

2.1.6 Security Deposit:

(a) Cash in the amount of $12,000.00 representing one (1) month's base rent and estimated Operating Expenses, and

(b) Cash in the amount of $1,000 representing advance deposit on Exit Phase I Report as required per Section 39.12.

2.1.7 Permitted Use:
Uses permitted in Section 10.1

2.1.8 Address for Rent Payment and Notices to Landlord:

San Diego Science Center LLC
c/o Phase 3 Properties, Inc.
8910 University Center Lane, Suite 265
San Diego, CA 92122

Address for Notices to Tenant Prior to Occupancy:

Jim Joyce
Aethlon Medical, Inc.
7825 Fay Avenue, Suite 200
La Jolla, CA 92037

Address for Notices to Tenant After Occupancy:

Jim Joyce
Aethlon Medical, Inc.
3030 Bunker Hill Street, Suite 4000
San Diego, CA 92109

2.1.9 (a) Landlord's Broker:
Phase 3 Properties, Inc.
8910 University Center Lane,
Suite 265
San Diego, CA 92122

2.2. The following exhibits are attached hereto and incorporated herein by this reference:

Exhibit A	Legal Description of Real Property
Exhibit B	Site Plan of the Project
Exhibit C	Outline of the Premises
Exhibit D	Acknowledgment of Term Commencement Date
Exhibit E	Schematic Showing Tenant Improvements
Exhibit F	Architectural Drawings of Tenant Improvements
Exhibit G	Rules and Regulations
Exhibit H	Services to be Provided by Landlord
Exhibit I	Fitness Center Waiver of Liability
Exhibit J	Approved Contractors
Schedule 1	List of Removable Property (Section 17.7)

3. TERM.

3.1 This Lease shall take effect upon the last date of execution hereof by each of the parties hereto, and each of the provisions hereof shall be binding upon and inure to the benefit of Landlord and Tenant from the last date of execution hereof by each of the parties hereto.

3.2 The term of this Lease will be the period from the later of the date set forth in Section 2.1.5(a) or execution of this Lease by both parties pursuant to Section 3.1("TERM COMMENCEMENT DATE") (hereinafter sometimes referred to as the "Term"), subject to earlier termination of this Lease as provided herein. Landlord and Tenant shall execute a written acknowledgment of the Term Commencement Date and the Term Expiration Date in substantially the form attached hereto as EXHIBIT D and attach it to this Lease as EXHIBIT D-1; however, failure to execute and deliver such acknowledgment shall not affect Tenant's liability hereunder.

3.3 Landlord represents to Tenant that the Premises are Substantially Complete. As used herein, the terms "SUBSTANTIALLY COMPLETE", "SUBSTANTIALLY COMPLETED", and "SUBSTANTIAL COMPLETION" shall mean (i) the City of San Diego has issued an interim or final right to occupy the Premises, and (ii) Landlord has substantially completed construction of the Tenant Improvements in accordance with EXHIBIT E and EXHIBIT F as certified by Landlord's architect, including (a) the mechanical, electrical, plumbing and other building systems which serve the Premises are in good working order, (b) the lighting, ceiling tiles, and window coverings within the Premises are in good working order, (c) all debris and clutter has been removed from the Premises, (d) exterior windows of the Premises are washed inside and out, (e) lobbies, corridors, stairwells and elevators serving the Premises are substantially complete and in good working order, and (f) the Premises are in compliance with Landlord's warranties set forth in Section 14.2; provided, however, Tenant understands that construction of tenant improvements for other tenants of the Building and in some Common Areas will be ongoing at the time of Substantial Completion of the Tenant Improvements. ".

4. CONSTRUCTION AND POSSESSION.

4.1 Landlord has constructed Tenant Improvements within the Premises for Tenant's use and occupancy ("TENANT IMPROVEMENTS") in conformity with the schematic attached hereto as EXHIBIT E and the architectural drawings listed at EXHIBIT F at its cost and at no cost to Tenant. Tenant shall pay all costs of changes to the Tenant Improvements requested by Tenant and approved by Landlord, or improvements requested by Tenant and approved by Landlord which are not included in EXHIBIT E or EXHIBIT F.

4.2 Prior to entry by Tenant onto the Premises before the Term Commencement Date, for installing fixtures, placement of personal property, or any other purpose, Tenant shall furnish to Landlord evidence satisfactory to Landlord that insurance coverages required of Tenant under the provisions of Article 21 are in effect. Entry by Tenant onto the Premises prior to the Term Commencement Date for such purposes shall be subject to all of the terms and conditions of this Lease other than the payment of Basic Annual Rent and Operating Expenses, shall not interfere with the performance by Landlord or Landlord's contractor with construction activities at the Project, shall be limited to the last ten (10) days prior to the estimated Substantial Completion of the Premises, and shall be made only with the advance written consent of Landlord, which consent shall not be unreasonably withheld. In the event of entry by Tenant or its agents onto the Premises prior to the Term Commencement Date, Tenant agrees to indemnify, protect, defend and hold harmless Landlord and its contractors and agents from any and all loss or damage to property, completed work, fixtures, equipment, materials or merchandise, or from liability for death of or injury to any person arising from Tenant's entry onto the Premises, except to the extent caused by the gross negligence or willful misconduct of Landlord or its agents or contractors.

5. RENT.

5.1 Tenant agrees to pay Landlord as Basic Annual Rent for the Premises the sum set forth in Section 2.1.2, subject to adjustment as set forth in Section 6.1 and 8.3, in the equal monthly installments set forth in Section 2.1.3, subject to adjustment as set forth in Sections 6.1 and 8.3, each in advance on the Term Commencement Date and on the first day of each and every calendar month thereafter during the term of this Lease; provided, however, the first two (2) months after the time period set for in Section 3.1 shall be free of the monthly installment of Basic Annual Rent.

5.2 In addition to Basic Annual Rent, Tenant agrees to pay to Landlord as additional rent ("ADDITIONAL RENT"), at the times hereinafter specified in this Lease (i) Tenant's Pro Rata Share (as defined in Section 7.4(a) and as set forth in Section 2.1.4, subject to adjustment pursuant to Section 8.3) of Operating Expenses as provided in Article 7 and (ii) all other amounts that Tenant assumes or agrees to pay under the provisions of this Lease, including but not limited to any and all other sums that may become due by reason of any default of Tenant under this Lease or failure on Tenant's part to comply with the agreements, terms, covenants and conditions of this Lease to be performed by Tenant.

5.3 Basic Annual Rent and Additional Rent shall together be denominated "RENT." Except as expressly set forth in this Lease, Rent shall be paid to Landlord, without notice, demand, abatement, suspension, deduction, setoff, counterclaim, or defense, in lawful money of the United States of America, at the office of Landlord as set forth in Section 2.1.8 or to such other person or at such other place as Landlord may from time to time designate in writing.

5.4 In the event the Term of this Lease commences or ends on a day other than the first day of a calendar month, then the Rent for such fraction of a month shall be prorated for such period on the basis of a thirty (30) day month and shall be paid at the then current rate for such fractional month prior to the commencement of the partial month.

6. RENTAL ADJUSTMENTS.

6.1 The Basic Annual Rent then in effect (and as previously increased pursuant to this Section 6.1) shall be increased each year by three percent (3%) on each annual anniversary of the Term Commencement Date for so long as this Lease continues in effect.

7. OPERATING EXPENSES.

7.1 As used herein, the term "OPERATING EXPENSES" shall include:

(a) Government impositions including, without limitation, real and personal property taxes and assessments (but excluding personal property taxes and assessments of other tenants of the Project) levied upon the Project or any part thereof; amounts due under any improvement bond upon the Project and assessments levied in lieu thereof (except to the extent they represent costs related to the initial construction of the Project); any tax on or measured by gross rentals received from the rental of space in the Project or tax based on the square footage of the Building to the extent such tax is in lieu of or in the nature of a property tax (not an income tax, but a tax based on revenue in the nature of a property tax if imposed in the future); and any utilities surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof promulgated by, any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Building or Project, and any expenses, including the reasonable cost of attorneys or experts, reasonably incurred by Landlord in seeking reduction by the taxing authority of the applicable taxes not to exceed the amount of any such reduction, less tax refunds obtained as a result of an application for review thereof.

(b) Except as set forth in Section 7.2 below, all other costs paid or incurred by Landlord which, in accordance with generally accepted accounting principles as applied to the operation and maintenance of first class buildings, are properly chargeable to the maintenance and operation of the Project including, by way of examples and not as a limitation upon the generality of the foregoing, costs of (i) maintenance, repairs and replacements to improvements within the Project as appropriate to maintain the Project in first class condition; (ii) utilities furnished to the Project (except those utilities which are separately metered and paid by individual tenants); (iii) sewer fees; (iv) trash collection; (v) cleaning (including windows); (vi) maintenance of landscape and grounds; (vii) maintenance of drives and parking areas, including periodic resurfacing; (viii) reasonable and customary security services; (ix) maintenance, repair, and replacement of reasonable and customary security devices; (x) building supplies; (xi) maintenance, repair, and replacement of equipment utilized for operation and maintenance of the Project;

(xii) costs of maintenance, repairs and replacements of mechanical, electrical, plumbing, sprinkler, and other systems of the Project; (xiii) insurance premiums; (xiv) portions of insured losses deductible by reason of insurance policy terms (insurance deductibles); (xv) periodic review of Hazardous Material Inventories (as defined in Section 39.6) to confirm compliance with applicable building and fire code requirements; (xvi) service contracts for work of a nature before referenced; (xvii) costs of services of independent contractors retained to do work of a nature before referenced at reasonable and customary rates; (xviii) costs of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with the day-to-day operation and maintenance of the Project at reasonable and customary rates; and (xviii) reasonable costs of management services equal to four percent (4%) of the Basic Annual Rent; provided, however, that any costs for repairs or replacements which would be deemed of a "capital" nature under generally accepted accounting principles shall be amortized over the useful life of the repair or replacement as determined under Internal Revenue Service guidelines, and Tenant shall pay only that portion of the costs which are amortized over the balance of the term, payable at the time the costs are incurred to the extent Tenant's share of the costs are less than $1.75 per square foot of Rentable Area of the Premises, with the balance payable on a monthly basis during the balance of the term.

7.2 Notwithstanding the foregoing, Tenant shall not be responsible for the payment of the following costs and expenses:

(a) costs incurred for the construction of the Project (including the current renovation of the Project into a biotech facility);

(b) costs incurred for the repair, maintenance or replacement of the structural components of the footings, foundation, ground floor slab, and load bearing walls of the Building (but excluding painting and ordinary maintenance and repair of exterior surfaces, which are Operating Expenses under Section 7.1(b));

(c) costs recovered under any construction or materials warranty procured by Landlord, pursuant to Section 14.4 or otherwise, to the extent paid pursuant to the warranty;

(d) costs of any kind, including attorneys fees, incurred to correct any defects in design, materials or construction of the Project;

(e) costs, expenses and penalties (including without limitation attorneys' fees) incurred as a result of the use, storage, removal or

remediation of any toxic or hazardous substances or other environmental contamination not caused by Tenant or its employees, contractors, agents, representatives, or invitees;

(f) interest, principal, points and other fees on debt or amortization of any debt secured in whole or part by all or any portion of the Project (provided that interest upon a government assessment or improvement bond payable in installments is an Operating Expense under Section 7.1(a));

(g) costs incurred in connection with the financing, sale or acquisition of the Project or any portion thereof;

(h) costs, expenses, and penalties (including without limitation attorneys' fees) incurred due to the violation by Landlord of any underlying deed of trust or mortgage affecting the Project or any portion thereof;

(i) depreciation and amortization of any type (provided this exclusion is not intended to delete from Operating Expenses actual costs of maintenance, repairs and replacements which are otherwise included within Operating Expenses);

(j) any costs incurred as a result of Landlord's violation of any statute, ordinance or other source of applicable law, or breach of contract or tort liability to any other party, including without limitation, any third party, or Landlord's employees, contractors, agents or representatives;

(k) costs incurred in leasing or procuring tenants (including, without limitation, lease commissions, advertising expenses, attorneys' fees and expenses of renovating space for tenants);

(l) advertising, marketing, media and promotional expenditures regarding the Project and costs of signs identifying the owner, lender or any contractor thereof;

(m) any wages, fees, salaries, benefits or other compensation of the executive employees or principals of Landlord;

(n) any rentals and related expenses incurred in leasing equipment which may be classified as capital expenditures under generally accepted accounting principles; provided, however, leasing and other expenses of the deionized water system will be included in Operating Expenses.

(o) any net income, franchise, capital stock, estate or inheritance taxes or taxes which are the personal obligation of Landlord or of another tenant of the Project;

(p) expenses which relate to preparation of rental space for other occupants of the Project, including without limitation building, license and inspection costs, incurred with respect to the installation of improvements made for other occupants of the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant tenant space in the Project for other occupants in the Project.

(q) legal expenses arising out of the initial construction of the Project or any Tenant Improvements or for the enforcement of the provisions of any tenant leases other than this Lease;

(r) the cost of any work or service performed for or facilities furnished to another occupant of the Project at such occupant's cost;

(s) any interest or penalties imposed upon Landlord by any taxing authority for late payment or otherwise;

(t) any other expense otherwise chargeable as part of the cost of operation and maintenance but which is not of general benefit to the Project but is primarily for the benefit of one or more specific tenants;

(u) Landlord's charitable or political contributions;

(v) the amount of any payments to subsidiaries and affiliates of Landlord for services to the Project or for supplies or other materials to the extent that the cost of such services, supplies or materials exceeds the cost which would have been paid had the services, supplies or materials been provided by unaffiliated parties on a competitive basis (provided, however, any fee for management services paid to an affiliate of Landlord shall be in the amount set forth in Section 7.1[b]); and

(w) electric power or other utility costs for which

Tenant directly contracts with a public service company.

7.3 Tenant shall pay to Landlord on the first day of each calendar month of the Term of this lease, as Additional Rent, Landlord's written good faith estimate of Tenant's Pro Rata Share (as set forth in 2.1.4) of Operating Expenses with respect to the Project for such month.

(a) "TENANT'S PRO RATA SHARE" under this Lease shall mean the percentage set forth in Section 2.1.4 (subject to adjustment pursuant to Section 8.3), determined by dividing the Rentable Area of the Premises by the total Rentable Area of the Project.

(b) Within sixty (60) days after the conclusion of each calendar year, Landlord shall furnish to Tenant in writing a statement (the "ANNUAL OPERATING EXPENSE STATEMENT") showing in reasonable detail the actual Operating Expenses and Tenant's Pro Rata Share of Operating Expenses for the previous calendar year. Any additional sum due from Tenant to Landlord shall be due and payable within thirty (30) days of Tenant's receipt of such statement. If the amounts paid by Tenant pursuant to this Section 7.3 exceed Tenant's Pro Rata Share of Operating Expenses for the previous calendar year, the difference shall be credited by Landlord against the Rent next due and owing from Tenant; provided that, if the Lease term has expired, Landlord shall accompany said statement with payment for the amount of such difference. (c) Any amount due under this Section 7.3 for any period which is less than a full month shall be prorated for such fractional month.

(d) Notwithstanding this Section 7.3, Operating Expenses which can fairly and reasonably be allocated to one or more tenants of the Project shall be so allocated, and shall be separately scheduled in the Landlord's written good faith estimate and Landlord's Annual Operating Expense Statement.

7.5 Tenant shall have the right, at Tenant's expense, upon reasonable notice during reasonable business hours, to review that portion of Landlord's books, records, invoices, and other data which are relevant to preparation of the Annual Operating Expense Statement provided any request for such review shall be furnished within one hundred eighty (180) days after

Tenant's receipt of such statement as to prior year's Operating Expenses. If the amount of Operating Expenses relating to the Premises identified on such annual statement is found to exceed the actual Operating Expenses of the Premises, Landlord shall, within twenty (20) days after Tenant's request therefor, refund to Tenant the amount of overpayment by Tenant. In addition, if such review reveals that the Operating Expenses paid by Tenant in any year exceed one hundred five percent (105%) of the actual Operating Expenses which should have been paid by Tenant in such year, Landlord shall reimburse Tenant for the reasonable cost of such review within 10 business days following Tenant's written request for the cost of such review. In all other cases, Tenant shall pay for the reasonable cost of the review.

7.6 Operating Expenses for the calendar year in which Tenant's obligation to pay them commences and in the calendar year in which such obligation ceases shall be prorated. Expenses such as taxes, assessments and insurance premiums which are incurred for an extended time period shall be prorated based upon time periods to which applicable so that the amounts attributed to the Premises relate in a reasonable manner to the time period wherein Tenant has an obligation to pay Operating Expenses.

8. RENTABLE AREA.

8.1 The Rentable Area of the Project is determined by making separate calculations of the Rentable Area of each floor of the Building, and totaling the Rentable Area of each floor within the Building. The Rentable Area of a floor is calculated by measuring to the outside finished surface of each permanent outer building wall where the wall intersects or joins the floor, or where it would have intersected the floor except for recessed entryways, windows and the like (also known as the "drip line", measured from where the outside finished surface of the second floor wall intersects the roof). The full area calculated as set forth above is included as Rentable Area of the Project without deduction for (i) columns and projections, (ii) vertical penetrations such as stairwells, elevator shafts, flues, pipe shafts, vertical ducts, atriums, and the like, or their enclosing walls corridors, (iii) entrance ways, lobbies, corridors, equipment rooms, and rest rooms, and the like, or their enclosing walls, or (iv) any other unusable area of any nature.

8.2 The term "RENTABLE AREA" when applied to the Premises is the area to be occupied exclusively by Tenant plus a pro rata allocation of Rentable Area within the Project which is not then utilized or expected to be utilized exclusively by Tenant or other tenants of the Project, including but not limited to the portions of the Building devoted to columns, projections, vertical penetrations, entrance ways, lobbies, corridors, equipment rooms, rest

rooms, lunch rooms, conference rooms, library, and fitness center. If the Premises are separated from space occupied by another tenant, the Rentable Area shall be measured to the center of any interior demising walls.

8.3 The Rentable Area as set forth in Section 2.1.1 is an estimate of the area which constitutes the Rentable Area of the Premises, which, at the request of either Landlord or Tenant made within ninety (90) days after the Term Commencement Date, shall be adjusted in accordance with measurement and

written certification of the Project architect. If the Rentable Area as determined hereunder is more or less than the Rentable Area set forth in Section 2.1.1, Basic Annual Rent, monthly installments of Basic Annual Rent, and Tenant's Pro Rata Share of Operating Expenses shall be adjusted upward or downward, as the case may be, based on the actual Rentable Area of the Premises.

9. SECURITY DEPOSIT.

9.1 Concurrently with the execution of this Lease, Tenant shall deposit with Landlord cash in the amount set forth in Section 2.1.6, to be held by Landlord as security for the faithful performance by Tenant of all of the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the term and any extension term hereof. If Tenant defaults with respect to any provision of this Lease, including but not limited to any provision relating to the payment of Rent, and subject to any notice requirements and cure periods for Tenant's benefit set forth in Article 24, Landlord may (but shall not be required to) draw from the security deposit the amount required to cure the default, and to use, apply or retain the security deposit for the payment of any Rent or any other sum in default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. The security deposit shall not be deemed to be held by Landlord in trust, need not be segregated from other funds of Landlord, and shall not bear interest. Landlord is hereby granted a security interest in the security deposit pursuant to the provisions of the California Commercial Code, which security interest shall be perfected by Landlord taking possession of the security deposit.

9.2 In the event Landlord applies any portion of the security deposit in accordance with the terms of this Lease, Tenant shall within ten (10) days after another request therefor replenish the security deposit to the full amount set forth above.

9.3 The security deposit shall be transferable by Landlord to a successor Landlord and to Landlord's mortgage lender which is a beneficiary of a deed of trust encumbering the Premises, provided such lender agrees to hold the security deposit pursuant to the terms of this Lease.

9.4 In the event of bankruptcy or other debtor/creditor proceedings against Tenant, the security deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for all periods prior to the filing of such proceedings.

9.5 Landlord shall deliver the security deposit to any purchaser of Landlord's interest in the Premises, and thereupon Landlord shall be discharged from any further liability with respect thereto provided that such purchaser has agreed to assume in writing the obligations of Landlord hereunder. This provision shall also apply to any subsequent transfers.

9.6 The security deposit shall be returned to Tenant within thirty (30) days following the later of the expiration of the Lease or the date Tenant fully vacates the Premises, except for amounts which are needed by Landlord to cure any default by Tenant.

10. USE.

10.1 Tenant may use the Premises only for laboratory research and development and related administrative, office and other ancillary uses as permitted by (i) the applicable zone under the City of San Diego Land Development Code, (ii) any other laws, regulations, ordinances, and permits applicable to the Project, and (iii) all covenants, conditions and restrictions recorded against the property, and shall not use the Premises, or permit or suffer the Premises to be used for any other purpose without the prior written consent of Landlord.

10.2 Tenant shall conduct its business operations and use the Premises in compliance with all federal, state, and local laws, regulations, ordinances, requirements, permits and approvals applicable to the Premises. Tenant shall not use or occupy the Premises in violation of any law or regulation or the certificate of occupancy issued for the Building, and shall,

upon five (5) days written notice from Landlord, discontinue any use of the Premises which is declared by any governmental authority having jurisdiction to be a violation of law or the certificate of occupancy. Tenant shall comply with any direction of any governmental authority having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Premises, impose any duty upon Tenant or Landlord with respect to the Premises or with respect to Tenant's particular use or occupation thereof. Tenant shall not be deemed to be in default of the foregoing obligation if it has the right to appeal such directive and Tenant prosecutes such appeal in a timely fashion and in a manner that does not impose or threaten to impose any lien, charge or other obligation on Landlord or any portion of the Project.

10.3 Tenant shall not do or permit to be done anything which will invalidate or increase the cost (unless Tenant agrees to pay such increased cost) of any fire, extended coverage or any other insurance policy covering the Premises, or which will make such insurance coverage unavailable on commercially reasonable terms and conditions, and shall comply with all rules, orders, regulations and requirements of the insurers of the Premises.

10.4 Subject to the warranty of Landlord in Section 14.3, Tenant shall cause the Premises to comply with the Americans with Disabilities Act of 1990 ("ADA"), and the regulations promulgated thereunder, as amended from time to time. All responsibility for compliance with the ADA relating to the Premises and the activities conducted by Tenant within the Premises after the Term Commencement Date shall be exclusively that of Tenant and not of Landlord, including any duty to make capital improvements, alterations, repairs and replacements to the Premises; provided, however, (i) Landlord shall be responsible for compliance with the ADA to the extent of a violation of Landlord's warranty in Section 14.3; (ii) Landlord shall make all improvements outside of the Premises required for compliance with the ADA (with only the amortized costs of capital improvements payable by Tenant as an Operating Expense under Section 7.1(b)); and (iii) neither Tenant nor Landlord shall be required to make capital improvements, alterations, repairs or replacements to comply with the ADA unless and until required to do so by order of a government entity or court of law exercising proper jurisdiction with regard thereto, subject to any right to appeal or otherwise contest any such order. Any alterations to the Premises made by Tenant for the purpose of complying with the ADA or which otherwise require compliance with the ADA shall be done in accordance with Article 17; provided, that Landlord's consent to such

alterations shall not constitute either Landlord's assumption, in whole or in part, of Tenant's responsibility for compliance with the ADA, or representation or confirmation by Landlord that such alterations comply with the provisions of the ADA.

10.5 Landlord shall identify Tenant on the Building directory in the Building lobby, and shall identify Tenant on a plaque installed beside the main door to the Premises. Tenant may not install any signage outside of the Premises. The expense of the directory, plaque and any and all other signage, if any, shall be paid by Tenant as an Operating Expense pursuant to Article 7.

10.6 No equipment shall be placed at a location within the Building other than a location designed to carry the load of the equipment. Equipment weighing in excess of floor loading capacity shall not be placed in the Building.

10.7 Tenant shall not use or allow the Premises to be used for any unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance or waste in, on, or about the Premises.

10.8 Landlord shall provide services to the Project described on Exhibit H attached hereto, subject to reimbursement by Tenant as Operating Expenses pursuant to Section 7.1(b).

11. BROKERS.

11.1 Landlord and Tenant represent and warrant one to the other that there have been no dealings with any real estate broker or agent in connection with the negotiation of this Lease other than the brokers set forth in Section 2.1.9, whose commission(s) shall be paid by Landlord. Each shall indemnify, defend, protect, and hold harmless the other from any claim of any other broker as a result of any act or agreement of the indemnitor.

11.2 To the best of Tenant's knowledge, without investigation or inquiry, Tenant represents and warrants that no broker or agent has made any representation or warranty relied upon by Tenant in Tenant's decision to enter into this Lease other than as contained in this Lease.

12. HOLDING OVER.

12.1 If, with Landlord's express written consent, Tenant holds possession of all or any part of the Premises after the expiration or earlier termination of this Lease, Tenant shall be deemed a tenant from month to month upon the date of such expiration or earlier termination, and in such case Tenant shall continue to pay in accordance with Article 5 the Basic Annual Rent as adjusted in accordance with Article 6, together with Operating Expenses in accordance with Article 7 and other Additional Rent as may be payable by Tenant, and such month-to-month tenancy shall be subject to every other term, covenant and condition contained herein.

12.2 If Tenant remains in possession of all or any portion of the Premises after the expiration or earlier termination of the term hereof without the express written consent of Landlord, Tenant shall become a tenant at sufferance upon the terms of this Lease except that monthly rental shall be equal to one hundred twenty-five percent (125%) of the Monthly Installment of Basic Annual Rent in effect during the immediately preceding calendar month.

12.3 Acceptance by Landlord of Rent after such expiration or earlier termination shall not result in a renewal or reinstatement of this Lease.

12.4 The foregoing provisions of this Article 12 are in addition to and do not affect Landlord's right to re-entry or any other rights of Landlord under Article 24 or elsewhere in this Lease or as otherwise provided by law.

13. TAXES ON TENANT'S PROPERTY

13.1 Tenant shall pay not less than ten (10) days before delinquency taxes levied against any personal property or trade fixtures placed by Tenant in or about the Premises. Tenant shall not be responsible for taxes levied against any personal property or trade fixtures of other tenants.

13.2 If any such taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property or, if the assessed valuation of the Project is increased by the inclusion therein of a value attributable to Tenant's personal property or trade fixtures, and if Landlord after written notice to Tenant pays the taxes based upon such increase in the assessed value, then Tenant shall, within thirty (30) days of receipt of satisfactory evidence of such tax increase, repay to Landlord the taxes so levied against Landlord.

13.3 If any improvements in or alterations to the Premises, whether owned by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which improvements in other spaces in the Project are assessed, then the real property taxes and assessments levied against Landlord or the Project by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property to Tenant and shall be governed by the provisions of Section 13.2 above. Any such excess assessed valuation due to improvements in or alterations to space in the Project leased by other tenants of Landlord shall not be included in the Operating Expenses defined in Section 7, but shall be treated, as to such other tenants, as provided in this Section 13.3, and shall be allocated to such other tenants. If the records of the county assessor are available and sufficiently detailed to serve as a basis for determining whether said tenant improvements or alterations are assessed at a higher valuation than improvements in other spaces in the Project, such records shall be binding on both Landlord and Tenant.

13.4 To the extent Tenant fails to make any payment required by this Article 13 and Landlord does so on Tenant's behalf, after notice to Tenant and opportunity for Tenant to make such payment, Tenant shall reimburse Landlord for the cost thereof pursuant to the provisions of Sections 7.1 and 24.3.

14. CONDITION OF PREMISES.

14.1 Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty, express or implied, with respect to the condition of the Premises or to the Project, except as set forth herein, or with respect to their suitability for the conduct of Tenant's business.

14.2 Landlord warrants to Tenant that the Tenant Improvements were built in a good and workmanlike manner and in compliance with EXHIBIT E and EXHIBIT F, and all applicable building code requirements, laws, rules, orders, ordinances, directions, regulations, permits, approvals, and requirements of all

governmental agencies, offices, departments, bureaus and boards having jurisdiction, and with the rules, orders, directions, regulations, and requirements of any applicable fire rating bureau; that the mechanical, electrical, plumbing and other building systems will be in good working order at the commencement of the term; and that the Project and the Tenant Improvements are free of patent and latent defects in design, materials and construction. Promptly after notice from Tenant, Landlord shall correct any defect in the Project or the Tenant Improvements in violation of the foregoing warranty which interferes with Tenant's use or occupancy of the Premises.

14.3 Landlord warrants to Tenant that the Project and the Tenant Improvements, at the time of initial completion, will be in compliance with ADA and the regulations promulgated thereunder; provided, however, nothing in this Lease shall be construed to require Landlord to make improvements, alterations, repairs or replacements to comply with ADA unless and until required to do so by order of any government entity or court of law exercising proper jurisdiction with regard thereto, subject to any right to appeal or otherwise contest any such order.

15. COMMON AREAS AND PARKING FACILITIES.

15.1 Tenant shall have the nonexclusive right, in common with others, to use the Common Areas, subject to the rules and regulations adopted by Landlord and attached hereto as EXHIBIT G together with such other reasonable and nondiscriminatory rules and regulations as are hereafter promulgated by Landlord (the "RULES AND REGULATIONS"); provided, however, that such rules and regulations do not unreasonably interfere with Tenant's use and enjoyment of the Premises and Common Areas. Without limiting the generality of the foregoing, Tenant may allow its employees the nonexclusive right, in common with employees of other tenants in the Building, to use the fitness facilities and equipment, provided that Tenant ensures that each employee before using the fitness facilities and equipment has executed and delivered to Landlord a waiver of liability (the "FITNESS CENTER WAIVER OF LIABILITY") in the form attached hereto as EXHIBIT I.

15.2 Tenant shall not place any storage facilities or water systems, mechanical equipment, emergency generators or other facilities or property on the surface parking area or otherwise outside of the Premises without the express written consent of Landlord, and any space used for such facilities shall be deducted from Tenant's Pro Rata Share of parking described below.

15.3 As an appurtenance to the Premises, Tenant, and its employees and invitees, shall be entitled to use without charge three (3) parking spaces (which includes a pro rata share of visitor and handicap parking spaces) for each 1,000 square feet of usable area of the Premises in common with

other tenants of the Project. The Project shall have at least three (3) parking spaces for each 1,000 square feet of usable area of the entire Project. The term "usable area" as used herein refers not to the Rentable Area of the Premises, but to the area actually occupied by Tenant.

16. UTILITIES AND SERVICES.

16.1 Tenant shall pay for all water, gas, electricity, telephone, cable, and other utilities which may be furnished to the Premises during the term of this Lease, together with any taxes thereon. If any such utility is not separately metered to Tenant, Tenant shall pay Tenant's Pro Rata Share of the costs thereof as an Operating Expense unless Landlord has installed separate meters or measuring devices for the determination of Tenant's actual use of such utility service. Utilities and services provided to the Premises which are separately metered shall be paid by Tenant directly to the supplier of such utility or service, and Tenant shall pay for such utilities and services prior to delinquency during the term of this Lease. In the event one tenant of the Project is using a disproportionate amount of any utility that is not separately metered, Landlord shall allocate an equitable portion of such utility cost directly to such tenant. The primary measurement for metering usage will be based upon the cubic feet per minute of air supplied to the premises.

16.2 Landlord shall not be liable for, nor shall any eviction of Tenant result from, any failure of any such utility or service, and in the event of such failure Tenant shall not be entitled to any abatement or reduction of Rent, nor be relieved from the operation of any covenant or agreement of this Lease, and Tenant waives any right to terminate this Lease on account thereof. Notwithstanding the foregoing:

(i) in the event that Landlord is unable to supply any of the Building's sanitary, electrical, heating, air conditioning, water, elevator, life safety or other essential systems serving the Premises (collectively, the "ESSENTIAL SERVICES") from a cause within Landlord's

reasonable control, and such inability of Landlord materially impairs Tenant's ability to carry on its business in the Premises for a period of ten (10) consecutive calendar days, Basic Annual Rent and Additional Rent shall be abated commencing with the eleventh (11th) day of such material interference with Tenant's business, based upon the extent to which such inability to supply Essential Services materially impairs Tenant's ability to carry on its business in the Premises. Such abatement shall continue until the Essential Services have been restored to such extent that the lack of any remaining services no longer materially impairs Tenant's ability to carry on its business in the Premises. Tenant shall not be entitled to such an abatement to the extent that Landlord's inability to supply Essential Services to Tenant is caused by Tenant or its employees, contractors, agents, licensees or invitees; and

(ii) in the event that Landlord is unable to supply any Essential Services by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, labor disputes, inability to obtain utilities or materials or by any other reason beyond Landlord's reasonable control, and (i) such inability of Landlord prevents Tenant from carrying on its business in the Premises for a period of thirty (30) consecutive calendar days or (ii) such inability of Landlord materially impairs Tenant's ability to carry on its business in the Premises for a period of sixty (60) consecutive calendar days, then Basic Annual Rent and Additional Rent shall be abated commencing with the day after such thirty (30) or sixty (60) day period, as the case may be, based upon the extent

to which such inability to supply Essential Services materially impairs Tenant's ability to carry on its business in the Premises. Such abatement shall continue until the Essential Services have been restored to the extent that the lack of any remaining services no longer materially impairs Tenant's ability to carry on its business in the Premises. Tenant shall not be entitled to such an abatement to the extent that Landlord's inability to supply Essential Services to Tenant is caused by Tenant or its employees, contractors, agents, licensees or invitees; and

(iii) in the event of any stoppage or interruption of Essential Services to the Premises, Landlord shall use commercially reasonable efforts to restore Essential Services to the Premises as soon as possible; provided, that Tenant shall have the right, at its option, to terminate this Lease by written notice to Landlord if such failure to provide Essential Services by Landlord continues for any reason (other than the actions of Tenant or its employees, contractors, agents, licensees or invitees) for more than one hundred eighty (180) consecutive calendar days and such failure materially impairs Tenant's ability to carry on its business in the Premises.

16.3 Tenant shall provide and pay for janitors, maintenance personnel, and other persons who perform duties connected with the operation and maintenance of the interior of the Premises.

17. ALTERATIONS.

17.1 Tenant shall make no alterations, additions or improvements (hereinafter in this article, "IMPROVEMENTS") in or to the Premises without Landlord's prior written consent, which shall not be unreasonably withheld; provided, however, it shall not be unreasonable for Landlord to withhold consent if the proposed Improvements would in the opinion of Landlord adversely affect the use of the Premises for generic laboratory-based research and development space as part of an integrated Building plan after the expiration or earlier termination of this Lease. Tenant shall deliver to Landlord final plans and specifications and working drawings for the Improvements to Landlord, and Landlord shall have ten (10) days thereafter to grant or withhold its consent. If Landlord does not notify Tenant of its decision within the ten (10) days, Landlord shall be deemed to have given its approval.

17.2 If a permit is required to construct the Improvements, Tenant shall deliver a completed, signed-off inspection card to Landlord within ten (10) days of completion of the Improvements, and shall promptly thereafter obtain and record a notice of completion and deliver a copy thereof to Landlord.

17.3 The Improvements shall be constructed only by licensed contractors or mechanics. Tenant shall use only those contractors listed on EXHIBIT H for the trades listed thereon; all other contractors shall be approved by Landlord, which approval shall not be unreasonably withheld or delayed. Any such contractor must have in force a general liability insurance policy of not less than $2,000,000 or such higher limits as Landlord may reasonably require, which policy of insurance shall name Landlord as an additional insured. Tenant shall provide Landlord with a copy of the contract with the contractor or mechanic prior to the commencement of any construction requiring Landlord's consent.

17.4 Tenant agrees that any work by Tenant shall be accomplished in such a manner as to permit any fire sprinkler system and fire water supply lines to remain fully operable at all times except when minimally necessary for building reconfiguration work.

17.5 Tenant covenants and agrees that all work done by Tenant shall be performed in full compliance with all laws, rules, orders, ordinances, directions, regulations, permits, approvals, and requirements of all governmental agencies, offices, departments, bureaus and boards having jurisdiction, and in full compliance with the rules, orders, directions, regulations, and requirements of any applicable fire rating bureau. Tenant shall provide Landlord with "as-built" plans showing any material change in the Premises within thirty (30) days after completion.

17.6 Before commencing any work, Tenant shall give Landlord at least five (5) days' prior written notice of the proposed commencement of such work.

17.7 At the time Landlord consents to the Improvements pursuant to Section 17.1, Landlord shall identify those Improvements which Tenant shall be required to remove upon the expiration or earlier termination of the Lease, and Landlord and Tenant shall mutually identify those Improvements which Tenant may remove upon the expiration or earlier termination of this Lease. Landlord and Tenant shall list any such Improvements on SCHEDULE 1 attached hereto, designating those which Tenant shall be required to remove and those which Tenant may remove. With respect to those Improvements not so identified, Landlord and Tenant acknowledge and agree that Landlord's approval of the final plans and specifications and working drawings for the Improvements pursuant to Section 17.1 shall be deemed Landlord's and Tenant's agreement that those Improvements not so identified shall become the property of Landlord upon the expiration or earlier termination of this Lease, and shall remain upon and be surrendered with the Premises as a part thereof. Those Improvements identified as Improvements which Tenant may remove are included within the term "Tenant's Removable Property" defined in Section 30.3. Notwithstanding the provisions of Section 30.3, Tenant shall, at Landlord's election, upon the expiration or earlier termination of this Lease, remove the Improvements which are identified as Improvements which Tenant shall be required to remove, and restore and return the Premises to the condition they were in when first occupied by Tenant.

18. REPAIRS AND MAINTENANCE.

18.1 Landlord shall repair, replace and maintain the structural and exterior portions of the Building and Project, including foundations, exterior walls, load bearing walls, windows, plate glass, and roofing, and the mechanical, electrical, plumbing, fire sprinkler, and elevator systems of the Project, subject to reimbursement by Tenant as its Pro Rata Share of Operating Expenses to the extent provided by Section 7.1. However, if such maintenance or repairs are required because of any act, neglect, fault of or omissions of any duty by Tenant, its agents, servants, employees or invitees, Tenant shall pay to Landlord the entire cost of such maintenance and repairs attributable to Tenant's act, neglect, fault or omission, unless such maintenance and repairs are covered by insurance carried by Landlord.

18.2 Except as otherwise set forth in Section 18.1, Tenant shall, throughout the term of this Lease, at Tenant's sole cost and expense, keep the Premises and every part thereof in good condition and repair. Tenant shall upon the expiration or earlier termination of the term hereof surrender the Premises to Landlord in substantially the same condition as when received, ordinary wear and tear and damage from casualty and causes beyond the reasonable control of Tenant excepted.

18.3 Tenant hereby waives Civil Code Sections 1941 and 1942 relating to a landlord's duty to maintain the Premises in a tenantable condition, and the under said sections or under any law, statute or ordinance now or hereafter in effect to make repairs at Landlord's expense.

18.4 There shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Premises, or in or to improvements, fixtures, equipment and personal property therein, unless such injury or interference is unreasonable or is the result of Landlord's grossly negligent or willful act or omission. If repairs or replacements become necessary which by the terms of this Lease are the responsibility of Tenant and Tenant fails to make the repairs or replacements, after notice from Landlord and opportunity for Tenant to make such repairs or replacements, Landlord may do so pursuant to the provisions of Section 24.3.

18.5 Notwithstanding any of the foregoing, in the event of a fire, earthquake, flood, war or other similar cause of damage or destruction, this Article shall not be applicable and the provisions of Article 22, entitled

"Damage or Destruction," shall apply and control.

19. LIENS.

19.1 Tenant shall keep the Premises, the Building and the property upon which the Building is situated free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant. Tenant further covenants and agrees that any mechanic's lien filed against the Project or the Premises for work claimed to have been done for, or materials claimed to have been furnished to, Tenant will be discharged by Tenant, by bond or otherwise, within thirty (30) days after receiving written notice thereof (or within ten (10) business days after the filing thereof if requested by Landlord as necessary to facilitate a pending sale or refinancing), at the cost and expense of Tenant.

19.2 Should Tenant fail to discharge any lien of the nature described in Section 19.1, Landlord may at Landlord's election pay such claim or post a bond or otherwise provide security to eliminate the lien as a claim against title and the cost thereof shall be immediately due from Tenant as Additional Rent.

19.3 In the event Tenant shall lease or finance the acquisition of equipment, furnishings, or other personal property utilized by Tenant in the operation of Tenant's business, Tenant warrants that any Uniform Commercial Code financing statement executed by Tenant will upon its face or by exhibit thereto indicate that such financing statement is applicable only to personal property of Tenant specifically described in the financing statement. In no event shall the address of the Building be furnished on the financing statement without qualifying language as to applicability of the lien only to removable property of Tenant described in the financing statement. Should any

holder of a security agreement executed by Tenant record or place of record a financing statement which appears to constitute a lien against any interest of Landlord, Tenant shall within ten (10) days after the filing of such financing statement cause (i) copies of the security agreement or other documents to which the financing statement pertains to be furnished to Landlord to facilitate Landlord's being in a position to show such lien is not applicable to any interest of Landlord, and (ii) the holder of the security interest to amend documents of record so as to clarify that such lien is not applicable to any interest of Landlord in the Premises. Landlord shall execute such documents as are reasonably required by Tenant or Tenant's lenders or equipment lessors provided the same do not in any way alter the rights of Landlord under this Lease.

20. INDEMNIFICATION AND EXCULPATION.

20.1 Except to the extent of the responsibility of Landlord pursuant to Section 20.2 hereof, Tenant agrees to indemnify Landlord and its members and affiliates, and their respective shareholders, directors, managers, members, partners, lenders, officers, agents, and employees (collectively, "LANDLORD'S AGENTS"), against, and to protect, defend, and save them harmless from, all demands, claims, causes of action, liabilities, losses and judgments, and all reasonable expenses incurred in investigating or resisting the same (including reasonable attorneys' fees), for death of or injury to person or damage to property arising out of (i) any occurrence in, upon or about the Premises during the term of this Lease, (ii) Tenant's use, occupancy, repairs, maintenance, and improvements of the Premises and all improvements, fixtures, equipment and personal property thereon, and (iii) any act or omission of Tenant, its shareholders, directors, officers, agents, employees, servants, contractors, invitees and subtenants, except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's Agents. Tenant's obligation under this Section 20.1 shall survive the expiration or earlier termination of the term of this Lease.

20.2 Landlord agrees to indemnify Tenant and Tenant's shareholders, directors, managers, members, partners, lenders, affiliates, officers, agents, and employees (collectively "TENANT'S AGENTS") against and save them harmless from all demands, claims, causes of action and judgments, and all reasonable expenses incurred in investigating or resisting the same (including reasonable attorneys' fees), for death of, or injury to, any person or damage to property arising from or out of any occurrence in, upon, or about the Premises during the term of this Lease to the extent caused by the negligence or willful misconduct of Landlord or Landlord's Agents. Landlord's obligations under this Section 20.2 shall survive the expiration or earlier termination of the term of this Lease.

20.3 Notwithstanding any provision of this Article 20 to the contrary, Landlord shall not be liable to Tenant and Tenant assumes all risk of damage to and loss of any fixtures, goods, inventory, merchandise, equipment, records, research, experiments, animals and other living organisms, computer

hardware and software, leasehold improvements, and other personal property of any nature whatsoever, and Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom relative to such damage, other than to the extent Landlord receives proceeds of insurance specifically allocated to such damage or loss. Tenant acknowledges that it is Tenant's obligation to procure insurance against any such damages or loss pursuant to Section 21.4, and that it would be impractical for Landlord to procure any such insurance in that

the nature of Tenant's business makes the risks uncertain and difficult to underwrite and the potential risks are greater than Landlord is willing to assume. Therefore, regardless of the fault of Landlord, Landlord shall not be liable for any such damage or loss, other than to the extent Landlord receives proceeds of insurance specifically allocated to such damage or loss.

20.4 The indemnity obligations of both Landlord and Tenant under this Section 20 shall be satisfied to the extent of proceeds of applicable insurance maintained by the indemnifying party to the extent thereof, and thereafter to proceeds of any applicable insurance maintained by the other party; Landlord and Tenant shall be required to satisfy any such obligation only to the extent it is not satisfied by proceeds of applicable insurance as set forth above.

20.5 Security devices and services, if any, while intended to deter crime may not in given instances prevent theft or other criminal acts of third parties and it is agreed that Landlord shall not be liable for injuries or losses caused by criminal acts of third parties and the risk that any security device or service may malfunction or otherwise be circumvented by a criminal is assumed by Tenant, other than such injuries caused by the gross negligence or intentional conduct of the Landlord. Tenant shall at Tenant's cost obtain insurance coverage to the extent Tenant desires protection against such criminal acts.

20.6 Neither Landlord nor Tenant shall be liable to the other for any damages arising from any act or neglect of any other tenant or occupant of the Building or Project.

21. INSURANCE - WAIVER OF SUBROGATION.

21.1 Commencing prior to Tenant's first entry onto the Premises for purposes of installing any improvements, fixtures or personal property, but no later than the Term Commencement Date, and continuing at all times during the term of this Lease, Tenant shall maintain, at Tenant's expense, commercial general liability insurance, on an occurrence basis, insuring Tenant and Tenant's agents, employees and independent contractors against all bodily injury, property damage, personal injury and other covered loss arising out of the use, occupancy, improvement and maintenance of the Premises and the business operated by Tenant, or any other occupant, on the Premises. Such insurance shall have a minimum combined single limit of liability per occurrence of not less than $2,000,000 and a general aggregate limit of $4,000,000. Such insurance shall: (i) name Landlord, and Landlord's lenders if required by such lenders, and any management company retained to manage the Project if requested by Landlord, as additional insureds; (ii) include a broad form contractual liability endorsement insuring Tenant's indemnity obligations under Section 20.1; (iii) provide that it is primary coverage and noncontributing with any insurance maintained by Landlord or Landlord's lenders, which shall be excess insurance with respect only to losses arising out of Tenant's negligence; and (iv) provide for severability of interests or include a cross-liability endorsement, such that an act or omission of an insured shall not reduce or avoid coverage of other insureds.

21.2 At all times during the term of this Lease, Landlord shall maintain, subject to reimbursement by Tenant as an Operating Expense under Section 7.1(b), "all risk" insurance, including, but not limited to, coverage against loss or damage by fire, vandalism, and malicious mischief covering the Project (exclusive of excavations, foundations and footings, and including the

Tenant Improvements), in an amount equal to one hundred percent (100%) of the full replacement value thereof. If any boilers or other pressure vessels or systems are installed on the Premises, Landlord shall maintain, subject to reimbursement by Tenant as an Operating Expense under Section 7.1(b), boiler and machinery insurance in an amount equal to one hundred percent (100%) of the full replacement value thereof. The insurance described in this Section 21.2 shall: (i) insure Landlord, and Landlord's lenders if required by such lenders, as their interests may appear; (ii) contain a Lender's Loss Payable Form (Form 438 BFU or equivalent) in favor of Landlord's lenders and name Landlord, or Landlord's lender if required by such lender, as the loss payee; (iii) provide for severability of interests or include a cross-liability endorsement, such that an act or omission of an insured shall not reduce or avoid coverage of

other insureds; and (iv) provide that it is primary coverage and non-contributing with any insurance maintained by Landlord or Landlord's lenders, which shall be excess insurance. The full replacement value of the Project, including the Tenant Improvements and other improvements and fixtures insured thereunder, shall, for the purpose of establishing insurance limits and premiums only, be determined by the company issuing the insurance policy and shall be redetermined by said company within six (6) months after completion of any material alterations or improvements to the Premises and otherwise at intervals of not more than three (3) years. Landlord shall promptly increase the amount of the insurance carried pursuant to this Section 21.2 to the amount so redetermined. The proceeds of the insurance described in this Section shall be used for the repair, replacement and restoration of the Project, including the Tenant Improvements and other improvements and fixtures insured thereunder, as further provided in Article 22; provided, however, if this Lease is terminated after damage or destruction, the insurance policy or policies, all rights thereunder and all insurance proceeds shall be assigned to Landlord

21.3 At all times during this Lease, Landlord shall maintain, pursuant to requirements of its mortgage lender, subject to reimbursement by Tenant as an Operating Expense under Section 7.1(b), commercial general liability insurance, including coverage for death, bodily injury and broad form property damage, with a combined single limit in an amount of not less than $1,000,000 per occurrence and $2,000,000 in the aggregate; umbrella excess liability coverage with a limit of not less than $20,000,000 over primary insurance, which policy shall include coverage for water damage, assumed and contractual liability coverage, premises medical payment, and automobile liability; and rental and/or business interruption insurance to cover loss of income in an amount not less than eighteen (18) months' projected receipts from the entire Project.

21.4 At all times during the term of this Lease, Tenant shall maintain, at Tenant's expense, "all risk" insurance against all damage and loss to Tenant's Removable Property, including but not limited to fixtures, goods, inventory, merchandise, equipment, records, research, experiments, animals and other living organisms, computer hardware and software, leasehold improvements, and other personal property of any nature whatsoever of Tenant or any subtenant of Tenant that may be occupying the Premises, or any portion thereof, from time to time, in an amount equal to the full replacement value thereof. Notwithstanding anything to the contrary contained here, Tenant shall be entitled to all proceeds from the insurance carried pursuant to this Section 21.4.

21.5 At all times during the term of this Lease, Tenant shall maintain workers' compensation insurance in accordance with California law, and employers' liability insurance with limits typical for companies similar to Tenant.

21.6 All of the policies of insurance referred to in this Article 21 shall be written by companies authorized to do business in California and having a policyholder rating of not less than AA (or its equivalent), or a lesser rating reasonably acceptable to Landlord, by a generally accepted insurance rating agency. Each insurer referred to in this Article 21 shall agree, by endorsement on the applicable policy or by independent instrument furnished to Landlord, that it will give Landlord, and Landlord's lenders if required by such lenders, at least ten (10) days' prior written notice by registered mail before the applicable policy shall be canceled for non-payment of premium, and thirty (30) days' prior written notice by registered mail before the applicable policy shall be canceled or altered in coverage, scope, amount or other material term for any other reason (although any failure of an insurer to give notice as provided herein shall not be a breach of this Lease by Tenant). No policy shall provide for a deductible amount in excess of $100,000, unless approved in advance in writing by Landlord, which approval shall not be unreasonably withheld or delayed. Tenant shall deliver to Landlord, and to Landlord's lenders if required by such lenders, copies of the insurance policies required to be carried by Tenant, certified by the insurer, or certificates evidencing such insurance policies, issued by the insurer, together with evidence of payment of the required premiums, prior to the required date for commencement of such coverage. At least thirty (30) days prior to expiration of any such policy, Tenant shall deliver to Landlord, and Landlord's lenders if required by such lenders, a certificate evidencing renewal, or a certified copy of a new policy or certificate evidencing the same, together with evidence of payment of the required premiums. If Tenant fails to provide to Landlord any such policy or certificate by the required date for commencement of coverage, or within fifteen (15) days prior to expiration of any policy, or to pay the premiums therefor when required, Landlord shall have the right, but not the obligation, to procure said insurance and pay the premiums therefor. Any premiums so paid by Landlord shall be repaid by Tenant to Landlord with the next due installment of rent, and failure to repay the same shall have the same consequences as failure to pay any installment of Rent.

21.7 Landlord may provide the property insurance required under this Article 21 pursuant to a so-called blanket policy or policies of property insurance maintained by Landlord.

21.8 Landlord and Tenant each hereby waive any and all rights of recovery against the other or against the officers, directors, members, managers, partners, employees, agents, and representatives of the other, on account of loss or damage to such waiving party or such waiving party's property or the property of others under its control, to the extent that such loss or damage is caused by or results from risks insured against under any insurance policy which insures such waiving party's property at the time of such loss or damage, which waiver shall continue in effect as long as the parties' respective insurers so permit. Any termination of such waiver shall be by written notice as hereinafter set forth. Prior to obtaining policies of insurance required or permitted under this Lease, Landlord and Tenant shall give notice to the insurers that the foregoing mutual waiver is contained in this Lease, and each party shall use its best efforts to cause such insurer to approve such waiver in writing and to cause each insurance policy obtained by it to provide that the insurer waives all right of recovery by way of subrogation against the other

party. If such written approval of such waiver of subrogation cannot be obtained from any insurer or is obtainable only upon payment of an additional premium which the party seeking to obtain the policy reasonably determines to be commercially unreasonable, the party seeking to obtain such policy shall notify the other thereof, and the latter shall have twenty (20) days thereafter to either: (i) identify other insurance companies reasonably satisfactory to the other party that will provide the written approval and waiver of subrogation; or (ii) agree to pay such additional premium. If neither (i) nor (ii) are done, the mutual waiver set forth above shall not be operative, and the party seeking to obtain the policy shall be relieved of the obligation to obtain the insurer's written approval and waiver of subrogation with respect to such policy during such time as such policy is not obtainable or is obtainable only upon payment of a commercially unreasonable additional premium as described above. If such policies shall at any subsequent time be obtainable or obtainable upon payment of a commercially reasonable additional premium, neither party shall be subsequently liable for failure to obtain such insurance until a reasonable time after notification thereof by the other party. If the release of either Landlord or Tenant, as set forth in the first sentence of this Section 21.8, shall contravene any law with respect to exculpatory agreements, the liability of the party in question shall be deemed not released but shall be secondary to the other's insurer.

22. DAMAGE OR DESTRUCTION.

22.1 In the event of damage to or destruction of all or any portion of the Project or the Premises or the improvements and fixtures thereon (collectively, "IMPROVEMENTS") arising from a risk covered by the insurance described in Section 21.2, Landlord shall within a reasonable time commence and proceed diligently to repair, reconstruct and restore (collectively, "RESTORE") the improvements to substantially the same condition as they were in immediately prior to the casualty. Tenant shall be responsible for its Pro Rata Share of insurance deductibles and for all costs of restoration in excess of insurance proceeds as Operating Expenses pursuant to the provisions of Article 7, provided, however, that any such costs which would be deemed of a "capital" nature under generally accepted accounting principles shall be amortized over the useful life of the repair or replacement as determined under Internal Revenue Service guidelines, and Tenant shall pay only that portion of the costs which are amortized over the balance of the term, payable at the time the costs are incurred to the extent Tenant's share of the costs are less than $1.75 per square foot of Rentable Area of the Premises, with the balance payable on a monthly basis during the balance of the term. In no event shall Tenant be liable for costs of restoration to the extent the inadequacy of insurance proceeds is due to Landlord's failure to carry the insurance required to be carried by Landlord pursuant to the terms of this Lease.

22.2 In the event of any damage to or destruction of all or any portion of the improvements arising from a risk which is not covered by the insurance required to be carried by Landlord pursuant to Section 21.2, Landlord may elect at its cost to restore the improvements, in which event Landlord shall, within a reasonable time, commence and proceed diligently to restore the improvements to substantially the same condition as they were in immediately prior to the casualty. In the event Landlord elects not to restore the improvements, this Lease shall terminate as of the date of the damage or destruction unless Tenant elects to pay the full cost of restoration.

22.3 In the event the improvements are restored pursuant to Section 22.1 or Section 22.2, this Lease shall continue in full force and effect, notwithstanding such damage or destruction; provided, however, that if the damage or destruction (i) occurs during the last year of the term and the expense of restoration exceeds $500,000, or (ii) occurs at any other time and the expense of restoration (after application of insurance proceeds) exceeds $1,000,000, Landlord may at its election terminate the Lease unless Tenant

elects to pay the full cost of restoration.

22.4 In satisfying its obligations under this Article 22, Landlord shall be not be required to fulfill its restoration responsibilities with improvements identical to those which were damaged or destroyed; rather, with the consent of Tenant, which consent will not be unreasonably withheld or delayed, Landlord may restore the damage or destruction with improvements reasonably equivalent or of reasonably equivalent value to those damaged or destroyed. Provided, however, that such restoration complies with all the then existing applicable building codes.

22.5 In the event of damage, destruction and/or restoration as herein provided, Tenant shall not be entitled to any compensation or damages occasioned by any such damage, destruction or restoration, but Tenant shall be entitled to an equitable abatement of rent in proportion to the extent the Premises are not usable by Tenant. Notwithstanding the foregoing, in the event restoration cannot reasonably be completed within six (6) months following the damage or destruction as estimated by Landlord's architect, Landlord will give notice thereof to Tenant within fifteen (15) days following such damage or destruction, and Tenant at its election may by written notice to Landlord terminate this Lease. In the event of such termination, Tenant shall have no responsibility for contributing to the expense of restoration.

22.6 Notwithstanding anything to the contrary contained in this Article, should Landlord be delayed or prevented from completing the restoration of the improvements after the occurrence of such damage or destruction by reason of acts of God, war, terrorism, government restrictions, inability to procure the necessary labor or materials, strikes, or other causes beyond the control of Landlord (but excluding economic conditions or financial inability to perform), the time for Landlord to commence or complete restoration shall be extended for the time reasonably required as a result of such event.

22.7 If an insured casualty occurs, Landlord shall make the loss adjustment with the insurance company for the insurance carried by Landlord.

22.8 Tenant waives the provisions of Civil Code Section 1932(2) and 1933(4) or any similar statute now existing or hereafter adopted governing destruction of the Premises, so that the parties' rights and obligations in the event of damage or destruction shall be governed by the provisions of this Lease.

23. EMINENT DOMAIN.

23.1 In the event the whole of the Project shall be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such taking, Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to said authority.

23.2 In the event of a partial taking of the Project for any public or quasi-public purpose by any lawful power or authority by exercise of right of appropriation, condemnation, or eminent domain, or sold to prevent such taking, then Landlord may elect to terminate this Lease if such taking is of a material nature such as to make it uneconomical to continue use of the unappropriated portions for the purposes for which they were intended, and Tenant may elect to terminate this Lease if such taking is of material detriment to, and substantially interferes with, Tenant's use and occupancy of the Premises. In no event shall this Lease be terminated when such a partial taking does not have a material adverse effect upon Landlord or Tenant or both. Termination by either party pursuant to this section shall be effective as of the date possession is required to be surrendered to said authority.

23.3 If upon any taking of the nature described in this Article 23 this Lease continues in effect, then Landlord shall promptly proceed to restore the remaining portion of the Project, including all improvements and fixtures located in the Premises, to substantially their same condition prior to such partial taking; provided, however, Landlord's obligation hereunder shall be limited to the amount of the condemnation proceeds. Basic Annual Rent shall be abated proportionately on the basis of the square feet of the Rentable Area of the Project or Premises taken.

24. DEFAULTS AND REMEDIES.

24.1 Late payment by Tenant to Landlord of Rent and other sums due will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Therefore, if any installment of Rent due from

Tenant is not received by Landlord within ten (10) days of the date such payment is due, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue rent as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment by Tenant. In addition to the late charge, Rent not paid within thirty (30) days of the date such payment is due shall bear interest from thirty (30) days after the date due until paid at the rate of ten percent (10%) per annum.

24.2 No payment by Tenant or receipt by Landlord of a lesser amount than the rent payment herein stipulated shall be deemed to be other than on account of the rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy provided. If at any time a dispute shall arise as to any amount or sum of money to be paid by Tenant to Landlord, Tenant shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of Tenant to institute suit for recovery of the payment paid under protest.

24.3 If Tenant fails to pay any sum of money (other than Basic Annual Rent) required to be paid by it hereunder, or shall fail to perform any other act on its part to be performed hereunder, Landlord may, without waiving or releasing Tenant from any obligations of Tenant, but shall not be obligated to, make such payment or perform such act; provided, that such failure by Tenant continued for ten (10) days after written notice from Landlord demanding performance by Tenant was delivered to Tenant, or resulted or could have resulted in a violation of law or the cancellation of an insurance policy maintained by Landlord. All sums so paid or incurred by Landlord, together with interest thereon, from the date such sums were paid or incurred, at the annual rate equal to ten percent (10%) per annum shall be payable to Landlord on demand as Additional Rent.

24.4 The occurrence of any one or more of the following events shall constitute a default hereunder by Tenant:

(a) The failure by Tenant to make any payment of Rent, as and when due, where such failure shall continue for a period of five (5) days, without the necessity of notice thereof from Landlord to Tenant;

(b) The failure by Tenant to observe or perform any obligation other than described in Section 24.4(a) to be performed by Tenant, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required to cure the default, then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute the same to completion. Such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161;

(c) Tenant makes an assignment for the benefit of creditors;

(d) A receiver, trustee or custodian is appointed to, or does, take title,
possession or control of all, or substantially all, of Tenant's assets;

(e) An order for relief is entered against Tenant pursuant to a voluntary or involuntary proceeding commenced under any chapter of the Bankruptcy Code;

(f) Any involuntary petition is filed against the Tenant under any chapter of the Bankruptcy Code and is not dismissed within ninety (90) days; or

(g) Tenant's interest in this Lease is attached, executed upon, or otherwise judicially seized and such action is not released within ninety (90) days of the action.

Notices given under this Section shall specify the alleged default and shall demand that Tenant perform the provisions of this Lease or pay the Rent that is in arrears, as the case may be, within the applicable period of time, or quit the Premises. No such notice shall be deemed a forfeiture or a termination of this Lease unless Landlord elects otherwise in such notice, and in no event shall a forfeiture or termination occur without such written notice.

24.5 In the event of a default by Tenant, and at any time thereafter, and without limiting Landlord in the exercise of any right or remedy

which Landlord may have, Landlord shall be entitled to terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall have the immediate right to re-enter and remove all persons and property, and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant, all without service of notice and without being deemed guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby. In the event that Landlord shall elect to so terminate this Lease, then Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including:

(a) The worth at the time of award any unpaid Rent which had been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the term after the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligation under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of restoring the Premises to the condition required under the terms of this Lease; plus

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

As used in Subsections (a), (b) and (c), the "time of award" shall mean the date upon which the judgment in any action brought by Landlord against Tenant by reason of such default is entered or such earlier date as the court may determine . As used in Subsections (a) and (b), the "worth at the time of award" shall be computed by allowing interest at the rate specified in Section 24.1. As used in Subsection (c) above, the "worth at the time of award" shall be computed by taking the present value of such amount using the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percentage point.

24.6 In the event of a default by Tenant, and if Landlord does not elect to terminate this Lease as provided in Section 24.5 or otherwise terminate Tenant's right to possession of the Premises, Landlord shall have the remedy described in Section 1951.4 of the Civil Code. Landlord may continue this Lease in effect, as lessee has the right to sublet or assign, subject only to reasonable limitations, pursuant to Section 25.1 and 25.2 for so long as Landlord does not terminate Tenant's right to possession of the Premises, and may enforce all of its rights and remedies under the Lease, including the right from time to time to recover Rent as it becomes due under the Lease. At any time thereafter, Landlord may elect to terminate this Lease and to recover damages to which Landlord is entitled.

24.7 Notwithstanding anything herein to the contrary, Landlord's reentry to perform acts of maintenance or preservation of, or in connection with efforts to relet, the Premises, or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Lease, shall not terminate Tenant's right to possession of the Premises or any portion thereof and, until Landlord does elect to terminate this Lease, this Lease shall continue in full force and Landlord may pursue all its remedies hereunder, including, without limitation, the right to recover from Tenant as they become due hereunder all Rent and other charges required to be paid by Tenant under the terms of this Lease.

24.8 All rights, options, and remedies of Landlord contained in this Lease shall be construed and held to be nonexclusive and cumulative. Landlord shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. No waiver of any default of Tenant hereunder shall be implied from any acceptance by Landlord of any rent or other payments due hereunder or by any omission by Landlord to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect defaults other than as specified in said waiver.

24.9 Termination of this Lease or Tenant's right to possession by Landlord shall not relieve Tenant from any liability to Landlord which has theretofore accrued or shall arise based upon events which occurred prior to the last to occur of (i) the date of Lease termination or (ii) the date possession of Premises is surrendered.

24.10 Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord advises Tenant in writing of the need for more than thirty (30) days to perform such obligation, commences performance within ten (10) days after Tenant serves the written notice of Landlord's failure to perform and thereafter diligently prosecutes the same to completion.

24.11 In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee of a mortgage covering the Premises whose address shall have been furnished to Tenant, and shall offer such beneficiary and/or mortgagee a reasonable opportunity to cure the default, but in no event less than thirty (30) days after the notice is given or thirty (30) days beyond any applicable cure period given to Landlord in this Article 24, whichever is later.

25. ASSIGNMENT OR SUBLETTING.

25.1 Except as hereinafter provided, Tenant shall not, either voluntarily or by operation of law, sell, assign, hypothecate or transfer this Lease, or sublet the Premises or any part thereof, or permit or suffer the Premises or any part thereof to be used or occupied as work space, storage space, concession or otherwise by anyone other than Tenant or Tenant's employees, without the prior written consent of Landlord in each instance, which consent shall not be unreasonably withheld or delayed.

25.2 If Tenant desires to assign this Lease to an entity into which Tenant is merged, with which Tenant is consolidated, or which acquires all or substantially all of the assets of Tenant, provided that the successor entity's net worth and liquid assets are equal or greater than Tenant's immediately prior to the assignment, and further provided that the assignee first executes, acknowledges and delivers to Landlord an agreement whereby the assignee agrees to be bound by all of the covenants and agreements in this Lease arising after the effective date of the transfer, then Landlord upon receipt of proof of foregoing, will consent to the assignment; provided however, Landlord's consent shall not be required if such transfers occur in a public stock exchange.

25.3 In the event Tenant desires to assign, hypothecate or otherwise transfer this Lease or sublet the Premises or any part thereof to a transferee other than one set forth in Section 25.2, then at least ten (10) days, but not more than forty-five (45) days, prior to the date when Tenant desires the assignment or sublease to be effective (the "ASSIGNMENT DATE"), Tenant shall give Landlord a notice (the "ASSIGNMENT NOTICE") which shall set forth the name, address and business of the proposed assignee or sublessee, information (including references and financial statements) concerning the reputation and financial ability of the proposed assignee or sublessee, the Assignment Date, any ownership or commercial relationship between Tenant and the proposed assignee or sublessee, and the consideration and all other material terms and conditions of the proposed assignment or sublease, all in such detail as Landlord shall reasonably require.

25.4 Landlord in making its determination as to whether consent should be given to a proposed assignment or sublease, may give consideration to (i) the financial strength of such successor (but may not withhold consent on this ground if the successor's net worth and liquid assets are equal to or greater than Tenant's immediately prior to the assignment), notwithstanding the assignor remaining liable for Tenant's performance, (ii) any use which such successor proposes to make of the Premises, and (iii) whether the proposed assignee or sublessee represents a potential risk of compromise of trade secrets of another tenant of the Project. If Landlord fails to deliver written notice of its determination to Tenant within fifteen (15) days following receipt of the Assignment Notice and the information required under Section 25.4, Landlord shall be deemed to have approved the request. As a condition to any assignment or sublease to which Landlord has given consent, any such assignee or sublessee must execute, acknowledge and deliver to Landlord an agreement whereby the assignee or sublessee agrees to be bound by all of the covenants and agreements in this Lease.

25.5 Any sale, assignment, hypothecation or transfer of this Lease or subletting of Premises that is not in compliance with the provisions of this Article 25 shall be void.

25.6 The consent by Landlord to an assignment or subletting shall not relieve Tenant or any assignee of this Lease or sublessee of the Premises from obtaining the consent of Landlord to any further assignment or subletting or as releasing Tenant or any assignee or sublessee of Tenant from full and primary liability.

25.7 If Tenant shall sublet the Premises or any part thereof, Tenant hereby immediately and irrevocably assigns to Landlord, as security for Tenant's obligations under this Lease, all rent from any subletting of all or a part of the Premises, and Landlord as assignee of Tenant, or a receiver for Tenant appointed on Landlord's application, may collect such rent and apply it toward Tenant's obligations under this Lease; except that, until the occurrence of an act of default by Tenant, Tenant shall have the right to collect such rent. Furthermore, Tenant hereby immediately and irrevocably assigns to Landlord, as security for Tenant's obligations under this Lease, any security deposit received from the subtenant, which Landlord shall hold pursuant to the terms of the sublease. The security deposit shall be transferable by Landlord to a successor Landlord and to Landlord's mortgage lender which is the beneficiary of a deed of trust encumbering the Premises, provided such lender agrees to hold the security deposit pursuant to the terms of the sublease and this Lease.

25.8 Notwithstanding any subletting or assignment Tenant shall remain fully and primarily liable for the payment of all Rent and other sums due, or to become due hereunder, and for the full performance of all other terms, conditions, and covenants to be kept and performed by Tenant. The acceptance of rent or any other sum due hereunder, or the acceptance of performance of any other term, covenant, or condition hereof, from any other person or entity shall not be deemed to be a waiver of any of the provisions of this Lease or a consent to any subletting or assignment of the Premises. Landlord shall not withhold consent to an assignment back to the original Tenant hereunder from a subsequent assignee.

25.9 Any sublease of the Premises shall be subject and subordinate to the provisions of this Lease, shall not extend beyond the term of this Lease, and shall provide that the sublessee shall attorn to Landlord, at Landlord's sole option, in the event of the termination of this Lease. Landlord and any lender shall upon Tenant's request provide any sublessee of the entirety of the Premises with a recognition and nondisturbance agreement in the form described in Article 35 on the condition that the sublessee agrees to attorn to Landlord on exactly the same terms and conditions as this Lease. Any assignment of the Lease or sublease of the Premises shall provide that the assignee or sublessee shall provide financial statements to Landlord as reasonably required by present and prospective lenders and purchasers of the Project.

25.10 In the event Tenant assigns, hypothecates or otherwise transfer this Lease or sublets the Premises Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of the rent and other consideration received from the transferee during the term of this Lease in excess of Rent payable to Landlord under this Lease, after tenant has recouped any reasonable commissions and legal expenses occasioned by such transfer and payable to third parties.

25.11 Notwithstanding any of the foregoing provisions to the contrary, in the event Tenant desires to assign this Sublease or sublet the entire Premises to a transferee other than to a transferee describe in Section 25.2, Landlord may elect to terminate this Lease by written notice given by Landlord to Tenant within fifteen (15) days following receipt of the Assignment Notice and the information required under Section 25.3.

26. ARBITRATION/ATTORNEYS' FEES.

26.1 Any and all disputes in any way arising out of or relating to this Lease shall be submitted to binding arbitration before the American Arbitration Association. The arbitration shall be presided over by one arbitrator. The appointment of the arbitrator shall be in accordance with California Code of Civil Procedure Section 1281.6. Prior to the arbitration hearing, the Landlord and Tenant shall exchange all documents they intend to rely on at the hearing. If approved by the arbitrator, the Landlord and Tenant may also take depositions or engage in other forms of written discovery.

26.2 Notwithstanding the foregoing, Landlord may prosecute a court action for unlawful detainer in order to effect an eviction of tenant to the extent permitted by this Lease.

26.3 If either party commences an arbitration proceeding or court action, the prevailing party shall be entitled to have and recover from the other party reasonable attorneys' fees, expert witness fees and costs of suit.

27. BANKRUPTCY.

27.1 In the event a debtor, trustee, or debtor-in-possession under the Bankruptcy Code, or other person with similar rights, duties and

powers under any other law, proposes to cure any default under this Lease or to assume or assign this Lease, and is obliged to provide adequate assurance to Landlord that (i) a default will be cured, (ii) Landlord will be compensated for its damages arising from any breach of this Lease, or (iii) future performance under this Lease will occur, then adequate assurance shall include any or all of the following, as determined by the Bankruptcy Court: (a) those acts specified in the Bankruptcy Code or other law as included within the meaning of adequate assurance; (b) a cash payment to compensate Landlord for any monetary defaults or damages arising from a breach of this Lease; (c) the credit worthiness and desirability, as a tenant, of the person assuming this Lease or receiving an assignment of this Lease, at least equal to Landlord's customary and usual credit worthiness requirements and desirability standards in effect at the time of the assumption or assignment, as determined by the Bankruptcy Court; and (d) the assumption or assignment of all of Tenant's interest and obligations under this Lease.

28. DEFINITION OF LANDLORD.

28.1 The term "LANDLORD" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only Landlord or the successor-in-interest of Landlord under this Lease at the time in question. In the event of any transfer, assignment or conveyance of Landlord's title or leasehold, the Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor and any prior grantors) shall be automatically freed and relieved from and after the date of such transfer, assignment or conveyance of all liability for the performance of any covenants or obligations contained in this Lease thereafter to be performed by Landlord and, without further agreement, the transferee of such title or leasehold shall be deemed to have assumed and agreed to observe and perform any

and all obligations of Landlord hereunder, during its ownership of the Premises. Landlord may transfer its interest in the Premises or this Lease without the consent of Tenant and such transfer or subsequent transfer shall not be deemed a violation on the part of Landlord or the then grantor of any of the terms or conditions of this Lease.

29. ESTOPPEL CERTIFICATE.

29.1 Each party shall, within fifteen (15) days of written notice from the other party, execute, acknowledge and deliver to the other party a statement in writing on a form reasonably requested by a proposed lender, purchaser, assignee or subtenant (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the dates to which the rental and other charges are paid in advance, if any, (ii) acknowledging that there are not, to each party's knowledge, any uncured defaults on the part of Landlord or Tenant hereunder (or specifying such defaults if any are claimed) and (iii) setting forth such further information with respect to this Lease or the Premises as may be reasonably requested thereon. Any such statement may be relied upon by any prospective lender, purchaser, assignee or subtenant of all or any portion of the Premises.

30. REMOVAL OF PROPERTY.

30.1 Except as provided in Section 10.5 and in this Article 30, all fixtures and personal property owned by Tenant ("TENANT'S REMOVABLE PROPERTY") shall be and remain the property of Tenant, and may be removed by Tenant at any time. Landlord waives any and all rights, title and interest Landlord now has, or hereafter may have, whether statutory or otherwise, in Tenant's Removable Property. At the expiration or earlier termination of this Lease, Tenant shall remove all Tenant's Removable Property in accordance with this Lease, unless Landlord shall have otherwise agreed in writing.

30.2 The Project, Building and Tenant Improvements, and all fixtures and personal property owned by Landlord, shall be and remain the property of Landlord, and shall, upon the expiration or earlier termination of this Lease, remain upon and be surrendered with the Premises as a part thereof.

30.3 Notwithstanding Section 30.1, Tenant may not remove any property if such removal would cause material damage to the Premises, unless such damage can be and is repaired by Tenant. Furthermore, Tenant shall repair any damage to the Premises caused by Tenant's removal of any such property, and shall, prior to the expiration or earlier termination of this Lease, restore and return the Premises to substantially the same condition they were in when first occupied by Tenant, reasonable wear and tear excepted. At a minimum, even if they are determined to be fixtures or personal property owned by Tenant, and notwithstanding the provisions of Section 30.1, Tenant shall leave in place and repair any damage to the interior floors, walls, doors and ceilings of the Premises, all cabling and wiring in the Premises, and the heating, ventilation,

air conditioning, plumbing, and electrical systems in the Premises; all such property shall become the property of Landlord upon the expiration or earlier termination of this Lease, and shall remain upon and be surrendered with the Premises as a part thereof. The provisions of Article 17 shall apply to any restoration work under this Article as if the restoration was an alteration,

addition or improvement thereunder. Should Tenant require any period beyond the expiration or earlier termination of the Lease to complete such restoration, Tenant shall be a tenant at sufferance subject to the provisions of Section 12.2 hereof, unless tenant obtains Landlord's consent pursuant to Section 12.1 prior to the termination or earlier termination of the Lease.

30.4 If Tenant shall fail to remove any fixtures or personal property which it is entitled to remove under this Article 30 from the Premises prior to termination of this Lease, then Landlord may dispose of the property under the provisions of Section 1980 et seq. of the California Civil Code, as such provisions may be modified from time to time, or under any other applicable provisions of California law.

31. LIMITATION OF LANDLORD'S LIABILITY.

31.1 If Landlord is in default of this Lease, and as a consequence, Tenant recovers a money judgment against Landlord, the judgment shall be satisfied only out of the proceeds of sale received on execution of the judgment and levy against the right, title, and interest of Landlord in the Project of which the Premises are a part, or, in the sole discretion of the Tenant, out of rent or other income from the Project receivable by Landlord or out of the consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title, and interest in the Building and Project of which the Premises are a part.

31.2 Neither Landlord nor Landlord's Agents shall be personally liable for any deficiency except to the extent liability is based upon willful and intentional misconduct and except to the extent a court determines the existence of an alter ego relationship. If Landlord is a partnership or joint venture, the partners of such partnership shall not be personally liable and no partner of Landlord shall be sued or named as a party in any suit or action, or service of process be made against any partner of Landlord, except as may be necessary to secure jurisdiction of the partnership or joint venture or to the extent liability is caused by gross negligence, willful and intentional misconduct. If Landlord is a corporation, other than as provided above, the shareholders, directors, officers, employees, and/or agents of such corporation shall not be personally liable and no shareholder, director, officer, employee, or agent of Landlord shall be sued or named as a party in any suit or action, or service of process be made against any shareholder, director, officer, employee, or agent of Landlord, except as may be necessary to secure jurisdiction of the corporation. If Landlord is a limited liability company, other than as provided above, the members, managers, officers, employees, and/or agents of such limited liability company shall not be personally liable and no member, manager, officer, employee, or agent of Landlord shall be sued or named as a party in any suit or action, or service of process be made against any member, manager, officer, employee, or agent of Landlord, except as may be necessary to secure jurisdiction of the corporation. No partner, shareholder, director, member, manager, employee, or agent of Landlord shall be required to answer or otherwise plead to any service of process and no judgment will be taken or writ of execution levied against any partner, shareholder, director, member, manager, employee, or agent of Landlord.

31.3 Each of the covenants and agreements of this Article 31 shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by statute or by common law.

32. CONTROL BY LANDLORD.

32.1 Landlord reserves full control over the Project to the extent not inconsistent with Tenant's quiet enjoyment and use of Premises. This reservation includes the right to establish ownership of the Building separate from fee title to the real property underlying the Building, to divide the Project into more than one lot, and to construct other buildings or improvements on the real property, provided Tenant's quiet enjoyment of the Premises is not affected. Tenant shall, should Landlord so request, promptly join with Landlord in execution of such documents as may be appropriate to assist Landlord to implement any such action provided Tenant need not execute any document which is of a nature wherein liability is created in Tenant or if by reason of the terms of such document Tenant will be deprived of the quiet enjoyment and use of the Premises as granted by this Lease.

32.2 Landlord reserves the right to enter the Premises, and to cause its contractors to enter the Premises, upon reasonable prior written notice to Tenant, to maintain, repair or replace mechanical (HVAC), electrical, plumbing, sprinkler and other systems and equipment, and to install improvements, within the Premises or within adjoining premises (including access through the Premises to areas of the Building above and below the Premises). Tenant acknowledges that because of the design and configuration of the Building, and the nature of the Building as a multi-tenant biotech facility, that temporary access through the Premises to other areas of the Building will be reasonably necessary from time to time, and that such access may interfere with Tenant's quiet enjoyment of the Premises; provided, however, that such interference shall not materially interfere with Tenant's use and occupancy of the Premises. There shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements to adjoining premises unless such injury or interference is unreasonable and is the result of Landlord's grossly negligent or willful act or omission.

33. QUIET ENJOYMENT.

33.1 So long as Tenant is not in default, Landlord covenants that Landlord or anyone acting through or under Landlord will not disturb Tenant's occupancy of the Premises except as permitted by the provisions of this Lease and that Landlord shall use reasonable efforts to enforce the lease obligations of tenants of the balance of the Building and Project to the extent they might otherwise disturb Tenant's occupancy.

34. QUITCLAIM DEED.

34.1 Tenant shall execute and deliver to Landlord on the expiration or termination of this Lease, immediately on Landlord's request, a quitclaim deed to the Premises and Project or other document in recordable form suitable to evidence of record termination of this Lease.

35. SUBORDINATION AND ATTORNMENT.

35.1 This lease shall be subject to and subordinate to the lien of any mortgage or deed of trust now or hereafter in force against the Project and Building of which the Premises are a part, and to all advances made or hereafter to be made upon the security thereof without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination. However, if any such mortgagee or beneficiary so elects at any time prior to or following a default by Tenant, this Lease shall be deemed prior in lien to any such mortgage or deed of trust regardless of date and Tenant will execute a statement in writing to such effect at Landlord's request in a form reasonably satisfactory to Tenant

35.2 Notwithstanding the foregoing, Tenant shall execute and deliver upon demand such further instrument or instruments evidencing such subordination of this Lease to the lien of any such mortgage or deed of trust as may be required by Landlord, provided that the lienholder, beneficiary, or mortgagee concurrently therewith executes and delivers to Tenant a non-disturbance agreement in recordable form.

35.3 In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Premises, the Tenant shall at the election of the purchaser at such foreclosure or sale attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease in accordance with the terms of the non-disturbance Agreement.

36. SURRENDER.

36.1 No surrender of possession of any part of the Premises shall release Tenant from any of its obligations hereunder unless accepted by Landlord.

36.2 The voluntary or other surrender of this Lease by Tenant shall not work a merger, unless Landlord consents, and shall, at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies.

37. WAIVER AND MODIFICATION.

37.1 No provision of this Lease may be modified, amended or added to except by an agreement in writing executed by Landlord and Tenant. The

waiver by Landlord or Tenant of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained.

38. HAZARDOUS MATERIAL.

38.1 During the term, Tenant, at its sole cost, shall comply with all federal, state and local laws, statutes, ordinances, codes, regulations and orders relating to the receiving, handling, use, storage, accumulation, transportation, generation, spillage, migration, discharge, release and disposal of Hazardous Material (as defined below) in or about the Premises. Tenant shall

not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises by Tenant, its agents, employees, contractors, invitees or subtenants, in a manner or for a purpose prohibited by any federal, state or local agency or authority. The accumulation of Hazardous Material shall be in approved containers and removed from the Premises by duly licensed carriers.

38.2 Tenant shall immediately provide Landlord with telephonic notice, which shall promptly be confirmed by written notice, of any and all spillage, discharge, release and disposal of Hazardous Material onto or within the Premises, including the soils and subsurface waters thereof, which by law must be reported to any federal, state or local agency, and any injuries or damages resulting directly or indirectly therefrom. Further, Tenant shall deliver to Landlord each and every notice or order, when said order or notice identifies a violation which may have the potential to adversely impact the Premises, received from any federal, state or local agency concerning Hazardous Material and the possession, use and/or accumulation thereof promptly upon receipt of each such notice or order by Tenant. Landlord shall have the right, upon reasonable notice, to inspect and copy each and every notice or order received from any federal, state or local agency concerning Hazardous Material and the possession, use and/or accumulation thereof.

38.3 Tenant shall be responsible for and shall indemnify, protect, defend and hold harmless Landlord and Landlord's Agents from any and all liability, damages, injuries, causes of action, claims, judgments, costs, penalties, fines, losses, and expenses which arise during or after the term of this Lease and which result from Tenant's (or from Tenant's Agents, assignees, subtenants, employees, agents, contractors, licensees, or invitees) receiving, handling, use, storage, accumulation, transportation, generation, spillage, migration, discharge, release or disposal of Hazardous Material in, upon or about the Premises, including without limitation (i) diminution in value of the Premises or any portion of the Project, (ii) damages for the loss or restriction on use of any portion or amenity of the Premises or Project, (iii) damages arising from any adverse impact on marketing of space in the Premises or the Project, (iv) damages and the costs of remedial work to other property in the vicinity of the Project owned by Landlord or an affiliate of Landlord, and (v) reasonable consultant fees, expert fees, and attorneys' fees. Landlord shall be responsible for and shall indemnify, protect, defend and hold harmless Tenant on the same basis as above for any claims which result from Landlord's or from Landlord's Agents receiving, handling, use, storage, accumulation, transportation, generation, spillage, migration, discharge, release or disposal of Hazardous Material in, upon or about the Premises or any Hazardous Material at the Project existing prior to the Term Commencement Date.

38.4 The indemnification of Landlord and Landlord's Agents by Tenant pursuant to the preceding Section 39.3 includes, without limiting the generality of Section 39.3, reasonable costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Material present in the soil, subsoil, ground water, or elsewhere on, under or about the Premises, or on, under or about any other property in the vicinity of the Project owned by Landlord or an affiliate of Landlord, to the extent caused by Tenant. Without limiting the foregoing, if the presence of any Hazardous Material on the Premises caused or permitted by Tenant results in any contamination of the Premises, or underlying soil or groundwater, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises to that

condition required by applicable law as applied by any government entity with proper jurisdiction with regard thereto, provided that Landlord's approval of such action shall first be obtained, which approval shall not be unreasonably withheld, except that Tenant shall not be required to obtain Landlord's prior approval of any action of an emergency nature reasonably required or any action mandated by a governmental authority, but Tenant shall give Landlord prompt notice thereof.

38.5 Landlord acknowledges that it is not the intent of this

Article 39 to prohibit Tenant from operating its business as described in Article 10 or to unreasonably interfere with the operation of Tenant's business. Tenant may operate its business according to the custom of the industry so long as the use or presence of Hazardous Material is strictly and properly monitored according to all applicable governmental requirements. Any approval or consent required by this Section 39.5 shall not be unreasonably withheld, conditioned or delayed.

38.6 As a material inducement to Landlord to allow Tenant to use Hazardous Material in connection with its business, Tenant agrees to provide to Landlord a list identifying each type of Hazardous Material to be present in or about the Premises and setting forth all governmental approvals or permits required in connection with the presence of Hazardous Material in or about the Premises ("HAZARDOUS MATERIAL INVENTORY"). Tenant shall deliver a Hazardous Material Inventory to Landlord no later than twenty (20) days (i) prior to the occupancy of any portion of the Premises or the placement of equipment anywhere on the Project, (ii) prior to any increase in the types or amounts of Hazardous Material, (iii) after a request of Landlord reasonably required for purposes of monitoring the Project, and (iv) prior to the initiation by Tenant of any changes in the Premises or elsewhere on the Project which involve any increase in the types or amounts of Hazardous Material, and shall deliver a Hazardous Material Inventory to Landlord in any event annually no later than December 31 of each year. For each type of Hazardous Material listed, the Hazardous Material Inventory shall include the (i) chemical name; (ii) material state (solid, liquid, gas, cryogen); (iii) concentration; (iv) storage amount and storage condition (cabinets or no cabinets); (v) use amount and use condition (open use or closed use); (vi) location (room number/identification); and (vii) chemical abstract service (CAS) number, if known. In the event that Tenant's Hazardous Material Inventory indicates non-compliance with this Lease or applicable building and fire code requirements, Tenant shall at its expense diligently take steps to bring its storage and use of Hazardous Material into compliance.

38.7 Tenant further agrees to make available to Landlord, upon Landlord's reasonable request, true and correct copies of the following documents ("HAZARDOUS MATERIAL DOCUMENTS"): governmental approvals or permits required in connection with the presence of Hazardous Material on the Premises; a copy of the Hazardous Material business plan prepared pursuant to Health and Safety Code Section 25500 et seq.; documents relating to the handling, storage, disposal and emission of Hazardous Material, including: permits; approvals; reports and correspondence; notice of violations of any laws; plans relating to the installation of any storage tanks to be installed in or under the Premises (provided said installation of tanks shall be permitted only after Landlord has given Tenant its written consent to do so, which consent may not be unreasonably withheld); and all closure plans or any other documents required by any and all federal, state and local governmental agencies and authorities for any storage tanks installed in, on or about the Premises for the closure of any such tanks. Tenant shall not be required, however, to provide Landlord with that portion of any document which contains information of a proprietary nature and which, in

and of itself, does not contain a reference to any Hazardous Material which is not otherwise identified to Landlord in such documentation, unless any such Hazardous Material Document names Landlord as an "owner" or "operator" of the facility in which Tenant is conducting its business. It is not the intent of this subsection to provide Landlord with information which could be detrimental to Tenant's business should such information become possessed by Tenant's competitors. Landlord shall treat all information furnished by Tenant to Landlord pursuant to this Article 39 as confidential and shall not disclose such information to any person or entity, except as provided in this Article 39, without Tenant's prior written consent, which consent shall not be unreasonably withheld or delayed, except as required by law.

38.8 Notwithstanding other provisions of this Article 39, it shall be a default under this Lease, and Landlord shall have the right to terminate the Lease and/or pursue its other remedies under Article 24, in the event that (i) Tenant's use of the Premises for the generation, storage, use, treatment or disposal of Hazardous Material is in a manner or for a purpose prohibited by applicable law unless Tenant is diligently pursuing compliance with such law, (ii) Tenant has been required by any governmental authority to take remedial action in connection with Hazardous Material contaminating the Premises if the contamination resulted from Tenant's action or use of the Premises, unless Tenant is diligently pursuing compliance with such requirement, or (iii) Tenant is subject to an enforcement order issued by any governmental authority in connection with Tenant's use, disposal or storage of a Hazardous Material on the Premises, unless Tenant is diligently seeking compliance with such enforcement order.

38.9 Notwithstanding the provisions of Article 25, if any anticipated use of the Premises by a proposed assignee or subtenant involves the generation or storage, use, treatment or disposal of Hazardous Material and (i) the proposed assignee or sublessee has been required by any governmental authority to take remedial action in connection with Hazardous Material contaminating a property if the contamination resulted from such party's action

or use of the property in question and has failed to take such action, or (ii) the proposed assignee or sublessee is subject to a final, unappealable enforcement order issued by any governmental authority in connection with such party's use, disposal or storage of Hazardous Material of a type such proposed assignee or sublessee intends to use in the Premises and shall have failed to comply with such order, it shall not be unreasonable for Landlord to withhold its consent to an assignment or subletting to such proposed assignee or sublessee.

38.10 Landlord represents that, to the best of its knowledge, as of the date of this Lease, there is no Hazardous Material on the Premises. Landlord shall provide Tenant with a current Phase I Environmental Site Assessment, and any current Phase II Environmental Site Assessment recommended therein, at the time of the completion of the current renovation of the Project to a biotech facility. Should the environmental site assessment(s) disclose the presence of Hazardous Material beyond legally permissible levels, Landlord shall correct the deficiencies to Tenant's reasonable satisfaction and shall cause updates to the environmental site assessment(s) to be issued reflecting the remedy. The environmental site assessment(s) and all updates thereto are hereinafter referred to as the "BASE LINE REPORT," and shall be deemed conclusive as to the condition of the Premises, unless, within ninety (90) days of receipt, Tenant causes an inspection of its own to be conducted, which inspection discloses the presence of Hazardous Material materially different from that disclosed in the Base Line Report.

38.11 At any time prior to the expiration or earlier termination of the term of the Lease, Landlord shall have the right to enter upon the Premises, upon reasonable prior notice to Tenant, at all reasonable times and at reasonable intervals in order to conduct appropriate tests regarding the presence, use and storage of Hazardous Material, and to inspect Tenant's records with regard thereto. Tenant will pay the reasonable costs of any such test which demonstrates that contamination in excess of permissible levels has occurred and such contamination was caused by Tenant's use of the Premises during the term of the Lease. Tenant shall correct any deficiencies identified in any such tests in accordance with its obligations under this Article 39 to the extent the result of Tenant's use of the Premises during the term of this Lease.

38.12 Tenant shall at its own expense cause an environmental site assessment of the Premises to be conducted and a report thereof delivered to Landlord upon the expiration or earlier termination of the Lease, such report to be as complete and broad in scope as is necessary to identify any impact on the Premises Tenant's operations might have had (hereinafter referred to as the "EXIT REPORT"). Tenant shall correct any deficiencies identified in the Exit Report in accordance with its obligations under this Article 39 prior to the expiration or earlier termination of this Lease. This Article 39 is the exclusive provision in this Lease regarding clean-up, repairs or maintenance arising from receiving, handling, use, storage, accumulation, transportation, generation, spillage, migration, discharge, release or disposal of Hazardous Material in, upon or about the Premises, and the provisions of Articles 7, 10, 18, and 20 shall not apply thereto.

38.13 Tenant's obligations under this Article 39 shall survive the termination of the Lease.

38.14 As used herein, the term "HAZARDOUS MATERIAL" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25515, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 2, Chapter 6.8 (Carpenter-Presly-Tanner Hazardous Substance Account Act), (iii) defined as a "hazardous material," hazardous substance" or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 and defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317), (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et. seq. (42 U.S.C. Section 6903), or (x) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. Section 9601 et. seq. (42 U.S.C. Section 9601).

39. MISCELLANEOUS.

39.1 TERMS AND HEADINGS. Where applicable in this Lease, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The section headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

39.2 EXAMINATION OF LEASE. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

39.3 TIME. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

39.4 COVENANTS AND CONDITIONS. Each provision of this Lease performable by Tenant shall be deemed both a covenant and a condition.

39.5 CONSENTS. Whenever consent or approval of either party is required, that party shall not unreasonably withhold or delay such consent or approval, except as may be expressly set forth to the contrary.

39.6 ENTIRE AGREEMENT. The terms of this Lease are intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and may not be contradicted by evidence of any prior or contemporaneous agreement.

39.7 SEVERABILITY. Any provision of this Lease which shall prove to be invalid, void, or illegal in no way affects, impairs or invalidates any other provision hereof, and such other provisions shall remain in full force and effect; provided, however, if the provisions of this Lease relating to Tenant's stated use of the Premises shall be determined by any government agency having jurisdiction to be invalid or unenforceable, this Lease, effective as of the date of such determination, shall be deemed to be void and of no further force and effect.

39.8 RECORDING. Either Landlord or Tenant may record a short form memorandum hereof, subject to the requirement to execute and deliver a quitclaim deed pursuant to the provisions of Section 34.1 hereof.

39.9 IMPARTIAL CONSTRUCTION. The language in all parts of this Lease shall be in all cases construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

39.10 INUREMENT. Each of the covenants, conditions, and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs, legatees, devisees, executors, administrators, successors, assigns, sublessees, or any person who may come into possession of said Premises or any part thereof in any manner whatsoever. Nothing in this Section 40.10 contained shall in any way alter the provisions against assignment or subletting in this Lease provided.

39.11 FORCE MAJEURE. If either party cannot perform any of its obligations (other than Tenant's obligation to pay Rent), or is delayed in such performance (other than Tenant's obligation to pay Rent), due to events beyond such party's control, the time provided for performing such obligations shall be extended by a period of time equal to the delay attributable to such events. Events beyond a party's control include, but are not limited to, acts of terrorism, acts of God (including earthquake), war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortage of labor or material, government regulation or restriction and weather conditions, but do not include financial inability to perform.

39.12 NOTICES. Any notice, consent, demand, bill, statement, or other communication required or permitted to be given hereunder must be in writing and may be given by personal delivery, by facsimile transmission, or by mail, certified and return receipt requested, and if given by personal delivery or facsimile transmission shall be deemed given on the date of delivery or transmission, and if given by mail shall be deemed sufficiently given three (3) days after time when deposited in United States Mail if sent by registered or certified mail, addressed to Tenant at the Premises, or to Tenant or Landlord at the addresses shown in Section 2.1.10 hereof. Either party may, by notice to the other given pursuant to this Section, specify additional or different addresses for notice purposes.

39.13 AUTHORITY TO EXECUTE LEASE. Landlord and Tenant each acknowledge that it has all necessary right, title and authority to enter into and perform its obligations under this Lease, that this Lease is a binding obligation of such party and has been authorized by all requisite action under the party's governing instruments, that the individuals executing this Lease on behalf of such party are duly authorized and designated to do so, and that no other signatories are required to bind such party.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first above written.

LANDLORD:

Dated: July 1, 2004

SAN DIEGO SCIENCE CENTER LLC
A California limited liability company

By: SD Science Center, Inc.
A California corporation
Its Manager

By: _____
John P. Bonanno
President

(Signatures continued on following page.)

TENANT:

Dated: July ____, 2004

AETHLON MEDICAL, INC.
A Nevada corporation

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

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

THE LAND REFERRED TO HEREIN IS SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF SAN DIEGO, AND IS DESCRIBED AS FOLLOWS:

PARCEL A:

LOT 1 OF HANSEN'S TRACT, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 4515, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, APRIL 20, 1960.

PARCEL B:

LOT 1 OF HARRISON TRACT, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 4786, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, JUNE 2, 1961.

TOGETHER WITH THAT PORTION OF THE NORTHWESTERLY HALF OF BUNKER HILL STREET ADJOINING A PORTON OF SAID LOT 1 ON THE SOUTHEAST AS VACATED AND CLOSED TO PUBLIC USE BY RESOLUTION NO. 215408, RECORDED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY MARCH 2, 1976 AS FILE NO. 76-061804 OF OFFICIAL RECORDS.

EXCEPTING THEREFROM THAT PORTION OF VACATED BUNKER HILL STREET LYING WITHIN THE FOLLOWING DESCRIBED PARCEL:

THAT PORTION OF LOT 4 OF EUREKA LEMON TRACT, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 753, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, MAY 19, 1893, TOGETHER WITH A PORTION OF THE NORTHWESTERLY 15.00 FEET OF THAT 30.00 FOOT WIDE UNNAMED ROAD (NOW KNOWN AS BUNKER HILL STREET), LYING SOUTHEASTERLY OF AND ADJACENT TO SAID LOT 4 AS VACATED AND CLOSED ON FEBRUARY 25, 1976 BY RESOLUTION NO. 215408 OF THE COUNCIL OF THE CITY OF SAN DIEGO, RECORDED MARCH 2, 1976 AS FILE NO. 76-061804 OF OFFICIAL RECORDS AND BEING MORE PARTICULARLY DESCRIBED AS A WHOLE AS FOLLOWS:

COMMENCING AT THE MOST SOUTHERLY CORNER OF LOT 1 OF HARRISON TRACT, ACCORDING TO MAP THEREOF NO. 4786, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, JUNE 2, 1961, BEING ALSO A POINT ON THE NORTHWESTERLY LINE OF THE SOUTHEASTERLY 10.00 FEET OF SAID LOT 4 OF MAP NO. 753; THENCE ALONG THE SOUTHEASTERLY LINE OF SAID MAP NO. 4786, NORTH 63(Degree)14'32" EAST (RECORD -

NORTH 62(Degree)40'35" EAST), 431.46 FEET TO THE BEGINNING OF A TANGENT 125.00

FOOT RADIUS CURVE, CONCAVE NORTHWESTERLY, BEING AN ANGLE POINT IN THE BOUNDARY OF LAND DESCRIBED IN DIRECTOR'S DEED TO PACIFIC BEACH MEDICAL ASSOCIATES, LTD., RECORDED FEBRUARY 8, 1972 AS FILE NO. 31151 OF OFFICIAL RECORDS AND BEING THE TRUE POINT OF BEGINNING; THENCE ALONG THE BOUNDARY OF SAID DIRECTOR'S DEED AS FOLLOWS: NORTHEASTERLY ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 40(Degree)31'54" A DISTANCE OF 88.43 FEET; AND NON-TANGENT TO SAID CURVE, NORTH 04(Degree)17'58" EAST, 46.82 FEET TO THE MOST NORTHERLY CORNER OF SAID LAND BEING ALSO AN ANGLE POINT IN THE SOUTHWESTERLY BOUNDARY OF CALIFORNIA STATE HIGHWAY II-SD-5, AS CREATED BY SAID DIRECTOR'S DEED; THENCE ALONG SAID SOUTHWESTERLY BOUNDARY, SOUTH 39(Degree)36'43" EAST TO THE CENTER LINE OF THE ORIGINAL 30.00 FOOT WIDE UNNAMED LYING SOUTHEASTERLY OF AND ADJACENT TO SAID LOT 4 AS SHOWN ON SAID MAP NO. 753; THENCE ALONG SAID CENTER LINE, SOUTH 63(Degree)14'32" WEST TO A POINT ON THE ARC OF THAT 70.00 FOOT RADIUS CURVE, CONCAVE SOUTHWESTERLY IN THE NORTHEASTERLY LINE OF RELINQUISHMENT PARCEL 3 AS SHOWN ON STATE HIGHWAY MAP NO. 100, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, MAY 8, 1969 AS FILE NO. 81182 OF OFFICIAL RECORDS; THENCE ALONG SAID NORTHEASTERLY LINE, NORTHWESTERLY ALONG THE ARC OF SAID CURVE TO A LINE WHICH BEARS AT RIGHT ANGLES, SOUTH 26(Degree)45'28" EAST FROM THE TRUE POINT OF BEGINNING, BEING ALSO A POINT ON THE SOUTHWESTERLY LINE OF THAT PORTION OF CALIFORNIA STATE HIGHWAY XI-SD-2 (NOW INTERSTATE 5), AS DESCRIBED IN DEED TO THE STATE OF CALIFORNIA, RECORDED MAY 18, 1953 AS DOCUMENT NO. 67093 IN BOOK 4857, PAGE 559 OF OFFICIAL RECORDS, AND BEING ALSO AN ANGLE POINT IN THE BOUNDARY OF SAID DIRECTOR'S DEED, A RADIAL LINE OF SAID CURVE BEARS NORTH 10(Degree)30'29" WEST TO SAID ANGLE POINT; THENCE ALONG THE SOUTHWESTERLY LINE OF SAID LAND DESCRIBED IN SAID DIRECTOR'S DEED, NORTH 26(Degree)45'28" WEST TO THE TRUE POINT OF BEGINNING.

EXHIBIT B

SITE PLAN OF THE PROJECT

EXHIBIT C

OUTLINE OF THE PREMISES

EXHIBIT D

ACKNOWLEDGMENT OF TERM COMMENCEMENT DATE

Pursuant to Section 3.3 of that certain Lease dated _____, 20___, by and between _____, a _____, Landlord, and _____, a _____, Tenant, for the Premises described in the Lease in the Building at _____, we hereby acknowledge that the Term Commencement Date of the Lease, as defined therein, is _____, 20___, and the Term Expiration Date of the Lease, as defined therein, is _____, 20___.

IN WITNESS WHEREOF, the parties hereto have executed this Acknowledgment of Term Commencement Date as of _____, 20___.

LANDLORD:

SAN DIEGO SCIENCE CENTER LLC
A California limited liability company

By: SD Science Center, Inc.
A California corporation
Its Manager

By: _____
W. Neil Fox, III
Chief Executive Officer

TENANT:

_____

A _____

By: _____
Name: _____
Title: _____

EXHIBIT E

SCHEMATIC SHOWING TENANT IMPROVEMENTS

EXHIBIT F

ARCHITECTURAL DRAWINGS OF TENANT IMPROVEMENTS

A1.1	SITE PLAN
A3.3	EXITING PLAN - LEVEL 3
A4.3	DIMENSION FLOOR PLAN - LEVEL 3
A5.3	DOOR / WALL PLAN - LEVEL 3
A6.3	REFLECTED CEILING PLAN - LEVEL 3
A7.1	SCHEDULES - LEVELS 1, 2, 3
A8.1	WALL TYPES / DETAILS
A8.2	DETAILS
A9.1	RESTROOM PLANS / DETAILS / NOTES

EXHIBIT G

RULES AND REGULATIONS

NOTHING IN THESE RULES AND REGULATIONS SHALL SUPPLANT ANY PROVISION OF THE LEASE. IN THE EVENT OF A CONFLICT OR INCONSISTENCY BETWEEN THESE RULES AND REGULATIONS AND THE LEASE, THE LEASE SHALL PREVAIL.

1. Except as specifically provided in the Lease to which these Rules and Regulations are attached, no sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside of the Premises or the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule.

2. If Landlord objects in writing to any curtains, blinds, shades, screens or hanging plants or other similar objects attached to or used in connection with any window or door of the Premises, or placed on any windowsill, which is visible from the exterior of the Premises, and which is not included in plans approved by Landlord, Tenant shall remove said object.

3. Tenant shall not obstruct any sidewalks or entrances to the Building, or any halls, passages, exits, entrances, or stairways within the Premises, which are required to be kept clear for health and safety reasons.

4. No deliveries shall be made which impede or interfere with other tenants or the operation of the Project.

5. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Fixtures and equipment which cause noise or vibration that may be transmitted to the structure of the Building to such a degree as to be objectionable to other tenants shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate such noise or vibration or reduce such noise and vibration to acceptable levels.

6. Tenant shall not use any method of heating or air-conditioning other than that shown in Tenant Improvement plans.

7. Tenant shall not install any radio, television or other antenna,, cell or other communications equipment or other devices on the roof or exterior walls of the Premises except to the extent shown on approved Tenant Improvement plans. Tenant shall not interfere with radio, television or other communications from or in the Premises or elsewhere.

8. Canvassing, peddling, soliciting and distribution of handbills or any other written material in the Project outside of the Premises are prohibited, and Tenant shall cooperate to prevent such activities.

9. Tenant shall store all its trash, garbage and Hazardous Material within its Premises or in designated receptacles outside of the Premises. Tenant shall not place in any such receptacle any material which cannot be disposed of in the ordinary and customary manner of trash, garbage and Hazardous Material disposal.

10. The Premises shall not be used for any improper, immoral or objectionable purpose. No cooking shall be done or permitted on the Premises, except that use by Tenant of Underwriter's Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages or use of microwave ovens for employees use shall be permitted, or equipment shown on approved Tenant Improvement plans, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

11. Without the written consent of the Landlord, Tenant shall not use the name of the Project, if any, in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

13. Tenant assumes any and all responsibility for protecting its Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed.

14. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of Tenant or any other Tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Project.

15. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of the Lease.

16. Landlord reserves the right to make such other and reasonable rules and regulations as, in its judgment, may from time to time be needed for safety and security, for care and cleanliness of the Project, and for the preservation of good order therein, subject to prior notice to Tenant and Tenant's consent, which will not be unreasonably withheld, conditioned or delayed. Tenant agrees to abide by all such Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

17. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

EXHIBIT H

SERVICES TO BE PROVIDED BY LANDLORD

Landlord shall maintain, repair, and replace the following systems and equipment, and shall provide the following services and utilities, in accordance with the standards referenced below or, if no such standards are referenced, then consistent with the standards of comparable buildings in San Diego, California; provided, however, (i) Landlord reserves the right to adopt nondiscriminatory modifications and additions hereto, (ii) the cost of all such maintenance, repairs, replacements, services and utilities are subject to reimbursement by Tenant as Operating Expenses to the extent set forth in Article 7 of the Lease, and (iii) such maintenance, repairs, replacements, services and

utilities are subject to any other applicable provisions of the Lease:

1. Heating, ventilation, and air conditioning systems, including chillers, boilers, air handlers, ventilation and exhaust fans, cooling towers, filtration, controls and control components required to provide climate control to all usable areas of the building, with cooled and heated air appropriate to the seasons in the San Diego metropolitan area. Heating, ventilation and air conditioning services shall be provided twenty-four (24) hours per day each day of the year.

2. Plumbing to include hot and cold water supply pipes, valves, and regulators, sanitary and waste piping, sump pumps and associated holding reservoirs. Drain cleaning shall be limited to normal maintenance and will not include cleaning required by excessive use or abuse of plumbing by Tenant.

3. Emergency eyewashes and showers.

4. Electrical supply circuits to include main switches, transformers and panels in mechanical spaces, local circuit breaker panels and associated wiring, cables, switches, and receptacles.

5. Emergency back-up power generators to include peripherals as described in 4 (above), batteries, relays and other items necessary to supply unit power when utility company fails to do so.

6. Light bulbs, ballasts, wiring and fixtures.

7. Elevators, with service to be provided twenty-four (24) hours per day each day of the year.

8. Steam boilers. Steam lines, valves, regulators and reheating units supplying and located within the building.

9. Fire alarm system. Main panel in first floor lobby area, wiring and local smoke, particle and heat detectors and pull stations.

10. Fire hoses, valves, etc., affixed permanently to building and sprinkler system.

11. Fire extinguishers including annual checks and recharging as necessary.

12. Doors, knobs and hinges.

13. Floor tiles, carpeting and kick plates.

14. Repair of windows and annual exterior window cleaning.

15. Fume hoods, ducts, stacks, motors and fans.

16. Vacuum pumps, lines and valves located within the building.

17. Positive pressure air supply lines, compressors bleed valves, regulators, and air supply condensing units.

18. Rest rooms. Toilets, urinals, showers and stalls, including rest room facilities and necessary lavatory supplies, and including hot and cold running water.

19. Sinks.

20. Gas lines, valves and regulators.

21. Basic security services, including periodic perimeter checks of the Project, but excluding any internal readings or checks.

22. Site landscaping, including maintaining the planting areas, walkways, ramps, gates, fences and parking areas.

23. Trash pick-up, limited to designated trash area(s).

24. Janitorial services in the Common Areas (Tenant is responsible for janitorial services in the Premises).

25. Access to the Building will be provide twenty-four (24) hours per day each day of the year (except in the case of emergencies).

26. Bulk mail and express pickup services at a central receiving area located on the lower level of the Building or such other floor as Landlord designates.

EXHIBIT I

SAN DIEGO SCIENCE CENTER
FITNESS CENTER WAIVER OF LIABILITY

SAN DIEGO SCIENCE CENTER LLC, a California limited liability company (the "OWNER"), the owner of the building (the "BUILDING") at 3030 Bunker Hill Street, San Diego, California, grants to employees of tenants of the Building the right to use and enjoy the fitness facilities and equipment located in the Building on the terms and conditions of this waiver (this "WAIVER") and otherwise in accordance with such other rules and regulations which Owner may from time to time adopt.

1. ASSUMPTION OF RISK. The undersigned understands that fitness activities, especially strength and aerobic training, involve a potential risk for physical injury and related damages. The undersigned understands that Owner does not manufacture the fitness and other equipment used in the fitness center, but purchases and/or leases the equipment from third parties. The undersigned acknowledges that Owner will provide no supervision of his/her use of the fitness facilities and equipment and other fitness activities in the fitness center, and that he/she will be solely responsible for his/her safe and appropriate use of the facility and equipment. The undersigned therefore expressly agrees to assume the risk that he/she may suffer injury or damage as a result of his/her use of the fitness facilities and equipment, and agrees for himself/herself and on behalf of his/her personal representatives, successors and assigns, that the Owner (including its members, managers, officers, employees and agents) will not be liable for any damages nor injuries the undersigned may suffer in or about the fitness center.

2. WAIVER OF LIABILITY. The undersigned further agrees to hold the Owner and its members, managers, officers, employees and agents harmless from any injuries or damages sustained by the undersigned or the property of the undersigned and to indemnify the Owner and its members, managers, officers, employees and agents from any claims, demands, actions, injuries, liabilities or damages whatsoever, including attorneys' fees, which result, directly or indirectly, from the use of the fitness facilities and equipment by the undersigned. The undersigned agrees to release and discharge the Owner and its members, managers, officers, employees, and agents from all such claims, demands, actions, injuries, liabilities, and damages. The failure or refusal of the undersigned to inspect the fitness facilities and equipment constitutes a waiver of any objection, contention or claim that might have been based on such an inspection.

3. LOSS, THEFT, DAMAGE. The undersigned agrees that neither the Owner nor its members, managers, officers, employees or agents are responsible or liable to the undersigned for articles damaged, lost or stolen in or about the fitness facilities. The undersigned agrees not to store any valuable items in lockers and to use the lockers solely for temporary clothing storage. The Owner and its members, managers, employees and agents are not bailees and are not responsible for protecting the valuables of the undersigned.

4. PHYSICAL CONDITION. The undersigned warrants that he/she is in good physical condition and to the best of his/her knowledge has no physical impairment which would prevent him/her from engaging in any physical conditioning available in the fitness center and that he/she has no condition which might be aggravated by the use of the fitness facilities or equipment. The undersigned acknowledges that a complete physical examination by a medical doctor prior to beginning any work out program or strenuous new activity is recommended.

5. NO GUESTS. The undersigned acknowledges and agrees that guests, including family members, are not permitted in the fitness center and may not use the fitness facilities or equipment under any circumstances. Use of the fitness facilities and equipment is limited to employees of tenants of the Building.

6. ATTIRE AND EQUIPMENT. The undersigned agrees to wear proper attire when using the fitness facilities, and to wear a shirt and shoes in the fitness facilities and all common areas of the Building. Attire must conform to reasonable standards of decency and safety. Only equipment provided by Owner may be used in the fitness center.

7. LOCKERS. Lockers are available for day use only on a first come, first served basis. Locks, though recommended, are not provided by Owner.

8. DAMAGES. The undersigned agrees to pay for any damages to the fitness facilities or equipment caused by the undersigned.

9. SEVERABILITY. If any provision of this Waiver is ruled invalid or unenforceable as applied to any person or circumstance, all other provisions of this Waiver shall remain valid and enforceable as applied to all other persons and circumstances.

The undersigned acknowledges that he/she has read and understands the terms and conditions of this Waiver and agrees to be bound by such terms and conditions. The undersigned also agrees to read and comply with any other rules and regulations governing use of the fitness facilities and equipment which may be adopted or amended from time to time by the Owner and posted or otherwise made available in the fitness facility or to the undersigned.

Dated: _____

Sign: _____

Print Name: _____

Employer: _____

EXHIBIT J

APPROVED CONTRACTORS

Casework:	Doug Wessinger Wesinco P.O. Box 256 Irmo, SC 29063 803/749-0163 803/749-1703 (Facsimile)
Electrical:	Ron Wood Berg Electric 650 Opper Street Escondido, CA 92029 760/746-1003 760/741-918__ (Facsimile)
Mechanical/Plumbing:	Joe Mucher Encompass Mechanical Services 7655 Convoy Street San Diego, CA 92111 858/974-6500 858/941-6501 (Facsimile)
Phone/Data:	Rob Coulter River Networks 5845 Avenida Encinas, Suite 130 Carlsbad, CA 92008 760/535-4837 619/449-1609
Janitorial Service:	Linsey A. Miller Merchants Building Maintenance LLC 8380 Miramar Mall, Suite 125 San Diego, CA 92121 858/455-0163 858/455-0596 (Facsimile)
Environmental, Health and Safety:	

SCHEDULE 1

LIST OF REMOVABLE PROPERTY PURSUANT TO SECTION 17.7

A. PROPERTY TENANT IS REQUIRED TO REMOVE

B. PROPERTY TENANT MAY REMOVE

EXHIBIT 10.14

AETHLON MEDICAL, INC.

CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is entered into effective as of October 1, 2003 by and between AETHLON MEDICAL, INC. located at 7825 Fay Avenue, La Jolla, California 92037 USA, ("Aethlon") and Jean-Claude CHERMANN, PhD (the "Consultant") located at Centre de Vie Agora, Batiment C, B.P. 1055, Z.I. de Paluds, 13781 Aubange Cedex, France.

1. CONSULTING RELATIONSHIP. During the terms of this agreement, the Consultant will act as a science advisor in connection with advancing the development of Aethlon's HIV-Hemopurifier Technology. The Consultant shall use reasonable efforts to provide these services in a manner that provides benefit to Aethlon. If the services provided by the Consultant under this agreement exceed more than 20 hours per month, the Consultant shall request and negotiate additional compensation from Aethlon. The Consultant has also agreed to participate as a member of Aethlon's Science Advisory Board. In this regard, the Consultant shall also receive the compensation that is rewarded to each Aethlon Science Advisory Board Member. The Consultant also agrees that this relationship provides no rights or interest in Aethlon's HIV-Hemopurifier technology.

2. CONSIDERATION. As consideration of Services to be provided by Consultant, Aethlon shall compensate the Consultant at a rate of Three Thousand Five Hundred U.S. Dollars ($3,500.00) per month. At the discretion of the Aethlon Medical management, the Consultant may also be eligible for bonus consideration.

3. EXPENSES. Consultant shall not be authorized to incur on behalf of Aethlon any expenses, without the prior written consent of Aethlon Medical

4. TERMS AND TERMINATION. Consultant shall provide the Services to Aethlon on a month-to-month basis until terminated by either party with thirty (30) days advance notice.

5. INDEPENDENT CONTRACTOR. Consultant's relationship with Aethlon will be that of independent contractor and not that of an employee. Consultant will not be eligible for any employee benefits, nor will Aethlon make deductions from payment made to Consultant for taxes, which will be the Consultant's responsibility Consultant will have no authority to enter into contracts that bind Aethlon or create obligations on the part of Aethlon without the prior written authorization of Aethlon.

6. MISCELLANEOUS.

A. AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended or waived only with the written consent of the parties.

B. DISPUTES. The initial attempt to resolve any disputes or claim arising in connection with this Agreement shall first be negotiated between the parties over a glass of wine at the Restaurant Nino in the port of Cassis, France.

The parties have executed this Agreement as of the date first set forth above.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

Name: James A Joyce
Title: Chairman, CEO

CONSULTANT

Jean-Claude CHERMANN, PhD

/s/ Jean-Claude Chermann, PhD

EXHIBIT 10.15

CONSULTING AGREEMENT

This AGREEMENT. dated as of June 1, 2001, is by and between FRANKLYN S. BARRY, JR. ("Consultant") residing at 1141 Delaware Avenue, Unit 3N, Buffalo, New York, 14209 and AETHLON MEDICAL. INC., formerly Bishop Equities, Inc. d/b/a Aethlon Medical ("Company"), a Nevada corporation with its principal office at 7825 Fay Avenue, Suite 200, La Jolla, California 92037.

RECITALS:

WHEREAS, Consultant and the Company are parties to an Employment Agreement dated as of April 1, 1999 (the "Employment Agreement") pursuant to which Consultant has served as the Chief Executive Officer and President of the Company and its subsidiary Hemex, Inc.: and

WHEREAS, as part of the Company's decision to consolidate all scientific and administrative functions in San Diego and to close its facilities in Buffalo, the Consultant's employment as Chief Executive Officer and President of' the Company and its subsidiary Hemex, Inc. was terminated effective June 1, 2001 by the Company "Without Cause," as that term is used in the Employment Agreement; and

WHEREAS. as a result of the termination of Consultant's employment he is entitled to the payments and benefits set forth in Section 4.3 of the Employment Agreement; and

WHEREAS, the Company desires to engage Consultant as an adviser on strategic and business issues, and Consultant is willing to accept that role; and

WHEREAS, the Company and Consultant mutually desire that the Consulting Fees and Benefits" (as defined in Section 4 below) payable to Consultant under this Agreement shall be in lieu of any payments to which Consultant is otherwise entitled under Section 4.3(f) and (g) of the Employment Agreement, provided that the Company timely complies with its obligations under this Agreement; and

WHEREAS, the Company and Consultant desire to make it clear that Consultant's status as an officer and employee of the Company and Hemex, Inc. under the Employment Agreement has been terminated, and in that regard to terminate those sections of the Employment Agreement that no longer are applicable due to the termination of Consultant's employment.

NOW, THEREFORE, the parties hereto for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, hereby agree as follows:

1. ENGAGEMENT AS CONSULTANT.

Effective June 1, 2001, the Company engages Consultant as an adviser and consultant to the Company President and Chief Executive Officer, and Consultant hereby accepts such engagement, subject to the terms and conditions set forth below.

2. TERM OF ENGAGEMENT.

The term of Consultant's engagement under this Agreement shall be the 24-month period from June 1, 2001 through May 31, 2003 ("Term").

3. SCOPE OF ENGAGEMENT.

The Consultant shall advise the Company's President and Chief Executive Officer on strategic and business issues, as requested by the Company from time-to-time during the Term. Consultant shall not be required to travel from the Buffalo, New York area for these consulting activities, nor shall he be required to spend more than 8 hours per month fulfilling his consulting duties under this Agreement.

4. CONSULTING FEES AND BENEFITS.

(a) The Company shall pay Consultant a total of $120,000 ("Consulting Fees"), plus reimbursement of any Federal and State self-employment, FICA, Medicare and unemployment taxes owed by Consultant as a result of his engagement under this Agreement, (collectively the "Self-Employment Taxes").

(b) The Consulting Fees shall be paid in 24 equal monthly installments of $5,000 payable on the last day of each month throughout the Term, commencing June 30, 2001.

(c) The Consultant shall notify the Company on or prior to

December 31. 2001, December 31, 2002 and May 31, 2003 of the amount of Self-Employment Taxes owed for the years 2001, 2002 and 2003, respectively. The Company shall reimburse the Consultant for these Self-Employment Taxes within 30 days after receiving such notice from Consultant.

(d) In addition to the Consulting Fees and Self-Employment Taxes, the Company shall maintain in full force and effect, for Consultant's and his eligible beneficiaries' continued benefit, until the first to occur of (x) his attainment of alternative employment that provides benefits comparable to the Benefits defined below or (y) May 31, 2003, the employee benefits provided pursuant to Company-sponsored benefit plans, programs of other arrangements in which Consultant was entitled to participate as a full-time employee immediately prior to June 1, 2001, subject to the terms and conditions of such plans and programs (the "Benefits"). If Consultant's continued participation is not permitted under the general terms and provisions of such plans, programs and arrangements, the Company shall arrange to provide Consultant with Benefits substantially similar to those which Consultant would have been entitled to receive under such plans, programs and arrangements.

(e) In the event that Consultant dies or becomes disabled during the Term, the Company shall continue making all payments required under this Agreement to Consultant's heirs. legatees or estate in the event of his death, or to him or his legal representative in the event of his disability; such payments shall be made in the same amounts and at the same times as they would have been made but for such death or disability.

5. PAYMENT ON DEFAULT BY COMPANY.

In the event that the Company fails to make any payment of Consulting Fees, Self-Employment Taxes or Benefits required by Section 4 of this Agreement within 30 days after such payment is due, it shall pay to Consultant the sum of $120,000 less the total of all monthly Consulting Fees actually paid to Consultant under Section 4(b) above, plus an amount equal to the Self-Employment Taxes owed on the payment required under this Section 5, plus the amount necessary to compensate Consultant for the loss of any Benefits for the balance of the Term. Payment of these amounts shall not relieve the Company of any other obligations owed to Consultant.

6. INTERESTED DIRECTOR TRANSACTION.

Because Consultant is a member of the Company's Board of Directors, this Agreement constitutes an "interest director transaction" under the Nevada General Corporation Law. The Company hereby represents that this Agreement has been presented to, and approved by, the Company's Board of Directors.

7. TERMINATION OF EMPLOYMENT AGREEMENT.

(a) Subject to Consultant's receipt of written acknowledgement from the Company that it owed Consultant $224,150 as of June 1, 2001 for amounts owed by Hemex, Inc. unpaid salary, unpaid medical benefits, and loans, advances and business expenses, the Company and Consultant agree that the Employment Agreement is hereby terminated and is null and void, except as otherwise provided in Section 7(b) below.

(b) The Company and Consultant agree that Article V (Restrictive Covenants). Sections 6.3(b) [DISPUTE RESOLUTION], 6.4 [SUCCESSORS; BINDING AGREEMENT], 6.6 [SEVERABILITY]. 6.7 [NOTICES]. 6.12 [GOVERNING LAW], and Exhibit "A" (Dispute Resolution Procedures) in the Employment Agreement shall survive the termination of the Employment Agreement and shall apply in accordance with their respective terms

8. MITIGATION OF DAMAGES; NO SET-OFF; DISPUTE RESOLUTION.

(a) Consultant shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Consultant as the result of employment by another employer. The Company's obligation to make the payments provided for in this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim or action which the Company may have against Consultant.

(b) If there shall be any dispute between the Company and Consultant, the dispute shall be resolved in accordance with the dispute resolution procedures set forth in Exhibit "A" hereto, the provisions of which are incorporated as a part hereof and the parties hereto hereby agree that such dispute resolution procedures shall be the exclusive method for resolution of disputes under this Agreement. In the event of a dispute hereunder, until there is a resolution and award as provided in Exhibit the Company shall pay all amounts, and provide all benefits, to Consultant and/or Consultant's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide hereunder and shall pay the reasonable legal fees and expenses of counsel for Consultant in connection with such. dispute resolution; provided,

however, that the Company shall not be required to pay any disputed amounts or any legal fees and expenses pursuant to this Subparagraph (b) except upon receipt of a written undertaking by or on behalf of Consultant (and/or Consultant's family or other beneficiaries, as the case may be) to repay, without interest or penalty, as soon as practicable after completion of the dispute resolution (A) all such amounts to which Consultant (or Consultant's family or other beneficiaries, as the case may be) is ultimately adjudged to not be entitle with respect to the payment of such disputed amount(s) and (B) in addition, in the case of legal fees and expenses, a proportionate amount of legal fees and expenses attributable to any of Consultant's claim(s) or any of Consultant's defenses or counter-claim(s), if any, which shall have been found by the dispute resolver to have been frivolous or without merit.

9. SUCCESSORS; BINDING AGREEMENT. This Agreement shall be binding upon any successor to the Company and shall inure to the benefit of and be enforceable by Consultant's personal or legal representatives, beneficiaries. designees, executors, administrators, heirs, distributees, devisees and legatees.

10. MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition.

11. SEVERABILITY. The covenants and agreements contained herein are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained herein.

12. NOTICES. All the notices and other communications required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties hereto at the following addresses:

If to the Company, to it at:

Aethlon Medical. Inc.
7825 Fay Avenue
Suite 200
La Jolla, California 92037

If Consultant, to him at:
Mr. Franklyn S. Barry, Jr.
1141 Delaware Avenue
Unit 3N
Buffalo, New York 14209

13 ASSIGNMENT. This Agreement and any rights hereunder shall not be assignable by either party without the prior written consent of the other party except as otherwise specifically provided for herein.

14. ENTIRE UNDERSTANDING. This Agreement (together with the Exhibit incorporated as a part hereof constitutes the entire understanding between the parties hereto with respect to the subject matter hereof, and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth herein with respect to the subject matter hereof.

15. CONSULTANT'S REPRESENTATIONS. Consultant represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties hereunder violates the provisions of any other agreement to which he is a party or by which he is bound.

16. INDEPENDENT CONTRACTOR. This Agreement calls for the performance of Consultant's services as an independent contractor and he will not be considered an employee of the Company for any purposes.

17. GOVERNING LAW. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of New York applicable to contracts executed and wholly performed within such state.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY

Aethlon Medical, Inc. a Nevada Corporation

By: /s/ James A Joyce President and CEO

CONSULTANT

FRANKLYN S BARRY, JR.

By: /s/ Franklyn S Barry, Jr.

EXHIBIT "A"
DISPUTE RESOLUTION PROCEDURES

A. If a controversy should arise which is covered by Section 8(b) of this Agreement, then not later than twelve (12) months from the date of the event which is the subject of dispute either party may serve on the other a written notice specifying the existence of such controversy and setting forth in reasonably specific detail the grounds thereof ("Notice of Controversy"); PROVIDED that, in any event, the other party shall have at least thirty (30) days from and after the date of the Notice of Controversy to serve a written notice of any counterclaim ("Notice of Counterclaim"). The Notice of Counterclaim shall specify the claim or claims in reasonably specific detail. If the Notice of Controversy or the Notice of Counterclaim, as the case may be, is not served within the applicable period, the claim set forth therein will be deemed to have been waived, abandoned and rendered unenforceable.

B. Following receipt of the Notice of Controversy (or the Notice of Counterclaim, as the case may be), there shall be a three (3) week period during which the parties will make a good faith effort to resolve the dispute through negotiation ("Period of Negotiation"). Neither party shall take any action during the Period of Negotiation to initiate arbitration proceedings.

C. If the parties should agree during the Period of Negotiation to mediate the dispute, then the Period of Negotiation shall be extended by an amount of time to be agreed upon by the parties to permit such mediation. In no event, however, may the Period of Negotiation be extended by more than five (5) weeks or, stated differently, in no event may the Period of Negotiation be extended to encompass more than a total of eight (8) weeks.

D. If the parties agree to mediate the dispute but are thereafter unable to agree within one (1) week on the format and procedures for the mediation, then the effort to mediate shall cease, and the Period of Negotiation shall terminate four (4) weeks from the Notice of Controversy (or the Notice of Counterclaim, as the case may be).

E. Following the termination of the Period of Negotiation, the dispute (including the main claim and counterclaim, if any) shall be settled by arbitration, and judgment upon the award may be entered in any court having jurisdiction thereof. The format and procedures of the arbitration are set forth below (referred to below as the "Arbitration Agreement").

F. A notice of intention to arbitrate ("Notice of Arbitration") shall be served within forty-five (45) days of the termination of the Period of Negotiation. If the Notice of Arbitration is not served within this period, the claim set forth in the Notice of Controversy (or the Notice of Counterclaim, as the case may be) will be deemed to have been waived, abandoned and rendered unenforceable.

G. The arbitration, including the Notice of Arbitration, will be governed by the Commercial Rules of the American Arbitration Association except that the terms of this Arbitration Agreement shall control in the event of any difference or conflict between such Rules and the terms of this Arbitration Agreement. The arbitration shall be scheduled to take place in Buffalo, New York.

H. The dispute resolver shall reach a decision on the merits on the basis of applicable legal principles as embodied in the law of the State of New York.

I. There shall be one dispute resolver, regardless of the amount in controversy. The dispute resolver will be empowered to render an award and interim decisions and shall be a member of the bar of any of the fifty States of the United States or of the District of Columbia. The dispute resolver shall be promptly appointed pursuant to Rule 13 of the Commercial Rules of the American Arbitration Association ("AAA"). If the dispute resolver has not been appointed

within forty-five (45) days of the AAA's initial transmission of lists of potential arbitrators, then the AAA shall unilaterally designate the dispute resolver.

J. At the time of appointment and as a condition thereto, the dispute resolver will be apprised of the time limitations and other provisions of this Arbitration Agreement and shall indicate such dispute resolver's agreement to the Tribunal Administrator to comply with such provisions and time limitations.

K. During the 30-day period following appointment of the dispute resolver, either party may serve on the other a request for limited numbers of documents directly related to the dispute. Such documents will be produced within seven (7) days of the request.

L. Following the 30-day period of document production, there will be a forty-five (45) day period during which limited depositions will be permissible. Neither party will take more than five (5) depositions, and no deposition will exceed three (3) hours of direct testimony.

M. Disputes as to discovery or prehearing matters of a procedural nature shall be promptly submitted to the dispute resolver pursuant to telephone conference call or otherwise. The dispute resolver shall make every effort to render a ruling on such interim matters at the time of the hearing (or conference call) or within five (5) business days thereafter.

N. Following the period of depositions, the arbitration hearing shall promptly commence. The dispute resolver will make every effort to commence the hearing within thirty (30) days of the conclusion of the deposition period and, in addition, will make every effort to conduct the hearing on consecutive business days to conclusion.

O. An award will be rendered, at the latest, within nine (9) months of the date of the Notice of Arbitration and within thirty (30) days of the close of the arbitration hearing. The award shall set forth the grounds for the decision in reasonably specific detail and shall also specify whether any claim (or defense or counterclaim) of Executive is found to be frivolous or without merit and what proportion, if any, of his legal fees and expenses which have been paid by the Company Executive shall be required to repay to the Company in accordance with Section 8(b). The award shall be final and nonappealable.

P. THE PARTIES HEREBY ACKNOWLEDGE AND AGREE THAT THEY ARE WAIVING THEIR RIGHTS TO A TRIAL IN A STATE OR FEDERAL COURT AND ARE ALSO WAIVING THEIR RIGHT TO A JURY TRIAL.

COMPANY	CONSULTANT
AETHLON MEDICAL, INC. a Nevada corporation	FRANKLYN S. BARRY, JR.
By: /s/ James A Joyce, President Its' Chairman of the Board	By: /s/ Franklyn S Barry, Jr.

EXHIBIT 10.16

AGREEMENT

THIS AGREEMENT, effective January 1, 2000, is made and entered into by and among AETHLON MEDICAL, INC. (hereinafter "AETHLON"), HEMEX, Inc. (hereinafter "HEMEX"), and Dr. Julian L. Ambrus, Jr., M.D. (hereinafter "Dr. Ambrus") and Dr. David O. Scamurra, M.D. (hereinafter "Dr. Scamurra").

RECITALS

WHEREAS, INVENTORS have invented and are the sole owners of an INVENTION relating to an apparatus and method for removing HIV and other viruses from the blood; and

WHEREAS, an application for a provisional patent was filed by INVENTORS on August 31, 1998 with the United States Patent and Trademark Office under serial number 60/098,477 with respect to such INVENTION, and US utility application Serial No. 09/385166 and International Application No. PCT/US 99-19448 were filed by INVENTORS with respect to such INVENTION; and

WHEREAS, HEMEX is engaged in the business of development, manufacture and sale of medical devices; and

WHEREAS, AETHLON plans to sell its common stock in a private placement in order to fund its operations and its performance under this Agreement and in partial consideration of the assignment and grant herein; and

WHEREAS, HEMEX desires to obtain an assignment of all of the INVENTORS' right, title and interest in arid to the INVENTION without reservation or contingency, except as otherwise provided herein, and to have the exclusive right to make, use and sell PATENTED PRODUCTS, as hereinafter defined, and INVENTORS are willing to grant such rights, under and subject to the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE 1 - DEFINITIONS

1.1 "AETHLON" shall mean Bishop Equities, Inc. a Nevada corporation, with its principal place of business located at 7825 Fay Avenue, Suite 200, La Jolla, California 92307 doing business under the assumed name Aethlon Medical, Inc.

1.2 "EFFECTIVE DATE" shall mean January 1, 2000.

1.3 "EQUITY OFFERING" shall mean a private placement of Aethlon Medical, Inc. common stock or equivalent financial instrument.

1.4 "FIELD OF USE" shall mean devices and methods for removing HIV and other viruses from the blood employing a filtration device having antibodies and/or DNA fragments immobilized on a material and retained by a membrane that allows serum containing virus to interact with the antibodies and/or DNA, including but not limited to such devices and methods as described in SUBJECT PATENTS.

1.5 "HEMEX" shall mean Hemex, Inc., a Delaware corporation authorized to do business in New York, with its principal place of business located at 143 Windsor Avenue, Buffalo, New York 14209, a wholly--owned subsidiary of AETHLON.

1.6 "INVENTION(S)" shall mean all devices and methods described in the PROVISIONAL PATENT APPLICATION and in the UTILITY PATENT APPLICATION and in the PCT INTERNATIONAL APPLICATION. INVENTION(S) shall further include any patentable improvements in the FIELD OF USE both conceived and reduced to practice by INVENTORS or HEMEX during the period extending through the EFFECTIVE DATE until August 1, 2004. Any devices, methods or patentable improvements in the FIELD OF USE which are either conceived or reduced to practice after August 1, 2004 are specifically excluded as an INVENTION and therefore not includable under the scope of this Agreement.

1.7 "INVENTORS" shall mean, collectively, Julian L. Ambrus, Jr., M.D. and David 0.Scamurra, M.D., individuals residing at 541 West Ferry Street, Buffalo, New York 14222 and 66 Four Seasons West, Eggertsville, New York 14226, respectively.

1.8 "NET SALES PRICE" shall mean the price actually invoiced by HEMEX (or by a licensee of HEMEX) for devices sold, leased or otherwise disposed of by

HEMEX (or a licensee of HEMEX) after deduction of customary trade and quantity discounts but excluding broker or agent commissions as a deductible cost or discount.

1.9 "PATENTED PRODUCT" shall mean any medical device covered by a claim of a non-expired, granted patent under SUBJECT PATENTS that has not been held invalid or unenforceable by a court or administrative agency of competent authority.

1.10 "PCT INTERNATIONAL APPLICATION" shall mean PCT International Application No. PCT/US 99-19448 filed under the Patent Cooperation Treaty on August 30, 1999 by INVENTORS and entitled "Method For Removal of HIV and Other Viruses For Blood".

1.11 "PROVISIONAL PATENT APPLICATION" shall mean the Provisional Patent Application filed on August 31, 1998 by INVENTORS with the United States Patent and Trademark Office with respect to the INVENTIONS, under serial number 60/098,477 and entitled "Use of Immobilized DNA Fragments and Antibodies to Remove HIV and Other Viruses For Blood".

1.12 "SUBJECT PATENTS" shall mean all patent applications that may be filed on INVENTIONS anywhere in the world, including any and all divisionals, reissues, continuations and extensions thereof, and in and to any Letters Patent, Inventors' Certificates, Design Registrations, Industrial Models, Utility Models and all other forms of protection that may be granted thereon worldwide. SUBJECT PATENTS specifically include the PROVISIONAL PATENT APPLICATION, the UTILITY PATENT APPLICATION, and the PCT INTERNATIONAL APPLICATION, and US and foreign patent applications that claim priority thereon, and all divisions, continuations, reissues, substitutes and extensions thereof, and all provisional patent application and patent applications and patents claiming priority thereon, and any Letters Patent, Inventors' Certificates, Design Registrations, Industrial Models, Utility Models and all other forms of protection that may be granted thereon worldwide.

1.13 "TERM" shall mean the time period from the EFFECTIVE DATE through the later of (i) the expiration date of the last to expire of SUBJECT PATENTS or (ii) the abandonment date of the last to be abandoned of any patent applications under SUBJECT PATENTS, unless this Agreement is sooner terminated as provided in Article 6 hereof.

1.14 "UTILITY PATENT APPLICATION" shall mean the US Utility Patent Application filed on August 30, 1999 by INVENTORS with the United States Patent and Trademark Office with respect to the INVENTIONS, under serial number 09/385166 and entitled "Method For Removal of HIV and Other Viruses For Blood".

ARTICLE 2 - ASSIGNMENT
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2.1 INVENTORS hereby assign and grant to HEMEX for the TERM and subject to the provisions of this Agreement, with right to grant licenses to third parties consistent with the terms of this Agreement, all of the INVENTORS' right, title and interest worldwide in and to

(a) the INVENTIONS, and

(b) the SUBJECT PATENTS.

2.2 INVENTORS agree to execute one or more assignments and such other documents as may be reasonably requested by HEMEX from lime to time, at no cost to INVENTORS, to evidence or effect the assignment and grant of rights provided herein.

2.3 HEMEX accepts the assignment and grant of Article 2.1, and AETHLON consents to the assignment and grant to HEMEX.

ARTICLE 3 - ROYALTIES; PAYMENT AND REPORTING
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3.1 In consideration of the assignment to HEMEX and other covenants and agreements contained in this Agreement, HEMEX or AETHLON, as the case may be, shall pay and deliver to INVENTORS:

(a) within thirty (30) days of the date of signature of this Agreement by authorized representatives of all parties, the greater of (i) twelve thousand five hundred (12,500) shares of AETHLON common stock ($.001 Par Value) issued and fully paid and non-assessable on the EFFECTIVE DATE, which shares shall be deemed fully earned or (ii) such number of shares of AETHLON common stock ($.001 Par Value) issued and fully paid and non-assessable on the EFFECTIVE DATE, as will equal one hundred thousand dollars ($100,000) based upon the per share trading price on the EFFECTIVE DATE, which shares shall be deemed fully earned; and

(b) within thirty (30) days of the date of issuance of the

first US letters patent relating to an INVENTION, the greater of (i) twelve thousand five hundred (12,500) shares of AETHLON common stock ($.001 Par Value) issued and fully paid and non-assessable on said US letters patent issuance date, which shares shall be deemed fully earned or (ii) such number of AETHLON common stock ($.001 Par Value) issued and fully paid and non-assessable on said US letters patent issuance date as will equal one hundred thousand dollars ($100,000.00) based upon the per share trading price on said US letters patent issuance date, which shares shall be deemed fully earned; and

(c) a royalty equal to eight and three quarter percent (8.75%) of the NET SALES PRICE of all PATENTED PRODUCTS sold, leased or otherwise disposed of for resale to end users whether or not affiliated with HEMEX or AETHLON. For purposes of payment under this Article 3.1(c), within thirty (30) days after the last day of March, June, September and December in each relevant year during the TERM and after the first commercial sale of a PATENTED PRODUCT, Hemex shall furnish to INVENTORS a written statement in such detail as INVENTORS may reasonably require of all amounts due pursuant to this Article 3.1(c) for the preceding quarter, and shall pay to INVENTORS all amounts due to INVENTORS thereunder.

3.2 HEMEX and its licensees shall at all times keep an accurate account of all sales, leases or other dispositions for resale to end users of PATENTED PRODUCTS which are the subject of this Agreement, shall render written statements thereof to INVENTORS as required under Article 3.1(d) and shall pay to the INVENTORS with each such statement, the amount of all royalties earned during such quarter. HEMEX shall keep accurate records containing all data reasonably required for the computation and verification of the amounts to be paid and the information to be reported to INVENTORS under this Agreement. HEMEX shall permit an independent accounting firm designated by INVENTORS to audit such records at HEMEX's principal place of business (or such other site as HEMEX may reasonably designate) at any time and from time to time during normal business hours upon reasonable advance notice to HEMEX. The auditor must sign a nondisclosure agreement in a form reasonably acceptable to HEMEX. In no event shall audits be conducted under this Article 3.2 more than one time in any calendar year. If INVENTORS elect not to have an independent accounting firm audit such records in any year, the right to audit the records for such year shall carry forward. All costs and expenses incurred by INVENTORS for audit of HEMEX's records shall be borne by INVENTORS unless the audit discovers errors or omissions more than ten percent (10%) in HEMEX's favor, in which case the costs and expenses shall be borne by HEMEX but not to exceed the amount of the error or omission in HEMEX's favor. If such an audit discloses a discrepancy between the amounts reported and paid by HEMEX and what should have been reported and paid, HEMEX shall have the right to its own audit, at HEMEX's expense, within sixty (60) days after notice from INVENTORS of the discrepancy. If the auditors agree on the amount of the discrepancy, HEMEX shall pay the shortfall in full within thirty (30) days if INVENTORS have been underpaid and INVENTORS shall repay the overpayment in full within Thirty (30) days if INVENTORS have been overpaid. lithe auditors do not agree on the amount of the discrepancy, the dispute shall be submitted to binding arbitration in accordance with the arbitration provisions of Section 6.4 of this Agreement.

ARTICLE 4 - LICENSING
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HEMEX may from time to time grant one or more licenses with respect to the SUBJECT PATENTS within its discretion, provided, however, that such licenses shall be consistent with the terms of this Agreement, require periodic reporting of all revenues derived by any licensees from the SUBJECT PATENTS and shall automatically terminate upon expiration or sooner termination of this Agreement. INVENTORS shall be entitled to inspect all such license agreements upon reasonable prior notice to HEMEX and to make extracts and copies thereof, from time to time and at any lime during the TERM. To the extent that such license agreements or the terms of the agreements are confidential to HEMEX or to the sublicensee, INVENTORS shall sign a nondisclosure agreement in a form reasonably acceptable to HEMEX prior to inspection, or to making extracts and copies thereof.

ARTICLE 5 - PATENT FILING AND PROSECUTION
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5.1 Upon signature of this Agreement, INVENTORS will promptly disclose to HEMEX all information (collectively, the "INFORMATION") in its possession pertaining to the filed patent applications under SUBJECT PATENTS which may be necessary or useful for prosecuting such patent applications for the protection of INVENTIONS. HEMEX will, upon receipt of the INFORMATION: accept liaison and

financial responsibility for prosecution by a patent attorney nominated by HEMEX and approved by INVENTORS of the application to allowance or through necessary appeal from a final rejection by an examiner of the United States Patent and Trademark Office; and reimburse INVENTORS for the costs involved in filing the

UTILITY PATENT APPLICATION and PCT INTERNATIONAL APPLICATION, the costs not to exceed seven thousand dollars ($7000). INVENTORS will thereafter from time to time supply HEMEX with additional information as may be necessary or desirable to facilitate prosecution and preparation of patent applications on INVENTIONS.

5.2 In. addition to the patent applications identified in Article 5.1, HEMEX shall have the right to identify INVENTIONS that may be the subject of additional US Patent applications. HEMEX shall also have the right to identify INVENTIONS that may be the subject of foreign patent applications. HEMEX shall have liaison and financial responsibility during the TERM for preparation, filing and prosecution of any such patent applications, and maintenance of any patent granted thereon, using a patent attorney nominated by HEMEX and approved by INVENTORS.

5.3 HEMEX will provide INVENTORS with copies of applications filed in the United States or foreign patent offices, any papers received from the United States or foreign patent offices pertaining to such applications, and any papers filed in the United States or foreign patent offices pertaining to such applications. Any written comments on prosecution of such applications received from INVENTORS shall be provided to the patent attorney referenced in Articles 5.1 and 5.2.

5.4 HEMEX shall not abandon any patent application under SUBJECT PATENTS, nor permit any granted patent under SUBJECT PATENTS to lapse prior to its full patent term, without first providing INVENTORS with the opportunity to assume financial and patent liaison responsibility for such application or patent. Any such application or patent under SUBJECT PATENTS for which INVENTORS assume responsibility under this Section 5.4 shall revert to INVENTORS and HEMEX shall execute and deliver to INVENTORS any and all assignments and other documents necessary to effect such reversion and transfer, except as otherwise provided in Article 6 Agreement upon a termination hereof.

ARTICLE 6 - TERMINATION; ARBITRATION
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6.1 INVENTORS may terminate this Agreement upon the occurrence of any of the following events (individually, "Event of Default" and collectively, "Events of Default"):

(a) The default by HEMEX or AETHLON in observing any provision of this Agreement and failure to cure such default within sixty (60) days receipt of written notice from the INVENTORS specifying the nature of such default, or (i) if by reason of its nature the failure or default can be remedied, but not within such sixty (60) day period, HEMEX or AETI-ILON fails to proceed with reasonable diligence after receipt of such notice to cure the default, or (ii) if HEMEX or AETHLON fails to continue with reasonable diligence its efforts to cure the default; provided, however, that in no event shall HEMEX or AETHLON have more than one (1) additional sixty (60) day period to cure such default.

(b) HEMEX or AETHLON (i) applies for or consents to the appointment of or the taking of possession by a receiver, custodian, trustee or liquidator of itself or of any of its assets, (ii) commences a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), or (iii) files a petition or other request seeking to take advantage of any other law relating to bankruptcy or insolvency.

(c) A proceeding or case is commenced without the application or consent of HEMEX or AETHLON or an affiliated party of HEMEX or AETHLON in any court of competent jurisdiction, seeking (i) liquidation, reorganization, adjudication as a bankrupt, dissolution, or winding-up, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of HEMEX or AETHLON, or (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, or winding-up, and such proceeding or case continues undismissed, or an order, judgment or decree approving or ordering any of the foregoing is entered and continues unstayed and in effect, for a period of sixty (60) days.

(d) INVENTORS have not received payment of at least fifteen thousand dollars ($15,000) in any year during the TERM beginning in the second full year after both the issuance of any US letters patent and FDA approval of a PATENTED PRODUCT (if required for marketing the product in the USA) and HEMEX fails to make a payment to ENVENTORS during that year equivalent to the fifteen thousand dollar ($15,000) royalty payment;

(e) The EQUITY OFFERING is not completed within twenty-four (24) months after the EFFECTIVE DATE.

6.2 HEMEX may terminate this Agreement upon the default by INVENTORS in observing any provision of this Agreement and failure to cure such default within sixty (60) days receipt of written notice from the HEMEX or AETHLON specifying the nature of such default, or (i) if by reason of its nature the

failure or default can be remedied, but not within such sixty (60) day period, INVENTORS fail to proceed with reasonable diligence after receipt of such notice to cure the default, or (ii) if INVENTORS fails to continue with reasonable diligence its efforts to cure the default; provided, however, that in no event shall INVENTORS have more than one (1) additional sixty (60) day period to cure such default.

6.3 Upon termination of this Agreement as provided above in Article 6.1, all rights assigned and granted to HEMEX hereunder and all licenses granted to third parties shall thereupon cease and ownership of the SUBJECT PATENTS, the INVENTIONS and the INFORMATION shall immediately revert to and revest in the INVENTORS. HEMEX shall promptly execute and deliver one or more assignments as may reasonably be requested by INVENTORS to transfer ownership in the SUBJECT PATENTS, INVENTIONS and shall promptly deliver a copy of the INFORMATION previously received to INVENTORS. HEMEX shall notify INVENTORS of the inventory of PATENTED PRODUCTS that it has on hand for which a royalty would be payable upon the sale, lease or other disposition thereof under the provisions of this Agreement, and HEMEX shall then have a twelve (12) month license to sell that inventory, provided that HEMEX pays royalties for those PATENTED PRODUCTS and renders reports to INVENTORS for those PATENTED PRODUCTS as provided for in this Agreement. The terms of this Agreement that by their context are meant to survive expiration or termination of this Agreement shall so survive. HEMEX shall be required to destroy any PATENTED PRODUCTS that remain after the expiration of this post-termination license, if the sale of such remaining inventory would be unlawful without a license from INVENTORS. HEMEX shall retain all books and records that would be used to account for the royalty payments due to INVENTORS until such books and records are at least six (6) years old.

6.4 Any dispute arising out of or related to this Agreement (other than the validity or scope of any patents referred to herein), whether sounding in tort or contract or otherwise (including but not limited to any claim of misrepresentation, concealment, negligence, fraud, breach of implied duty, etc.), which is not settled by amicable agreement of the parties shall be determined by binding arbitration. The arbitration shall be held in the state of New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent those rules are not inconsistent with anything in this Agreement. The decision of the arbitrator or arbitrators shall be final and binding, and judgment on the award may be entered in any court having jurisdiction. Nothing in this Agreement to arbitrate shall prohibit either party from seeking injunctive relief, including a temporary restraining order or a preliminary injunction, in a court of competent jurisdiction. The parties agree to both personal jurisdiction and venue in the County of Erie before any Court of competent subject matter jurisdiction therein. Venue for any arbitration proceeding hereunder shall also be in the County of Erie.

ARTICLE 7 - ADDITIONAL COVENANTS
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7.1 HEMEX shall defend, at its own expense, all infringement suits that may be brought against it or its licensees based on or related to the manufacture, use, or sale of PATENTED PRODUCTS.

7.2 HEMEX shall, at its own expense, have the right to bring suit for infringement under SUBJECT PATENTS. The INVENTORS shall, at the expense and at the request of HEMEX, join the suit as a party plaintiff and give evidence and execute such documents as HEMEX may reasonably require. HEMEX shall be entitled to any recovery of damages from any such infringement action, but shall account therefor to the INVENTORS and promptly pay a royalty at the rate set forth in Section 3.1(d) of this Agreement on any recovery for infringement after deduction of HEMEX's costs incurred in any such action.

7.3 If INVENTORS provide HEMEX with written notice of an infringement under SUBJECT PATENTS, the parties shall cooperate in obtaining an opinion of patent counsel confirming infringement. If the opinion confirms infringement, HEMEX shall have six months from the date of the opinion to bring suit, as provided under Article 7.2, or to obtain an undertaking from the infringing party for a sublicense under SUBJECT PATENTS. If HEMEX does not bring suit or obtain the undertaking for a sublicense from the infringing party, then INVENTORS shall have the right to bring suit for infringement under SUBJECT PATENTS, and HEMEX shall, at the expense and at the request of INVENTORS, join the suit as a party plaintiff and give evidence and execute such documents as INVENTORS may reasonably require. HEMEX shall not be entitled to any recovery of damages from any such infringement action brought by INVENTORS under this Article 7.3.

7.4 HEMEX agrees that before it begins to make, market and sell any products covered by the SUBJECT PATENTS or INVENTIONS, it will carry products liability insurance in amounts and coverages as are appropriate for such products and naming INVENTORS as additional insureds. HEMEX agrees to indemnify, defend and hold INVENTORS harmless from any products liability claim made against INVENTORS for a product sold by HEMEX unless such claim results or arises from a willful or negligent act or omission of INVENTORS.

7.5 HEMEX agrees to mark all products made or sold in the United States pursuant to this Agreement with the word "Patent" together with the number(s) of the applicable SUBJECT PATENT in the manner prescribed in 35 U.S.C. ss.287 unless impractical.

ARTICLE 8 - REPRESENTATIONS AND WARRANTIES
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8.1 INVENTORS represent and warrant to HEMEX and its successors and assigns that:

(a) They have sole and exclusive ownership of INVENTIONS and SUBJECT PATENTS, and the sole and exclusive right to grant the assignment and rights under this Agreement, and they have not granted licenses or conveyed other rights, nor will they grant licenses or convey other rights in the future, to any person or entity that would conflict with the assignment and rights granted to HEMEX in this Agreement;

(b) They have the full power to enter into and fully perform this Agreement, and that the execution, delivery and performance of this Agreement will not violate any terms or obligations of INVENTORS in contracts with third parties (including the State University of New York of Buffalo); and

(c) To the best of their knowledge and belief, practice of INVENTIONS will not infringe any patents or proprietary rights of third parties.

8.2 HEMEX and AETHLON jointly and severally represent and warrant to INVENTORS that:

(a) Each of HEMEX and AETHLON is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation and HEMEX is qualified to do business and in good standing under the laws of the State of New York. Each .of AETHLON and HEMEX has all corporate power and authority to own, lease or operate its property and to carry on its business as it is now and has since its incorporation been conducted by it.

(b) The execution and delivery of this Agreement and the instruments to be executed and delivered pursuant hereto arid the consummation of the transactions contemplated hereby by AETHLON and HEMEX have been approved by all necessary corporation action. Upon execution and delivery, this Agreement, and each document of transfer contemplated by this Agreement when executed and delivered by each of AETHLON and HEMEX in accordance with the provisions hereof, will constitute a legal, valid and binding agreement of AETHLON and HEMEX, as applicable, enforceable against each in accordance with its respective terms, except to the extent that a court may choose to award monetary damages rather than specific performance, or that enforceability may be limited by applicable bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally or by general equitable principles.

(c) On the EFFECTIVE DATE, the authorized capital of AETHLON consists of 25,000,000 shares ($.001 par value) of one class of common stock with 2,595,000 shares issued and outstanding. There are no outstanding warrants, options or agreements to issue shares or restrictions on the transfer of shares except for a certain stock option agreement with Franklyn S. Barry, Jr. dated April 1, 1999 and certain warrants to be issued as described in the Offering Summary of AETHLON dated June 28, 1999.

(d) On the EFFECTIVE DATE, AETHLON owns one hundred percent (100%) of the issued and outstanding shares of HEMEX.

8.3 HEMEX shall indemnify and hold harmless INVENTORS against all liabilities, demands, damages, expenses, or losses resulting from or arising out of HEMEX's material misrepresentation contained in any representation or warranty in this Agreement as of the date hereof. INVENTORS shall indemnify and hold harmless HEMEX against all liabilities, demands, damages, expenses, or losses resulting from or arising out of INVENTORS' material misrepresentation contained in any representation or warranty in this Agreement as of the date hereof.

ARTICLE 9 - MISCELLANEOUS
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9.1 This Agreement may be amended or modified only by a written instrument duly executed by and authorized representative of each party.

9.2 This Agreement shall be binding upon and inure to the benefit and

burden of the respective successors and permitted assigns of the parties. During the period from the EFFECTIVE DATE through August 1, 2004, HEMEX may not assign this Agreement without the prior written consent of INVENTORS which consent may not be unreasonably withheld.

9.3 This Agreement shall be deemed to have been made in and shall be construed in accordance with the laws of the State of New York without reference to its choice of law provisions.

9.4 This Agreements may execute in several counterparts, provided that each party receives a copy fully signed by the other parties.

9.5 The headings and titles to the articles and paragraphs in this Agreement are intended solely for convenience and shall be given no effect in the construction or interpretation of this Agreement.

9.6 Each party shall at the request of the other party, execute any document reasonably necessary to implement the provisions of this Agreement.

9.7 Nothing in this Agreement is intended or shall be deemed to constitute a partnership, agency, employer-employee or a joint venture relationship between HEMEX and INVENTORS, INVENTORS shall not incur any debts or make any commitments for HEMEX, except to the extent, if at all, specifically provided herein.

9.8 This written Agreement embodies the entire understanding between the parties with respect to the subject matter hereof and supersedes and replaces any and all other prior understandings, arrangements, and/or agreements, whether written or oral, relating to the SUBJECT PATENTS and INVENTIONS.

9.9 This Agreement is divisible and separable. If any provision of this Agreement is held to be or becomes invalid, illegal or unenforceable, such provision shall be reformed to approximate as nearly as possible the intent of the parties and shall remain valid and enforceable to the greatest extent permitted by law.

9.10 The terms of this Agreement may be waived only by a written instrument expressly waiving such term or terms and executed by the party waiving compliance. The waiver of any term or condition of this Agreement by either party hereto shall not constitute a modification of this Agreement, nor prevent a party hereto from enforcing such term or condition in the future with respect to any subsequent event, any other right accruing to such party hereunder.

9.11 All notices and other communications regarding this Agreement sent to HEMEX shall be addressed to:

Hemex, Inc.
143 Windsor Avenue
Buffalo, New York 14209
Attention: Mr. Franklyn Barry
Fax: 716-884-5930

All notices and other communications regarding this Agreement sent to Dr. Ambrus shall be addressed to:

Julian L. Ambrus, Jr., M.D.
541 West Ferry Street
Buffalo, New York 14222
Fax: 716-859-2999

with a copy to:

Magavern & Rich, LLP
71 Main Street
P.O. Box 206
Hamburg, New York 14075-0206
Fax: 716-648-6187

All notices and other communications regarding this Agreement sent to Dr. Scamurra shall be addressed to:

David O. Scamurra, M.D.
66 Four Seasons West
Eggertsville, New York 14226
Fax: 716-447-6253

with a copy to:

Magavem & Rich , LLP
71 Main Street
P.O. Box 206

Hamburg, New York 14075-0206
Fax: 617-648-6187

Unless provided to the contrary in this Agreement, all written notices required or permitted to be given under the terms of this Agreement shall be deemed duly delivered upon receipt if (1) delivered in person, (2) sent by facsimile using a machine that confirms delivery and confirmed by sending the original via certified mail, return receipt requested, or (3) sent certified mail, return receipt requested to the above address.

IN WITNESS WHEREOF, the parties hereto caused this Agreement to be duly executed.

HEMEX, INC.

By: /s/ signature
Title: President
Date: 1/10/2000

JULIAN L. AMBRUS, JR., M.D.

/s/ Julian L. Ambrus
Date: 12/30/99

DAVID O. SCAMURRA, M.D.

/s/ David O. Scamurra
Date: 12 30 99

EXHIBIT 10.17

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into as of January 10, 2000, by and between BISHOP EQUITIES, INC., dba AETHLON MEDICAL, a Nevada corporation (the "Company") and RICHARD H. TULLIS ("Executive").

ARTICLE I

DUTIES AND TERM

1.1 EMPLOYMENT. In consideration of their mutual covenants and other good and valuable consideration, the receipt, adequacy and sufficiency of which is hereby acknowledged, the Company agrees to hire Executive, and Executive agrees to remain in the employ of the Company, upon the terms and conditions herein provided.

1 .2 POSITION AND RESPONSIBILITIES.

1.2.1 Executive shall serve as the Vice President--Business Development of the Company and President of Aethlon, Inc., a wholly-owned subsidiary of the Company (or in a capacity and with a title of at least substantially equivalent quality) reporting directly to Chief Executive Officer of the Company. Executive agrees to perform services not inconsistent with his position as shall from time to time be assigned to him by the Chief Executive Officer of the Company. Such services to be performed by Executive shall include, but not be limited to, the following:

1.2.1.1 Management and supervision of government grant proposals;

1.2.1.2 Technical due diligence for potential acquisitions by the Company;

1.2.1.3 Liaison with the Company's scientific staff and advisory board;

1.2.1.4 Scientific representation of the Company to the financial community;

1.2.1.5 Identification of new business opportunities; and

1.2.1.6 Management of the anticipated Cell Activation subsidiary.

1.2.2 Executive further agrees to serve, if elected, as a director of the Company and as an officer or director of any subsidiary or affiliate of the Company.

1.2.3 During the period of his employment hereunder, Executive shall devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

1.3 TERM. The term of Executive's employment under this Agreement shall commence on the date first above written and shall continue, unless sooner terminated, until January 9, 2002, and it will continue thereafter for successive One (1) year periods unless and until either party gives the other party written notice of termination at least Sixty (60) days prior to the end of a term.

ARTICLE II

COMPENSATION

For all services rendered by Executive in any capacity during his employment under this Agreement, including, without limitation, services as a director, officer or member of any committee of the Board of the Company or of the Board of Directors of any subsidiary or affiliate of the Company, the Company shall compensate Executive as follows:

2.1 BASE SALARY. The Company shall pay to Executive an annual base salary commencing January 10, 2000 of not less than $80,000.00 (the "Base Salary"). The Base Salary shall be reviewed annually by the Board or a committee designated by the Board and the Board or such committee may, in its discretion, increase the Base Salary.

2.2 INCENTIVE PAYMENT. During the period of Executive's employment under this Agreement, the Executive shall be eligible to participate in an incentive compensation program implemented by the Board (the "Annual Incentive Bonus") whereby Executive have the potential to earn an additional $30,000 per annum.

2.3 ADDITIONAL BENEFITS. Executive shall be entitled to participate in all employee benefit and welfare programs, plans and arrangements (including, without limitation, pension, profit-sharing, supplemental pension and other retirement plans, insurance, hospitalization, medical and group disability benefits, travel or accident insurance plans) and to receive fringe benefits, such as dues and fees of professional organizations and associations, which are from time to time available to the Company's executive personnel; PROVIDED, HOWEVER, there shall be no duplication of termination or severance benefits, and to the extent that such benefits are specifically provided by the Company to Executive under other provisions of this Agreement, the benefits available under the foregoing plans and programs shall be reduced by any benefit amounts paid under such other provisions. Executive shall during the period of his employment

hereunder continue to be provided with benefits at a level which shall in no event be less in any material respect than the benefits made available to Executive by the Company as of the date of this Agreement. Notwithstanding the foregoing, the Company may terminate or reduce benefits under any benefit plans and programs to the extent such reductions apply uniformly to all Senior Executives entitled to participate therein, and Executive's benefits shall be reduced or terminated accordingly. Specifically, without limitation, Executive shall receive the following benefits:

2.3.1 HEALTH INSURANCE. The Company shall provide Executive a monthly cash allowance for payment of health insurance premiums obtained by and for Executive (and Executive's spouse and/or dependents) up to a maximum of Four Hundred Dollars ($400.00) per month. Executive must submit to the Company statements showing the actual amount of the health insurance premiums, and the Company shall have the option to either pay the health insurance premiums directly or to reimburse Executive for the health insurance premiums. The Company shall have the option to obtain a group medical insurance plan which covers Executive in place and stead of providing this monthly cash allowance. However, in no event shall Executive be entitled to a cash payment for any unused portion of the monthly allowance (i.e., if Executive's health insurance premiums are $300.00 per month, Executive is not entitled to receive cash for the unused $100.00 portion of the allowance).

2.3.2 DISABILITY BENEFITS. In the event of Executive's failure substantially to perform his duties hereunder on a full-time basis for a period not exceeding 180 consecutive days or for periods aggregating not more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness, the Company shall continue to pay the Base Salary to Executive during the period of such incapacity, but only in the amounts and to the extent that disability benefits payable to Executive under Company-sponsored insurance policies are less than Executive's Base Salary. Additionally, during the term of this Agreement, including any renewals hereof, the Company shall procure and maintain, at its own expense, a long-term disability insurance policy for the benefit of Executive in the event of Executive's total disability (as defined in Section 6.1).

2.3.3 REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall, in accordance with standard Company policies, pay, or reimburse Executive for all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement.

2.3.4 VACATIONS. Executive shall be entitled to twenty (20) business days excluding Company holidays, of paid vacation during each year of employment hereunder. Executive may accrue and carry forward no more than ten (10) unused vacation days from any particular year of his employment under this Agreement to the next.

ARTICLE III
TERMINATION OF EMPLOYMENT

3.1 DEATH OR RETIREMENT OF EXECUTIVE. Executive's employment under this Agreement shall automatically terminate upon the death or retirement (as defined in Section 6.1) of Executive.

3.2 BY EXECUTIVE. Executive shall be entitled to terminate his employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to the Company:

3.2.1 For good reason (as defined in Section 6.1);

3.2.2 At any time commencing with the date six (6) months following the date of a change in control (as defined in Section 6.1) and ending with the date twelve (12) months after the date of such change in control (a "Change in Control Resignation"); and

3.2.3 At any time without good reason.

3.3 BY COMPANY. The Company shall be entitled to terminate Executive's employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to Executive:

3.3.1 In the event of Executive's total disability (as defined in Section 6.1);

3.3.2 For cause (as defined in Section 6.1); and

3.3.3 At any time without cause.

ARTICLE IV

COMPENSATION UPON TERMINATION OF EMPLOYMENT

If Executive's employment hereunder is terminated in accordance with the provisions of Article III hereof except for any other rights or benefits specifically provided for herein following his period of employment, the Company shall be obligated to provide compensation and benefits to Executive only as follows, subject to the provisions of Section 5.4 hereof:

4.1 UPON TERMINATION FOR DEATH OR DISABILITY. If Executive's employment hereunder is terminated by reason of his death or total disability, the Company shall:

4.1.1 Pay Executive (or his estate) or beneficiaries any Base Salary Which has accrued but not been paid as of the termination date (the "Accrued Base Salary");

4.1.2 Pay Executive (or his estate) or beneficiaries for unused vacation days accrued as of the termination date in an amount equal to his Base Salary multiplied by a fraction the numerator of which is the number of accrued unused vacation days and the denominator of which is 360 (the "Accrued Vacation Payment");

4.1.3 Reimburse Executive (or his estate) or beneficiaries for expenses incurred by him prior to the date of termination which are subject to reimbursement pursuant to this Agreement (the "Accrued Reimbursable Expenses");

4.1.4 Provide to Executive (or his estate) or beneficiaries any accrued and vested benefit required to be provided by the terms of any Companysponsored benefit plans or programs (the "Accrued Benefits"), together with any benefits required to be paid or provided in the event of Executive's death or total disability under applicable law;

4.1.5 Pay Executive (or his estate) or beneficiaries any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid, plus a portion of the Annual Incentive Bonus for the year in which Executive's employment is terminated hereunder computed at the end of the fiscal year and pro rated to reflect the portion of the fiscal year that Executive was employed by the Company (collectively, the "Accrued Annual Incentive Bonus"); and in addition,

4.1.6 Executive (or his estate) or beneficiaries shall have the right to exercise all vested unexercised stock options and warrants outstanding at the termination date in accordance with terms of the plans and agreements pursuant to which such options or warrants were issued.

4.2 UPON TERMINATION BY COMPANY FOR CAUSE OR BY EXECUTIVE OTHER THAN FOR GOOD REASON. If Executive's employment is terminated by the Company for Cause, or if Executive terminates his employment with the Company other than (x) upon Executive's death or total disability, (y) for good reason, or (z) pursuant to a Change In Control Resignation (as defined in Section 3.2.2, the Company shall:

4.2.1 Pay Executive the Accrued Base Salary;

4.2.2 Pay Executive the Accrued Vacation Payment;

4.2.3 Pay Executive the Accrued Reimbursable Expenses;

4.2.4 Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

4.2.5 Pay Executive any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid; and in addition

4.2.6 Executive shall have the right to exercise vested

options and warrants in accordance with Section 4.1.6.

4.3 UPON TERMINATION BY THE COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON OR PURSUANT TO A CHANGE IN CONTROL RESIGNATION. If Executive's employment is terminated (i) by the Company Without Cause, or (ii) by Executive for Good Reason, or (iii) pursuant to a Change in Control Resignation, the Company shall:

4.3.1 Pay Executive the Accrued Base Salary;

4.3.2 Pay Executive the Accrued Vacation Payment;

4.3.3 Pay Executive the Accrued Reimbursable Expenses;

4.3.4 Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

4.3.5 Pay Executive the Accrued Annual Incentive Bonus;

4.3.6 Pay Executive commencing on the thirtieth (30th) day following the termination date twelve (12) monthly payments equal to one-twelfth (1/12th) of Executive's Base Salary in effect immediately prior to the time such termination occurs;

4.3.7 Maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, until the first to occur of (x) his attainment of alternative employment or (y) twelve (12) months following the termination date of his employment hereunder the employee benefits provided pursuant to Company-sponsored benefit plans. programs or other arrangements in which Executive was entitled to participate as a full-time employee immediately prior to such termination in accordance with Section 2.4 hereof, subject to the terms and conditions of such plans and programs (the "Continued Benefits"). If Executive's continued participation is not permitted under the general terms and provisions of such plans, programs and arrangements, the Company shall arrange to provide Executive with Continued Benefits substantially similar to those which Executive would have been entitled to receive under such plans, programs and arrangements; and in addition

4.3.8 Executive shall have the right to exercise all vested unexercised stock options and warrants in accordance with Section 4.1.6.

ARTICLE V

RESTRICTIVE COVENANTS

5.1 CONFIDENTIALITY.

5.1.1 Executive covenants and agrees to hold in strictest confidence, and not disclose to any person without the express written consent of the Company, any and all of the Company's proprietary information, as defined in Subparagraph 5.1.3 below, except as such disclosure may be required in connection with his employment hereunder. This covenant and agreement shall survive this Agreement and continue to be binding upon Executive after the expiration or termination of this Agreement, whether by passage of time or otherwise, so long as such information and data shill remain proprietary information.

5.1.2 Upon expiration or termination of this Agreement for any reason, Executive shall immediately turnover to the Company any "Proprietary Information." Executive shall have no right to retain any copies of any material qualifying as Proprietary Information for any reason whatsoever after expiration or termination of his employment hereunder without the express written consent of the Company.

5.1.3 For purposes of this Agreement, "Proprietary Information" means and includes the following: the identity of clients or customers or potential clients or customers of the Company or its affiliates; any written, typed or printed lists, or other materials identifying the clients or customers of the Company or its affiliates; Research & Development programs, plans and discoveries; product development, marketing, and plans; any business plans or strategic contracts, partnerships or alliances; any financial or other information supplied by clients or customers of the Company or its affiliates; any and all data or information involving the Company, its affiliates, programs, methods or contacts employed by the Company or its affiliates in the conduct of their business; any lists, documents. manuals, records, forms or other materials used by the Company or its affiliates in the conduct of their business; any descriptive materials describing the methods and procedures employed by the Company or its affiliates in the conduct of their business; and any other secret or confidential information concerning the Company's or its affiliates' business or affairs. The terms "list," "document" or their equivalents, as used in this Subparagraph (c), are not limited to a physical writing or compilation but also

include any and all information whatsoever regarding the subject matter of the "list" or "documents," whether or not such compilation has been reduced to writing. "Proprietary Information" shall not include any information which: (i) is or becomes publicly available through no act or failure of Executive; (ii) was or is rightfully learned by Executive from a source other than the Company before being received from the Company; or (iii) becomes independently available to Executive as a matter of right from a third party. If only a portion of the Proprietary Information is or becomes publicly available, then only than portion shall not be Proprietary Information hereunder.

5.1.4 Executive acknowledges that he is the Vice President--Business Development of the Company and President of Aethlon, Inc. and in such capacity he will be a representative of the Company with respect to clients and potential clients of the Company. Executive also acknowledges that he has had and will continue to have access to confidential information about the Company, its affiliates, and their clients and that "Proprietary Information" acquired by him at the expense of the Company is for use in its business. Executive has substantial experience in the management of medical research and development and possesses special, unique, extraordinary skills and knowledge in this field. Executive's management and scientific services to the Company are special, unique and extraordinary and the success or failure of the Company is dependent upon his discharge of his duties and obligations. Accordingly, by execution of this Agreement, and subject to Subparagraph 5.1.3 hereof, Executive agrees that during his employment with the Company and for a period of Two (2) years immediately after termination of his employment with the Company (the "Non-Competition Period"), he shall not violate the provisions of Section 5.2.

5.2 COMPETITION.

5.2.1 During the Non-Competition Period specified in Section 5.1.4, Executive shall not:

5.2.1.1 Except as a passive investor in publicly-held companies, and except for investments held as of the date hereof, directly or indirectly own, operate, mange, consult with, control, participate in the management or control of, be employed by, maintain or continue any interest whatsoever in any company that directly competes with the Company or any parent corporation, subsidiary corporations or affiliated entity or company (hereinafter referred to as an "Affiliate") in the United States; or

5.2.1.2 Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity that obtained such products or services from the Company or its Affiliates at any time during his employment with the Company; or

5.2.1.3 Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity solicited by him on behalf of the Company or its Affiliates; or

5.2.1.4 Employ, or directly or indirectly solicit, or cause the solicitation of, any employees of the Company or its Affiliates who are in the employ of the Company or its Affiliates on the termination date of his employment hereunder for employment by others.

5.2.2 Executive expressly agrees and acknowledges that:

5.2.2.1 The Company and its Affiliates have protected business interests throughout North America, Europe, and Asia and that competition with and against such business interests would be harmful to the Company and/or its Affiliates;

5.2.2.2 This covenant not to compete is reasonable as to time and geographical area and does not place any unreasonable burden upon him;

5.2.2.3 The general public will not be harmed as a result of enforcement of this covenant not to compete;

5.2.2.4 He has had the opportunity to review this covenant not to compete with his own independent legal counsel; and

5.2.2.5 He understands and hereby agrees to each and every term and condition of to this covenant not to compete (including, without limitation, the provisions of Section 5.4).

5.3 NON-DISPARAGEMENT. During the term of this Agreement and the

Non-Competition Period, neither Executive nor the Company shall disparage the other, and neither shall disclose to any third party the conditions of Executive's employment with the Company except as may be required (1) pursuant to applicable law or regulations, including the rules and regulations of the Securities and Exchange Commission, (ii) to effectuate the provisions of employee plans or programs and insurance policies, or (iii) as may be otherwise contemplated herein or unless such information becomes publicly available without fault of the party making such disclosure.

5.4 REMEDIES. Executive expressly agrees and acknowledges that this covenant not to compete is necessary for the protection of the Company and its affiliates because of the nature and scope of their business and his position with the Company. Further, Executive acknowledges that any breach of this covenant not to compete would result in irreparable damage to the Company, and in the event of his breach of this covenant not to compete, money damages will not sufficiently compensate the Company for its injury caused thereby, and that the remedy at law for any breach or threatened breach of Sections 5.1, 5.2 and 5.3 will be inadequate and, accordingly agrees, that the Company shall, in addition to all other available remedies (including without limitation, seeking such damages as it can show it has sustained by reason of such breach), be entitled to injunctive relief or specific performance and that in addition to such money damages he may be restrained and enjoined from any continuing breach of this covenant not to compete without any bond or other security being required of any court. Executive further acknowledges and agrees that if the covenant not to compete herein is deemed to be unenforceable and/or the Executive fails to comply with this Article V, the Company has no obligation to provide any compensation or other benefits described in Article IV hereof.

5.5 OWNERSHIP OF INVENTIONS.

5.5.1 During the employment by the Company, Executive will have access to trade secrets, data, know-how, knowledge or other confidential information originated in the Company or disclosed to the Company by others under agreements to hold the same confidential (collectively referred to as "Confidential Information"). Executive acknowledges that Confidential Information includes any information not readily available to the public, and includes not only technical information but also business information. In addition, Executive may, during the period of employment, create, make, develop or conceive inventions, discoveries, concepts, ideas, designs, works of authorship, developments, information, improvements, or trade secrets, whether patentable or not, and whether solely or jointly with others, which may or may not also constitute Confidential Information (collectively referred to as "Inventions"). Executive agrees that all works of authorship to which Executive contributes shall be considered "works made for hire" and shall be the sole property of the Company.

5.5.2 Executive agrees that Executive will neither utilize any Confidential Information for Executive's own benefit or for the benefit of anyone except the Company, nor disclose, disseminate, lecture upon or publish articles about any Confidential Information to any one outside the Company, or to any officer or employee of the~ Company not also having access to Confidential Information, at any time either during or after employment by the Company.

5.5.3 Executive agrees to disclose promptly, in writing to Executive's Supervisor, Company's Counsel and Chief Executive Officer, any Inventions that Executive may make, develop or conceive, solely or jointly, during the period of employment by the Company, or by its predecessors, successors in business, subsidiaries, parents or affiliates. All such Inventions shall be and remain the property of the Company. Executive hereby assigns to the Company all Executive's rights, titles and interests in and to any such Inventions, whether or not such Inventions may be reduced to practice during the period of Executive's employment, and to execute all patent or copyright applications, assignments and other documents, and to take all other steps necessary, to vest in the Company the entire right, title and interest in and to those Inventions and in and to any patents or copyrights obtainable therefor in the United States and in foreign countries, all at the Company's expense, but for no consideration to Executive in addition to Executive's salary or wages. Executive agrees to keep adequate records of all Inventions and make such records available to the Company.

5.5.4 If the Company chooses to prosecute applications for patents or copyrights for any such Inventions, the Company shall assume the entire expense of preparing, filing and prosecuting such applications, through counsel appointed by the Company; provided, however, that the Company is under no obligation to prosecute such applications. Executive agrees to cooperate with the Company and do whatever is necessary or appropriate to obtain patents, copyrights or other legal protections for Inventions. If Executive is

incapacitated or refuses to so cooperate for any reason, Executive hereby authorizes the Company to act as Executive's agent and to take whatever actions, or execute whatever documents, may be needed to carry out this Agreement.

5.5.5 All records and other material pertaining to Confidential Information, whether developed by Executive or others, shall be and remain the property of the Company. Upon termination of Executive's employment with the Company, all documents, records, notebooks and other material of any kind pertaining to or containing Confidential Information then in Executive's possession, or under Executive's control, whether prepared by Executive or others, will be returned to the Company unconditionally.

5.5.6 Executive shall not be obligated to assign any Invention which/relates to or would be useful in any business or activities in which the Company is engaged if such Invention was conceived and reduced to practice by Executive prior to Executive's employment with the Company, provided that all such Inventions are listed at the time of employment on the attached Exhibit "B." If no entry is made on Exhibit `B," then such entry shall be deemed to be "none," whether or not Exhibit "B" is signed by Executive. Except as listed on Exhibit "B," Executive will not assert any rights to any Inventions, as having been made or acquired by Executive prior to being employed by the Company.

5.5.7 Executive shall not be obligated to assign any Invention which may be wholly conceived by Executive after Executive leaves the employ of the Company, except that Executive is so obligated if such Invention shall involve the utilization of Confidential Information of the Company.

5.5.8 Notwithstanding anything in this Agreement to the contrary, Executive shall not be obligated to assign to the Company and of Executive's rights in an Invention that the Executive developed entirely on Executive's own time without using the Company's equipment, supplies, facilities or Confidential Information, except for those Inventions that either: (i) relate, at the time of conception or reduction to practice of Invention, to either the Company's business, or actual or demonstrably anticipated research or development of the Company, or (ii) result from any work performed by the Executive for the Company. THIS AGREEMENT DOES NOT APPLY TO ANY INVENTION WHICH QUALIFIES FULLY UNDER THE PROVISIONS OF CALIFORNIA LABOR CODE SECTION 2870 OR ANY OTHER SUBSTANTIALLY EQUIVALENT LAW IN THE STATE IN WHICH THE EXECUTIVE IS EMPLOYED. With regard to those Inventions which Executive is not obligated to assign to the Company, Executive shall give the Company a right of first refusal on any and all such Inventions and the right to meet any firm offer of another for such Inventions. The Company must exercise such right of first refusal within thirty (30) days of receipt of written notice from Executive setting forth such offer.

ARTICLE VI

MISCELLANEOUS

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

6.1.1 "Accrued Annual Incentive Bonus" - as defined in Section 4.1.5;

6.1.2 "Accrued Base Salary" - as defined in Section 4.1.1;

6.1.3 "Accrued Benefits" - as defined in Section 4.1.4;

6.1.4 "Accrued Reimbursable Expenses" - as defined in Section 4.1.3; 6.1.5 "Annual Vacation Payment" - as defined in Section 4.1.2;

6.1.6 "Annual Incentive Bonus" - as defined in Section 2.2;

6.1.7 "Base Salary" - as defined in Section 2.1;

6.1.8 "Board" - shall mean the Board of Directors of the Company ;

6.1.9 "Cause" shall mean the occurrence of any of the following:

6.1.9.1 Executive's gross and willful misconduct which is injurious to the Company;

6.1.9.2 Executive's engaging in fraudulent conduct with respect to the Company's business or in conduct of a criminal nature that may have an adverse impact on the Company's standing and reputation;

6.1.9.3 The continued and unjustified failure or refusal by Executive to perform the duties required of him by this Agreement which failure or refusal shall not be cured within fifteen (15) days following (a) receipt of Executive of written notice from the Board specifying the factors or events constituting such failure or refusal, and (b) a reasonable opportunity for Executive to correct such deficiencies;

6.1.9.4 Executive's use of drugs and/or alcohol in violation of then current Company policy; or

6.1.9.5 Executive's breach of his obligation under Section 1.2.3 hereof which shall not be cured within fifteen (15) days after written notice thereof to Executive.

6.1.10 "Change In Control" shall mean and shall be deemed to have occurred if:

6.1.10.1 After the date of this Agreement, any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision thereto) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act or any successor provision thereof) directly or indirectly of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; PROVIDED, HOWEVER, that, for purposes of this Subparagraph, "person" shall exclude the Company, its subsidiaries, any person acquiring such securities directly from the Company, any employee benefit plan sponsored by the Company or from Executive or any stockholder owning fifteen percent (15%) or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement; or

6.1.10.2 Any stockholder of the Company owning fifteen percent or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Company (other than through the acquisition of securities directly from the Company or from Executive) representing thirty-three and one-third percent (33 1/3%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; or

6.1.10.3 Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least eighty percent (80%) of the Board; provided, however, that any person becoming a member of the Board subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least eighty percent (80%) of the members then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act or any successor provision thereto) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

6.1.10.4 Approval by the stockholders of the Company and consummation of (a) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company, in each case, with or to a corporation or other person or entity of which persons who were the stockholders of the Company immediately prior to such transaction do not, immediately thereafter, own more than sixty percent (60%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged, consolidated or purchasing corporation (or, in the case of a noncorporate person or entity) were not members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, consolidation or sale, or (b) a liquidation or dissolution of the Company.

6.1.11 "Change In Control Resignation" - as defined in Section 3.2.2;

6.1.12 "Continued Benefits" - as defined in Section 4.3.7;

6.1.13 "Expiration" shall mean the expiration of Executive's employment hereunder in accordance with Section 1.3;

6.1.14 "Good Reason" shall mean the occurrence of any of the following:

6.1.14.1 The Company's failure to elect or reelect or to appoint or reappoint Executive to offices, titles or positions carrying comparable authority, responsibilities, dignity and importance to that of Executive's offices and positions as of January 10, 2000;

6.1.14.2 Material change by the Company in Executive's function, duties or responsibilities (including reporting responsibilities) which would cause Executive's position with the Company to become of less dignity, responsibility and importance than those associated with his functions, duties or responsibilities as of January 10, 2000; or

6.1.14.3 Other material breach of this Agreement by the Company, which breach is not cured within fifteen (15) days after written notice thereof is, received by the Company.

6.1.15 "Non-Competition Period" - as defined in Section 5.1.4;

6.1.16 "Notice of Termination" shall mean a notice which shall indicate the specific termination provision of this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated. Each Notice of Termination shall be delivered at least sixty (60) days prior to the effective date of termination;

6.1.17 "Proprietary Information" - as defined in Section 5.1.3;

6.1.18 "Retirement" shall mean normal retirement at age as determined by the Board;

6.1.19 "Senior Executives" shall mean the chief executive officer and the four (4) most highly compensated executive officers of the Company determined in accordance with the rules and regulations of the Securities and Exchange Commission under the Exchange Act;

6.1.20 "Termination" shall mean the termination of Executive's employment hereunder other than upon expiration of the term of such employment in accordance with Section 1.3;

6.1.21 "Total Disability" shall mean Executive's failure substantially to perform his duties hereunder on a full-time basis for a period exceeding one hundred eighty (180) consecutive days or for periods aggregating more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness. If there is a dispute as to whether Executive is or was physically or mentally unable to perform his duties under this Agreement, such dispute shall be submitted for resolution to a licensed physician agreed upon by the Board and Executive, or if an agreement cannot be promptly reached, the Board and Executive each shall promptly select a physician, and if these physicians cannot agree, the physicians shall promptly select a third physician whose decision shall be binding on all parties. If such a dispute arises, Executive shall submit to such examinations and shall provide such information as such physician(s) may request, and the determination of the physician(s) as to Executive's physical or mental condition shall be binding and conclusive. Notwithstanding the foregoing, if Executive participates in any group disability plan provided by the Company which offers long-term disability benefits, "Total Disability" shall mean total disability as defined therein.

6.2 KEY MAN INSURANCE. The Company shall have the right, in its sole discretion, to purchase "key man" insurance on the life of Executive. The Company shall be the owner and beneficiary of any such policy. If the Company elects to purchase a policy, Executive shall take such physical examinations and supply such information as may be reasonably requested by the insurer.

6.3 MITIGATION OF DAMAGES; NO SET-OFF; DISPUTE RESOLUTION.

6.3.1 Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination of his employment hereunder or otherwise. The Company's obligation to make the payments provided for in this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim or action which the Company may have against Executive.

6.3.2 If there shall be any dispute between the Company and Executive (i) in the event of any termination of Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by Executive, whether Good Reason existed, or (iii) otherwise, the dispute shall be resolved in accordance with the dispute resolution procedures set forth in Exhibit "A" hereto, the provisions of which are incorporated as a part hereof, and the parties hereto hereby agree that such dispute resolution procedures shall be the exclusive method for resolution of

disputes under this Agreement. In the event of a dispute hereunder as to whether a termination by the Company was for Cause or by the Executive for Good Reason, until there is a resolution and award as provided in Exhibit "A," the Company shall pay all amounts, and provide all benefits, to Executive and/or Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide hereunder as though such termination were by the Company without Cause or by Executive for Good Reason and shall pay the

reasonable legal fees and expenses of counsel for Executive in connection with such dispute resolution; provided, however, that the Company shall not be required to pay any disputed amounts or any legal fees and expenses pursuant to this Subparagraph (b) except upon receipt of a written undertaking by or on behalf of Executive (and/or Executive's family or other beneficiaries, as the case may be) to repay, without interest or penalty, as soon as practicable after completion of the dispute resolution (A) all such amounts to which Executive (or Executive's family or other beneficiaries, as the case may be) is ultimately adjudged to not be entitled with respect to the payment of such disputed amount(s) and (B) in addition, in the case of legal fees and expenses, a proportionate amount of legal fees and expenses attributable to any of Executive's claim(s) or any of Executive's defenses or counter-claim(s), if any, which shall have been found by the dispute resolver to have been frivolous or without merit.

6.4 SUCCESSORS; BINDING AGREEMENT. This Agreement shall be binding upon any successor to the Company and shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, beneficiaries, designees, executors, administrators, heirs, distributees, devisees and legatees.

6.5 MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition.

6.6 SEVERABILITY. The covenants and agreements contained herein are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the employment arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained herein. If, in any judicial proceeding, a court shall refuse to enforce one or more of the covenants or agreements contained herein because the duration thereof is too long, or the scope thereof is too broad, it is deemed reduced to the extent necessary to permit the enforcement of such covenants or agreements.

6.7 NOTICES. All the notices and other communications required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties hereto at the following addresses:

If to the Company, to it at:

Bishop Equities, Inc. dba Aethlon Medical
7825 Fay Avenue
Suite 200
La Jolla, California 92037

If Executive, to him at:

Mr. Richard H. Tullis
7825 Fay Avenue
Suite 200
La Jolla, California 92037

6.8 ASSIGNMENT. This Agreement and any rights hereunder shall not be assignable by either party without the prior written consent of the other party except as otherwise specifically provided for herein.

6.9 ENTIRE UNDERSTANDING. This Agreement (together with the Exhibit incorporated as a part hereof) constitutes the entire understanding between the parties hereto and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth herein.

6.10 EXECUTIVE'S REPRESENTATIONS. Executive represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties hereunder violates the provisions of any other agreement to which he is a party or by which he is bound.

6.11 LIABILITY OF COMPANY WITH RESPECT TO INSURANCE POLICY. Executive has selected the insurer and policy referred to in Section 2.4(a) hereof, and the Company shall not have any liability to Executive (or his beneficiaries) should the insurance company which issues the policy referred to therein fail or refuse to pay (whether voluntarily or by reason of any order, injunction or otherwise) thereunder or if any rights or elections otherwise available to Executive thereunder are restricted or eliminated.

6.12 GOVERNING LAW. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of California applicable to contracts executed and wholly performed within such state.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY

BISHOP EQUITIES, INC., a Nevada corporation dba Aethlon Medical

By: /s/ Franklyn S. Barry, Jr.

Franklyn S. Barry, Jr.
Its President and C.E.O.

EXECUTIVE

/s/ Richard H. Tullis

RICHARD H. TULLIS

EXHIBIT "A"

DISPUTE RESOLUTION PROCEDURES

A. If a controversy should arise which is covered by Section 6.3 of Article VI, then not later than twelve (12) months from the date of the event which is the subject of dispute either party may serve on the other a written notice specifying the existence of such controversy and setting forth in reasonably specific detail the grounds thereof ("Notice of Controversy"); PROVIDED that, in any event, the other party shall have at least thirty (30) days from and after the date of the Notice of Controversy to serve a written notice of any counterclaim ("Notice of Counterclaim"). The Notice of Counterclaim shall specify the claim or claims in reasonably specific detail. If the Notice of Controversy or the Notice of Counterclaim, as the case may be, is not served within the applicable period, the claim set forth therein will be deemed to have been waived, abandoned and rendered unenforceable.

B. Following receipt of the Notice of Controversy (or the Notice of Counterclaim, as the case may be), there shall be a three (3) week period during which the parties will make a good faith effort to resolve the dispute through negotiation ("Period of Negotiation"). Neither party shall take any action during the Period of Negotiation to initiate arbitration proceedings.

C. If the parties should agree during the Period of Negotiation to mediate the dispute, then the Period of Negotiation shall be extended by an amount of time to be agreed upon by the parties to permit such mediation. In no event, however, may the Period of Negotiation be extended by more than five (5) weeks or, stated differently, in no event may the Period of Negotiation be extended to encompass more than a total of eight (8) weeks.

D. If the parties agree to mediate the dispute but are thereafter unable to agree within one (1) week on the format and procedures for the mediation, then the effort to mediate shall cease, and the Period of Negotiation shall terminate four (4) weeks from the Notice of Controversy (or the Notice of Counterclaim, as the case may be).

E. Following the termination of the Period of Negotiation, the dispute (including the main claim and counterclaim, if any) shall be settled by arbitration, and judgment upon the award may be entered in any court having jurisdiction thereof. The format and procedures of the arbitration are set forth below (referred to below as the "Arbitration Agreement").

F. A notice of intention to arbitrate ("Notice of Arbitration") shall be served within forty-five (45) days of the termination of the Period of Negotiation. If the Notice of Arbitration is not served within this period, the claim set forth in the Notice of Controversy (or the Notice of Counterclaim, as the case may be) will be deemed to have been waived, abandoned and rendered unenforceable.

G. The arbitration, including the Notice of Arbitration, will be governed by the Commercial Rules of the American Arbitration Association except that the terms of this Arbitration Agreement shall control in the event of any difference or conflict between such Rules and the terms of this Arbitration Agreement. The arbitration shall be scheduled to take place in San Diego, California.

H. The dispute resolver shall reach a decision on the merits on the basis of applicable legal principles as embodied in the law of the State of California.

I. There shall be one dispute resolver, regardless of the amount in controversy. The dispute resolver will be empowered to render an award and interim decisions and shall be a member of the bar of any of the fifty States of the United States or of the District of Columbia. The dispute resolver shall be promptly appointed pursuant to Rule 13 of the Commercial Rules of the American Arbitration Association ("AAA"). If the dispute resolver has not been appointed within forty-five (45) days of the AAA's initial transmission of lists of potential arbitrators, then the AAA shall unilaterally designate the dispute resolver.

J. At the time of appointment and as a condition thereto, the dispute resolver will be apprised of the time limitations and other provisions of this Arbitration Agreement and shall indicate such dispute resolver's agreement to the Tribunal Administrator to comply with such provisions and time limitations.

K. During the 30-day period following appointment of the dispute resolver, either party may serve on the other a request for limited numbers of documents directly related to the dispute. Such documents will be produced within seven (7) days of the request.

L. Following the 30-day period of document production, there will be a forty-five (45) day period during which limited depositions will be permissible. Neither party will take more than five (5) depositions, and no deposition will exceed three (3) hours of direct testimony.

M. Disputes as to discovery or prehearing matters of a procedural nature shall be promptly submitted to the dispute resolver pursuant to telephone conference call or otherwise. The dispute resolver shall make every effort to render a ruling on such interim matters at the time of the hearing (or conference call) or within five (5) business days thereafter.

N. Following the promptly commence. The dispute hearing within thirty (30) days of the will make every effort to conduct the period of depositions, the arbitration hearing shall resolver will make every effort to commence the conclusion of the deposition period and, in addition, hearing on consecutive business days to conclusion.

O. An award will be rendered, at the latest, within nine (9) months of the date of the Notice of Arbitration and within thirty (30) days of the close of the arbitration hearing. The award shall set forth the grounds for the decision in reasonably specific detail and shall also specify whether any claim (or defense or counterclaim) of Executive is found to be frivolous or without merit and what proportion, if any, of his legal fees and expenses which have been paid by the Company Executive shall be required to repay to the Company in accordance with Section 6.3.2. The award shall be final and nonappealable.

P. THE PARTIES HEREBY ACKNOWLEDGE AND AGREE THAT THEY ARE WAIVING THEIR RIGHTS TO A TRIAL IN A STATE OR FEDERAL COURT AND ARE ALSO WAIVING THEIR RIGHT TO A JURY TRIAL.

COMPANY	EXECUTIVE
BISHOP EQUITIES, INC., a Nevada corporation dba	

By:	/s/ Franklyn S. Barry, Jr.	/s/ Richard H. Tullis
	Franklyn S. Barry, Jr. Its: President and C.E.O.	RICHARD H. TULLIS

EXHIBIT 10.18

Edward C. Hall

AETHLON MEDICAL, INC.
7825 FAY AVENUE, SUITE 200
LA JOLLA, CA 92037
TEL. 858/456-5777
FAX 858/456-4690

James A. Joyce
Chairman, President and CEO

EMPLOYMENT AGREEMENT

August 12, 2002

Mr. Edward C. Hall 4645 Vereda Luz Del So! San Diego, CA 92130

Dear Ned:

This letter will serve as the entire agreement between Aethlon Medical, Inc (the "Company") and you, Edward C. (Ned) Hall (the "Employee"), with respect to your employment with the Company.

TERM
The Employee will work one (1) day per week, beginning on the week of August 12, 2002 (the `Beginning Date"). As an employee of the Company you will serve as its Chief Financial Officer and perform such services as are customary for an individual having such title and holding such position.

SALARY
The Employee will earn a weekly salary (the "Salary") of $1,000, paid $2,000 every two weeks. The salary rate for each additional day is $1,000. However, if the Company agrees to increase Employee's work to three (3) days per week, the Employee will earn a weekly salary of $2,500, paid $5,000 every two weeks. The Salary rate for each additional day beyond three days per week is $1,000, The Salary will be subject to increase by the Company from time to time. The Salary will be processed through payroll and paid at the same time as other employees.

INCENTIVE BONUS AND EQUITY PARTICIPATION
The Employee will be entitled to receive incentive cash bonuses and/or warrants or options for the purchase of the Company's stock as may be specified and agreed to by the Aethlon Medical board of directors.

TATUM RESOURCES
The Company acknowledges and agrees that the Employee is and will remain a partner of, and has and will retain an interest in, Tatum CFO Partners, LLP ("Tatum"), which will benefit the Company in that the Employee will have access to certain Tatum resources. The Company further acknowledges and agrees that the Employee has requested that a portion of his or her Salary and bonuses be allocated to Tatum as compensation for Tatum's provision of resources to the Employee as provided in the Resources Agreement between the Company and Tatum, dated on or about the date of this agreement (the "Resources Agreement"). After allocation of a portion of the Salary to Tatum, the Employee will be paid $1,666.67 every two weeks, based on one (1) day per week. The Company and the Employee agree that any payments made to Tatum will reduce the Employee's compensation for purposes of determining taxable income and should not be reflected as compensation in the Employee's W-2 report.

EMPLOYEE BENEFITS
The Employee will be eligible for vacation and holidays consistent with the Company's policy as it applies to senior management.

The Company will reimburse the Employee for all reasonable out-of-pocket business expenses promptly after they are incurred.

The Employee may elect to participate in the Company's employee retirement plan and/or 401(k) plan, and the Employee will be exempt from any delay periods required for eligibility. In lieu of the Employee participating in the Company-sponsored employee health benefit and disability plan(s) the Employee will participate in Tatum's group plan as a partner of Tatum, and the Company will pay the Employee a pro-rated amount based on time commitment equal to the costs that would normally be incurred by the Company for the Employee's participation in the Company's plan(s), if the Employee is eligible under such plan(s). Notwithstanding the preceding sentence, the Company may include the Employee as a participant in the Company's own health benefit and disability plan(s) if required to do so by law for plan qualification.

The Employee must receive written evidence that the Company maintains adequate director and officer insurance to cover the Employee at no additional cost to the Employee, and the Company will maintain such insurance at all times while this agreement remains in effect.

The Company agrees to indemnify the Employee to the full extent permitted by law for any losses, costs, damages, and expenses, including reasonable attorneys' fees, as they arc incurred, in connection with any cause of action, suit, or other proceeding arising in connection with employment with the Company including, but not limited to, indemnification for deductibles on insurance policies. This indemnity will not apply to employee gross negligence or willful misconduct or to actions taken by the employee in bad faith.

TERMINATION

The Company may terminate the Employee's employment for any reason upon at least 30 days' prior written notice to the Employee, such termination to be effective on the date specified in the notice, provided that such date is no earlier than 30 days from the date of delivery of the notice. Likewise, the Employee may terminate his or her employment for any reason upon at least 30 days' prior written notice to the Company, such termination to be effective on the date 30 days following the date of the notice.

The Employee will continue to render services and to be paid during such 30-day period, regardless of who gives such notice. The Employee may terminate this letter agreement immediately if the Company has not remained current in its obligations under this letter or if the Company engages in or asks the Employee to engage in or to ignore any illegal or unethical conduct.

This agreement will terminate immediately upon the death or permanent disability of the Employee. For purposes of this agreement, permanent disability will be as defined by the applicable policy of disability insurance or, in the absence of such insurance, by the Company's Board of Directors acting in good faith.

The Salary will be prorated for the final pay period based on the number of days in the final pay period up to the effective date of termination or expiration.

MISCELLANEOUS

This agreement contains the entire agreement between the parties, superseding any prior oral or written statements or agreements.

Neither the Employee nor the Company will be deemed to have waived any rights or remedies accruing under this agreement unless such waiver is in writing and signed by the party electing to waive the right or remedy. This agreement binds and benefits the successors of the parties.

The provisions in this agreement concerning the payment of Salary and Bonuses and confidentiality will survive any termination or expiration of this agreement.

The terms of this letter agreement are severable and may not be amended except in a writing signed by the parties. If any portion of this agreement is found to be unenforceable, the rest of this agreement will be enforceable except to the extent that the severed provision deprives either party of a substantial portion of its bargain.

This agreement will be governed by and construed in all respects in accordance with the laws of the State of California, without giving effect to conflicts-of-laws principles.

Each person signing below is authorized to sign on behalf of the party indicated, and in each case such signature is the only one necessary.

Please sign below and return a signed copy of this letter to indicate your agreement with its terms and conditions.

Sincerely yours,

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A Joyce, CEO

Acknowledged and agreed by:

EMPLOYEE

/s/ Edward C. Hall

Edward C. Hall

Date: 8/14/02

Edward C. Hall

SCHEDULE A
- ----------

Incentive Cash Bonus, Stock, or Warrants/Options

TBD

Edward C. Hall

AETHLON MEDICAL, INC.

AGREEMENT RESTRICTING COMPETITION AND DISCLOSURE

THIS AGREEMENT is made this 14th day of August 2002 by and between AETHLON MEDICAL, INC., a Nevada corporation (hereinafter referred to as the "Company") and Edward C. Hall (hereinafter referred to as "Disclosee").

WHEREAS, the Company has expended considerable time, effort, resources, and capital in developing a proprietary platform technology known as the Hemopurifier(TM) to develop an extracorporeal therapeutic treatment system for the removal of certain viruses from blood (the "Technology") and is developing blood filtration products that address, among other things, the treatment of HIV/AIDS and Hepatitis-C (the "Products"); and

WHEREAS, Disclosee has desires to work with the Company in the further development and operations of the Technology, the Products, the Company's business or in connection with possible financing, merger, acquisition, consolidation or other business arrangements that may be beneficial to the Company's business; and

WHEREAS, in connection with Disclosee's discussions with senior officers of the Company, Disclosee will be provided with and have access to certain "Confidential Information," as defined below, and the Company desires to protect the Confidential Information;

NOW THEREFORE, the parties agree as follows:

1. DEFINITION OF CONFIDENTIAL INFORMATION. The term "Confidential Information," for purposes of this Agreement, shall mean all non-public confidential information, whether in oral, written, or other form, which the Company provides Disclosee with access to or discloses including but not limited to information of a technical, operational, administrative, economic, marketing, planning, business or financial nature or in the nature of intellectual property of any kind relating to the business of the Company. "Confidential Information" shall not include information that (i) is or becomes generally available to the public, other than as a result of a disclosure or other fault by you in violation of this Agreement; (ii) becomes rightfully available to you on a non-confidential basis, provided that the source of such information is not prohibited from disclosing such information, to you by legal, contractual, or fiduciary obligations; or (iii) is rightfully in the possession of Disclosee by or on behalf of the Company, provided that the source of such information is not prohibited from disclosing such information to you by legal, contractual or fiduciary obligations.

2. DISCLOSURE OF INFORMATION.

2.1 In consideration of Disclosee's promise to keep the Confidential Information confidential and its promise not to circumvent the Company in pursuing a business plan similar to the Company's, except to the extent that they already are, the Company agrees to make available to Disclosee such portion of the Confidential Information as the Company deems necessary, promptly upon its execution and delivery of this Agreement, to enable Disclosee to determine if it desires to work with the Company. Disclosee will hold the Confidential Information in strict confidence and will not disclose to anyone directly or indirectly at any time for a period of three years from the date of this Agreement any of the Confidential Information relating to the business of the Company that is confidential, without the prior written consent of the Company. Disclosee agrees that the Confidential Information will not be used for any purpose other than in connection with the evaluation of the Company. All documents that Disclosee prepares or Confidential Information that is given Disclosee in connection with this Agreement are the exclusive property of the Company and shall be promptly returned to the Company at its request.

2.2 Disclosee will within 15 days of receipt of a written demand from the Company:

(i) return to the Company all Confidential Information (and all and any copies thereof or of any part thereof);

(ii) remove and expunge all Confidential Information from any computer or any similar device into which it was programmed or installed;

(iii) destroy all notes, analyses or memoranda containing Confidential Information prepared by Disclosee or on Disclosee's behalf.

2.3 If any proceedings are commenced or action taken which could result in Disclosee becoming compelled to disclose Confidential Information, Disclosee will immediately notify the Company of such proceedings or action in writing and will take all available steps to resist or avoid such proceeding or actions, including all steps the Company may reasonably request and keep the Company fully and promptly informed of all matters and developments relating thereto. if Disclosee is required by law or otherwise obliged to disclose Confidential Information to any third Party, Disclosee will disclose such information only to such third Party, and only to the extent that required by law or otherwise is to be disclosed.

2.4 Disclosee will insure that Disclosee's officers and employees and advisors each act, or omit to act, as if he or she had agreed with the Company on the same terms as this Agreement. Disclosee shall also insure that each person to whom disclosure of Confidential Information is authorized to be made by Disclosee or on Disclosee's behalf or in the course of representing or advising Disclosee is made aware of and adheres to the terms of this Agreement.

3. NON-CIRCUMVENTION; PROHIBITION AGAINST COMPETITION. Neither Disclosee nor any affiliate (as that term is defined in Federal securities laws), officer, director, partner or agent of Disclosee, any principal represented by Disclosee, or any corporation affiliated with Disclosee, shall at any time for a period of three years from the date of this Agreement, participate or hold an interest in any business or enterprise that is engaged in a business that utilizes any of the Confidential Information whether as agent, principal, partner, stockholder, or in any other individual or representative capacity.

4. REMEDIES. Disclosee recognizes and acknowledges that the Company has made a substantial investment in developing the Confidential Information, the Technology, the Products, and the business of the Company, and that the restrictions on Disclosee's activities as contained in this Agreement are required for the Company's reasonable protection. Disclosee agrees that in the event of breach of this Agreement, the Company will be entitled, if it so elects, to institute proceedings at law or in equity to obtain damages or to enforce the specific performance of this Agreement by Disclosee or to enjoin Disclosee from engaging in any activity in violation thereof.

5. ATTORNEY'S FEES. In the event of any controversy, claim or dispute between the parties hereto involving the terms and conditions of this Agreement, or arising out of or relating to this Agreement or the breach thereof, the prevailing party in any arbitration (as provided for in Section 10 below) shall be entitled to recover reasonable expenses, attorney's fees and costs in such arbitration as determined by the arbitrator(s).

6. PARTIAL INVALIDITY, If any provision in this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable the remaining provisions shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

7. GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of California.

8. WAIVER; AMENDMENT. No failure or delay by either party in exercising any right, power or privilege to which it is entitled hereunder shall operate as a waiver nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise. The terms of this Agreement and the obligations and acknowledgements hereunder may only be waived or modified by an agreement in writing between the parties.

9. ASSIGNMENT. Neither party shall not assign or transfer any of its rights or obligations under this Agreement to any third party without the prior written consent of the other Party.

10. DISPUTE RESOLUTION. All disputes, claims, controversies and differences ("Disputes") arising out of or relating to this Agreement shall, if they cannot be amicably settled within a period of 30 days from the date of notification of the Dispute to the other party, be referred to and finally settled by arbitration in accordance with the rules of the American Arbitration Association (the "Rules") in San Diego County, California, Disputes shall be referred to a single arbitrator nominated and agreed upon by parties to this Agreement. If the parties cannot agree upon the identity of a single arbitrator within one month's time after the first call for arbitration has been made, Disputes shall be finally settled by three arbitrators appointed in accordance with the Rules. The decision or decisions of the arbitrators shall be binding upon the parties to this Agreement and may be enforced in any court of competent jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first specified above.

THE COMPANY: AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A Joyce, CEO
Its Duly Authorized Agent

DISCLOSEE: /s/ Edward C. Hall

Edward C. Hall

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

To the Board of Directors
Aethlon Medical, Inc.

We hereby consent to the incorporation by reference in the previously filed Registration Statement of Aethlon Medical, Inc. on Form S-8 (File No. 333-114017 and 333-49896) of our report dual-dated May 18, 2004 and August 31, 2004 appearing on page F-1 of this Annual Report on Form 10-KSB/A of Aethlon Medical, Inc. for the year ended March 31, 2004.

/s/ Squar, Milner, Reehl & Williamson, LLP

Newport Beach, California
September 7, 2004

EXHIBIT 31.1

CERTIFICATION

I, James Joyce, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: September 8, 2004

/S/ JAMES A. JOYCE

JAMES A. JOYCE
CHIEF EXECUTIVE OFFICER

EXHIBIT 31.2

CERTIFICATION

I, Edward C. Hall, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

Date: September 8, 2004

/S/ EDWARD C. HALL

EDWARD C. HALL
CHIEF FINANCIAL OFFICER

EXHIBIT 32.1

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

In connection with the Aethlon Medical, Inc. Annual Report on Form 10-KSB/A for the year ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. Such annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in such Annual Report on Form 10-KSB/A fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Date: September 8, 2004.

BY: /S/ JAMES A. JOYCE
JAMES A. JOYCE
CHIEF EXECUTIVE OFFICER

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

EXHIBIT 32.2

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

In connection with the Aethlon Medical, Inc. Annual Report on Form 10-KSB/A for the year ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof, I, Edward C. Hall, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. Such annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in such Annual Report on Form 10-KSB/A fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Date: September 8, 2004.

BY: /S/ EDWARD C. HALL
EDWARD C. HALL
CHIEF FINANCIAL OFFICER

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