As filed with the Securities and Exchange Commission on January 9, 2006
Commission File No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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.)

3826
(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)

JAMES A. JOYCE
CHIEF EXECUTIVE OFFICER
3030 BUNKER HILL STREET, SUITE 4000
SAN DIEGO, CALIFORNIA 92109
(858) 459-7800

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE OF PROCESS)

Copies to

NIMISH PATEL, ESQ.
PETER HOGAN, ESQ.

RICHARDSON & PATEL LLP
10900 WILSHIRE BOULEVARD, SUITE 500
LOS ANGELES, CALIFORNIA 90024
TELEPHONE (310) 208-1182

Approximate date of proposed sale to public: From time to time after the effective date of this registration statement. If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. |X|

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]_____

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]_____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]_____

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box: [ ]

<TABLE>
CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
<S>	<C>	<C>	<C>	<C>
Common shares underlying convertible notes	5,750,000(2)	$ 0.34(1)	$1,955,000	

$209.19

Common shares underlying fixed-priced warrants 5,750,000(3) $ 0.34(1) $1,955,000
$209.19

- ----------
Total 11,500,000 $ 0.34 $3,910,000
$418.38
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</TABLE>

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of Regulation C as of the close of the market on January 3, 2006, based upon the average of the high and low prices for that date.

(2) Includes 5,000,000 common shares issuable upon conversion of convertible notes and an additional 750,000 shares reserved for issuance for accrued and anticipated future interest and other costs at a conversion price of $0.20 per share.

(3) Includes 5,000,000 shares underlying fixed-priced common share purchase warrants issuable upon conversion of convertible notes and an additional 750,000 shares reserved for issuance for accrued and anticipated future interest payable on the Notes and other costs. Common share purchase warrants of registrant have an exercise price of $0.20 per share.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JANUARY 9, 2006

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

AETHLON MEDICAL, INC.

Up to 11,500,000 Shares of Common Stock

This prospectus relates to the sale of up to 11,500,000 shares of our common stock. Up to 11,500,000 shares of our common stock are being offered hereby by the Ellen R. Weiner Family Revocable Trust, Allan S. Bird, Christian J. Hoffmann III and Claypoole Capital, LLC, an Arizona limited liability company that is an Affiliate of Mr. Hoffmann ("Holders"), selling shareholders under this prospectus. There are no other shares of our common stock that are being offered by other selling shareholders. The prices at which the selling shareholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive proceeds from the sale of our shares by the selling shareholders.

Our common stock is quoted on the NASDAQ Over-the-Counter Bulletin Board under the symbol "AEMD." On December 15, 2005, the last reported sale price for our common stock as reported on the NASDAQ Over-the-Counter Bulletin Board was $0.36 per share.

INVESTING IN THE COMMON STOCK INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 3 FOR A DISCUSSION OF THESE RISKS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is January 9, 2006.

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PROSPECTUS SUMMARY

This summary highlights important information about our company and business. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus and the financial statements and related notes included in this prospectus carefully, including the "Risk Factors" section. Unless the context requires otherwise, "WE," "US," "OUR", " and the "COMPANY" and similar terms collectively refer to Aethlon Medical, Inc. and our subsidiaries.

THE COMPANY

We are a development stage medical 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. The Hemopurifier(TM) combines the established scientific principals of affinity chromatography and hemodialysis as a means to mimic the immune system's response of clearing viruses and toxins from the blood before cell and organ infection can occur. The Hemopurifier(TM) cannot cure HIV and Hepatitis-C but prevents virus and toxins from infecting unaffected tissues and cells. We have completed pre-clinical blood testing of Hemopurifiers(TM) to treat HIV and Hepatitis-C, and have commenced human safety trials for Hepatitis-C in India, but have yet to receive regulatory approval to initiate human trials in the United States. The commercialization of each Hemopurifier(TM) application involves significant hurdles which include the completion of human efficacy clinical trials. The approval of any application of the Hemopurifier(TM) in the United States will require the approval of the FDA to initiate human studies. Such studies could take years to demonstrate safety and effectiveness in humans, and there is no assurance that the Hemopurifier(TM) will be cleared by the FDA as a device we can market to the medical community. We also anticipate that similar regulatory challenges will be expected from foreign regulatory agencies, should we attempt to commercialize and market the Hemopurifier(TM) outside of the United States. As a result, we have not generated revenues from the sale of any Hemopurifier(TM) application. Additionally, there have been no independent validation studies of our Hemopurifiers(TM) to treat infectious disease. We manufacture our products on a small scale for testing purposes but have yet to manufacture our products on a large scale for commercial purposes. All of our pre-clinical human blood studies have been conducted in our laboratories under the direction of Dr. Richard Tullis, our Chief Science Officer.

As of December 15, 2005 we had issued and outstanding 19,901,016 common shares, and common share purchase options and warrants entitling the holders to purchase up to 17,555,820 common shares including 5,000,000 underlying warrant shares required to be issued upon conversion of the Notes by Holders. We are a

Nevada corporation. Our principal executive offices are located at 3030 Bunker Hill Street, Suite 4000, San Diego, California 92109. Our telephone number is (858) 459-7800. The address of our website is www.aethlonmedical.com. Information on our website is not a part of this prospectus.

THE OFFERING

This prospectus relates to the offer and sale by some of our shareholders during the period in which the registration statement containing this prospectus is effective of up to 11,500,000 common shares, including up to 5,000,000 shares issuable under common share purchase warrants and shares issuable for accrued and anticipated future interest payable on the Notes. There are no shares of our common stock that are being offered by other selling shareholders. As of December 15, 2005, there were 19,909,016 common shares outstanding. If the shares offered by this prospectus were outstanding as of December 15, 2005, such shares would represent approximately 36.61% of the total common stock outstanding on that date.

From July 11, 2005 through December 15, 2005 the Company received a series of cash investments totaling $760,000 from the Ellen R. Weiner Family Revocable Trust, an accredited investor, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Weiner Warrants") to purchase a number of shares equal to the number of shares into which the Notes were converted at an exercise price of $0.20.

From August 2, 2005 through December 15, 2005 the Company received cash investments totaling $225,000 from Allan S. Bird, an accredited investor, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Bird Warrants") to purchase a number of shares equal to the number of shares into which the Notes were converted at an exercise price of $0.20.

On December 15, 2005 the Company received cash investments totaling $10,000 from Christian J. Hoffmann III and $5,000 from Claypoole Capital LLC (an affiliate of Mr. Hoffmann), accredited investors, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Hoffmann/Claypoole Warrants") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. Mr. Hoffmann is legal counsel to the Ellen R. Weiner Family Revocable Trust.

An additional 1,500,000 shares are included in this registration to accommodate conversions related to accrued and anticipated future interest on the Notes and other costs.

The common shares offered under this prospectus, including the shares of common stock underlying the Promissory Notes, the Weiner Warrants, the Bird Warrants and the Hoffmann/Claypoole Warrants may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. Information regarding the selling shareholders, the common shares they are offering to sell under this prospectus, and the times and manner in which they may offer and sell those shares is provided in the sections of this prospectus captioned "SELLING SHAREHOLDERS" and "Plan of Distribution". We will not receive any of the proceeds from those sales. Should the selling shareholders in their discretion exercise any of the common share purchase warrants underlying the common shares offered under this prospectus, we would, however, receive the exercise price for those warrants. The registration of common shares pursuant to this prospectus does not necessarily mean that any of those shares will ultimately be offered or sold by the selling shareholders.

SUMMARY FINANCIAL DATA

The following tables summarize the consolidated statements of operations and balance sheet data for our company.

<TABLE>

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:	SIX MONTHS ENDED SEPTEMBER 30, (UNAUDITED)		YEARS ENDED MARCH 31,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenue	$ 0	$ 0	$ 0	$ 0
Gross profit	$ 0	$ 0	$ 0	$ 0
Net loss	(1,475,323)	$ (829,945)	$ (2,096,951)	$ (1,518,798)
Preferred stock dividends	N/A	N/A	N/A	N/A
Net loss attributed to common shareholders	$ (1,475,323)	$ (829,945)	$ (2,096,951)	$ (1,518,798)
Loss per common share, basic and diluted	$ (0.08)	$ (0.06)	$ (0.15)	$ (0.19)
Weighted average common shares outstanding, basic and diluted	18,373,416	12,906,408	14,037,341	8,181,612

CONSOLIDATED BALANCE SHEET DATA:	SEPTEMBER 30, 2005 (UNAUDITED)	MARCH 31, 2005
Current assets	$ 85,508	$ 18,813
Total assets	$ 347,731	$ 300,352
Total current liabilities	$ 3,624,606	$ 3,367,323
Total stockholders' deficit	$(3,276,875)	$(3,066,971)
Total liabilities and stockholders' deficit	$ 347,731	$ 300,352

</TABLE>

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY WITH SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE.

We have yet to establish any history of profitable operations. We have not had any revenues for the past three years. We have incurred annual operating losses of $2,183,377, $995,549 and $1,971,385, respectively, during the past three fiscal years of operation and an operating loss of $1,289,455 in the six months ended September 30, 2005. As a result, at March 31, 2005, we had an accumulated deficit of $19,142,264. We have incurred net losses from continuing operations of $2,096,951 and $1,518,798 for the fiscal years ending March 31, 2005 and 2004 and $1,475,323 and $829,945 for the six months ended September 30, 2005 and 2004. As a result, at September 30, 2005, we had an accumulated deficit of $20,617,587. Our revenues have not been sufficient to sustain our operations. We expect that our revenues will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Hemopurifier(TM) technology. No assurances can be given when or if this will occur or that we will ever be profitable.

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

Our independent auditors noted in their report accompanying our financial statements for our fiscal year ended March 31, 2005 that we had a significant deficit accumulated during the development stage, had a working capital deficit and that a significant amount of additional capital, approximately $5,000,000 as estimated by management, 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 WILL REQUIRE ADDITIONAL FINANCING TO SUSTAIN OUR OPERATIONS AND WITHOUT IT WE WILL NOT BE ABLE TO CONTINUE OPERATIONS.

At March 31, 2005 and September 30, 2005, we had a working capital deficit of approximately $3,348,510 and $3,539,098, respectively. The independent auditors' report for the year ended March 31, 2005, includes an explanatory paragraph stating that our recurring losses from operations and working capital deficiency raise substantial doubt about our ability to continue as a going concern. We had a net operating cash flow deficit of $745,950 for the six months ended September 30, 2005, a net operating cash flow deficit of $1,559,366 for the year ended March 31, 2005, a net operating cash flow deficit of $542,056 for the year ended March 31, 2004 and for the year ended March 31, 2003, a net operating cash flow deficit of $514,503. We do not currently have sufficient financial resources to fund our operations or those of our subsidiaries. Therefore, we need additional funds to continue these operations.

We have the right to receive $10,000 per trading day under an agreement with Fusion Capital Fund II, LLC unless our stock price equals or exceeds $1.00, in which case the daily amount may be increased under certain conditions as the price of our common stock increases.

The extent we rely on Fusion Capital as a source of funding will depend on a number of factors including, the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the commercialization or licensing of our Hemopurifier(TM) technology. If obtaining sufficient financing from Fusion Capital were to prove prohibitively expensive and if we are unable to commercialize and sell our Hemopurifier(TM) technology, we will need to secure another source of funding in order to satisfy our working capital needs. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, the consequences would be a material adverse effect on our business, operating results, financial condition and prospects.

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

The U.S. Government has undertaken commitments to help secure improved countermeasures against bioterrorism. To date, we have submitted two Small Business Innovative Research ("SBIR") 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 treatment countermeasure against certain biological weapon candidates and we anticipate that we will submit additional proposals to obtain U.S. Government grants. The first proposal in 2002 was reviewed but not scored. We expanded the proposal, submitted the proposal in 2004 and it was again reviewed but not scored as the term countermeasures in SBIR and other related Request for Proposal ("RFP") grants includes drugs and vaccines, but not medical devices such as the Hemopurifier(TM). As a result, future attempts to obtain grant income from the Federal Government will be sought through direct communication to government health and military agencies, and may include unsolicited proposals to provide the Hemopurifier(TM) as a treatment countermeasure.

At present, 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 with the uncertainty that we will be successful in obtaining announced grants or contracts for therapeutics as a medical device technology. Accordingly, we cannot be certain that we will be awarded any future government grants or contracts utilizing our Hemopurifier(TM) platform technology.

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 U.S. Food and Drug Administration (the "FDA"), but the U.S. Government does not place sufficient orders for these products, our future business will be harmed.

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

Our business plan to provide biodefense product candidates 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) medical device candidates we are developing. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases we target that:

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

Even if we are successful in developing effective Hemopurifier(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 that are either more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed.

The Congress' recent passage of the Project BioShield Bill, a

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

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

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

WE HAVE LIMITED MANUFACTURING EXPERIENCE.

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

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

OUR HEMOPURIFER(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 and/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 testing 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 carry a limited amount of insurance to protect us from these damages. In addition, we may be required to incur significant costs to comply with regulatory requirements in the future.

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

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce and our Chief Science Officer,

Richard H. Tullis. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The loss of Dr. Tullis would harm the clinical development of our products due to his unique experience with the Hemopurifier(TM) technology. The loss of Dr. Tullis and/or Mr. Joyce would be detrimental to our growth as they possess unique knowledge of

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

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

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

WE PLAN TO GROW 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 carry limited directors and officers liability insurance. Directors and officers liability insurance has recently become much more expensive and difficult to obtain. If we are unable to continue or provide directors and officers liability insurance at affordable rates or at all, it may become increasingly more difficult to attract and retain qualified outside directors to serve on our board of directors. We may lose potential independent board members and management candidates to other companies in the biotechnology field that have greater directors and officers liability insurance to insure them from liability or to biotechnology companies that have revenues or have received greater funding to date which can offer greater compensation packages. The fees of directors are also rising in response to their increased duties, obligations and liabilities as well as increased exposure to such risks. As a company with a limited operating history and limited resources, we will have a more difficult time attracting and retaining management and outside independent directors than a more established company due to these enhanced duties, obligations and liabilities.

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

Our pathogen filtration devices, or Hemopurifier(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. Such regulatory approval (if any) and product development requires several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others.

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

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

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

DELAYS IN SUCCESSFULLY COMPLETING OUR CLINICAL TRIALS COULD JEOPARDIZE OUR ABILITY TO OBTAIN REGULATORY APPROVAL OR MARKET OUR HEMOPURIFIER(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 medical device candidates;
- unsatisfactory results of any clinical trial;
- the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and/or
- different interpretations of our pre-clinical and clinical data, which could initially lead to inconclusive results.

Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our Hemopurifier(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 medical device candidates. These independent investigators may also have relationships with other commercial entities, some of which may compete with us. If these independent investigators assist our competitors at our expense, it could harm our competitive position.

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

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

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

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

Our previously planned products have not become marketable products due in part to our transition in 2001 from a focus on utilizing our Hemopurifier(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 with an urgent need for new treatment and to take advantage of the sense of greater sense of urgency surrounding acute and chronic infectious diseases. Prior to initiating the development of infectious disease Hemopurifiers(TM), we successfully completed an FDA approved Phase I human

safety trial of a Hemopurifier(TM) to treat aluminum and iron intoxication. Since changing the focus to infectious disease research, we have not initiated an FDA approved human clinical trial as the development of the technology is still continuing and will require both significant capital and scientific resources. Our pending products face similar challenges of obtaining successful clinical trials in route to gaining FDA approval prior to commercialization.

Additionally, our limited financial resources hinder the speed of our product development due to personal constraints.

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

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

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

In the case of patents, we cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial. 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 four issued patents, in the United States, Europe and Japan, three of which we own and one in which we own an exclusive license. Three additional patent applications deal with treatments for virus infection and manufacturing methods, two of which we own and one of which we own an 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 four issued patents, in the United States, Europe and Japan, three of which we own and one which we own the exclusive license. These patents comprise a majority of our assets. At September 30, 2005, our patents comprised 80.06% of our non-current assets, and 60.37% of all assets. If our existing patents are invalidated or if they fail to provide significant commercial benefits, it will severely hurt our financial condition as a majority of our assets would lose their value. Further, since 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 our general and administrative costs as we have incurred increased legal and accounting fees to comply with such rule changes. Further, proposed initiatives are expected to result in changes in certain accounting rules, including legislative and other proposals to account for employee stock options as a compensation expense. These and other potential changes could materially increase the expenses we report under accounting principles generally accepted in the United States of America, and adversely affect our operating results.

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

Our Hemopurifier(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 our products are designed inappropriately, we may be subject to lawsuits seeking significant compensatory and punitive damages. The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We do not have general clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will to be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any product recall or lawsuit seeking significant monetary damages may have a material affect on our business and financial condition. Any liability for mandatory damages could exceed the amount of our coverage. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

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 December 15, 2005, our average trading volume per day for the past three months was approximately 102,095 shares a day with a high of 915,100 shares traded and a low of 500 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 of 2004, we entered into a common stock purchase agreement with Fusion Capital II, LLC ("Fusion"). Under the common stock purchase agreement, Fusion agreed to Purchase, on each trading day during the term of the agreement, $10,000 of our common stock. As of December 15, 2005, Fusion can purchase an aggregate of $5,299,999 of common stock over a 30 month period from inception.

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. Using the closing price on December 15, 2005 of $0.36 as an example, Fusion Capital would be issued approximately 27,778 shares each trading day if we elected to have them purchase the daily purchase amount, whereas our average trading volume for the prior three months is 96,222 per day. The market price of our common stock could decline given our minimal average trading volume compared to the number of shares potentially issuable to Fusion Capital 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, although there is no obligation for Fusion Capital to sell such shares. 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.

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.

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 December 15, 2005, the high and low sale prices of a share of our common stock were $0.77 and $0.18, 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 BENEFICIALLY OWN OR CONTROL APPROXIMATELY 42% OF OUR OUTSTANDING COMMON SHARES AS OF DECEMBER 15, 2005, WHICH MAY LIMIT THE ABILITY OF YOURSELF OR OTHER SHAREHOLDERS, WHETHER ACTING INDIVIDUALLY OR TOGETHER, TO PROPOSE OR DIRECT THE MANAGEMENT OR OVERALL DIRECTION OF OUR COMPANY. ADDITIONALLY, THIS CONCENTRATION OF OWNERSHIP COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN YOU RECEIVING A PREMIUM OVER THE MARKET PRICE FOR YOUR COMMON SHARES.

As of December 15, 2005, our officers and directors beneficially own or control approximately 41.64% 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 December 15, 2005, there are outstanding non-variable priced purchase options and warrants entitling the holders to purchase 17,555,820 common shares at a weighted average exercise price of $0.42 per share. There are 5,150,000 shares underlying promissory notes convertible into common stock at a

weighted average exercise price of $ 0.20. The exercise price for all of the aforesaid warrants, may be less than your cost to acquire our common shares. In the event of the exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants.

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

We are entitled under our certificate of incorporation to issue up to 50,000,000 shares of common stock. After taking into consideration our outstanding common stock at December 15, 2005, our convertible notes, outstanding options and outstanding warrants we will be entitled to issue up to 7,390,164 additional common shares. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

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

Our board may generally issue shares of common stock to pay for debt or services, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. For the past three years and for the six months ended September 30, 2005, we issued a total of 2,306,103 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period was 32%, 47.4% and 53.4% for the years ended 2003, 2004, 2005 and we issued no common stock for debt reduction for the six month period ended September 30, 2005. For the past three years and for the six months ended September 30, 2005, we issued a total of 3,645,101 shares in payment for services. The average price discount of common stock issued for

services for services in this period, weighted by the number of shares issued for services in such period was 43.9%, 55.4%, 46.3% and 12.20% for the years ended 2003, 2004, 2005 and the six months ended September 30, 2005, respectively. It is likely that we will issue additional securities to pay for services and reduce debt in the future. We cannot give you any assurance that we will not issue additional shares of common stock under circumstances we may deem appropriate at the time.

THE SALE OF OUR COMMON STOCK UNDERLYING THE PROMISSORY NOTES AND WARRANTS OWNED BY THE SELLING SHAREHOLDERS MAY CAUSE DILUTION AND THE SALE OF THE SHARES OF COMMON STOCK ACQUIRED BY SELLING SHAREHOLDERS COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

Depending upon market liquidity at the time, a sale of shares under this offering at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock under this offering, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

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

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders. Our bylaws also require us to indemnify our officers and directors. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against

directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by selling shareholders. We will receive no proceeds from the sale of shares of common stock in this offering. Should any selling shareholder acquire the shares to be sold by exercising common share purchase warrants, we would receive the proceeds from the exercise price. In

such an event we anticipate we would use the proceeds of such exercise for working capital and general corporate purposes. If the shares underlying the warrants included in this registration statement were exercised, the Company would receive approximately $1,000,000.

PRIVATE PLACEMENT TRANSACTION

From July 11, 2005 through December 15, 2005 the Company received a series of cash investments totaling $760,000 from the Ellen R. Weiner Family Revocable Trust, an accredited investor, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Weiner Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20.

From August 2, 2005 through December 15, 2005 the Company received cash investments totaling $225,000 from Allan S. Bird, an accredited investor, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Bird Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20.

On December 15, 2005 the Company received cash investments totaling $10,000 from Christian J. Hoffmann III and $5,000 from Claypoole Capital LLC (an affiliate of Mr. Hoffmann), accredited investors, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Hoffmann/Claypoole Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. Mr. Hoffmann is legal counsel to the Ellen R. Weiner Family Revocable Trust.

An additional 1,500,000 shares are included in this registration statement to accommodate conversions related to accrued interest and other costs.

DESCRIPTION OF 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 December 15, 2005. 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 restricted 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 Science 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, management 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. To date, the Company has conducted and published studies that measured the ability of the Hemopurifier(TM) to capture HIV, Hepatitis-C, and gp120, which is a HIV surface protein that destroys immune cells. The studies have been published in the following journals: American Clinical Laboratories (November 2001), Journal of Theoretical Medicine (2002), Therapeutic Apheresis (2001) and Blood Purification (2003 and 2004). All of the studies were conducted in Aethlon Medical laboratory facilities under the supervision of Dr. Richard Tullis, the Company's Chief Science Officer. The cost of materials required to perform each study did not exceed $100,000. Each of the studies encompassed the filling of hollow-fiber dialysis cartridges with antibodies that have been coupled to agarose beads and then sealed within the cartridge. As a result, the coupled antibodies surround the hollow-fibers, which have pores between 200-500 nanometers in size. Infected human blood was then circulated through the cartridge and data was obtained to measure the amount of the targeted pathogen that diffused through the fiber pores and was captured by the immobilized antibodies. In pre-clinical testing, we have published that our HIV-Hemopurifier(TM) removed 55% of HIV from human blood in three hours and in excess of 85% of HIV in twelve hours. Additionally, the HIV-Hemopurifier(TM) captured 90% of gp120, a toxic protein that depletes human immune cells, during a one-hour pre-clinical blood study. The Hemopurifier(TM) cannot cure HIV and Hepatitis-C but augments the immune response of clearing viruses and toxins from the blood before cell and organ infection can occur. We are currently conducting but have not published studies related to the capture of other pathogens with the Hemopurifier(TM) including the capture of pathogens with the Hemopurifier(TM) relating biological weapons which we are currently seeking to commercialize. 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. From the date of our inception through 1999, we received a total of $1,424,012 in grant income. 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(TM) 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 failure is generally treated using thrice-weekly, intermittent 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. We employ the established principles of hollow-fiber dialysis cartridges, but with pores large enough to allow for circulating infectious virus and toxins to separate from the blood and diffuse through the fibers so that it may be captured by binding agents or antibodies that surround the fibers. Since the blood serves as a transport mechanism for viruses to infect cells and organs, the Hemopurifier(TM) disrupts the viral infection cycle. 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 Hemopurifier(TM) platform technology is based on the immobilization of antibodies or binding agents against infectious disease within hemodialysis cartridges that traditionally have been used in treating kidney failure. The typical cartridge is a clear plastic cylinder, approximately twelve inches long and one and one-half inch in diameter. Sealed within the cartridge are up to 10,000 hollow micro-fibers through which the blood flows during treatment. The walls of each fiber are porous so that pathogens can diffuse out of the blood to be captured by the antibodies or binding agents that surround each of the fibers. The size of the fiber pores allows for the diffusion and capture of pathogens up to 500 nanometers in size.

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.

Each Hemopurifier(TM) application is designed to be useful in clearing infectious viruses and toxins from the entire blood stream before cells and organs become infected. Science terminology defines this technique as a method

to inhibit pathogens from entering cells and organs, which is more commonly known as "Entry Inhibitor" treatment. Traditionally, a vast majority of infectious disease treatments have been drug-based therapies whose action has been to inhibit or slow down the replication of viruses in cells that have already been infected.

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 that are captured by the Hemopurifier(TM), the Hemopurifier(TM) cartridge prevents virus and toxins from infecting unaffected tissues and cells. The Hemopurifier(TM) cannot cure HIV and Hepatitis-C but augments the immune response of clearing viruses and toxins from the blood before cell and organ infection can occur. Scientifically, this action is known as a "Fusion Inhibitor" since the ability for the virus to enter or fuse with host cells or organs is inhibited.

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

We have submitted proposals to the NIH regarding the use of the Hemopurifier(TM) as a potential treatment for patients infected with HIV and Hepatitis-C. We also plan to submit other proposals to the NIH related to the use of the Hemopurifier(TM) as a countermeasure against biological weapons. We will make these submissions upon the completion of animal studies that suggest a potential relevance of the Hemopurifier(TM) as a treatment for pathogens considered to be the greatest threat as biological weapons. Additionally, we will seek beneficial relationships with other agencies and organizations upon the publication of animal studies related to the potential use of the Hemopurifier(TM) against biological weapon candidates. In this regard, we are developing a standard Hemopurifier(TM) to be utilized within the established infrastructure of dialysis machines, as well as Hemopurifiers(TM) that are designed to be wearable treatment cartridges. The initial application of the wearable cartridge relies on the blood pressure of the infected patient to drive the circulation of blood into the cartridge without the need for a pumping device such as a dialysis machine. Future generations of the Hemopurifier(TM) may involve the convergence of miniature cartridges with portable wearable pumps as a means to increase virus and toxin clearance through continuous blood circulation over extended periods time.

Biological Weapons

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 bioterrorism 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. We are currently conducting but have not published studies related to the capture of pathogens relating to biological weapons which we are currently seeking to commercialize.

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. Over expression 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 it can remove and is inherently non-selective, making it less than completely effective.

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.

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 Hemopurifiers(TM) to treat HIV and Hepatitis C will be directed through organizations with established distribution channels.

Treatment Classification

Our treatments for infectious diseases are classified as "Immunotherapies" that augment or mimic the immune system's response of clearing infectious viruses, 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.

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 year 2001. This consolidation was completed during the first quarter of fiscal year 2002 and our facilities in Buffalo, N.Y. were closed. In 2004, we expanded our research effort to include the development of Hemopurifiers(TM) as countermeasures against biological weapons.

The cost of research and development, all of which has been charged to operations, amounted to approximately $793,727 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. The Hemopurifier(TM) is protected by four 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 #4 below, and application #6 are exclusively licensed to us.

ISSUED PATENTS:

1. Ambrus CA and Horvath C (1986) Removing heavy metal ions from blood. Japan No: 110,047/82 (Issued June 7, 1994).
2. Ambrus CA and Horvath C (1988) Blood purification. US Patent No. 4,787,974 (Issued November 29, 1988).
3. Ambrus C A 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).
4. Ambrus JL and Scamurra D (2003) Method for removing HIV and other viruses from blood. US Patent 6,528,057 (issued March 4, 2003).

PATENT APPLICATIONS:

5. 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.
6. Ambrus JL and Scamurra D (2003) Method for removing HIV and other viruses from blood. International Application PCT/US99/19448 (filed August 30, 1999). On November 11, 2005, the Company was notified that the European Patent Office intends to grant a patent on the application.
7. 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 and the Japanese patent will expire on June 7, 2011. Ambrus and Horvath 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).

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. Lectins are naturally occurring proteins that bind sugars and complex carbohydrates to form stable complexes. Lectins derived from plants, also known as plant antibodies, are immobilized within the Hemopurifier(TM) because of their known ability to selectively bind to HIV and other envelope viruses with sugar-based surfaces. This patent is not yet issued however on November 11,

2005, the Company was notified that the European Patent Office intends to grant a patent on the application.

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 do not believe that the near term expiration of certain patents will have an adverse material effect on our operations as we believe that certain patents applications filed and/or other patents issued more recently will help to protect the proprietary nature of the Hemopurifier(TM) treatment technology. Additionally, we intend to file new patents as improvements, modifications, or applications of our Hemopurifier(TM) technology occur.

INDUSTRY

The industry for treating infectious disease is extremely competitive, and companies developing new treatment procedures are faced with severe regulatory challenges. In this regard, only a very small percentage of companies that are developing new treatments will actually obtain approval from the FDA to market their treatments in the United States. Currently, the market for treating HIV/AIDS & 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(TM) 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, which are microbial organisms that cause disease, in which current treatments are either limited or do not exist. We believe that we are the sole developer of viral filtration systems (Hemopurifiers(TM)) to treat HIV-AIDS, Hepatitis-C, and Biological weapons. However, we face competition from the producers of the following alternative treatment options for the biodefense industry.

Antibiotics and Anti-Viral Drugs

Antibiotics are the most immediately available first line of therapy for bacterial infections. Unfortunately, bacteria, previously controlled through the application of antibiotics, are developing widespread resistance to available treatments. Several bacteria have become completely resistant to many existing antibiotics and developing new antibiotics is a long, time consuming process. In addition, treatment with antibiotics poses problems such as being available in sufficient quantities, uncertainty of which antibiotics are appropriate to use, efficacy against the particular organism, adverse reactions, and, timely initiation of therapy and completion of treatment regimens.

For viral infections, specific drugs can be effective, but there are no drugs that are effective against the broad-spectrum of known pathogenic viruses. At present, only a few antiviral drugs are available to treat the multitude of viruses that may be used as biological weapons. For example, Ribavirin is the treatment of choice for certain hemorrhagic fever viral infections, but has no current application to Ebola and Marburg infections. Some newer antiviral drugs have shown significant promise in animal models, and limited case reports in humans are encouraging. The lack of broad-spectrum antivirals takes on added significance in light of the ability of many viruses to rapidly develop resistance.

Current efforts to define the genetic details of normal and pathogenic agents on a molecular level promise the hope of new points of attack. Genomic analysis of the viral pathogen and the animal model response to infection provide valuable information enabling the development of novel treatment and prevention strategies. However, even the rapid elucidation of the genetic structure of a specific pathogen does not provide sufficient information to design an effective cure. For example, while SARS has been known of for more than a year and several strains have had their complete genetic sequence determined, no effective treatment has yet emerged.

One promising approach in drug development has been the advent of combinatorial chemistry, which provides the ability to rapidly synthesize huge libraries of related compounds, many of which have never been seen before.

However, the real roadblock to progress is the need to laboriously screen each new compound for efficacy in fighting a particular disease. In that sense, combinatorial drugs confront the same problem as the traditional method of screening of plant and animal extracts for active compounds that block viral or bacterial replication.

Thus while science can radically increase the number of drug candidates, the slow step will always be showing that they are both effective and safe. Even effective new drugs represent an irresistible selective pressure on natural and un-natural pathogens to develop resistance, something at which they are clearly very efficient.

Vaccines

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

There are other problems with relying on vaccines as our primary protection against a biological weapons attack. While vaccination may be an effective prophylaxis in a military setting, it would not work for civilian populations for several reasons:

- The agent used would have to be known prior to its deployment. With the exception of the smallpox vaccine, vaccination is of no use after exposure to a pathogen.

- Even if everyone in the United States could be vaccinated, it would be impossible to vaccinate people against every agent for which a vaccine is available.

- If a vaccine is available, it would only be useful if the agent involved has not mutated or been genetically altered so that it is drug or vaccine resistant.

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

In terms of a bioterrorist attack, anthrax vaccine can serve as an example of our capability in treating a well recognized threat. Only one anthrax vaccine, licensed in 1970, is available. This vaccine, produced by the Bioport Corporation, consists of a membrane-sterilized culture filtrate of an avirulent, non-encapsulated strain of anthrax. The data in support of the license consisted of a single field study. The vaccine efficacy was 92.5% effective in this small trial. In December 1985, 15 years after the vaccine was licensed, the FDA's advisory panel reviewed the efficacy of the anthrax vaccine but did not respond to the effectiveness of the current vaccine to anthrax exposure through inhalation.

The shortcomings of the current vaccine have spurred studies of new anthrax vaccine products. The new vaccines include protective antigen-based vaccines, e.g., purified protein from B. Anthracis culture or live-attenuated spore vaccine. One of the immune correlates of protection of anthrax vaccines is likely to be the antibody response to protective antigen. However, the quantitative relation of anti-protective antigen antibody to protection has not been established in humans. The relationship between neutralization of protective antigen and the lethal effects of anthrax is currently being investigated by the Department of Defense.

Because of the difficulties associated with classic vaccine development, new methods for generating vaccines are being researched. Recombinant DNA technology combined with combinatorial biochemistry is now being employed in an attempt to rapidly identify and develop vaccine candidates and passive immunotherapies. In the phage display system, cloned viral or bacterial proteins, or even cloned antibodies, are individually displayed on the surface of bacterial viruses. Phage proteins can be rapidly screened to find out which ones are the most immunologically reactive. Directed evolution can then be used to make even more effective antigenic materials. Even better, the best of these are already in a form that can be used to produce enough of the material to test in animals.

The principal drawback to the system is the need to use fermentation techniques to produce sufficient quantities of purified material, uncontaminated by the organisms used to produce them. The amount of material required to inoculate a sizeable population requires large fermentation systems, which are expensive to set up and already in short supply. The restriction on medical fermentation capacity is already so severe that many companies have had to delay offering approved products to the public.

GOVERNMENT REGULATION

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

One of the main problems facing the FDA is the need to ensure public safety while at the same time preventing unsafe treatments from reaching the public. The balance between these competing pressures has resulted in a long and deliberate process for approving new treatments, which is not responsive to the urgent need for new treatments presented in the era of bioterrorism. For most drugs, the principal research and development phases take one to three years before a drug is even submitted to FDA for testing. A clinical research program takes two to 10 years, depending on the agent and clinical indication. The marketing application review period requires an average of one year. Once a product is approved for market, long-term post-marketing surveillance, inspections, and product testing must be performed to ensure the quality, safety, and efficacy of the product, as well as appropriate product labeling.

FDA'S PREMARKET CLEARANCE AND APPROVAL REQUIREMENTS. Unless an exemption applies, each medical device we wish to commercialize in the United States will require either prior 510(k) clearance or a PMA from FDA. Medical devices are classified into one of three classes--Class I, Class II, or Class III--depending on the degree or risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risks are placed in either Class I or II, which requires the manufacturer to submit to FDA a premarket notification requesting permission to commercially distribute the device. This process is generally known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device, are placed in Class III, requiring premarket approval. If any application of the Hemopurifier(TM) is not cleared as a 510(k), then it is likely that such applications will be classified as Class III medical device.

510(K) CLEARANCE PATHWAY. When a 510(k) clearance is required, we must submit a premarket notification to FDA demonstrating that our proposed device is substantially equivalent to a previously cleared and legally marketed 510(k) device or a device that was in commercial distribution before May 28, 1976 for which FDA has not yet called for the submission of a PMA application. By regulation, FDA is required to clear or deny a 510(k) premarket notification within 90 days of submission of the application. As a practical matter, clearance often takes significantly longer. FDA may require further information, including clinical data, to make a determination regarding substantial equivalence. If FDA determines that the device, or its intended use, is not substantially equivalent to a previously-cleared device or use, FDA will place the device, or the particular use, into Class III.

PREMARKET APPROVAL PATHWAY. A PMA application must be submitted to FDA if the device cannot be cleared through the 510(k) process. The PMA application process is much more demanding than the 510(k) premarket notification process. A PMA application must be supported by extensive data, including but not limited to technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is submitted and FDA determines that the application is sufficiently complete to permit a substantive review, FDA will accept the application for review. FDA has 180 days to review an "accepted" PMA application, although the review of an application generally occurs over a significantly longer period of time and can take up to several years. During this review period, FDA may request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside FDA may be convened to review and evaluate the application and provide recommendations to FDA as to the approvability of the device. In addition, FDA will conduct a preapproval inspection of the manufacturing facility to ensure

compliance with quality system regulations. New PMA applications or PMA application supplements are required for significant modification to the manufacturing process, labeling and design of a device that is approved through the premarket approval process. Premarket approval supplements often require

submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application and may not require as extensive clinical data or the convening of an advisory panel.

CLINICAL TRIALS. Clinical trials are almost always required to support an FDA premarket application and are sometimes required for 510(k) clearance. In the United States, these trials generally require submission of an application for an Investigational Device Exemption, or IDE, to FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may not be equivocal or may otherwise not be sufficient to obtain approval of the product. Similarly, in Europe the clinical study must be approved by the local ethics committee and in some cases, including studies with high-risk devices, by the Ministry of Health in the applicable country.

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

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

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

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

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

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

After a device receives 510(k) clearance or a PMA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. FDA requires each manufacturer to make this determination initially, but FDA can review any such decision and can disagree with a manufacturer's determination.

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

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

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

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

The primary regulatory environment in Europe is that of the European Union, which has adopted numerous directives and has promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. Such an assessment is required in order for a manufacturer to commercially distribute the product throughout these countries. ISO 9001 and ISO 13845 certifications are voluntary harmonized standards. Compliance establishes the presumption of conformity with the essential requirements for a CE Marking.

We have completed preclinical studies that demonstrate the removal of HIV and Hepatitis C virus from infected human blood. We have also completed initial animal safety studies and are presently engaged in human safety trials as outlined in the "Timelines" table below. Subsequent to the completion of our initial efficacy trials in India we will develop our manufacturing protocols and begin the process of obtaining regulatory approval from the FDA to initiate clinical trials in the United States.

The outline and table below describe suggested timelines for the generation and testing of our current targets. The timelines presuppose the development of a working relationship with government or private agencies capable of handling biowarfare agents.

US CLINICAL TRIALS - CHRONIC DISEASES:

- FDA Investigative Device Exemption ("IDE") submission and approval to initiate HIV/HCV Human Safety Study - Q3 2006
- HIV/HCV Human Safety Study - completion target - Q2 2007
- HIV/HCV Human Efficacy Study - completion target - Q1 2008
- FDA market clearance for one or both indications (HIV and/or HCV) - Q4 2008

BIODEFENSE APPLICATIONS:

- IDE submission and FDA approval to initiate Human Safety Study - Q1 2006
- Human Safety Study - completion target - Q4 2006
- FDA Market Clearance for first label indication - Q1 2007

Note that the Hemopurifier(TM) technology is applicable to a range of "Class A" Bio-weapons candidates and that the safety studies noted above begin the process of determining those which have the largest market potential or strategic importance. We have estimated the direct costs for performing the proposed submissions and clinical tests on the above timetable will require at least $5.0 million through the end of calendar 2007.

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	2006				2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3 Q4
US CLINICAL TRIALS - CHRONIC DISEASES											
IDE Submission and Approval	Submission										
Human Safety Study					HIV/HCV Human Safety						
Human Efficacy Study								HIV/HCV Human Efficacy			
FDA Market Clearance											
HIV/HCV											
BIODEFENSE APPLICATIONS											
IDE Submission and Approval	Submission										
Human Safety Study					Biodefense Safety						
FDA Market Clearance								Class A Bio-weapons			

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

SUBSIDIARIES

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

EMPLOYEES

At December 15, 2005, we had five full-time employees, comprised of our Chief Executive Officer, our Chief Science Officer, our Chief Financial Officer, and two research scientists. We utilize, whenever appropriate, contract and part time professionals in order to conserve cash and resources. We believe our employee relations are good. None of our employees is represented by a collective bargaining unit.

DESCRIPTION OF PROPERTIES

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 rent, plus approximately $5,000 per month in maintenance and other fees on a lease that expires on July 12, 2006. We anticipate that we will be able to continue our current lease or find equivalent space with no material difficulty.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The names, ages and positions of our directors and executive officers as of December 15, 2005 are listed below:

NAMES	TITLE OR POSITION	AGE
James A. Joyce (1)	Chairman, President, Chief Executive Officer and Secretary	44
Richard H. Tullis, PhD (2)	Vice President, Chief Science Officer	60

and Director		
James W. Dorst (3)	Chief Financial Officer	51
Franklyn S. Barry, Jr.	Director	66
Edward G. Broenniman	Director	69
Calvin M. Leung (4)	Director	68

(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) Effective June 1, 2001, Dr. Tullis was appointed as our Chief Science Officer, replacing Dr. Clara M. Ambrus, who retired.

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

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

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 1992, Mr. Joyce founded and was the sole shareholder in James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate from the University of Maryland.

James W. Dorst, Chief Financial Officer

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

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

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

Franklyn S. Barry, Jr.

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

Upon the recommendation of our Compensation Committee, in February 2005, we adopted our 2005 Directors Compensation Program (the "Directors Compensation Program") which advances our interest by helping us to obtain and retain the services of outside directors services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Under the Directors Compensation Program, a newly elected director will receive a one time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned. At September 30, 2005 under the 2005 Directors Compensation Program, we had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors for a total of 5,303,275 options.

FAMILY RELATIONSHIPS

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

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

indirectly participate in or influence the management of our affairs.

SCIENCE ADVISORY BOARD

Each person listed below is a current member of our Science Advisory Board. The role of the Science Advisory Board is to provide scientific guidance related to the development of our Hemopurifier(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.

We entered into a consulting agreement with Dr. Chermann on October 1, 2002 with services to be provided on a month-to-month basis at a rate of $3,500 per month. As per the agreement, Dr. Chermann provides us with up to 20 hours of scientific advisory services that are specifically related to the development of our HIV-Hemopurifier(TM). Either party may terminate the agreement with thirty days advance notice.

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

Nathan W. Levin, M.D.

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

Raveendran (Ravi) Pottathil, Ph.D.

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

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

Claudio Ronco, M.D.

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

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.

We entered into a consulting agreement with Dr. Alibek on October 27, 2004 with services to be provided for a one year term. As per the agreement, Dr. Alibek provides us with up to 24 hours per month of scientific advisory services in connection with advancing the development of the Hemopurifier(TM) technology as a potential countermeasure against pathogens targeted as biological weapons. As consideration for the services to be provided, we shall compensate Dr. Alibek with a four year option to purchase up to 80,000 shares of our common stock at an exercise price of $0.53 per share.

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.

We entered into a consulting agreement with Dr. Bailey on October 27, 2004 with services to be provided for a one year term. As per the agreement, Dr. Bailey provides us with up to 24 hours per month of scientific advisory services in connection with advancing the development of the Hemopurifier(TM) technology as a potential countermeasure against pathogens targeted as biological weapons.

INVOLVEMENT IN LEGAL PROCEEDINGS.

To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

CODE OF ETHICS.

On February 23, 2005, the Board of Directors approved a "Code of Business Conduct and Ethics."

EXECUTIVE COMPENSATION

The following table sets forth compensation received for the fiscal years ended March 31, 2003 through 2005 by our Chief Executive Officer and all other executive officers.

<TABLE>

					LONG TERM COMPENSATION			
		ANNUAL COMPENSATION			AWARDS		PAYOUTS	
NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION	YEAR	SALARY(1)	BONUS	OTHER	RESTRICTED STOCK	SECURITIES UNDERLYING OPTIONS & SARS	LONG TERM INCENTIVE PLAN	ALL OTHER COMP-ENSATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>		<C>
James A. Joyce	2005	$ 187,291	$ 20,000	$ --	$ --	2,231,100	--	$ --
PRESIDENT AND CHIEF	2004	180,000	--	--	--	--	--	--
EXECUTIVE OFFICER	2003	180,000	--			--	--	--
Richard H. Tullis, Ph.D	2005	154,375	$ 15,000	$ --	$ --	1,734,350	$ --	$ --
VICE PRESIDENT AND CHIEF	2004	150,000	--		--	--	--	--
SCIENCE OFFICER	2003	150,000	--		--	250,000	--	--
James W. Dorst (2)	2005	$ --	$ --			$ --	$ --	$ --
CHIEF FINANCIAL OFFICER	2004	N/A	--		--	--	--	--
	2003	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 of 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) James W. Dorst was appointed Chief financial Officer August 1, 2005. Mr. Dorst receives an annual salary of $150,000 and was granted nonqualified stock options to purchase 500,000 shares of common stock at an exercise price equal to the fair market value of the stock on the date of grant.

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS GRANT TABLE

The following table provides certain information with respect to individual grants during the last fiscal year to each of our named executive officers of common share purchase options or stock appreciation rights ("SARs") relating to our common shares:

NAMED EXECUTIVE OFFICER	COMMON SHARES UNDERLYING GRANT OF OPTIONS OR SARS	AS PERCENTAGE OF GRANTS TO ALL EMPLOYEES	EXERCISE OR BASE PRICE	EXPIRATION DATE(S)
James A. Joyce, CHAIRMAN, PRESIDENT AND CEO	2,231,100	56%	$0.38	02/23/10; 12/31/10; 12/31/11
Richard H. Tullis, Ph.D, VICE PRESIDENT, CHIEF SCIENCE OFFICER	1,734,350	44%	$0.38	02/23/10; 12/31/10; 12/31/11
James W. Dorst Chief Financial Officer	N/A	N/A	N/A	N/A

</TABLE>

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS EXERCISE AND VALUATION TABLE

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 December 15, 2005, utilizing a value of $0.36 per share, the closing price of the Company's common stock on the OTCBB on December 15, 2005:

<TABLE>

NAMED EXECUTIVE OFFICER	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS (EXERCISABLE/ UNEXERCISABLE)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS (EXERCISABLE/ UNEXERCISABLE)
<S>			<C>	<C>
James A. Joyce	--	--	3,972,693 / 1,115,550	$428,571 / $0
Richard H. Tullis	--	--	1,147,175 / 867,175	$0 / $0
James W. Dorst	--	--	0 / 500,000	$0 / $75,000

</TABLE>

EMPLOYMENT AGREEMENTS

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

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer of the Company. His compensation under the agreement was modified in June 2001 from $80,000 to $150,000 per year. Effective January 1, 2005, Dr. Tullis' salary was increased from $150,000 to $165,000 per year Under the terms of the agreement, his employment continues at a salary of $165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement.

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

Effective August 1, 2005, Mr. Dorst was elected our Chief Financial

Officer. In addition to his annual salary of $150,000, Mr. Dorst receives health insurance benefits from us. He was also granted five-year options to purchase 500,000 shares of common stock at $0.23 per share, vesting over three years.

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 shares issuable under options.

At December 15, 2005, we had granted and there are currently outstanding 32,500 options under the Plan, with 467,500 available for future issuance. We issued the remaining 10,646,433 options (of which 600,000 have been exercised and 773,300 have expired) outside the Plan.

At December 15, 2005, we had outstanding options to purchase 9,212,785 shares of Common Stock. See "Security Ownership of Certain Beneficial Owners and Management."

OUTSTANDING STOCK PURCHASE WARRANTS

Common Stock purchase warrants

At December 15, 2005, we had outstanding warrants to purchase a total of 8,343,035 shares of common stock, exercisable at prices between $0.18 and $4.00 per share and with expiration dates from November 2005 through May 2010.

See "Security Ownership of Certain Beneficial Owners and Management."

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion of our consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and their explanatory notes appearing elsewhere in this prospectus.

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 prospectus are qualified in their entirety by this statement.

PLAN OF OPERATION

The Company's current plan of operation is to fund our anticipated increased research and development activities and operations for the near future through the common stock purchase agreement in place with Fusion Capital, whereby Fusion Capital has committed to buy up to an additional $6,000,000 of our common stock over a 30-month period, that commenced, at our election, after the SEC declared effective a registration statement under Form SB-2 on December 7, 2004 covering such shares. Through September 30, 2005 the Company had received $700,001 from this agreement. 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 and equipment 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. In addition, on November 2, 2005 the Company formalized an agreement with accredited investors who had been providing funding since July 2005, to issue up to $1,000,000 in 10% Series A Convertible Promissory Notes and has issued $1,000,000 in principal amount of the notes under this arrangement. The Company plans to utilize the proceeds for ongoing general working capital requirements. However, due to market conditions and to assure availability of

funding for operations in the long term, we plan to arrange for additional funding, subject to acceptable terms, during the next twelve months.

The Company is a development stage medical device company that has not yet engaged in significant commercial activities. The primary focus of our resources is the advancement of our proprietary Hemopurifier(TM) platform treatment technology, which is designed to rapidly reduce the presence of infectious viruses and toxins in human blood. Our main focus is to prepare our Hemopurifier(TM) to treat HIV/AIDS, Hepatitis-C and Flu Viruses in human clinical trials. The Company is also working to advance pathogen filtration devices to treat infectious agents that may be used in biological warfare and terrorism.

The Company plans 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, HCV and Flu Viruses. The Company also plans to implement a regulatory strategy for the use of our Hemopurifier(TM) for biodefense treatments in fiscal year 2006 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.

The Company expects to add additional employees in the next twelve months, as required to support our increased research and development effort that will include expanding our goal beyond treating infectious diseases HIV/AIDS 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. Accordingly, due to this increase in activity during the next twelve months, Management anticipates continuing to increase spending on research and development during this period. Additionally, associated with the Company's anticipated increase in research and development expenditures, we anticipate purchasing additional amounts of equipment during this period to support our laboratory and testing operations. Operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(TM) products, as well as market any of those products that receive regulatory approval. The Company does not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as Management's ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. The Company expects to continue to incur increasing negative cash flows and net losses for the foreseeable future.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2004

Operating Expenses

Consolidated operating expenses for the three months ended September 30, 2005 were $554,386, almost unchanged in comparison with $561,947 for the comparable quarter one year ago. The reduction of $7,561 was comprised of increases in Professional Fees and General and Administrative expenses of $16,915 and $8,305, respectively, offset by a decrease in overall Payroll and Related expenses of $32,781.

Net Loss

The Company recorded a consolidated net loss of $673,321 and $348,605 for the quarters ended September 30, 2005 and 2004, respectively. The increased net loss was primarily attributable to a $328,527 increase in recorded interest expense. This increase is a result of a large credit ($244,500) to correct for over-accrued interest expense taken in the prior quarter one year ago offset by an increase in interest expense attributable to amortization of warrant value and BCF recorded in association with convertible notes payable incurred in the first and second quarters of the Company's fiscal year.

Basic and diluted loss per common share were ($0.04) for the three month period ended September 30, 2005 compared to ($0.03) for the same period ended September 30, 2004. This reduction in loss per share was primarily a result of the greater number of common shares outstanding during the three month period ended September 30, 2005, as compared to the three month period ended September 30, 2004, offset by the increased net loss for the three month period ended September 30, 2005, as compared to the three month period ended September 30, 2004.

SIX MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2004

Operating Expenses

Consolidated operating expenses were $1,289,455 for the six months ended September 30, 2005, versus $1,020,319 for the comparable period ended September 30, 2004. This increase of $269,136 results from a $188,064 increase in Professional Fees and a $118,306 increase in General and Administrative expenses offset by a $37,234 reduction in Payroll and Related expenses. The increase in Professional Fees is a result of additional work required to prepare for and initiate human safety trials on HCV infected patients, while the increase in General and Administrative expense included increases in Lab Supplies of $80,714, insurance expense of $23,964, rent expense of $37,980 offset by decreases in other General and Administrative expenses.

Net Loss

We recorded a consolidated net loss of $1,475,321 and $829,945 for the six-month periods ended September 30, 2005 and 2004, respectively. The increase in net loss was primarily attributable to increased operating expenses, offset partially by a reversal of approximately $244,500 in over-accrued interest expense in the quarter ended September 30, 2004 and an additional non-cash expense of $3,750 related to the revaluation of warrants issued with convertible debt combined with actual increases in interest expense attributable to the amortization of warrant value and BCF recorded in association with convertible notes payable incurred during the six month period ending September 30, 2005.

Basic and diluted loss per common share were ($0.08) for the six month period ended September 30, 2005 compared to ($0.06) for the same period ended September 30, 2004. This reduction in loss per share was attributable to both the greater number of common shares outstanding during the six month period ended September 30, 2005, as compared to the six month period ended September 30, 2004, partially offset by the increased net loss for the six month period ended September 30, 2005, as compared to the equivalent period one year ago.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has funded its capital requirements for the current operations from net funds received from the public and private sale of debt and equity securities, as well as from the issuance of common stock in exchange for services. The Company's cash position at September 30, 2005 was $75,275 compared to $8,625, at March 31, 2005, representing an increase of $66,650. During the six months ended September 30, 2005, operating activities used net cash of $745,950. The Company received $177,600 from the issuance of common stock, $535,000 from proceeds for the issuance of convertible notes payable and $100,000 from the issuance of notes payable.

During the six month period ended September 30, 2005, net cash used in operating activities primarily consisted of net loss of $1,475,323. Net loss was offset principally by depreciation and amortization of $15,341 plus the fair market value of common stock of $296,241 in payment for services and $121,095 in amortization of discount associated with note issuances and an increases in accounts payable and other current balance sheet accounts of $262,946.

An decrease in working capital during the six months in the amount of $190,588 increased the Company's negative working capital position to ($3,539,098) at September 30, 2005 as compared to a negative working capital of ($3,348,510) at March 31, 2005. The Company's current deficit in working capital required us to obtain funds in the short-term to be able to continue in business, and in the longer term to fund research and development on products not yet ready for market.

The Company's operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of Hemopurifier(TM) products, and to market any of those products that receive regulatory approval. The Company does not expect to generate revenue from operations for the foreseeable future, and its ability to meet its cash obligations as they become due and payable is expected to depend for at least the next several years on its ability to sell securities, borrow funds or a combination thereof. The Company's 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 Management's ability to establish collaborative arrangements, effect successful commercialization strategies, marketing activities and other arrangements. The Company expects to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Management does not believe that inflation has had or is likely to have any material impact on the Company's limited operations.

At the date of this filing, we do not have plans to purchase significant amounts of equipment or hire significant numbers of employees prior to successfully raising additional capital.

FISCAL YEAR ENDED MARCH 31, 2005 COMPARED TO THE FISCAL YEAR ENDED MARCH 31, 2004

We recorded consolidated net losses of ($2,096,951) or ($0.15) per common share and ($1,518,798) or ($0.19) per common share for the fiscal years ended March 31, 2005 and 2004, respectively. Our consolidated operating expenses for fiscal 2005 were $2,183,377 versus $995,549 for fiscal year 2004. This increase in operating expenses amounting to $1,187,828 or 119.31% is largely attributable to a increase in our professional fees by $409,050 or 120.4%, to $748,837, principally due to higher legal, accounting, technical and other professional services; an increase in payroll and related expenses by $582,838, or 139.6%, to $1,000,324, principally due to an increase in the salary of our CEO, CSO and the addition of full-time administrative and laboratory personnel since mid-year; and an increase in general and administrative expenses in the amount of $195,940, or 82.2% to $434,216, due to increased insurance, warrant expense and rent costs. Our capital equipment expenditures were approximately $30,000 in fiscal year 2005 and $5,000 in 2004.

Notes and Convertible Notes

At March 31, 2005 there were no convertible notes outstanding. At March 31, 2004, there were two convertible notes outstanding. One in the amount of $125,000, plus accrued interest, was converted to stock in September 2004. The second convertible note outstanding at March 31, 2004 in the amount of $50,000 was converted to stock in 2004.

At March 31, 2005, there were $537,500 in principal amount of notes outstanding with 16 note holders. Our 12% one year notes in the principal amount of $272,500, due between August 2000 and September 2001 have no acceleration provisions. We increased the interest to 15% in FY 2002. One 12% note in the amount of $12,500 and a 10% note in the amount of $10,000 were repaid in June and July 2004, respectively. Our remaining 10% note, in the principal amount of $5,000, was due May 2002. The 10% notes have no acceleration provisions. One two-month note in the amount of $150,000, due June 25, 2003, currently bears interest at 18%. The note's conversion rights have expired and it has no acceleration provisions. In October 2004, three 10% notes in the total amount of $130,000 were issued with warrants attached. In November and December 2004, principal amounts of $15,000 and $5,000, respectively, of a 10% note issued in October 2004 were used to pay for the exercise of warrants, resulting in a reduction in the principal amount of the note. In December 2004, the Company repaid two $25,000 12% promissory notes, including accrued interest, through the issuance of restricted common shares.

On May 16, 2005, the Company issued Fusion Capital a $30,000 Convertible Promissory Note (the "Convertible Note") with an interest rate of fifteen percent (15%) per annum that matured on August 15, 2005 (the "Maturity Date").The Convertible Note is convertible into shares of restricted common stock at any time at the election of Fusion at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the Maturity Date, or at a price equal to the lesser of (i) 75% of the average of the three (3) lowest closing sale prices of the common shares during the twelve (12) trading days prior to the submission of a conversion notice or (ii) $0.20 per share, for any conversion occurring after the Maturity Date. In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of $0.25 per share (the "Warrant"). The warrant has been valued using a Black-Scholes option pricing model and an associated discount of $19,655, which will accrete to interest expense over the term of the Convertible Note, has been recorded. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $10,345 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $30,000 for the six

months ended September 30, 2005.

On May 27, 2005, the Company issued a promissory note (the "Note") to an accredited investor in an amount of $100,000 with 12% interest maturing on December 1, 2005. In conjunction with the issuance of the Note, the Company also issued a 12-month warrant to acquire 400,000 shares of Common Stock at $0.25 per share. Accordingly, this warrant has been valued using a Black Scholes option pricing model and an associated discount of $41,860, which will accrete to interest expense over the term of the Note, has been recorded. Such interest expense totaled $31,466 for the six months ended September 30, 2005.

From July 11, 2005 through September 30, 2005 the Company received cash investments of $455,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) based on agreed-upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. The Warrant has been valued using a Binomial Lattice option pricing model and an associated discount of $253,875, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $201,125 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $31,297 for the three months ended September 30, 2005.

From August 8, 2005 through September 30, 2005 the Company received cash investments of $50,000, from an accredited investor (Allan S. Bird) based on agreed upon terms on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. The Warrant has been valued using a Binomial Lattice option pricing model and an associated discount of $28,750, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $21,250 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $3,639 for the three months ended September 30, 2005.

The Company is currently in default on approximately $457,500 of amounts owed under various notes payable and accrued liabilities and is currently seeking other financing arrangements to retire all past due notes. At September 30, 2005 the Company had accrued interest in the amount of $210,155 associated with these notes and accrued liabilities payable.

Securities Issued for Services

We have issued securities in payment of services to reduce our obligations and to avoid using our cash resources. In the six-month period ended September 30, 2005 we issued 1,489,500 common shares and 418,365 warrants for services. We issued 836,730 common shares and a warrant to purchase 418,365 shares for $309,591 in legal expense, 628,770 shares for $147,995 in development expense related to our clinical trials and 24,000 shares for $6,000 for general expenses. All of the shares were registered for sale.

In the fiscal year ended March 31, 2005, we issued 1,412,625 common shares for services, 854,978 of the shares issued were unregistered. We issued 468,604 restricted common shares for commitment and financing fees associated with the $6 million commitment from Fusion Capital; 225,000 restricted common shares for payment of legal services associated with the related private placement and Form SB-2 registration statement, 10,715 restricted common shares for employment placement fees; 143,809 restricted common shares were issued for investor relations and 6,850 restricted common shares were issued for technical consulting. In addition, 557,647 shares, registered under a Form S-8

registration statement, were issued as follows: for corporate and SEC legal advice, 356,547 shares; for regulatory and technical consulting, 132,236 shares; for employment placement fee, 46,364 shares and for achievement of employee goals and objectives, 22,500 shares. The value of services purchased with registered and restricted shares was approximately $337,000. The average price discount of common stock issued for these services, weighted by the number of shares issued for services in this period, was approximately 36%.

In fiscal year 2004, we issued 335,714 restricted common shares consisting of 200,185 restricted common shares in payment of investor relations, consulting and services for investor research report on the Company and investor relations programs and investor meetings; 73,529 restricted common shares in payment of corporate legal services related to SEC filings, issuance of securities and general corporate matters; and 62,000 restricted common shares for consulting for biodefense marketing, and technical analytical services, all totaling approximately $138,000. The average price discount of common stock issued for services in this period, weighted by the number of shares issued for services in this period, was approximately 46% In 2003, we issued 726,378 shares of restricted common shares consisting of 400,000 restricted common shares in payment of business development consulting services; 196,078 restricted common shares for a patent royalty payment on the Hemopurifier(TM); 69,231 restricted common shares for strategic planning and financial modeling consulting services; 41,869 restricted common shares for technical consulting associated with the Hemex Hemopurifier(TM); and 18,200 restricted common shares for technical laboratory, and financial valuation consulting services, all totaling approximately $421,000. The average price premium of common stock issued for services in this period, weighted by the number of shares issued for services in this period was 54%.

We plan to continue this practice in the future. The amount of our outstanding liabilities that we are able to convert to stock will depend on our ability to negotiate reasonable settlements with the respective service providers, our stock price and market conditions. The following is a summary of the securities issued for services and the types of services provided.

The following table provides the number of shares issued for services provided over the periods indicated with the average discount for each period shown. The expenses include legal fees, financing fees, employment placement fees, investor relations, marketing, technical services and miscellaneous.

	Dollar Amount	Securities issued for Services	Weighted Average Discount from Market
Six months ended September 30, 2005	$ 463,586	1,907,865	0.48%
Fiscal year ended March 31, 2005	$ 337,000	1,412,625	36.00%
Fiscal year ended March 31, 2004	$ 154,000	335,714	46.30%
Fiscal year ended March 31, 2003	$ 421,000	726,378	54.00%

Securities Issued for Debt

We have also issued securities for debt to reduce our obligations to avoid using our cash resources. For the six months ending September 30, 2005, we did not retire any obligations through the issuance of stock. For the fiscal year ended March 31, 2005, we issued 847,755 common shares for repayment in full of notes, including accrued interest. The price discount of common stock issued for debt in this period, weighted by number of shares issued for conversion of debt in this period, was approximately 41%, partially due to a substantial discount in the conversion of the $125,000 convertible note in accordance with its original terms in 2001. In fiscal year 2004, we issued 813,365 shares of stock for debt. The average price discount of common stock issued for debt in this period, weighted by number of shares issued for conversion of debt in this period, was approximately 47%. The percentage excludes shares issued in one transaction determined by formula from a preexisting agreement.

In fiscal year 2003, we issued 509,055 shares of stock for debt. The average price premium of common stock issued for debt in this period, weighted by number of shares issued for conversion of debt in this period, was 32%.

Prospects for Debt Conversion

We seek, where possible, to convert our debt and accounts payable to stock and/or warrants in order to reduce our cash liabilities. Our success at accomplishing this depends on several factors including market conditions, investor acceptance and other factors, including our business prospects.

Going Concern

Our independent registered public accounting firm has stated in their

audit report on our March 31, 2005 consolidated financial statements, that we have a working capital deficiency and a significant deficiency accumulated during the development stage. These conditions, among others, raise substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, the Company evaluates estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes the Company's estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

The Company believes that the estimates and assumptions that are most important to the portrayal of the Company's financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, contingencies and litigation. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on the Company's future financial conditions or results of operations.

Long Lived Assets

SFAS No.144 ("SFAS 144"), "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. Management believes that no impairment existed at or during the six months ended September 30, 2005.

Stock Purchase Warrants Issued with Notes Payable

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

Derivatives

The Company has an obligation to register for resale the shares underlying warrants in connection with the issuance of its 10% Series A Convertible Promissory Notes. In accordance with Emerging Issues Task Force ("EITF") No. 00-19, "ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO, AND POTENTIALLY SETTLED IN, A COMPANY'S OWN STOCK," the value of the warrants is recorded as a liability until such registration is effective. The Company will be required to re-measure the fair value of these warrants at the end of each quarter until a registration statement for the common shares underlying the warrants is declared effective. The Company will be required to re-measure the fair value of these warrants at the end of each quarter until a registration statement for the common shares underlying the warrants is declared effective, at which time the fair value of the warrant is adjusted and any remaining associated liability is then reclassified to equity.

Beneficial Conversion Feature of Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). Pursuant to EITF Issue No. 98-5, "ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OR

CONTINGENTLY ADJUSTABLE CONVERSION RATIO" and EITF No. 00-27, "APPLICATION OF EITF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

Accounting for Transactions involving Stock Compensation

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. Under APB 25 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, 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 we have elected to continue accounting for stock-based compensation issued to employees using APB 25; however, pro forma disclosures, as we 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," 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.

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

Small Business Issuers are required to apply SFAS No. 123-R in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005. Thus, the Company's consolidated financial statements will reflect an expense for (a) all share-based compensation arrangements granted on or after January 1, 2006 and for any such arrangements that are modified, cancelled, or repurchased on or after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value. Management has not yet determined the future effect of FAS 123-R on its consolidated financial statements.

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.

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 not aware of any material pending legal proceedings involving our Company.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth selected information, computed as of December 15, 2005, about the amount of shares of common stock beneficially owned by: each of our "EXECUTIVE OFFICERS" (defined as our President, Secretary, Chief Financial Officer or Treasurer, any vice-president in charge of a principal business function, such as sales, administration or finance, or any other person who performs similar policy making functions for our company); each of our directors; each person known to us to own beneficially more than 5% of any class of our securities; and the group comprised of our current directors and executive officers.

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

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NAME AND ADDRESS OF BENEFICIAL OWNERS (1) (2)	AMOUNT	COMMON (VOTING) %(3)
James A. Joyce (5)(6)(7)(8)	5,688,243	22.76%
Calvin M. Leung (6)(10) P.O. Box 2366 Costa Mesa, CA 92628	2,535,368	12.42%
Richard H. Tullis (5)(6)(7)(9)	2,072,350	9.45%
Ellen R. Weiner Family Revocable Trust (4)(7)(11) 10645 N. Tatum Blvd. Suite 200-166 (11) Phoenix, Arizona 85028	7,878,070	9.90%
Allan S. Bird (4)(7)(11) (11) PO Box 371179 Las Vegas, Nevada 89137	2,250,000	9.90%
Rod Tompkins (7) 420 Douglas Wayne, NE 68787	1,860,000	9.34%
Fusion Capital Fund II, LLC (7) (12) 222 Merchandise Mart Plaza, Suite 9-112 Chicago, IL 60654	1,562,495	7.45%
Edward G. Broenniman (6)(13)	775,924	3.80%
Franklyn S. Barry, Jr. (6)(14)	521,010	2.55%
James W. Dorst (5)(15)	500,000	2.45%
Directors and executive officers, as a group (6 members)	12,090,895	41.64%

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(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, the Company believes 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 December 15, 2005 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 December 15, 2005 have been exercised.

(3) Assumes 19,909,016 shares of Common Stock outstanding at December 15, 2005.

(4) Includes shares issuable upon conversion of $985,000 of convertible notes and associated warrants which would be issued in the event and at

such time as such notes are converted into restricted shares of common stock. Includes convertible notes held by both the Ellen R. Weiner Family Revocable Trust and Allan S. Bird. Mr. Bird is Ms. Weiner's father-in-law. Neither the Trust nor Mr. Bird is entitled to convert Convertible Promissory Notes or associated Warrants to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by either of them to exceed 9.9% of the outstanding shares of the common stock following such exercise. The Ellen R. Weiner Family Trust disclaims any beneficial ownership of Mr. Bird's notes, associated warrants and underlying common stock. Mr. Bird disclaims any beneficial ownership of such Trust's notes and associated warrants.

(5) Executive officer.

(6) Director.

(7) More-than-5% shareholder.

(8) Includes options to purchase 2,231,100 restricted common shares at $0.38 and options to purchase 2,857,143 restricted common shares at $0.21.

(9) Includes 250,000 stock options exercisable at $1.90 per share , 30,000 stock options exercisable at $2.56 per share and 1,734,350 stock options with an exercise price of $0.38 per share.

(10) Includes all shares owned by members of Mr. Leung's family and related entities plus 10,000 warrants with an exercise price of $3.00, expiring on January 11, 2006 and 180,000 warrants at an exercise price of $0.25, expiring on July 14, 2006 and 308,725 options with an exercise price of $0.38 per share.

(11) Holders have a contractual 9.9% limitation on the conversion of their convertible notes and warrants. The Ellen R. Weiner Family Revocable Trust holds notes convertible into 3,800,000 common shares at a $0.20 conversion price and, upon conversion will receive a warrant to purchase 3,800,000 common shares at a $0.20 exercise price. Allan S. Bird holds notes convertible into 1,125,000 common shares at a $0.20 conversion price and, upon conversion, will receive a warrant to purchase 1,125,000 common shares at a $0.20 exercise price. Accordingly, the shares shown in the table for the Trust and Mr. Bird represent the maximum number of shares that could be issued to such parties without taking into account the 9.9% limitation. See footnote (4) above.

(12) Includes 568,181 warrants to purchase common stock at an exercise price of $0.76 per share, 300,000 warrants with an exercise price of $0.25 per share associated with a convertible note entered into on May 16, 2005 and 209,402 conversion shares assuming conversion of such convertible note at September 30, 2005,

(13) Includes 53,885 common shares owned by Mr. Broenniman's wife and options to purchase 2,500 shares at an exercise price of $3.00, 3,000 shares at an exercise price of $1.78 and 514,550 shares at an exercise price of $0.38.

(14) Includes 1,867 stock options with an exercise price of $1.84 and 514,550 stock options with an exercise price of $0.38.

(15) Includes 500,000 stock options with an exercise price of $0.23.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Franklyn S. Barry, Jr., a director and shareholder of Aethlon Medical, was engaged as a consultant to Aethlon Medical on strategic and business issues from June 1, 2001 to May 31, 2003 and was paid $60,000 per year providing advisory services to management on strategic and business issues. Mr. Barry had been our original President and Chief Executive Officer and served in such capacities until 2001. When Mr. Barry stepped down as our President and Chief Executive Officer was owed severance equal to one year salary. The consulting agreement was in lieu of immediate payment to spread the payment of the course of the agreement and to ensure that Mr. Barry provided transition consultation to Mr. Joyce on company practices and maintained and managed relationships with certain employees and vendors. See "Directors, Executive Officers, Promoters and Control Persons"" and "Security Ownership of Certain Beneficial Owners and Management."

Calvin M. Leung, a director and shareholder of Aethlon Medical, was previously engaged as a consultant to the Company providing as needed business advisory services to management, including business development services and introductions to potential investors and merger candidates, and he and his affiliates have invested a total of approximately $939,500 in the Company 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 common shares, 190,000 warrants to purchase common stock at prices between $0.25 to $3.00 per share and stock options to purchase 308,725 shares of common stock at an exercise price of $0.38. (See "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 our behalf to cover short-term working capital deficiencies in the aggregate amount of approximately $1,330,000. Of this amount, we owe Mr. Barry a total of approximately $300,800, for deferred salary and consulting fees from pre-merger in 1999 through May 2003 and approximately $15,000 from accrued medical benefits. We owe approximately $69,000 to James Joyce and Associates, a company founded by our current Chief Executive Officer, for deferred consulting fees on services provided prior to our merger in 1999. We previously repaid Mr. Barry a total of $25,000 in cash. Additionally, we owe John Murray, our former Chief Financial Officer, a total of approximately $25,000 for deferred salary and medical benefits for services rendered from September 2000 through May 2001. We owe Robert S. Stefanovich, a former Chief Financial Officer, a total of approximately $91,000 for deferred salary, vacation and medical benefits for services rendered from July 2001 until July 2002. Additionally, we owe Dr. Clara Ambrus, the founder of Hemex, Inc., approximately $190,500 for services rendered from pre-merger in 1999 through March 2002. We owe Edward Broenniman, a board member, and Linda Broenniman, his wife, an aggregate of approximately $119,000 for services rendered prior to our merger in 1999 and approximately $60,000 for unpaid expenses and advances to Hemex, Inc. prior to the merger with Aethlon Media. Mr. Broenniman was repaid a total of $15,000 against this debt. We owe approximately $34,500 to directors for deferred directors' fees. The remaining approximately $425,327 is accrued payroll for employees. On September 9, 2005, as previously disclosed on Form 8-K, we issued a stock option to acquire 2,857,143 stock option to our CEO and Chairman, James A. Joyce, in satisfaction of $300,000 in previously accrued payroll expense. These non interest-bearing liabilities have been included as due to related parties in the accompanying financial statements.

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 common stock to the inventors. If the market price of our restricted 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. 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.

We believe that the related party transactions above, due to their related party nature, are not necessarily on terms that would have been obtained from unaffiliated third parties.

DESCRIPTION OF SECURITIES

GENERAL

Our authorized capital consists of 50,000,000 shares of common stock, par value $.001 per share (these shares are referred to in this prospectus as "COMMON SHARES"). As of December 15, 2005, there were issued and outstanding 19,909,016 common shares.

COMMON SHARES

Our common shareholders are entitled to one vote per share on all matters to be voted upon by those shareholders. Upon the liquidation, dissolution, or winding up of our Company, our common shareholders will be entitled to share ratably in all of the assets which are legally available for distribution, after payment of all debts and other liabilities. Our common shareholders have no preemptive, subscription, redemption or conversion rights. All of our currently outstanding common shares are, and all of our common shares offered for sale under this prospectus will be, validly issued, fully paid and non-assessable.

OPTIONS AND WARRANTS CONVERTIBLE INTO COMMON SHARES

As of December 15, 2005, there were outstanding common share purchase options entitling the holders to purchase 9,212,785 common shares at a weighted average exercise price of $0.44 per share and warrants entitling the holders to purchase up to 8,343,035 common shares at a weighted average exercise price of $0.40 per share.

EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth information compiled on an aggregate basis as of December 15, 2005 with respect to the various equity compensation plans, including stand-alone compensation arrangements, under which we have granted or are authorized to issue equity securities to employees or non-employees in exchange for consideration in the form of goods or services:

<TABLE>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS OR RIGHTS(1)(2)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS) (3)
<S>	<C>	<C>	<C>
Equity compensation plans approved by shareholders:	32,500	$ 2.65	467,500
Equity compensation plans not approved by shareholders(1):	9,180,285	$0.44	N/A
Total	9,212,785	$0.44	467,500

</TABLE>

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Notes 6 through 9 to the accompanying consolidated financial statements for the fiscal year ended March 31, 2005.

(2) Net of equity instruments forfeited, exercised or expired. (3) This column does not include 1,165,798 shares of common stock that remain to be issued under the 2003 Consultant Stock Plan.

DESCRIPTION OF EQUITY COMPENSATION PLANS

2000 STOCK OPTION PLAN

Our 2000 Stock Option Plan (the "Plan"), adopted by the Company 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 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 shares of common stock issuable under options.

CONSULTANT STOCK PLAN

Our 2003 Consultant Stock Plan (the "Stock Plan"), adopted by the Company in August 2003, advances the 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 in March 2004. In August 2005, we amended our 2003 Consultant Stock Plan to increase the number of shares of common stock issuable pursuant to the Stock Plan to 3,000,000 shares of common stock. The Stock Plan provides for the grants of common stock. No awards may be issued after the ten year anniversary of the date we adopted the Stock Plan, the termination date for the plan.

On March 29, 2004, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933. On August 29, 2005 we filed with the SEC an additional registration statement on Form S-8 for the purpose of registering an additional 2,000,000 shares of common stock issuable under the amended Stock Plan.

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.

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

DESCRIPTION OF MARKET

Our common shares are currently quoted on the OTCBB under the symbol "AEMD." Our Common Stock has had a limited and sporadic trading history. The following table sets forth the quarterly high and low bid prices for our common shares on the OTCBB for the periods indicated. The prices set forth below represent inter-dealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

	BID PRICE	
PERIOD	HIGH	LOW
2005:		
Third Quarter	$ 0.25	$ 0.18
Second Quarter	0.33	0.22
First Quarter	0.52	0.25
2004:		
Fourth Quarter	1.00	0.46
Third Quarter	0.95	0.44
Second Quarter	1.80	0.48
First Quarter	4.25	0.37
2003:		
Fourth Quarter	0.55	0.36
Third Quarter	1.01	0.25
Second Quarter	0.60	0.20
First Quarter	0.56	0.15

There are approximately 142 record holders of our Common Stock at December 15, 2005. The number of registered shareholders includes an estimate of the number of 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.

DIVIDEND POLICY

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable 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 as our board may deem relevant at that time.

SELLING SHAREHOLDERS

The following table sets forth the total number of common shares beneficially owned by each of the selling shareholders as of December 15, 2005, the total number of common shares they may sell under this prospectus, and the number of common shares they will own thereafter assuming no other acquisitions or dispositions of common shares. The number and percentage of shares beneficially owned before and after the sales is determined in accordance with

Rule 13d-3 and 13d-5 of the Securities Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. See footnote (1) to this table. We believe that each individual or entity named has sole investment and voting power with respect to the securities indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted.

The selling shareholders are under no obligation to sell all or any portion of the common shares offered for sale under this prospectus. Accordingly, no estimate can be given as to the amount or percentage of our common shares that will ultimately be held by the selling shareholders upon termination of sales pursuant to this prospectus.

The total number of common shares sold under this prospectus may be adjusted to reflect stock dividends, stock distributions, splits, combinations or recapitalizations.

Unless otherwise stated below, to our knowledge no selling shareholder nor any of affiliate of such shareholder has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus. To our knowledge, no selling shareholder is a broker-dealer or an affiliate of a broker-dealer within the meaning of Rule 405.

<TABLE>

SELLING SHAREHOLDER	COMMON SHARES OWNED BEFORE SALES (1)		COMMON SHARES OFFERED FOR SALE(3)	COMMON SHARES OWNED AFTER SALES (2)	
	NUMBER	UNDERLYING WARRANTS		NUMBER	%
<S>	<C>	<C>	<C>	<C>	<C>
Ellen R. Weiner Family Revocable Trust(4)	4,078,070 (5)	3,800,000 (6)	7,878,070	278,070	1.4%
Allan S. Bird	1,125,000 (7)	1,125,000 (6)	2,250,000	--	--
Christian J. Hoffmann, III	91,500 (8)	50,000 (6)	100,000	41,500	0.2%
Claypoole Capital, LLC(9)	25,000 (10)	25,000 (6)	50,000	--	--

</TABLE>

(1) Pursuant to Rules 13d-3 and 13d-5 of the Securities Exchange Act, beneficial ownership includes any common shares as to which a shareholder has sole or shared voting power or investment power, and also any common shares which the shareholder has the right to acquire within 60 days. There were 19,909,016 common shares outstanding as of the applicable date.
(2) Assumes the sale of all common shares offered under this prospectus.
(3) Includes all shares underlying warrants and convertible promissory notes.
(4) Ellen R. Weiner holds voting and investment control as trustee.
(5) Includes 3,800,000 shares underlying convertible promissory notes and 278,070 shares of common stock.
(6) Includes warrants issuable upon conversion of the convertible promissory notes.
(7) Includes 1,125,000 shares underlying convertible promissory notes.
(8) Includes 50,000 shares underlying convertible promissory notes and 41,500 shares of common stock.
(9) Christian J. Hoffmann III holds voting and investment control.
(10) Includes 25,000 shares underlying convertible promissory notes.

PLAN OF DISTRIBUTION

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

* ordinary brokerage transactions andtransactions in which the broker-dealer solicits purchasers;

* block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to

facilitate the transaction;

* purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

* an exchange distribution in accordance with the rules of the applicable exchange;

* privately negotiated transactions;

* short sales;

* broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;

* a combination of any such methods of sale; and

* any other method permitted pursuant to applicable law.

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

The selling shareholders may from time to time pledge or grant a security interest in some or all of the Shares or Common Stock or Warrant owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling shareholders to include the pledgee, transferee or other successors in interest as Selling Stockholders under this prospectus. The selling shareholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus. The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling shareholders have informed the Company that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock. The Company is required to pay all fees and expenses incident to the registration of the shares. The Company has agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The report of Squar, Milner, Reehl & Williamson, LLP on our financial statements as of and for the years ended March 31, 2005, 2004 and 2003 did not contain an adverse opinion, or a disclaimer of opinion.

TRANSFER AGENT

The transfer agent for our common shares is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401. We act as our own transfer agent with regard to our outstanding common share purchase options and warrants.

LEGAL MATTERS

The validity of the issuance of the common shares to be sold by the selling shareholders under this prospectus and common share purchase options and warrants was passed upon for our company by Richardson & Patel LLP. As of December 15, 2005, Richardson & Patel LLP owns a warrant to purchase 225,000 shares with an exercise price of $0.76 and 445,811 shares of common stock. Additionally, partners of Richardson & Patel LLP own 836,730 shares of common stock. The shares and warrant were issued to Richardson & Patel LLP as payment

for services rendered in connection with the representation of Aethlon Medical in our financings and this registration statement. Additionally, Erick E. Richardson and Nimish Patel, the principals of Richardson & Patel LLP own a warrant to purchase 113,636 shares with an exercise price of $0.76 through RP Capital, LLP.

EXPERTS

Squar, Milner, Reehl & Williamson, LLP, a registered independent public accounting firm, have audited the accompanying consolidated balance sheet as of March 31, 2005 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, 2005 to the extent set forth in their report, and are set forth in this prospectus in reliance upon such report given upon their authority as experts in auditing and accounting.

DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Articles of Incorporation permit us to limit the liability of our directors to the fullest extent permitted under Section 78.037 of the Nevada General Corporation Law. As permitted by Section 78.037 of the Nevada General Corporation Law, our Bylaws and Articles of Incorporation also include provisions that eliminate the personal liability of each of its officers and directors for any obligations arising out of any acts or conduct of such officer or director performed for or on behalf of the Company. To the fullest extent allowed by Section 78.751 of the Nevada General Corporation Law, we will defend, indemnify and hold harmless its directors or officers from and against any and all claims, judgments and liabilities to which each director or officer becomes subject to in connection with the performance of his or her duties and will reimburse each such director or officer for all legal and other expenses reasonably incurred in connection with any such claim of liability. However, we will not indemnify any officer or director against, or reimburse for, any expense incurred in connection with any claim or liability arising out of the officer's or director's own negligence or misconduct in the performance of duty.

The provisions of our Bylaws and Articles of Incorporation regarding indemnification are not exclusive of any other right we have to indemnify or reimburse our officers or directors in any proper case, even if not specifically provided for in our Articles of Incorporation or Bylaws.

We believe that the indemnity provisions contained in our bylaws and the limitation of liability provisions contained in our certificate of incorporation are necessary to attract and retain qualified persons for these positions. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

REPORTS TO SECURITY HOLDERS

We file annual and quarterly reports with the SEC. In addition, we file additional reports for matters such as material developments or changes. Our executive officers, directors and beneficial owners of 10% or more of our common shares also file reports relative to the acquisition or disposition of our common shares or acquisition, disposition or exercise of our common share purchase options or warrants. These filings are a matter of public record and any person may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. We are not required to deliver an annual report with this prospectus, nor will we do so. However, you may obtain a copy of our annual report, or any of our other public filings, by contacting the Company or from the SEC as mentioned above.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act and must file reports, proxy statements and other information with the SEC. The reports, information statements and other information we file with the Commission can be inspected and copied at the Commission Public Reference Room, 450 Fifth Street, N.W. Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The Commission also maintains a Web site (http://www.sec.gov) that contains reports, proxy, and information statements and other information regarding registrants, like us, which file electronically with the Commission. 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 Web site is maintained at http://www.aethlonmedical.com.

This prospectus constitutes a part of a registration statement on Form SB-2 filed by us with the Commission under the Securities Act of 1933. As permitted by the rules and regulations of the Commission, this prospectus omits certain information that is contained in the registration statement. We refer you to the registration statement and related exhibits for further information with respect to us and the securities offered. Statements contained in the prospectus concerning the content of any documents filed as an exhibit to the registration statement (or otherwise filed with the Commission) are not necessarily complete. In each instance you may refer to the copy of the filed document. Each statement is qualified in its entirety by such reference.

No person is authorized to give you any information or make any representation other than those contained or incorporated by reference in this prospectus. Any such information or representation must not be relied upon as having been authorized. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of the prospectus.

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

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2005

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTHS ENDED SEPTEMBER 30, 2005

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, 2005 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, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2005 and the consolidated results of their operations and their cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. At March 31, 2005, the Company has negative working capital of approximately $3,349,000 and a deficit accumulated during the development stage of approximately $19,142,000. 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.

/S/ SQUAR, MILNER, REEHL & WILLIAMSON, LLP

JUNE 27, 2005
NEWPORT BEACH, CALIFORNIA

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
March 31, 2005

ASSETS

CURRENT ASSETS	
Cash	$ 8,625

Prepaid expenses	10,188
TOTAL CURRENT ASSETS	18,813
Property and equipment, net	30,366
Patents, net	213,923
Other assets	37,250
TOTAL NONCURRENT ASSETS	281,539
TOTAL ASSETS	$ 300,352

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 1,307,512
Due to related parties	1,567,502
Notes payable, net of discounts	492,309
TOTAL CURRENT LIABILITIES	3,367,323
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Common stock, par value of $0.001, 25,000,000 shares authorized; 17,014,696 issued and outstanding	17,015
Additional paid in capital (as restated)	16,058,278
Deficit accumulated during the development stage (as restated)	(19,142,264)
TOTAL STOCKHOLDERS' DEFICIT	(3,066,971)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 300,352

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2005 and 2004 and For the
Period January 31,1984 (Inception) Through March 31, 2005

	2005	2004	January 31, 1984 (Inception) Through March 31, 2005
<S>	<C>	<C>	<C>
Grant income	$ --	$ --	$ 1,424,012
Subcontract income	--	--	73,746
Sale of research and development	--	--	35,810
	--	--	1,533,568
OPERATING EXPENSES			
Professional fees	748,837	339,787	4,386,541
Payroll and related	1,000,324	417,486	6,570,834
General and administrative	434,216	238,276	3,945,579
Impairment of intangible assets	--	--	1,231,531
	2,183,377	995,549	16,134,485

OPERATING LOSS	(2,183,377)	(995,549)	(14,600,917)
OTHER (INCOME) EXPENSE			
Interest expense	(86,426)	523,249	4,421,155
Interest income	--	--	(17,415)
Other	--	--	137,607
	(86,426)	523,249	4,541,347
NET LOSS	$ (2,096,951)	$ (1,518,798)	$(19,142,264)
Basic and diluted loss per common share	$ (0.15)	$ (0.19)	
Weighted average number of common shares outstanding	14,037,341	8,181,612	

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
Balance, January 31, 1984 (Inception)	--	$ --	$ --	$ --	$ --
Common stock issued for cash at $1 per share	22,000	22	26,502	--	26,524
Common stock issued for cash at $23 per share	1,100	1	24,999	--	25,000
Common stock issued for cash at $86 per share	700	1	59,999	--	60,000
Common stock issued for cash at $94 per share	160	1	14,999	--	15,000
Common stock issued for cash at $74 per share	540	1	39,999	--	40,000
Common stock issued for cash at $250 per share	4,678	5	1,169,495	--	1,169,500
Capital contributions	--	--	521,439	--	521,439
Common stock issued for compensation at $103 per share	2,600	3	267,403	--	267,406

Conversion of due to related parties to common stock at $101 per share	1,120	1	113,574	--	113,575
Conversion of due to related parties to common stock at $250 per share	1,741	2	435,092	--	435,094
Effect of reorganization	2,560,361	2,558	(2,558)	--	--
Common stock issued in connection with employment contract at $8 per share	65,000	65	519,935	--	520,000
Common stock issued in connection with the acquisition of patents at $8 per share	12,500	13	99,987	--	100,000
Warrants issued to note holders in connection with notes payable	--	--	734,826	--	734,826
Warrants issued for services	--	--	5,000	--	5,000
Net loss	--	--	--	(4,746,416)	(4,746,416)
BALANCE, MARCH 31, 2000	2,672,500	2,673	4,030,691	(4,746,416)	(713,052)
Common stock and options issued in connection with acquisition of Cell Activation, Inc. at $7.20 per share	99,152	99	1,067,768	--	1,067,867
Warrants issued to note holders in connection with notes payable	--	--	218,779	--	218,779
Warrants issued to promoter in connection with notes payable	--	--	298,319	--	298,319
Beneficial conversion feature of convertible notes payable	--	--	150,000	--	150,000
Warrants issued to promoter in connection with convertible notes payable	--	--	299,106	--	299,106
Options issued to directors for services as board members	--	--	14,163	--	14,163
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)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005 (CONTINUED)

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

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005 (CONTINUED)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
BALANCE - MARCH 31, 2002	5,170,697	$ 5,171	$ 10,962,692	$(13,165,399)	$ (2,197,536)
Proceeds from the issuance of common stock at $0.50 per share in connection with the exercise of options	200,000	200	99,800	--	100,000
Interest expense related to beneficial conversion feature	--	--	150,000	--	150,000
Pro-rata value assigned to warrants issued in connection with conversion of accounts payable	--	71,000	--	71,000	
Pro-rata value assigned to warrants issued in connection with note payable	--	--	30,000	--	30,000

Issuance of common stock at $1.25 per share in connection with the conversion of accounts payable	150,124	150	187,505	--	187,655
Issuance of common stock at $1.25 per share in connection with the conversion of notes payable	420,000	420	104,580	--	105,000
Estimated fair market value of options issued for services	--	--	114,000	--	114,000
Issuance of common stock at $0.25 per share for cash	461,600	462	114,938	--	115,400
Issuance of common stock at $0.26 per share for cash	19,230	19	4,981	--	5,000
Issuance of common stock at $1.25 per share for cash	8,000	8	9,992	--	10,000
Issuance of common stock at $0.65 per share for services	69,231	69	44,931	--	45,000
Issuance of common stock at $0.51 per share for services	196,078	196	99,804	--	100,000
Adjustment booked	--	--	(100,000)	100,000	--
Net loss	--	--	--	(2,461,116)	(2,461,116)
BALANCE - MARCH 31, 2003	6,694,960	$ 6,695	$ 11,894,223	$(15,526,515)	$ (3,625,597)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005 (CONTINUED)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
BALANCE - MARCH 31, 2003	6,694,960	$ 6,695	$ 11,894,223	$(15,526,515)	$ (3,625,597)
Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants	540,000	540	134,460	--	135,000

Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,099 75,099	300,397	300	74,799	--	
Issuance of common stock at $0.35 per share in connection with the conversion of notes payable, including interest of $59,827 284,827	813,790	814	284,013	--	
Issuance of common stock at $0.50 per share in connection with the conversion of notes payable, including interest of $509 5,509	11,017	11	5,498	--	
Issuance of common stock at $0.42 per share in connection with the conversion of notes payable, including interest of $696 5,696	13,725	14	5,682	--	
Issuance of common stock at $0.65 per share in connection with the conversion of notes payable, including interest of $5,088 17,588	27,059	27	17,561	--	
Issuance of common stock at $0.25 per share in connection with the conversion of notes payable, including interest of $15,416 115,416	461,667	462	114,954	--	
Issuance of common stock at $0.25 per share for cash 306,500	1,226,000	1,226	305,274	--	
Issuance of common stock at $0.30 per share for cash 54,000	180,000	180	53,820	--	
Issuance of common stock at $0.525 per share for cash 21,000	40,000	40	20,960	--	
Issuance of common stock at $1.125 per share for cash 5,625	5,000	5	5,620	--	
Issuance of common stock at $0.25 per share for services 2,500	10,000	10	2,490	--	
Issuance of common stock at $0.34 per share for services 25,000	73,529	73	24,927	--	
Issuance of common stock at $0.40 per share for services 24,825	62,000	62	24,763	--	
Issuance of common stock at $0.45 per share for services 83,333	185,185	185	83,148	--	
Issuance of common stock at $0.50 per share for services 2,500	5,000	5	2,495	--	
Interest expense related to beneficial conversion feature 324,800	--	--	324,800	--	
Net loss (1,518,798)	--	--	--	(1,518,798)	
BALANCE - MARCH 31, 2004 (3,655,177)	10,649,329	$ 10,649	$ 13,379,487	$(17,045,313)	$

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005 (CONTINUED)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
BALANCE - MARCH 31, 2004	10,649,329	$ 10,649	$ 13,379,487	$(17,045,313)	$ (3,655,177)
Proceeds from the issuance of common stock at $0.25 per share in connection with the exercise of warrants	1,126,564	1,127	280,515	--	281,642
Issuance of common stock at $0.44 per share for cash	1,415,909	1,416	621,584	--	623,000
Issuance of common stock at $0.25 per share for cash	40,233	40	9,960	--	10,000
Issuance of common stock at $0.28 per share for cash	35,947	36	9,964	--	10,000
Issuance of common stock at $0.29 per share for cash	69,431	69	19,931	--	20,000
Issuance of common stock at $0.32 per share for cash	94,449	94	29,906	--	30,000
Issuance of common stock at $0.33 per share for cash	60,620	61	19,939	--	20,000
Issuance of common stock at $0.35 per share for cash	172,824	173	59,826	--	59,999
Issuance of common stock at $0.36 per share for cash	223,756	224	79,776	--	80,000
Issuance of common stock at $0.37 per share for cash	108,079	108	39,892	--	40,000
Issuance of common stock at $0.38 per share for cash	26,549	27	9,973	--	10,000
Issuance of common stock at $0.39 per share for cash	51,748	52	19,948	--	20,000
Issuance of common stock at $0.40 per share for cash	25,233	25	9,975	--	10,000

Issuance of common stock at $0.42 per share for cash 60,001	143,885	144	59,857	--
Issuance of common stock at $0.43 per share for cash 30,001	70,467	70	29,930	--
Issuance of common stock at $0.45 per share for cash 10,000	22,455	22	9,978	--
Issuance of common stock at $0.46 per share for cash 20,000	43,944	44	19,956	--
Issuance of common stock at $0.47 per share for cash 60,001	128,836	129	59,872	--
Issuance of common stock at $0.52 per share for cash 49,999	95,502	96	49,904	--
Issuance of common stock with warrants at $0.36 per unit for cash 20,000	55,556	56	19,944	--
Issuance of common stock at $0.27 per share for cash 24,300	90,000	90	24,210	--
Issuance of common stock at $0.50 per share for cash 1,500	3,000	3	1,497	--
Issuance of common stock to Fusion Capital for "commitment" shares --	50,000	50	(50)	--

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005 (CONTINUED)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
Issuance of common stock to Fusion Capital for fees (0)	418,604	419	(419)	--	
Issuance of common stock at $0.34 per share in connection with the conversion of notes payable, including interest of $38,371 163,371	479,513	480	162,891	--	

Issuance of common stock at $0.44 per share in connection with the conversion of notes payable 50,000	113,636	114	49,886	--
Issuance of common stock at $0.25 per share in connection with the conversion of notes payable 20,000	80,000	80	19,920	--
Issuance of common stock at $0.49 per share in connection with the conversion of notes payable 85,557	174,606	175	85,382	--
Issuance of common stock at $1.75 per share for services 30,000	17,143	17	29,983	--
Issuance of common stock at $0.44 per share for services 116,720	265,273	265	116,455	--
Issuance of common stock at $0.70 per share for services 7,500	10,715	11	7,489	--
Issuance of common stock at $0.73 per share for services 5,000	6,850	7	4,993	--
Issuance of common stock at $0.55 per share for services 25,500	46,364	46	25,454	--
Issuance of common stock at $0.25 per share for services 41,373	165,492	165	41,208	--
Issuance of common stock at $0.45 per share for services 12,769	28,377	28	12,741	--
Issuance of common stock at $0.50 per share for services for deferred consulting services --	60,000	60	(60)	--
Issuance of common stock at $0.49 per share for services 12,343	25,087	25	12,318	--
Issuance of common stock at $0.45 per share for services for deferred consulting services --	66,666	67	(67)	--
Issuance of common stock at $0.37 per share for services 5,000	13,369	13	4,987	--
Issuance of common stock at $0.42 per share for services 8,000	19,231	19	7,981	--
Issuance of common stock at $0.39 per share for services 7,000	18,042	18	6,982	--
Issuance of common stock at $0.32 per share for services 52,545	162,678	163	52,382	--
Issuance of common stock at $0.31 per share for services 5,000	16,234	16	4,984	--
Issuance of common stock at $0.39 per share for employee bonus 8,776	22,500	22	8,754	--
Debt discount on debt issued with detachable warrants 84,000	--	--	84,000	--

Amortization of deferred consulting fees	--	--	30,000	--	30,000
Intrinsic value of options issued to directors	--	--	424,262	--	424,262
Net loss	--	--	--	(2,096,951)	(2,096,951)
BALANCE - MARCH 31, 2005	17,014,696	$ 17,015	$ 16,058,278	$(19,142,264)	$ (3,066,971)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2005

	2005	2004	January 31, 1984 (Inception) Through March 31, 2005
Cash flows from operating activities:			
Net loss	$ (2,096,951)	$ (1,518,798)	$ (19,242,264)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	39,836	127,000	949,752
Amortization of deferred consulting fees	30,000	--	30,000
Gain of sale of property and equipment	--	--	(13,065)
Fair market value of warrants issued in connection with accounts payable and debt related costs	--	--	2,715,736
Fair market value of common stock, warrants and options issued for services and interest	339,027	138,158	2,607,619
Intrinsic value of stock options issued to directors	424,262	--	424,262
Amortization of debt discount	38,809	324,800	848,609
Beneficial conversion feature of convertible notes payable	--	--	334,304
Impairment of patents and patents pending	--	--	897,227
Impairment of goodwill	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	(4,606)	4,728	151,349
Other assets	(16,845)	(14,800)	

(37,250)			
Accounts payable and accrued liabilities	(206,943)	138,398	
1,632,226			
Due to related parties	(105,955)	258,458	
1,501,003			
Net cash used in operating activities	(1,559,366)	(542,056)	
(6,983,269)			
Cash flows from investing activities:			
Purchases of property and equipment	(30,070)	(4,782)	
(244,236)			
Patents and patents pending	--	--	
(352,833)			
Proceeds from the sale of property and equipment	--	--	
17,065			
Cash of acquired company	--	--	
10,728			
Net cash used in investing activities	(30,070)	(4,782)	
(569,276)			
Cash flows from financing activities:			
Net proceeds from the issuance of notes payable	130,000	--	
1,610,000			
Principal repayments of notes payable	(22,500)	(180,000)	
(212,500)			
Proceeds from the issuance of convertible notes payable	--	200,000	
998,000			
Net proceeds from the issuance of common stock	1,488,942	522,125	
5,165,670			
Net cash provided by financing activities	1,596,442	542,125	
7,561,170			
Net increase (decrease) in cash	7,006	(4,713)	
8,625			
Cash at beginning of period	1,619	6,332	
--			
Cash at end of period	$ 8,625	1,619	$
8,625			
Supplemental disclosure of cash flow information - - Cash paid during the period for:			
Interest	$ 34,766	$ 13,000	
255,258			
Income taxes	$ --	$ 1,180	
13,346			
Supplement schedule of noncash investing and financing activities:			
Debt and accrued interest converted to common stock	$ 318,925	$ 407,500	
2,367,019			
Debt discount on notes payable issued with detachable warrants	$ 84,000	$ --	$
--			
Issuance of common stock, warrants and options for accounts payable	$ --	$ --	
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.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

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") or the regulatory agency of any foreign country where it intends to sell its device. Aethlon has not yet begun efforts to obtain any FDA approval, which may take several years, but it intends to initiate human trials in India to obtain regulatory approval there. Since many of Aethlon's patents were issued in the 1980's, some have expired and other are scheduled to expire in the near future. Thus, some patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, the Company believes that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(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 $3,349,000, a deficit accumulated during the development stage of approximately $19,142,000 at March 31, 2005 and is in default on certain debt (see Notes 7 and 8), which among other matters, raises substantial doubt about its ability to continue as a going concern. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. The Company intends to fund operations through debt and/or equity financing arrangements, which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2006. Therefore, the Company will be required to seek additional funds to finance its long-term operations.

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

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 that has committed to buy up to an additional $6,000,000 of the Company's common stock over a 30-month period, that commenced, at the Company's election, when the Securities Exchange Commission (the "SEC") declared effective on December 7, 2004 a registration statement covering such shares. However, no assurance can be given that the Company will receive any funds in addition to the funds it has received to date 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.

RISKS AND UNCERTAINTIES

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

USE OF ESTIMATES

The Company prepares its consolidated financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include, among others, realization of long-lived assets and valuation of deferred tax assets. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards ("SFAS") No. 107, "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, 2005.

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

PROPERTY AND EQUIPMENT

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

INCOME TAXES

Under SFAS 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.

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 noted no impairment indicators requiring review for impairment during the year ended March 31, 2005.

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

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

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, 2005 and 2004, approximately 2,100,000 and 2,500,000 shares would have been considered additional common stock equivalents, respectively, based on the treasury stock method). As the Company had net losses for the periods 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," requires public companies to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the foreign countries in which it holds significant assets and how the Company reports revenues and its major customers. The Company currently operates in one segment, as disclosed in the accompanying consolidated statements of operations.

STOCK BASED COMPENSATION

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

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

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.

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

Small Business Issuers are required to apply SFAS No. 123-R in the first interim or annual reporting period of the registrant's first fiscal year that begins after December 15, 2005. Thus, the Company's consolidated financial statements will reflect an expense for (a) all share-based compensation arrangements granted on or after January 1, 2006 and for any such arrangements that are modified, cancelled, or repurchased on or after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value. Management has not yet determined the future effect of FAS 123-R on its consolidated financial statements.

At March 31, 2005, the Company has one stock-based employee compensation plan (the "Plan"), which is described more fully in Note 9. The Company accounts for the Plan under the recognition and measurement principles of APB 25, and related interpretation. Prior to the year ended March 31, 2005, no stock-based employee compensation cost was recognized in net loss. Stock options granted under the Plan had exercise prices equal to or greater than the estimated fair value of the underlying common stock on the dates of grant. In February 2005, the Company granted 5,303,275 stock options to directors, all at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, the Company recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005. The following table illustrates the effect on net loss and loss per common share if the Company had applied the fair value recognition

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

provisions of SFAS 123 to stock-based employee compensation.

<TABLE>

	YEAR ENDED MARCH 31,	
	2005	2004
<S>	<C>	<C>
Net loss available to common stockholders, as reported	$ 2,096,951	$ 1,518,798
Add back: Recorded intrinsic value	(424,262)	--
Pro forma compensation expense	2,386,474	6,000
Pro forma net loss available to common stockholders	$ 4,059,163	$ 1,524,798
Loss per common share, as reported		
Basic and diluted	$ (0.15)	$ (0.19)
Loss per common share, pro forma		
Basic and diluted	$ (0.29)	$ (0.19)

</TABLE>

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

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.

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

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

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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.

In December 2004, the FASB issued SFAS No. 153, "EXCHANGE OF NONMONETARY ASSETS, AND AMENDMENT OF APB NO. 29, "ACCOUNTING FOR NONMONETARY TRANSACTIONS." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured using the estimated fair value of the assets exchanged. SFAS No. 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets, and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has "commercial substance" if the future cash flows of the entity are expected to change significantly as a result of the transaction. This pronouncement is effective for nonmonetary exchanges in fiscal periods beginning after June 15, 2005. Management is evaluating the future effect of this pronouncement.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20 and FASB Statement No. 3. This pronouncement applies to all voluntary changes in accounting principle, and revises the requirements for accounting for and reporting a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle, unless it is impracticable to do so. This pronouncement also requires that a change in the method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is effected by a

change in accounting principle. SFAS No. 154 retains many provisions of APB Opinion 20 without change, including those related to reporting a change in accounting estimate, a change in the reporting entity, and correction of an error. The pronouncement also carries forward the provisions of SFAS No. 3 which govern reporting accounting changes in interim financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154. Management is evaluating the future effect of this pronouncement.

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

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

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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 6, 7 and 8). Under Accounting Principles Board Opinion No. 14, "ACCOUNTING FOR CONVERTIBLE DEBT AND DEBT ISSUED WITH STOCK PURCHASE WARRANTS", as amended, the relative estimated fair value of such warrants represents a discount from the face amount of the notes payable. Accordingly, the relative estimated fair value of the warrants has been recorded in the consolidated financial statements as a discount from the face amount of the notes. The discount is amortized using the effective yield method over the respective lives of the related notes payable.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable (see Notes 6 and 7) provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force Issue No. 98-5 ("EITF Issue No. 98-5"), "ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIO" and Emerging Issues Task Force Issue No. 00-27, "APPLICATION OF EITF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes using the effective yield method. The Company has determined the fair value of such BCF to be approximately $0 and $325,000 for the years ended March 31, 2005 and 2004, respectively.

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately $496,000 and $200,000 of research and development expenses during the years ended March 31, 2005 and 2004, respectively, which are included in operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect

on the Company's financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 financial statement presentation to correspond to the 2005 presentation.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2005:

Furniture and office equipment	$ 239,073
Accumulated depreciation	(208,707)
	$ 30,366

Depreciation expense for the years ended March 31, 2005 and 2004 approximated $16,000 and $8,000, respectively.

3. PATENTS

Patents include both foreign and domestic patents. There were no patents pending at March 31, 2005 and there were no patents or patents pending acquired during the years ended March 31, 2005 and 2004. 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, 2005 and 2004, no capitalized patent costs were written off. At March 31, 2005, the gross carrying amount of patents and the related accumulated amortization approximated $339,000 and $125,000, respectively. Amortization of patents approximated $23,000 and $29,000 during the years ended March 31, 2005 and 2004, respectively. Amortization expense on patents is estimated to be approximately $15,000 per year for the next five fiscal years. The weighted average amortization period for patents was approximately 14 years at March 31, 2005.Some of the Company's patents have expired and others may expire before FDA approval, if any, is obtained.

4. OTHER ASSETS

Other assets consist of approximately $17,000 of deposits and approximately $20,000 of advances to employees.

5. 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.

6. DEBT-TO-EQUITY CONVERSION PROGRAM

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

7. NOTES PAYABLE

12% AND 15% NOTES

From August 1999 through September 2000, the Company entered into arrangements for the issuance of notes payable from private placement offerings

(the "12% Notes") in the original aggregate amount of $422,500. The 12% Notes

7. NOTES PAYABLE (continued)

12% AND 15% NOTES (continued)

bore annual interest at 12% (15% after maturity), required interest to be paid quarterly, matured one year from the date of issuance, and carried detachable warrants. These notes have no acceleration provisions. In June 2004, one such note in the principal amount of $12,500 plus accrued interest was repaid. In December 2004, each of two such notes in the principal amount of $25,000, plus $17,778 accrued interest, were converted to 87,303 restricted common shares at $0.49 per share. At March 31, 2005, $272,500 of the 12% Notes were outstanding and delinquent, in default, and bore interest at 15% (the "15% Notes").

During the year ended March 31, 2004, $37,500 of principal balance of the 15% Notes held by two note holders were converted to Company common stock. One Note holder converted $12,500 of notes including interest of $5,088 for 27,059 shares of common stock and warrants to purchase 27,059 shares of common stock at $0.65 per share (see Note 9). 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. The second note holder converted an aggregate of $25,000 of 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 9). 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 these two notes.

10% NOTES

In October 2004, the Company issued two $40,000, 10% one year promissory notes each with 80,000 three-year warrants to purchase common stock at $0.50 per share and 44,444 three-year warrants to purchase common stock at $0.90 per share for cash in the total amount of $80,000 to two accredited individual investors. In accordance with GAAP, the proceeds of the financing have been allocated to the debt and the warrants, based on their relative fair values. Accordingly, a discount of $46,000 has been recorded as a reduction in the debt balance, and the off-setting credit has been recorded as additional paid-in capital. The debt discount is amortized and charged to interest expense over the life of the debt. At March 31, 2005, approximately $23,000 of such discount was unamortized and is included in notes payable in the accompanying consolidated balance sheet. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In October 2004, the Company issued a $50,000, 10% one-year promissory note plus 100,000 three-year warrants to purchase common stock at $0.50 per share and 55,555 three-year warrants to purchase common stock at $0.90 per share for cash in the amount of $50,000 to an accredited individual investor. In accordance with GAAP, the proceeds of the financing have been allocated to the debt and the warrants, based on their relative fair values. Accordingly, a discount of $38,000 has been recorded as a reduction in the debt balance, and the off-setting credit has been recorded as additional paid-in capital. The debt discount is amortized and charged to interest expense over the life of the debt. At March 31, 2005, approximately $22,000 of such discount was unamortized and is included in notes payable in the accompanying consolidated balance sheet. This transaction was exempt from registration pursuant to Section 4(2) of the

7. NOTES PAYABLE (continued)

Securities Act of 1933. As of March 31, 2005, $20,000 in principal amount of this note has been reduced through application of the note to exercise a portion of the warrants.

The total outstanding balance of the 15% Notes at March 31, 2005 was $272,500, which is included in notes payable in the accompanying consolidated balance sheet. The remaining $219,809 net balance included in notes payable is comprised of the $150,000 9% Convertible Note (see Note 8), one $5,000 10% Convertible Note (see Note 8), both of which were no longer convertible as of March 31, 2005, and the three 10% notes mentioned above, of which the remaining principal amounts totaling $110,000 was reduced by the remaining $45,191 unamortized debt discounts attributed to the warrants attached to these notes.

Notes payable consist of the following at March 31, 2005:

15% Notes payable, all past due	$272,500
10% Note payable, past due	5,000
18% Note payable, past due	150,000
10% Notes payable, principal due in October 2005, net of discounts of $45,191	64,809
	$492,309

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.

8. 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

8. CONVERTIBLE NOTES PAYABLE (continued)

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 $244,000 through March 31, 2004 in connection with not filing an effective registration statement. During the year ended March 31, 2005 it was discovered that the penalties did not have to be paid. Accordingly, such amount was reversed in fiscal 2005 and is included as a credit to interest expense in the accompanying consolidated statements of operations.

In March 2004, the note holder 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, this was the only outstanding 8% Convertible Note, which had a remaining balance of $125,000. This note balance, including accrued interest of $38,370, was converted in September 2004 to 479,513 shares of common stock at $0.34 in accordance with the original agreement.

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 and currently bears penalty interest at 18% per annum. 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 note holder. The Company 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. Therefore, there were no remaining 9% Convertible Notes outstanding as of March 31, 2005.

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 note holder. 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.

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

In December 2003, a note holder converted $100,000 of principal and accrued interest of $15,416 for461,667 shares of common stock and 461,667 warrants to purchase common stock at $0.25 per share (see

8. CONVERTIBLE NOTES PAYABLE (continued)

NOTE 9). 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 note holders 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. 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 with Fusion Capital.

In March 2004, a note holder 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. 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.

In July 2004, the Company repaid a 10% Convertible Note in the principal amount

of $10,000, plus accrued interest. This note was classified as notes payable as of March 31, 2004 since the note was no longer convertible at such time.

A BCF approximating $137,000 was recorded during the year ended March 31, 2004 related to the issuance of the 10% Convertible Notes.

A 10% Convertible Note in the amount of $5,000, was past due and in default at March 31, 2005. As this note is no longer convertible at March 31, 2005, the outstanding balance is included in notes payable in the accompanying consolidated balance sheet (see Note 7). At March 31, 2005, interest payable on this note totaled $1,875.

9. EQUITY TRANSACTIONS

2003 CONSULTANT STOCK PLAN

In August 2003, the Company adopted the 2003 Consultant Stock Plan (the "Stock Plan"), which provides for grants of common stock through August 2013, to assist the Company in obtaining and retaining the services of persons providing consulting services for the Company. A total of 1,000,000 common shares are reserved for issuance under the Stock Plan. On March 29, 2004, the Company filed a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

2005 DIRECTORS COMPENSATION PROGRAM

In February 2005, the Company adopted the 2005 Directors Compensation Program (the "Directors Compensation Program") to assist in obtaining and retaining the services of outside directors. Under the Directors Compensation Program, a newly elected director will receive a one time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the board and the remaining two-thirds will vest equally at year end over three years. Additionally, each

9. EQUITY TRANSACTIONS (continued)

director will also receive an annual $25,000 non-qualified stock option retainer, $15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a $10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

COMMON STOCK

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.

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.

9. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

During the year ended March 31, 2004, note holders converted $504,135 of principal and interest into 1,627,655 shares of common stock (see Notes 7 and 8) and warrants to purchase 802,848 shares of common stock (see "Warrants" below).

In April 2004, the Company issued 500,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of warrants at $0.25 per share for cash totaling $125,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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

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

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

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

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

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

Section 4(2) of the Securities Act of 1933.

In July 2004, the Company issued 6,850 shares of restricted common stock at

9. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

$0.73 per share to an accredited individual for consulting services on opportunities for the Company's Hemopurifier(TM) within the biodefense marketplace in the amount of $5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2004, the Company issued 479,513 shares of restricted common stock to an accredited investor, in conjunction with the conversion of $125,000 in principal amount of notes, plus accrued interest, at $0.34 per share, in accordance with their convertible note agreement (see Note 8). This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November and December 2004, the Company issued 80,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at $0.25 per share for consideration of a $20,000 reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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

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

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

In January 2005, the Company issued 55,556 shares of restricted common stock at $0.36 per share and a warrant to purchase 55,556 shares of common stock at $0.44 per share for cash in the amount of $20,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

In January 2005, the Company issued 66,666 shares of restricted common stock at $0.45 per share to an accredited individual investor under a consulting agreement for investor relations services to the Company. The fair value of the transaction of $30,000 was recorded as deferred compensation and presented as an offset to additional paid-in capital in the accompanying consolidated financial

9. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

statements. Such amount is being amortized to expense over the six month term of the agreement. At March 31, 2005, $15,000 of such amount remained unamortized. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 25,834 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 25,834 shares of common stock at $0.25 per share for cash totaling $6,459. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 139,063 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 139,063 shares of common stock at $0.25 per share for cash totaling $34,766. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 90,000 shares of restricted common stock at $0.27 per share and a three-year warrant to purchase 90,000 shares of common stock at $0.34 per share for cash in the amount of $24,300 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional total of 1,416,958 shares of restricted common stock at prices ranging from $0.25 to $0.52 for total cash proceeds of approximately $541,000.

During the year ended March 31, 2005, the Company issued an additional 557,647 shares of restricted common stock at prices ranging from $0.25 to $0.55 under various consulting service agreements for total recorded value of approximately $196,000. All services on these agreements were completed and expensed during the year ended March 31, 2005.

WARRANTS

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.

9. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

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.

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 7 and 8). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

During the year ended March 31, 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 7 and 8). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

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 7 and 8). 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.

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.

In August 2004, the Company issued a one-year warrant, which vests immediately, to purchase 7,000 shares of common stock at $0.55 per share to an accredited corporate entity in conjunction with a $6,000 fee for investor and public relations services. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 568,181 warrants to an investor in connection with a commitment fee for the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company granted 847,727 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company issued 113,636 warrants to purchase common stock for $0.76 per share, which are exercisable through May

9. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

2009 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 7 and 8). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

During the year ended March 31, 2005, the Company issued 225,000 warrants to purchase common stock for $0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with common stock issued for legal services expense totaling $99,000 (see "Common Stock" above).

During the year ended March 31, 2005, the Company issued 260,000 warrants to purchase common stock for $0.50 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value is being amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, the Company issued 144,443 warrants to purchase common stock for $0.90 per share, which vested upon grant and expire in

October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, the Company granted 55,556 warrants to an investor in connection with the purchase of common stock. The warrants have an exercise price of $0.44 per share, vest immediately and are exercisable through January 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company granted 90,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.34 per share, vest immediately and are exercisable through February 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

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

9. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

A summary of the aggregate warrant activity for the years ended March 31, 2005 and 2004 is presented below:

<TABLE>

	Year Ended March 31,			
	2005		2004	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	3,793,194	$ 2.22	2,906,746	$ 2.29
Granted	2,311,543	$ 0.71	2,253,848	0.29
Exercised	(1,206,564)	$ 0.25	(540,000)	0.25
Cancelled/Forfeited	(2,064,339)	$ 2.75	(827,400)	0.25
Outstanding, end of year	2,833,834	$ 0.91	3,793,194	$ 2.22
Exercisable, end of year	2,833,834	$ 0.91	3,793,194	$ 2.22
Weighted average estimated fair value of warrants granted		$ 0.60		$ 0.40

</TABLE>

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

	Years Ended March 31, 2005	2004
Risk free interest rate	2.00%	2.50%
Average expected life	2 years	3 years
Expected volatility	139%	365%

Expected dividends	None	None

9. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

The detail of the warrants outstanding and exercisable as of March 31, 2005 is as follows:

<TABLE>

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
<S> <C>	<C>	<C>	<C>	<C>	<C>
$0.25	185,430	2.72	$ 0.25	185,430	$ 0.25
$0.34 - $0.90	2,311,543	3.76	$ 0.71	2,311,543	$ 0.71
$2.00 - $4.00	302,986	0.82	$ 2.77	302,986	$ 2.77
$5.00	33,875	0.28	$ 5.00	33,875	$ 5.00
	2,833,834			2,833,834	

</TABLE>

OPTIONS

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

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

In August 2000, the Company adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of Company stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of the Company's common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At March 31, 2005, the Company had granted 47,500 options under the 2000 Stock Option Plan, with 452,500 available for future issuance.

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

9. EQUITY TRANSACTIONS (continued)

OPTIONS (continued)

In February 2005, the Board of Directors granted the Company's Chief Executive Officer ("CEO")and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of $0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at $0.38 that vest forty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, the Company recorded approximately $424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended March 31, 2005.

The following is a summary of the stock options outstanding at March 31, 2005 and 2004 and the changes during the two years then ended:

<TABLE>

	Year Ended March 31,			
	2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	1,376,115	$ 2.49	1,376,115	$ 2.49
Granted	5,303,275	0.38	--	--
Exercised	--	--	--	--
Cancelled/Forfeited	--	--	--	--
Outstanding, end of year	6,679,390	$ 0.80	1,376,115	$ 2.49
Exercisable, end of year	3,924,856	$ 1.10	1,363,615	$ 2.51
Weighted average estimated fair value of options granted		$ 0.45		$ --

</TABLE>

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

9. EQUITY TRANSACTIONS (continued)

OPTIONS (continued)

The following outlines the significant weighted average assumptions used to estimate the fair value information presented utilizing the Black-Scholes option pricing model for the year ended March 31, 2005 (there were no issuances in fiscal 2004):

Risk free interest rate	3.75
Average expected life	4 years
Expected volatility	225%
Expected dividends	None

The detail of the options outstanding and exercisable as of March 31, 2005 is as follows:

<TABLE>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
<S> <C> <C>	<C>	<C>	<C>	<C>	<C>
$0.38 - $0.39	5,354,123	5.58 years	$ 0.38	2,599,589	$ 0.38
$1.78 - $2.00	515,267	6.91 years	$ 1.90	515,267	$ 1.90
$2.25 - $3.00	602,500	2.26 years	$ 2.78	602,500	$ 2.78
$3.25 - $3.75	207,500	0.92 years	$ 3.27	207,500	$ 3.27
	6,679,390			3,924,856	

</TABLE>

10. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

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

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

11. INCOME TAX PROVISION

Income tax expense for the years ended March 31, 2005 and 2004 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:

11. INCOME TAX PROVISION (continued)

	2005	2004
Computed "expected" tax benefit	$(713,000)	$(516,000)
Reduction in income taxes resulting from:		
Interest for warrants and BCF	--	94,000
Change in deferred tax assets valuation allowance	814,000	583,000
State and local income taxes, net of federal benefit	(125,000)	(134,000)
Other	24,000	(27,000)
	$ --	$ --

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at March 31, 2005 are presented below:

Deferred tax assets:	
Capitalized research and development	$ 2,099,000
Net operating loss carryforwards	3,679,000
Equity based compensation	136,000
Total gross deferred tax assets	5,914,000
Less valuation allowance	(5,914,000)
Net deferred tax assets	$ --

As of March 31, 2005, the Company had tax net operating loss carryforwards of approximately $9,700,000 and $4,500,000 available to offset future taxable Federal and state income, respectively. The carryforward amounts expire in various years through 2025.

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.

12. COMMITMENTS AND CONTINGENCIES

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. Effective January 1, 2005, the CEO's salary was increased from $180,000 to $205,000 per year. The CEO is eligible for an

12. COMMITMENTS AND CONTIGENCIES (continued)

EMPLOYMENT CONTRACTS (continued)

annual bonus at the discretion of the Board of Directors, of which $20,000 and nil was earned during each of the years ended March 31, 2005 and 2004, 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.

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

LEASE COMMITMENTS

The Company leases its office and research and development space under an operating lease agreement which expires in July 2006.

The Company is committed to make the approximate future aggregate rental payments under the terms of the lease agreement as noted below.

	Year Ended March 31,
2006	$ 90,000
2007	23,000
Total commitment	$ 113,000

Rent expense approximated $106,000 and $57,000 for the years ended March 31, 2005 and 2004, respectively.

13. SUBSEQUENT EVENTS (unaudited)

In April 2005, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.308 per share in payment for scientific consulting services to the Company

In April 2005, the Company issued 12,567 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2984 per share in payment for regulatory affairs consulting services to the Company

In April 2005, the Company issued 12,567 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2984 per share in payment for regulatory affairs consulting services to the Company

In April 2005, the Company issued 15,712 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2514 per share in payment for regulatory affairs consulting services to the Company

In April 2005, the Company issued 15,712 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2514 per share in payment for regulatory affairs consulting services to the Company

In April 2005, the Company issued 394,235 shares of common stock at prices between $0.250 to and $0.280 per share to Fusion Capital under its $6,000,000 common stock purchase agreement. Fusion advanced the Company $100,000 in April 2005 for the purchase of additional shares under such agreement. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In May 2005, the Company issued 19,084 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.262 per share in payment for regulatory affairs consulting services to the Company.

In May 2005, the Company issued 11,450 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.262 per share to in payment for regulatory affairs consulting services to the Company.

On May 11, 2005, the Company agreed to issue 836,730 shares of restricted common stock and a three-year warrant to purchase 418,365 shares of the Company's restricted common stock at an exercise price of $0.25 to legal counsel for payment of legal services in the amount of $167,346. The Company and legal counsel agreed that the issuance of the restricted shares and the warrant will be delayed until the Company receives shareholder approval to increase the Company's authorized number of shares of common stock to 50,000,000.

On May 16, 2005 the Company issued Fusion Capital ("Fusion) a $30,000 Convertible Promissory Note (the "Note") with an interest rate of fifteen percent (15%) per annum that matures on August 15, 2005. The Note is convertible

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

13. SUBSEQUENT EVENTS (unaudited)

into shares of restricted common stock at any time at the election of Fusion at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the Maturity Date, or at a price equal to the lesser of (i) 75% of the average of the three (3) lowest closing sale prices of the common shares during the twelve (12) trading days prior to the submission of a conversion notice or (ii) $0.20 per share, for any conversion occurring after the Maturity Date. In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of $0.25 per share (the "Warrant"). The Note and the Warrant have piggyback registration rights. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2005
ASSETS	
Current assets	
Cash	$ 75,275
Prepaid expenses	10,233
	85,508
Property and equipment, net	19,016
Patents and patents pending, net	209,932
Other assets	33,275
	$ 347,731
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable and accrued liabilities	$ 1,403,550
Due to related parties	1,263,135
Notes payable, net of discount	606,404
Convertible notes payable, net of discount	65,140
Warrant liability	286,377
	3,624,606
Commitments and Contingencies	
Stockholders' Deficit	
Common stock, par value $0.001 per share; 50,000,000 shares authorized; 19,239,829 shares issued and outstanding	19,240
Additional paid-in capital	17,321,472
Deficit accumulated during development stage	(20,617,587)
	(3,276,875)
	$ 347,731

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

<TABLE>

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended September 30, 2005 and 2004 and For the Period January 31, 1984 (Inception) Through September 30, 2005
(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Six Months Ended September 30, 2005	Six Months Ended September 30, 2004	January 31, 1984 (Inception) through September 30, 2005
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES					
Grant income	$ --	$ --	$ --	$ --	$ 1,424,012
Subcontract income	--	--	--	--	73,746
Sale of research and development	--	--	--	--	35,810
	--	--	--	--	1,533,568
EXPENSES					
Professional Fees	268,746	251,831	655,016	466,952	5,041,557
Payroll and related	168,131	200,912	347,221	384,455	6,918,055
General and administrative	117,509	109,204	287,218	168,912	4,232,797
Impairment	--	--	--	--	1,231,531
	554,386	561,947	(1,289,455)	1,020,319	17,423,940
OPERATING LOSS	(554,386)	(561,947)	(1,289,455)	(1,020,319)	(15,890,372)
OTHER EXPENSE (INCOME)					
Interest and other debt expenses	115,185	(213,342)	182,118	(190,374)	4,603,273
Interest income	--	--	--	--	(17,415)
Other	3,750	--	3,750	--	141,357
	118,935	(213,342)	185,868	(190,374)	4,727,215
NET LOSS	$ (673,321)	$ (348,605)	$ (1,475,323)	(829,945)	

(20,617,587)				
	BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.04)	$ (0.03)	$ (0.08)	$ (0.06)
	WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,045,651	13,604,294	18,373,416	12,906,408

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH SEPTEMBER 30, 2005
(Unaudited)

	SIX MONTHS ENDED SEPTEMBER 30, 2005 (UNAUDITED)	SIX MONTHS ENDED SEPTEMBER 30, 2004 (UNAUDITED)	JANUARY 31, 1984 (INCEPTION) THROUGH SEPTEMBER 30,2005
Cash flows from operating activities:			
Net loss	$ (1,475,323)	$ (829,945)	$ (20,617,587)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	15,341	17,623	965,093
Amortization of deferred consulting fees	30,000	--	60,000
Gain of sale of property and equipment	--	--	(13,065)
Fair market value of warrants issued in connection with accounts payable and debt	--	--	2,715,736
Fair market value of common stock, warrants and options issued for services	296,241	259,512	2,803,860
Change in fair value of warrant liability	3,750	--	3,750
Intrinsic value of stock options issued to directors	--	--	424,262
Amortization of debt discount	121,095	--	969,704
Beneficial conversion feature of convertible notes payable	--	--	334,304
Impairment of patents and patents pending	--	--	897,227
Impairment of goodwill	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	(45)	(10,942)	151,304
Other assets	3,975	(15,050)	(33,275)
Accounts payable and accrued liabilities	263,383	(162,384)	1,895,609

Due to related parties	(4,367)	36,781	1,496,636
--			
Net cash used in operating activities	(745,950)	(704,405)	
(7,729,219)			
--			

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH SEPTEMBER 30, 2005
(Unaudited)

Cash flows from investing activities:			
Purchases of property and equipment	--	(18,285)	
(244,236)			
Patents and patents pending	--	--	
(352,833)			
Proceeds from the sale of property and equipment	--	--	17,065
Cash of acquired company	--	--	
10,728			
--			
Net cash used in investing activities	--	(18,285)	
(569,276)			
--			
Cash flows from financing activities:			
Proceeds from the issuance of notes payable	100,000	--	1,710,000
Principal repayments of notes payable	--	(22,500)	
(212,500)			
Proceeds from the issuance of convertible notes payable	535,000	--	
1,533,000			
Proceeds from the issuance of common stock	177,600	748,000	5,343,270
--			
Net cash provided by financing activities	812,600	725,500	8,373,770
--			
Net increase in cash	66,650	2,810	
75,275			
Cash at beginning of period	8,625	1,619	-
-			
--			
Cash at end of period	$ 75,275	$ 4,429	$
75,275			
==========			

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

</TABLE>

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. (the "Company") is a development stage therapeutic device company focused on expanding the applications of its Hemopurifier(TM) platform technology, which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. In this regard, the Company's 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, the Company has published that its HIV-Hemopurifier(TM) removed 55% of HIV from human blood in three hours and in excess of 85% of HIV in twelve hours. Additionally, the HIV-Hemopurifier(TM) captured 90% of gp120, a toxic protein that depletes human immune cells, during a one-hour pre-clinical blood study.

The Company 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 the Company has not yet begun efforts to obtain FDA approval on its current lead product candidate, which may take several years. Since many of the Company'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.

The Company 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 principal operations.

The Company's common stock is quoted on the Over-the-Counter Bulletin Board of the National Association of Securities Dealers under the symbol "AEMD.OB".

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending March 31, 2006.

NOTE 2. GOING CONCERN AND LIQUIDITY CONSIDERATIONS

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has experienced a loss of approximately $20.6 million for the period from January 31, 1984 (Inception) through September 30, 2005. The Company has not generated significant revenue or any profit from operations since inception. A substantial 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's current plan of operation is to fund the Company's anticipated increased research and development activities and operations for the near future utilizing its existing financial agreement with Fusion Capital Fund II, LLC ("Fusion Capital") as well as the remaining $295,000 under the 10% Series A Convertible Promissory Notes (see Note 4, Notes Payable).

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (continued)

No assurance can be given that the Company will receive any additional funds under its agreement with Fusion Capital. Based on the Company's projections of additional employees for operations and to complete research, development and testing associated with its Hemopurifier(TM) products, the Company anticipates

that these funds will satisfy its 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, the Company may arrange for additional funding, subject to acceptable terms, during the next twelve months.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain additional financing as may be required, and generate sufficient revenue and operating cash flow to meet its obligations on a timely basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Company presented below is designed to assist the reader in understanding the Company's consolidated financial statements. Such financial statements and related notes are the representations of Company management, who is responsible for their integrity and objectivity. These accounting policies conform to GAAP in all material respects, and have been consistently applied in preparing the accompanying condensed consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its legal wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc. and Cell Activation, Inc.(collectively hereinafter referred to as the "Company"). These subsidiaries are dormant and there exist no material intercompany transactions or balances.

STOCK BASED COMPENSATION

At September 30, 2005, the Company has two stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES" ("APB 25"), and related Interpretations.

No stock-based employee compensation cost is reflected in net loss, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards "SFAS" No. 123, "ACCOUNTING FOR STOCK BASED COMPENSATION", ("SFAS 123") as Amended, to stock-based employee compensation for

STOCK BASED COMPENSATION (continued)

the period indicated.

Six Months Ended September 30,	2005	2004
Net loss:		
As reported	$ 1,475,323	$ 829,945
Pro forma compensation expense	57,000	--
Pro forma	$ 1,532,323	$ 829,945
Basic and diluted net loss per share:		
As reported	$ (0.08)	$ (0.06)
Pro forma	$ (0.08)	$ (0.06)

The Company accounts for stock-based compensation to non-employees in accordance with the fair value recognition requirements of SFAS 123 No. and Emerging Issues Task Force 96-18 "ACCOUNTING FOR EQUITY INVESTMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS AND

SERVICES."

LOSS PER COMMON SHARE

Loss per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year in accordance with SFAS No. 128, "EARNINGS PER SHARE."

Securities that could potentially dilute basic loss per share (prior to their conversion, exercise or redemption) were not included in the diluted-loss-per-share computation because their effect is anti-dilutive.

PATENTS

The Company capitalizes the cost of patents, 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.

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately $478,203 and $153,095 of research and development expenses during the six months ended September 30, 2005 and 2004, respectively. For the fiscal quarter ended September 30, 2005 and 2004, the Company incurred research and development expense of approximately $235,806 and $124,080, respectively.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

SFAS No.144 ("SFAS 144"), "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS (Continued)

circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. Management believes that no impairment existed at or during the six months ended September 30, 2005.

STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

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

DERIVATIVES

The Company has an obligation to register for resale the shares underlying warrants in connection with the issuance of its 10% Series A Convertible Promissory Notes (see Note 4). In accordance with Emerging Issues Task Force ("EITF") No. 00-19, "ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO, AND POTENTIALLY SETTLED IN, A COMPANY'S OWN STOCK," the value of the warrants is recorded as a liability until such registration is effective. The Company will be required to re-measure the fair value of these warrants at the end of each quarter until a registration statement for the common shares underlying the warrants is declared effective, at which time the fair value of the warrant is adjusted and any remaining associated liability is then reclassified to equity.

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

ACCOUNTING FOR TRANSACTIONS INVOLVING STOCK COMPENSATION

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

ACCOUNTING FOR TRANSACTIONS INVOLVING STOCK COMPENSATION (continued)

fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination.

Under APB 25, 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, 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 we have 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," 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.

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 tax assets when, based on management's best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

NOTE 4. NOTES PAYABLE

On May 16, 2005, the Company issued Fusion Capital a $30,000 Convertible Promissory Note (the "Convertible Note") with an interest rate of fifteen percent (15%) per annum that matured on August 15, 2005 (the "Maturity Date"). The Convertible Note is convertible into shares of restricted common stock at

any time at the election of Fusion at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the Maturity Date, or at a price equal to the lesser of (i) 75% of the average of the three (3) lowest closing sale prices of the common shares during the twelve (12) trading days prior to the submission of a conversion notice or (ii) $0.20 per share, for any

NOTE 4. NOTES PAYABLE (continued)

conversion occurring after the Maturity Date. In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of $0.25 per share (the "Warrant"). The warrant has been valued using a Black-Scholes option pricing model and an associated discount of $19,655, which will accrete to interest expense over the term of the Convertible Note, has been recorded. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $10,345 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $30,000 for the six months ended September 30, 2005.

On May 27, 2005, the Company issued a promissory note (the "Note") to an accredited investor in an amount of $100,000 with 12% interest maturing on December 1, 2005. In conjunction with the issuance of the Note, the Company also issued a 12-month warrant to acquire 400,000 shares of Common Stock at $0.25 per share. Accordingly, this warrant has been valued using a Black Scholes option pricing model and an associated discount of $41,860, which will accrete to interest expense over the term of the Note, has been recorded. Such interest expense totaled $31,466 for the six months ended September 30, 2005.

From July 11, 2005 through September 30, 2005 the Company received cash investments of $455,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) based on agreed-upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. The Warrant has been valued using a Binomial Lattice option pricing model and an associated discount of $253,875, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $201,125 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $31,297 for the three months ended September 30, 2005.

From August 8, 2005 through September 30, 2005 the Company received cash investments of $50,000, from an accredited investor (Allan S. Bird) based on agreed upon terms on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon

NOTE 4. NOTES PAYABLE (continued)

conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20. The Warrant has been valued using a Binomial Lattice option pricing model and an associated discount of $28,750, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Convertible Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such Beneficial Conversion Feature ("BCF") to be $21,250 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Convertible Note. Total interest expense on the Convertible Note for amortization of the above debt discount and BCF totaled $3,639 for the three months ended September 30, 2005.

The Company is currently in default on approximately $457,500 of amounts owed under various notes payable and accrued liabilities and is currently seeking other financing arrangements to retire all past due notes. At September 30, 2005 the Company had accrued interest in the amount of $210,155 associated with these notes and accrued liabilities payable.

NOTE 5. COMMITMENTS AND CONTINGENCIES

REGISTRATION RIGHTS AGREEMENTS

In June 2004, the Company completed a private placement of common stock with accredited investors, including Fusion Capital Fund II, LLC. In connection with the private placement, the Company entered into a common stock purchase agreement with Fusion Capital, whereby Fusion Capital has committed to purchase up to an additional $6,000,000 of the Company's common stock over a 30-month, commencing, at the Company's election, after the Securities and Exchange Commission ("SEC") has declared effective a registration statement covering such shares. The SEC declared the registration statement effective on December 7, 2004. On September 7, 2005, the Company was obligated to file a post-effective amendment to its registration statement to update the financial statements. At September 30, 2005, the Company had not yet filed such post-effective amendment to its registration statement. In accordance with the Registration Rights Agreement with Fusion Capital, the Company may accrue liquidated damages equal to 2% of the aggregate amount paid by Fusion Capital for the shares held by Fusion Capital during such period that the registration statement ceases to remain effective. As of November 9, 2005, Fusion Capital does not own any Purchase Shares of the Company's common stock, thus there are no liquidated damages owed to Fusion Capital as of the date of this report.

NOTE 6. EQUITY TRANSACTIONS

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

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

NOTE 6. EQUITY TRANSACTIONS (continued)

In July 2005, the Company issued 2,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.232 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 37,863 shares of common stock pursuant to the

Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.226 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 91,739 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.230 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 21,368 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.234 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 175,755 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.212 per share in payment for regulatory affairs consulting services to the Company.

In September 2005, the Company issued 27,852 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.206 per share in payment for regulatory affairs consulting services to the Company.

NOTE 7. SUBSEQUENT EVENTS

In October 2005, the Company issued 21,186 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.236 per share in payment for regulatory affairs consulting services to the Company.

In October 2005, the Company issued 35,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.216 per share in payment for regulatory affairs consulting services to the Company.

In November 2005, the Company issued 19,948 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.384 per share in payment for regulatory affairs consulting services to the Company.

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

In November 2005, the Company issued 13,298 shares of common stock pursuant to

NOTE 7. SUBSEQUENT EVENTS (continued)

the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.376 per share in payment for regulatory affairs consulting services to the Company.

The Company is required to file a registration statement on Form SB-2 the later of November 30, 2005 or 30 days after the date the Company completes an additional financing of at least $1.0 million but in no event later than December 31, 2005 for the purposes of registering the resale of the shares of common stock issuable upon conversion of the Promissory Notes and exercise of the Warrants.

Indemnification of Directors and Officers

Our Articles of Incorporation permit us to limit the liability of our directors to the fullest extent permitted under Section 78.037 of the Nevada General Corporation Law. As permitted by Section 78.037 of the Nevada General Corporation Law, our Bylaws and Articles of Incorporation also include provisions that eliminate the personal liability of each of its officers and directors for any obligations arising out of any acts or conduct of such officer or director performed for or on behalf of the Company. To the fullest extent allowed by Section 78.751 of the Nevada General Corporation Law, we will defend, indemnify and hold harmless its directors or officers from and against any and all claims, judgments and liabilities to which each director or officer becomes subject to in connection with the performance of his or her duties and will reimburse each such director or officer for all legal and other expenses reasonably incurred in connection with any such claim of liability. However, we will not indemnify any officer or director against, or reimburse for, any expense incurred in connection with any claim or liability arising out of the officer's or director's own negligence or misconduct in the performance of duty.

The provisions of our Bylaws and Articles of Incorporation regarding indemnification are not exclusive of any other right we have to indemnify or reimburse our officers or directors in any proper case, even if not specifically provided for in our Articles of Incorporation or Bylaws.

We believe that the indemnity provisions contained in our bylaws and the limitation of liability provisions contained in our certificate of incorporation are necessary to attract and retain qualified persons for these positions. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed hereby in the Securities Act and we will be governed by the final adjudication of such issue.

OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated costs and expenses which we expect to incur with respect to the offering and sale or distribution of common shares under this registration statement. We have agreed to pay all of these expenses.

Financial printer fees to EDGARize and print registration statement	10,000 *
Legal fees and expenses	7,500 *
Blue Sky Fees and Expenses	500 *
Accounting fees and expenses	7,500 *
Miscellaneous	500 *
Total	$ 26,000

* estimated

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.

NOTES PAYABLE

From September 30, 2005 through December 15, 2005 the Company received cash investments of $305,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) in completion of the remaining funding of the $1.0 million 10% Series A Convertible Notes ("Notes"). The Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Warrants") to purchase a number of shares equal to the number of shares into which the Notes were converted at an exercise price of $0.20.

From September 30, 2005 through December 15, 2005 the Company received cash investments of $175,000 from an accredited investor (Allan S. Bird) in completion of the remaining funding of the $1.0 million 10% Series A convertible Notes ("Notes"). The Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Warrants") to purchase a number of shares equal to the number of shares into which the Notes were converted at an exercise price of $0.20.

On December 15, 2005 the Company received cash investments totaling $10,000 from Christian J. Hoffmann III and $5,000 from Claypoole Capital LLC (an affiliate of Mr. Hoffmann), accredited investors, as a part of the funding of the $1.0 million 10% Series A Convertible Notes ("Promissory Notes"). The Promissory Notes accrue interest at the rate of ten percent (10%) per annum and mature on January 2, 2007. The Promissory Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Hoffmann/Claypoole Warrants") to purchase a number of shares equal to the number of shares into which the Notes were converted at an exercise price of $0.20. Mr. Hoffmann is legal counsel to the Ellen R. Weiner Family Revocable Trust.

COMMON STOCK

In October 2005, the Company issued 21,186 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.236 per share in payment for regulatory affairs consulting services to the Company.

In October 2005, the Company issued 35,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.216 per share in payment for regulatory affairs consulting services to the Company.

In November 2005, the Company issued 19,948 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.384 per share in payment for regulatory affairs consulting to the Company.

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

In November 2005, the Company issued 13,298 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.376 per share in payment for regulatory affairs consulting services to the company.

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

SIX MONTHS ENDED SEPTEMBER 30, 2005

NOTES PAYABLE

On May 16, 2005 the Company issued Fusion Capital ("Fusion) a $30,000 Convertible Promissory Note (the "Note") with an interest rate of fifteen percent (15%) per annum that matures on August 15, 2005. The Convertible Note is convertible into shares of restricted common stock at any time at the election of Fusion at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the Maturity Date, or at a price equal to the lesser of (i) 75% of the average of the three (3) lowest closing sale prices of the common shares during the twelve (12) trading days prior to the submission of a conversion notice or (ii) $0.20 per share, for any conversion occurring after the Maturity Date. In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of $0.25 per share (the "Warrant").

On May 27, 2005, the Company issued a promissory note (the "Note") to an accredited investor in an amount of $100,000 with 12% interest maturing on December 1, 2005. In conjunction with the issuance of the Note, the Company also issued a 12-month warrant to acquire 400,000 shares of Common Stock at $0.25 per share.

From July 11, 2005 through September 30, 2005 the Company received cash investments of $455,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) based on agreed-upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20.

From August 8, 2005 through September 30, 2005 the Company received cash investments of $50,000, from an accredited investor (Allan S. Bird) based on agreed upon terms on the cash receipt dates. Such investments were documented on November 2, 2005 in a 10% Series A Convertible Note ("Note"). The Note accrues interest at a rate of ten percent (10%) per annum and matures on January 2, 2007. The Note is convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to $0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue a three-year Warrant (the "Warrant") to purchase a number of shares equal to the number of shares into which the Note was converted at an exercise price of $0.20.

COMMON STOCK

During the quarter ended June 30, 2005, the Company issued 635,633 shares of common stock at prices between $0.250 to and $0.280 per share to Fusion Capital under its $6,000,000 common stock purchase agreement for cash proceeds totaling $160,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

During the quarter ended June 30, 2005, the Company issued 95,420 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.262 per share in payment for regulatory affairs consulting services to the Company valued at $8,440.

In April 2005, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.308 per share in payment for scientific consulting services to the Company valued at $3,000.

In April 2005, the Company issued 25,134 shares of common stock Pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2984 per share in payment for regulatory affairs consulting service to the Company valued at $7,500.

In April 2005, the Company issued 31,424 shares of common stock Pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.2514 per share in payment for regulatory affairs consulting services to the Company valued at $7,900.

In May 2005, the Company issued 33,228 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.254 per share in payment of regulatory affairs consulting services to the Company.

In May 2005, the Company issued 100,000 shares of common stock and a

warrant to purchase 400,000 shares of common stock at a purchase price of $0.176 per share to an accredited investor for $17,600. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2005, the Company issued 21,008 shares of common stock pursuant to The Company's S-8 registration statement covering the Company's 2003 Consulting Stock plan at $0.238 per share in payment for regulatory affairs consulting services to the Company valued at $5,000.

In June 2005, the Company issued 836,730 shares of restricted common stock and a three-year warrant to purchase 418,365 shares of the Company's restricted common stock at an exercise price of $0.25 to legal counsel as an inducement to settle accrued past due legal services payable in the amount of $167,346.

In June 2005, the Company issued 12,605 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.238 per share in payment for scientific consulting services to the Company valued at $3,000.

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

In July 2005, the Company issued 2,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.232 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 37,863 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.226 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 91,739 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.230 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 21,368 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.234 per share in payment for regulatory affairs consulting services to the Company.

In August 2005, the Company issued 175,755 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.212 per share in payment for regulatory affairs consulting services to the Company.

In September 2005, the Company issued 27,852 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at $0.206 per share in payment for regulatory affairs consulting services to the Company.

OPTIONS

On August 1, 2005, the Company granted 500,000 options to James W. Dorst, its Chief Financial Officer.

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

FISCAL YEAR ENDED MARCH 31, 2005

NOTES PAYABLE

In October 2004, the Company issued two $40,000, 10% one year promissory notes each with 80,000 three-year warrants to purchase common stock at $0.50 per share and 44,444 three-year warrants to purchase common stock at $0.90 per share for cash in a total amount of $80,000 to two accredited individual investors.

In October 2004, the Company issued a $50,000, 10% one-year promissory note plus 100,000 three-year warrants to purchase common stock at $0.50 per share and 55,555 three-year warrants to purchase common stock at $0.90 per

sharefor cash in the amount of $50,000 to an accredited individual investor.

COMMON STOCK

In April 2004, the Company issued 500,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of warrants at $0.25 per share for cash totaling $125,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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

In April 2004, the Company issued 50,000 shares of restricted common stock to Fusion Capital Fund II, LLC, an accredited institutional investor, for a financing commitment to provide $6,000,000 under a registered private placement. In connection with the $6,000,000 financing the Company paid a fee to Fusion Capital in the amount of 418,604 shares of common stock. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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

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

In May 2004, we issued fourteen accredited investors a total of 847,727 shares of restricted stock at a price of $0.44 per share for cash totaling $373,000. In connection with the issuance of these shares, we granted the stockholders 1,529,545 warrants to purchase our common stock at a price of $0.76 per share. The warrants vested immediately and expire on fifth anniversary from the date of a registration statement covering the common stock underlying such warrants is declared effective. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2004, the Company issued 568,181 shares of restricted common stock to Fusion Capital at $0.44 per share for cash totaling $250,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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

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

In August 2004, the Company issued 46,364 shares of restricted common stock at $0.55 per share to an accredited individual for employee placement services in the amount of $25,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In August 2004, the Company issued 165,492 and 28,377 shares of restricted common stock at $0.25 and $0.45 per share, respectively. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2004, the Company issued 479,513 shares of restricted common stock to an accredited investor, in conjunction with the conversion of $125,000 in principal amount of notes, plus accrued interest, at $0.34 per share, in accordance with their convertible note agreement (see Note 8). This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November and December 2004, the Company issued 80,000 shares of

restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at $0.25 per share for consideration of a $20,000 reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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

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

In December 2004, the Company issued 437,297 shares of common stock, at prices between $0.38 and $0.53 per share, to Fusion Capital under its $6,000,000 common stock purchase agreement, for total proceeds of $200,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In December 2004, the Company issued 60,000 shares of restricted common stock at $0.50 per share under a consulting agreement with an accredited individual investor, for investor relations consulting services to the Company. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 55,556 shares of restricted common stock at $0.36 per share and a warrant to purchase 55,556 shares of common stock at $0.44 per share for cash in the amount of $20,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

In January 2005, the Company issued 66,666 shares of restricted common stock at $0.45 per share to an accredited individual investor under a consulting agreement for investor relations services to the Company. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 25,834 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 25,834 shares of common stock at $0.25 per share for cash totaling $6,459. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 139,063 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 139,063 shares of common stock at $0.25 per share for cash totaling $34,766. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 90,000 shares of restricted common stock at $0.27 per share and a three-year warrant to purchase 90,000 shares of common stock at $0.34 per share for cash in the amount of $24,300 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional total of 1,416,958 shares of restricted common stock at prices ranging from $0.25 to $0.52 for total cash proceeds of approximately $541,000.

During the year ended March 31, 2005, the Company issued an additional 557,647 shares of restricted common stock at prices ranging from $0.25 to $0.55 under various consulting service agreements for total recorded value of approximately $196,000. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

WARRANTS

In August 2004, the Company issued a one-year warrant, which vests immediately, to purchase 7,000 shares of common stock at $0.55 per share to an accredited corporate entity in conjunction with a $6,000 fee for investor and public relations services. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 568,181

warrants to an investor in connection with a commitment fee for the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 847,727 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.76 per share, vest immediately and are exercisable through May 2009. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 113,636 warrants to purchase common stock for $0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with the conversion of notes payable. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 225,000 warrants to purchase common stock for $0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with common stock issued for legal services expense totaling $99,000 (see "Common Stock" above). This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 260,000 warrants to purchase common stock for $0.50 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 144,443 warrants to purchase common stock for $0.90 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 55,556 warrants to an investor in connection with the purchase of common stock. The warrants have an exercise price of $0.44 per share, vest immediately and are exercisable through January 2008. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 90,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of $0.34 per share, vest immediately and are exercisable through February 2008. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, 1,206,564 warrants with a exercise price of $0.25 per share, which were granted to investors in connection with the purchase of common stock, were exercised. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

OPTIONS

In February 2005, the Board of Directors granted the Company's Chief Executive Officer ("CEO")and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of $0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at $0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at $0.38 that vest forty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was $0.08 below the estimated fair value of the underlying common stock on the date of grant. This transaction was exempt from registration pursuant to Section 4(2)of the Securities Act of 1933.

FISCAL YEAR ENDED MARCH 31, 2004:

CONVERTIBLE NOTES PAYABLE

In April 2003, we issued a 9% convertible note in the amount of $150,000 issued to Ms. Jill Brodersen, an accredited individual 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 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 our common stock at $0.25 per share. The warrants vested immediately and expired 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 in exchange for investor relations for communications 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 July 2003, the Company issued 50,000 shares of restricted common stock in conjunction with consulting activities rendered. The stock was valued at $20,000 based on market price at issuance.

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 individual 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 expired 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 individual 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. This transaction was 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 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. This transaction was 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 our 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 26,000 warrants to purchase our common stock at a price of $0.25 per share. The warrants vested immediately and expire in January 2005. This transaction was 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 our 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 valued at 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 our 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 prices between $0.45 -$0.50 per share for services value at approximately $103,000. 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 approximately $51,000. 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. This transaction was 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 individual 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 valued at approximately $25,000 to Richardson and Patel, LLP, our corporate counsel. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

FISCAL YEAR ENDED MARCH 31, 2003:

CONVERTIBLE NOTES PAYABLE

On April 18, 2002, we issued a convertible note in the amount of $50,000 to Provident Life Sciences Sector Fund, LP, an institutional investor, bearing interest at 8% per annum, with principal and interest thereon due July 19, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On May 3, 2002, we issued a convertible note in the amount of $30,000 to an entity controlled by Calvin Leung, an accredited investor bearing interest at 10% per annum, with principal and interest thereon due June 2, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated

under the Securities Act of 1933.

On May 31, 2002, we issued notes to two entities controlled by Calvin Leung, an accredited investor, in the total amount of $25,000, bearing interest at 10% per annum. Principal and interest thereon became due June 9, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

The notes may be converted into our common stock at any time at the option of the respective holder. The conversion price is the lower rate of $1.25 per share or the offering terms set for any private equity offering initiated during the term of these notes. A beneficial conversion feature approximating $80,000 was recorded during the quarter ended June 30, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On July 2, 2002, we issued a convertible note in the amount of $50,000 to Novus Capital, LLC, an institutional investor bearing interest at 10% per annum, with principal and interest thereon due January 3, 2003. On August 9, 2002, we issued an additional convertible note in the amount of $50,000 to Novus Capital, LLC bearing interest a 10% per annum, with principal and interest thereon due February 10, 2003. On August 15, 2002, we issued a convertible note Provident Life Sciences Sector Fund, LP, an institutional in the amount of $50,000 to an investor bearing interest a 10% per annum, with principal and interest thereon due February 16, 2003. All three notes may be converted into our common stock at any time at the option of the respective holder at the conversion price of $0.50 per share. A beneficial conversion feature approximating $150,000 was recorded during the quarter ended September 30, 2002. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended December 31, 2002, we issued five convertible notes totaling $45,000 to accredited investors Mr. Rob Edward $30,000 and $5,000 each from Ms. Pamella Fine, Ms. Linda Price and Mr. Paul Hastings, with the right of these note holders to convert to common stock at a conversion price of $0.50 per share. These transactions were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended December 31, 2002, Novus Capital, LLC, an existing note holder increased its advances to us by $40,000 to a total of $140,000. In consideration, we granted them a warrant to purchase 580,000 shares of common stock at a price of $0.25 per share and a security interest in certain of our assets. The new note bears interest at 10% per annum, with principal and interest thereon due April 30, 2003. A beneficial conversion feature approximating $15,700 was recorded during the quarter ended December 31, 2002. In accordance with GAAP, the proceeds of the financing have been allocated to the debt and the warrants based on their relative fair values. Accordingly, a discount of $30,000 has been recorded as a reduction of the debt balance and the offsetting credit has been recorded as additional paid-in capital. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK AND WARRANTS

In March 2002, we extended an offer to certain note holders and vendors to convert past due amounts into restricted common stock and warrants to purchase our common stock. The offer entailed the conversion of liabilities at a conversion 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. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In January 2002, we entered into a consulting agreement with Mr. Calvin Leung under which was granted an option to purchase up to 400,000 shares of our restricted common stock at the exercise price of $0.50 per share, expiring in January 2003. On February 12, 2002, Mr. Leung exercised all 400,000 options. Mr. Leung was not at the time, but is currently a director of Aethlon. Such options were valued at approximately $562,000, using the Black-Scholes option pricing model. In July 2002, we extended the original agreement by six months to expire July 2003. As a result of extending the agreement, Mr. Leung received an additional option to purchase up to 200,000 shares of our restricted common stock at the exercise price of $0.50 per share valued at $114,000 (estimated based on the Black Scholes option pricing model pursuant to SFAS 123). Mr. Leung is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended September 30, 2002, we issued 148,000 shares of restricted common stock to entities controlled by Mr. Leung, an accredited

individual investor, in exchange for $74,000 in cash under such consulting agreement. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In October 2002, we issued 52,000 shares of restricted common stock in connection with the exercise by entities controlled by Mr. Leung of options at a price of $2.00 per share for cash totaling $26,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended June 30, 2002, accredited note holders and vendors representing liabilities in the aggregate amounts of approximately $187,655 converted their debt in exchange for 150,124 shares of our restricted common stock and 75,061 warrants to purchase common stock at $1.25 per share. Converting accredited noteholders were the Accetta Family Trust, $25,000 principal amount, plus accrued interest, Mr. Richard Tullis, father of Richard H. Tullis, our Chief Science Officer and director, $25,000 principal amount, plus accrued interest, Ms. Patricia Bradford, $25,000 principal amount, plus accrued interest, Mr. John W. La Husen, $25,000 principal amount, plus accrued interest and vendors Accudx, $20,000 for technical consulting and lab services, Cronkite & Kissell, LLC, $4,000 for valuation services for financial reporting, and Generico, Inc., approximately $52,000 for services as technical consulting services. The warrants were valued using the Black-Scholes option pricing model at approximately $71,000 for the quarter ended June 30, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November 2002, we issued 69,231 shares of restricted common stock for consulting services valued at $45,000 at a price of $0.65 per share to James Mazepink for corporate strategic and computer modeling services. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended March 31, 2003, we issued 420,000 shares of restricted common stock at $0.25 per share in connection with the conversion of $75,000 of 12% convertible notes and $30,000 of 10% convertible notes to Mr. Leung, an accredited individual investor and the entities controlled by him. 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.

During the quarter ended March 31, 2003, we issued 461,600 shares of our restricted common stock at $0.25 per share for cash totaling $115,400 to John D. and Clare Garber, accredited individual investors 100,000 shares, Mr. Jeffrey Robinson, an accredited individual investor, 80,000 shares, Mr. Rob Edwards, an accredited individual investor, 41,600, and entities controlled by Mr. Calvin Leung, an accredited individual investor, 240,000 shares. In connection with the issuance of these shares, we granted the stockholders warrants to purchase our common stock at $0.25 per share. The warrants vested immediately and expired through March 2004. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended March 31, 2003, we issued 19,230 shares of restricted common stock at $0.26 per share for cash totaling $5,000 to Ms. Lisa Caswell, an accredited individual investor. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended March 31, 2003, we issued 8,000 shares of restricted common stock at $1.25 for cash totaling $10,000 to Mr. Art Milstein, an accredited individual investor. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2003, we issued 196,078 shares of our restricted common stock in connection with a patent royalty agreement to Julie Ambrose and David Schmura. The shares were valued at $100,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

OPTIONS AND WARRANTS

In July 2002, we extended a consulting agreement to Mr. Calvin Leung, an accredited individual investor 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). Mr. Leung was not at the time, but is currently is a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2003, we granted 240,830 warrants to

accredited investors as follows: Lisa Caswell 19,230 warrants, Rob Edward 41,600 warrants, Jeffrey Robinson 80,000 warrants and John Garber 100,000 warrants in connection with the purchase of our common stock. The warrants have an exercise price of $0.25 per share, vest immediately and were exercisable through March 2004. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In December 2002, we issued 580,000 warrants to Novus Capital, LLC, an institutional investor, to purchase our restricted common stock for $0.25 per share, which are exercisable through December 2004 and vested upon grant. The warrants were issued in connection with a short-term secured note payable. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2003, we issued 420,000 warrants to Mr. Calvin Leung, an accredited individual investor, and entities controlled by him, to purchase our restricted 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. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2003, associated with common stock issued, we granted 75,061 warrants to purchase our common stock in the following amounts, to accredited investor note holders: Accetta Family Trust 11,210 warrants, Patricia Bradford 11,379 warrants, Richard Tullis 10,488 warrants and John LaHusen 11,450 warrants and vendors Accudx 8,000 warrants for technical consulting and lab services, Cronike and Kissell 1,600 warrants for valuation services for financial reporting and Generico 20,934 warrants for technical consulting services. 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. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

FISCAL YEAR ENDED MARCH 31, 2002:

CONVERTIBLE NOTES PAYABLE

In October 2001, we issued a convertible note in the amount of $25,000 to Mr. Merlin Corbin, an accredited investor, bearing interest at 10% per annum, with principal and accrued interest due April 2002 and a conversion price of $1.25 per share. The value of the beneficial conversion feature for this convertible note was estimated to be approximately $25,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In October 2001, we issued additional convertible notes totaling $70,000 bearing interest at 10% per annum, with principal and accrued interest due April 2002, to the following accredited investors: Mr. Merlin Corbin $12,500, Dr. Paul Day $12,500, Martin and Lisa Drake $5,000, Mr. John Garber $25,000, Mr. Ali Mirnizam $5,000 and Jeffrey and Elizabeth Dalton $10,000. The convertible notes may be converted to our common stock at the conversion price per share of $1.25. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November and December 2001, we issued additional convertible notes totaling $3348,000, bearing interest at 10% per annum, with principal and accrued interest due April 2002 to the following accredited investors: an entity controlled by Mr. Calvin Leung $18,000, Mr. Elwin Law $5,000, Mr. Gabriel Wheeler $5,000 and Mr. Baharak Parvin $5,000. The convertible note could be converted to our common stock at the conversion price per share of $1.25. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On March 18, 2002, we issued a promissory note to Mr. Calvin Leung, an accredited investor and a stockholder in the amount of $50,000, bearing interest at 6.75% per annum and maturing on May 17, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK AND WARRANTS

During the quarter ended June 30, 2001, we issued 21,750 shares of restricted common stock and 48,000 warrants and options in payment for $243,375 accounts payable and accrued liabilities for financial consulting services to Catalyst Group, financial media relations, 2,500 shares and 16,750 warrants and Mr. Scott Cooper, financial consulting, who received 19,250 shares and 31,250

warrants with an exercise price of $5.00 per share, expiring in four years. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended June 30, 2001, we issued 6,038 shares of restricted common stock to Ms. Beverly Ann Cormier in exchange for providing payment for scientific consulting services valued at $16,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended June 30, 2001, we issued 730,804 shares of restricted common stock (480,804 to Accelerated Technologies Fund, LLC and 250,000 to Agave, Ltd) to two institutional investors in exchange for $689,264. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended September 30, 2001, we issued 10,000 shares of restricted common stock to Carter Barnard PLC, in payment for financial consulting services valued at $27,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended September 30, 2001, we issued 6,000 shares of restricted common stock in exchange of payment for scientific advisory services related to the acquisition of shares of Cell Activation, payment for services valued at $18,000 to Shellwater and Co., 5,475 shares and Mr. Gert-Schmid-Schoenbaum, 524 shares, respectively. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended September 30, 2001, we issued 70,586 shares of restricted common stock at $3.00 per share to Esquire Trade and Finance, Inc. (LH Financial), an institutional investor, the holder of $211,758 convertible notes. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended September 30, 2001, we issued 16,667 shares of restricted common stock to Robert and Shelly Millsap, accredited individual investors, for $20,000 cash, net of issuance costs of $2,500, at $1.50 per share. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended December 31, 2001, 8% convertible notes in the aggregate amount of $20,000 and accrued interest of $1,604 were converted by Esquire Trade and Finance (LH Financial), an institutional investor, into 10,288 shares of common stock. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended December 31, 2001, we issued 9,651 shares of restricted common stock in payment for investor relations services and radio media presentation consulting valued at $26,250, with 5,800 shares to Windows to Wall Street and 3,861 shares to Charlotte Given. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2002, we entered into a consulting agreement with Mr. Calvin Leung under which he was granted an option to purchase up to 400,000 shares of our restricted common stock at the exercise price of $0.50 per share, expiring in April 2002. Funds in the aggregate amount of $200,000 were generated in January and February 2002, through the exercise by Mr. Leung of this option to purchase 400,000 shares our common stock. Mr. Leung was not at the time, but is now a director of Aethlon Medical, Inc. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended March 31, 2002, we issued 123,877 shares of our restricted common stock to certain accredited individual note holders for the conversion of their convertible notes payable and accrued interest in the aggregate amount of $144,882 at an average price of $1.24 per share. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended March 31, 2002, we issued in the aggregate 62,327 shares of restricted common stock and 74,000 warrants to the following: Mr. Barry Migliorini, 18,443 shares of restricted common stock and 18,500 warrants with an exercise price of $4.00 per share, Mr. Dreux Valenti, 14,275 shares of restricted common stock and 18,500 warrants with an exercise price of $4.00 per share and National Capital, LLC, 29,609 shares of restricted common stock and 37,000 warrants at $4.00 per share, in payment for services related to investment banking valued at $161,537. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended March 31, 2002, we issued 9,198 shares of restricted common stock in payment for services valued at $17,500 to Ms. Charlotte Given for radio media presentation consulting. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the quarter ended March 31, 2002, 10% convertible notes in the aggregate amount of $15,000 and accrued interest of $64 were converted into 12,051 shares of common stock at $1.25 per share. Mr. Gabriel Wheeler, Mr. Baharak Parvin and Mr. Ali Mirnizam, each accredited investors, each held a note in the principal amount of $5,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the quarter ended March 31, 2002, we issued 804,308 shares of our restricted common stock and 408,180 warrants to purchase common stock to certain accredited individual note holders for the conversion of their convertible notes payable and accrued interest in the aggregate amount of $1,609,387 at $1.25 per share. The warrants were valued using the Black-Scholes option pricing model at approximately $339,000. Since the warrant conversion rate was below estimated market value, BCF approximating $265,000 was recorded during the year ended March 31, 2002. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

OPTIONS AND WARRANTS

In May 2001, we issued 150,000 warrants to Ms. Dian Griesel, an executive of Investor Relations Group to purchase our restricted common stock in exchange for investor relations consulting services valued at approximately $74,000. The warrants have an exercise price of $6.50 per share, vest immediately and expire in September 11, 2005. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In July 2001, we granted our then Chief Financial Officer options to purchase up to 150,000 shares of common stock at an exercise price of $2.25 per share, which vest ratably over three years and expire July 15, 2011. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2001, we granted an aggregate 15,000 options, 7,500 each to Mr. Bruce Haglund and Mr. Alton Burkhalter to purchase our restricted common stock for services provided related to legal fees and the satisfaction of certain liabilities. The options have exercise prices of $2.00, vested immediately and are exercisable through July 2008. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In October 2001, we issued 15,000 warrants to Griffin Securities to purchase our restricted common stock in exchange for services provided pursuant to an investment banking contract valued at $7,500. The warrants have an exercise price of $2.75 per share, vested immediately and expire in May 2006. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In November 2001, we granted 15,667 stock options to outside directors (Mr. Frank Barry 1,867, Mr. Robert Lambrix 5,200, Mr. John Penhume 5,600, and Mr. Edward Broenniman 3,000) to purchase our restricted common stock for board of director services. The options have exercise prices ranging from $1.78 through $5.80, vested immediately and are exercisable through November 2011. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2002, we issued 335,000 warrants to existing 12% note holders to purchase our restricted common stock in exchange for an additional ninety days to become compliant with all past due interest payments. The warrants have an exercise price of $2.00 per share, vest immediately, and expired twelve months from the date of issuance. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2002, the board of directors granted our Chief Executive Officer James A Joyce and our Chief Science Officer, Dr. Richard H. Tullis non-qualified stock options to purchase up to 250,000 shares of our common stock each, at an exercise price of $1.90 per share and expire in March 2012. Awards are earned upon achievement of certain financial and/or research and development milestones. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

EXHIBITS

3.1	Articles of Incorporation of Aethlon Medical, Inc. (1)
3.2	Bylaws of Aethlon Medical, Inc. (1)
3.3	Certificate of Amendment of Articles of Incorporation dated March 28, 2000 (2)
3.4	Certificate of Amendment of Articles of Incorporation dated June 13, 2005
5.0	Legal opinion by Richardson & Patel LLP*
10.1	Employment Agreement between Aethlon Medical, Inc. and James Dorst dated July 29, 2005 (16)
10.2	Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (3)
10.3	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (4)
10.4	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (4)
10.5	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Syngen Research, Inc. (5)
10.6	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Cell Activation, Inc. (6)
10.7	Common Stock Purchase Agreement between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC. (7)
10.8	Registration Rights Agreement between Aethlon Medical, Inc. 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, as amended August 2005 (8)
10.13	Lease by and between Aethlon Medical, Inc. and San Diego Science Center (9)
10.14	Consulting Agreement by and between Aethlon Medical, Inc. and Jean-Claude Chermann, PhD (9)
10.15	Consulting Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. (9)
10.16	Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (9)
10.17	Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis (9)
10.18	Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University (10)
10.19	Consulting Agreement by and between Aethlon Medical, Inc. and Dr. Charles Bailey (11)

10.20	Consulting Agreement by and between Aethlon Medical, Inc. and Dr. Ken Alibek (11)
10.21	Note Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC, dated May 16, 2005 (12)
10.22	Convertible Promissory Note by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated May 16, 2005 (12)
10.23	Form of Common Stock Cashless Purchase Warrant for the benefit of Fusion Capital Fund II, LLC, dated May 16, 2005 (12)
10.24	Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (13)
10.25	Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (13)
10.26	Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry (13)
10.27	Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (13)
10.28	Stock Option Agreement by and between Aethlon Medical, Inc. and Calvin Leung (13)
10.29	Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (14)
10.30	10% Convertible Promissory Note by and between Aethlon Medical and Allan S. Bird (15)
10.31	10% Convertible Promissory Note by and between Aethlon Medical and Ellen R. Weiner Family Revocable Trust (15)
10.32	Form of Warrant for the benefit of Allan S. Bird and Ellen R. Weiner Family Revocable Trust (15)
10.33	Form of Registration Rights Agreement by and between Aethlon Medical and Allan S. Bird and Ellen R. Weiner Revocable Trust (15)
10.34	10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Christian J. Hoffmann III *
10.35	10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Claypoole Capital, LLC *

10.36 Form of Warrant for the benefit of Christian J. Hoffmann III and Claypoole Capital, LLC *
10.37 Form of Registration Rights Agreement by and between Aethlon Medical, Inc. and Christian J. Hoffmann III and Claypoole Capital, LLC *
14 Code of Ethics
21 List of subsidiaries (10)
23.1 Consent of Independent Registered Public Accounting Firm (Squar, Milner, Reehl & Williamson, LLP) *

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* Filed herewith

(1) Filed with the Company's Registration Statement on Form SB-2 dated December 18, 2000 and incorporated by reference.
(2) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2000 and incorporated by reference.
(3) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 1999 and incorporated by reference.
(4) Filed with the Company's Current Report on Form 8-K dated March 10, 1999 and incorporated by reference.
(5) Filed with the Company's Current Report on Form 8-K dated January 10, 2000 and incorporated by reference.
(6) Filed with the Company's Current Report on Form 8-K dated April 10, 2000 and incorporated by reference.
(7) Filed with the Company's 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 August 29, 2005.
(9) Filed with the Company's Annual Report on Form 10-KSB/A for the year ended March 31, 2004 and incorporated by reference.
(10) Filed with the Company's Registration Statement on Form SB-2 filed on July 7, 2004 and incorporated by reference.
(11) Filed with the Company's Amendment No. 3 to Registration Statement on Form SB-2 filed on November 24, 2004.
(12) Filed with the Company's Current Report on Form 8-K dated May 16, 2005 and incorporated by reference.
(13) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2005 and incorporated by reference.
(14) Filed with the Company's Current Report on Form 8-K dated September 9, 2005 and incorporated by reference.
(15) Filed with the Company's Current Report on Form 8-K dated November 2, 2005 and incorporated by reference.
(16) Filed with the Company's Post-Effective Amendment No.1 to Registration Statement on Form SB-2 filed on December 8, 2005 and incorporated by reference.

UNDERTAKINGS.

We hereby undertake to:

1. File, during any period in which we offer or sell securities, a post-effective amendment to this registration statement to:

   (i) Include any prospectus required by Section 10(a)(3) of the Securities Act;

   (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC under Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table on the face page of the effective registration statement; or

   (iii) Include any additional or changed material information on the plan of distribution.

2. For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

3. File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

4. For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

5. For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form SB-2 Registration Statement and authorized this Form SB-2 Registration Statement to be signed on its behalf by the undersigned, in the City of San Diego, State of California on January 9, 2006.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chief Executive Officer and President
(principal executive officer)

In accordance with the requirements of the Securities Act of 1933, this Form SB-2 Registration Statement was signed by the following persons in the capacities and on the dates stated:

<TABLE>
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By: /S/ James A. Joyce --- James A. Joyce	President, Chief Executive Officer and Chairman (principal executive officer)	January 9, 2006
By: /S/ James Dorst --- James Dorst	Chief Financial Officer (principal accounting and financial officer)	January 9, 2006
By: /S/ Richard H. Tullis --- Richard H. Tullis	Chief Science Officer and Director	January 9, 2006
By: /S/ Franklyn S. Barry, Jr. --- Franklyn S. Barry, Jr.	Director	January 9, 2006
By: /S/ Edward Broenniman ---	Director	January 9, 2006

Edward Broenniman

By: /S/ Calvin M. Leung Director January 9, 2006

Calvin M. Leung

</TABLE>

EXHIBIT 10.34

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

AETHLON MEDICAL, INC.

10% SERIES A CONVERTIBLE NOTE

No. 9 $10,000

FOR VALUE RECEIVED, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to Christian J. Hoffmann III, whose address is 48 West Glenn Drive, Phoenix, Arizona 85021, or registered assigns (the "Holder"), the sum of Ten Thousand Dollars ($10,000) in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein.

1. INTEREST. This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all Interest on or before the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

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

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 2, 2007 (the "Maturity Date"). At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion thereof) redeemed. At any time after the Maturity Date, the Company shall have the right to repay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such repayment date. The Company may prepay this Note at any time after issuance without penalty.

4. EQUAL RANK. This Note represents one of a series of up to One Million Dollars ($1,000,000) principal amount of 10% Series A Convertible Notes (the "Notes") issued or to be issued by the Company. All Notes rank equally and ratably without priority over one another.

5. Conversion of Note and Issuance of Warrants.

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the Maturity Date at the rate of $.20 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

5.2 ISSUANCE OF WARRANTS. Upon the conversion of this Note,

the Company will issue to the Holder a Common Stock Purchase Warrant (the "Warrant") exercisable to purchase the same number of shares of Common Stock into which this Note would be convertible on the Issue Date. The Warrant is exercisable to purchase shares of Common Stock at the price of $.20 per share and as otherwise specified in the Warrant.

5.3 LIMITATION ON CONVERSION RIGHTS. Notwithstanding any other provision of Paragraph 5 to the contrary, the Holder shall not be entitled to convert this Note, and any other outstanding Notes of this Series A issued to the Holder that is convertible into Common Stock (the "Related Notes") in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of this Note and all Related Notes with respect to which the determination of such proviso is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount of this Note and the Related Notes beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Paragraph, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of

shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. If the foregoing 9.9% limitation is ever reached and the Holder desires to convert this Note or part thereof into equity, the Company will acknowledge the conversion in writing, but not issue the Holder any additional shares of Common Stock at that point. Under such circumstances the Holder will have the right to receive additional shares of Common Stock as a result of the conversion only at such point and to the extent that its beneficial ownership subsequently becomes less than 9.9% and such issuance will not cause the Holder's beneficial ownership to exceed 9.9%. Upon written notice to this effect given by the Holder, the Company will issue such additional shares in accordance with Paragraph 5.8, "Issuance of Certificate."

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

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

5.6 Exercise of Conversion Privilege.

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

5.6.2 The Holder's conversion right set forth in this Paragraph 5.5 may be exercised at any time and from time to time but prior to payment in full of the principal amount of the accrued interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the Maturity Date or redemption date of this Note.

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

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

5.7 CORPORATE STATUS OF COMMON STOCK TO BE ISSUED. All Common Stock (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

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

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

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

8. Transfer Restrictions; Exemption from Registration.

8.1 The Holder agrees that (i) this Note and the shares of Common Stock issuable upon conversion have not been registered under the Act and may not be sold or transferred without registration under the Act or unless an

exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

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

APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

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

9. Registration Rights.

The Holders of the Notes and Warrants or Common Stock issued to the Holder without an effective Registration Statement under the Act (the "Restricted Shares") shall have the right, under the terms of a Registration Rights Agreement between the Holder and the Company, to cause the Company register the Common Stock underlying the Notes and Warrants (the "Underlying Common Stock") or Restricted Shares in a Registration Statement under the Securities Act 1993, as amended ("Act"), filed by the Company with the SEC.

10. Rule 144

If the Company (a) has or registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i)

forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

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

11.1 EVENT OF DEFAULT. Any of the following events shall constitute an "Event of Default" hereunder:

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

11.1.2 Failure of the Company to pay Interest when due hereunder, which failure continues for a period of thirty (30) days after the due date of the amount involved; or

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

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

11.2 ACCELERATION. Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the

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

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

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

11.5 DEFAULT INTEREST. Default Interest will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured.

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

12. Assignment, Transfer or Loss of the Note.

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

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

12.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in

the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at is principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12.4 Subject to Subparagraph 12.1 above, the Holder may, at his option, either in person or by duly authorized attorney, surrender this Note for registration of transfer at the principal office of the Company and, upon payment of any expenses associated with the transfer, receive in exchange therefor a Note or Notes, dated as of the date to which interest has been paid on the Note so surrendered, each in the principal amount of $1,000 or any

multiple thereof, for the same aggregate unpaid principal amount as the Note so surrendered and registered as payable to such person or persons as may be designated by the Holder. Every Note surrendered for registration of transfer shall be duly endorsed or shall be accompanied by a written instrument of transfer duly executed by the Holder or his attorney duly authorized in writing. Every Note, so made and delivered by the Company in exchange for any Note surrendered, shall in all other respects be in the same form and have the same terms as the Note surrendered. No transfer of any Note shall be valid unless made in such manner at the principal office of the Company.

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

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

majority in aggregate principal amount of the Notes then outstanding may waive any past default under the Notes, except a default in the payment of principal, premium, if any, or Interest. Promptly after execution by the Company and Holders of the Notes of a supplemental agreement pursuant to the provisions of this paragraph, the Company shall deliver a copy of such supplemental agreement to all Holders of the Notes at the time outstanding.

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

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

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

17. COLLECTION FEES. Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all

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

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

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

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

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

22. REPRESENTATIONS AND WARRANTIES TO SURVIVE CLOSING. All representations, warranties and covenants contained herein shall survive the execution and delivery of this Note and the issuance of any Conversion Shares upon the conversion hereof.

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

24. Definitions.

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

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

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

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

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

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

"ISSUE DATE" means the date on which the Note is originally issued.

"MATURITY DATE" means January 2, 2007.

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

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

"SUBSIDIARY" means any subsidiary of the Company.

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

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

IN WITNESS WHEREOF, this Note has been issued on the 15th day of December, 2005.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Its Chairman and CEO

Mailing Address of Holder:

Christian J. Hoffmann III
48 West Glenn Drive
Phoenix, Arizona 85021

Mailing Address of Company:

3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

EXHIBIT A

SCHEDULE OF ADVANCES

DATE	AMOUNT
12/15/05	$ 10,000

EXHIBIT B

CONVERSION NOTICE

(To be signed only upon conversion of this Note)

TO: AETHLON MEDICAL, INC.

The undersigned, the registered holder of the 10 % Series A Convertible Note (the "Note") of AETHLON MEDICAL, INC. (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of $_____ unpaid principal amount of the Note and $_____ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing shares of Common Stock, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

_____
(Signature and name of the registered holder)

_____
Print Name

Dated:_____

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

AETHLON MEDICAL, INC.

10% SERIES A CONVERTIBLE NOTE

No. 8 $5,000

FOR VALUE RECEIVED, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to Claypoole Capital, LLC, whose address is 48 West Glenn Drive, Phoenix, Arizona 85021, or registered assigns (the "Holder"), the sum of Five Thousand Dollars ($5,000) in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein.

1. INTEREST. This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all Interest on or before the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

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

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 2, 2007 (the "Maturity Date"). At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion thereof) redeemed. At any time after the Maturity Date, the Company shall have the right to repay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such repayment date. The Company may prepay this Note at any time after issuance without penalty.

4. EQUAL RANK. This Note represents one of a series of up to One Million Dollars ($1,000,000) principal amount of 10% Series A Convertible Notes (the "Notes") issued or to be issued by the Company. All Notes rank equally and ratably without priority over one another.

5. Conversion of Note and Issuance of Warrants.

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the Maturity Date at the rate of $.20 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

5.2 ISSUANCE OF WARRANTS. Upon the conversion of this Note, the Company will issue to the Holder a Common Stock Purchase Warrant (the "Warrant") exercisable to purchase the same number of shares of Common Stock into which this Note would be convertible on the Issue Date. The Warrant is exercisable to purchase shares of Common Stock at the price of $.20 per share

and as otherwise specified in the Warrant.

5.3 LIMITATION ON CONVERSION RIGHTS. Notwithstanding any other provision of Paragraph 5 to the contrary, the Holder shall not be entitled to convert this Note, and any other outstanding Notes of this Series A issued to the Holder that is convertible into Common Stock (the "Related Notes") in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of this Note and all Related Notes with respect to which the determination of such proviso is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount of this Note and the Related Notes beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Paragraph, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of

shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. If the foregoing 9.9% limitation is ever reached and the Holder desires to convert this Note or part thereof into equity, the Company will acknowledge the conversion in writing, but not issue the Holder any additional shares of Common Stock at that point. Under such circumstances the Holder will have the right to receive additional shares of Common Stock as a result of the conversion only at such point and to the extent that its beneficial ownership subsequently becomes less than 9.9% and such issuance will not cause the Holder's beneficial ownership to exceed 9.9%. Upon written notice to this effect given by the Holder, the Company will issue such additional shares in accordance with Paragraph 5.8, "Issuance of Certificate."

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

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

5.6 Exercise of Conversion Privilege.

5.6.1 The Conversion Privilege provided for in this Note shall be exercisable by the Holder by written notice to the Company or its successor and the surrender of this Note in exchange for the number of shares (or other securities and property, including cash, in the event of an adjustment

of the Conversion Price) into which this Note is convertible based upon the Conversion Price.

5.6.2 The Holder's conversion right set forth in this Paragraph 5.5 may be exercised at any time and from time to time but prior to payment in full of the principal amount of the accrued interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the Maturity Date or redemption date of this Note.

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

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

5.7 CORPORATE STATUS OF COMMON STOCK TO BE ISSUED. All Common Stock (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

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

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

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

8. Transfer Restrictions; Exemption from Registration.

8.1 The Holder agrees that (i) this Note and the shares of Common Stock issuable upon conversion have not been registered under the Act and may not be sold or transferred without registration under the Act or unless an

exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

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

8.2 If an opinion of counsel of Holder provides that

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

9. Registration Rights.

The Holders of the Notes and Warrants or Common Stock issued to the Holder without an effective Registration Statement under the Act (the "Restricted Shares") shall have the right, under the terms of a Registration Rights Agreement between the Holder and the Company, to cause the Company register the Common Stock underlying the Notes and Warrants (the "Underlying Common Stock") or Restricted Shares in a Registration Statement under the Securities Act 1993, as amended ("Act"), filed by the Company with the SEC.

10. Rule 144

If the Company (a) has or registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i)

forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

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

11.1 EVENT OF DEFAULT. Any of the following events shall constitute an "Event of Default" hereunder:

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

11.1.2 Failure of the Company to pay Interest when due hereunder, which failure continues for a period of thirty (30) days after the due date of the amount involved; or

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

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

11.2 ACCELERATION. Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding, all sums evidenced hereby, including all principal, Interest, fees and all other amounts due hereunder, shall become immediately due and payable. If an Event of Default in the payment of principal or Interest

should occur and be continuing with respect to the Note, any one or more holders of the Notes then outstanding may declare the principal of the Notes to be immediately due and payable. In the Event of a Default due to a breach of any other covenant or term, Holders representing twenty-five percent (25%) of the principal amount of the Notes may take action to accelerate the Notes.

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

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

11.5 DEFAULT INTEREST. Default Interest will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured.

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

12. Assignment, Transfer or Loss of the Note.

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

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

12.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in

the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at is principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12.4 Subject to Subparagraph 12.1 above, the Holder may, at his option, either in person or by duly authorized attorney, surrender this Note for registration of transfer at the principal office of the Company and, upon payment of any expenses associated with the transfer, receive in exchange therefor a Note or Notes, dated as of the date to which interest has been paid on the Note so surrendered, each in the principal amount of $1,000 or any multiple thereof, for the same aggregate unpaid principal amount as the Note so surrendered and registered as payable to such person or persons as may be designated by the Holder. Every Note surrendered for registration of transfer shall be duly endorsed or shall be accompanied by a written instrument of

transfer duly executed by the Holder or his attorney duly authorized in writing. Every Note, so made and delivered by the Company in exchange for any Note surrendered, shall in all other respects be in the same form and have the same terms as the Note surrendered. No transfer of any Note shall be valid unless made in such manner at the principal office of the Company.

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

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

majority in aggregate principal amount of the Notes then outstanding may waive any past default under the Notes, except a default in the payment of principal, premium, if any, or Interest. Promptly after execution by the Company and Holders of the Notes of a supplemental agreement pursuant to the provisions of this paragraph, the Company shall deliver a copy of such supplemental agreement to all Holders of the Notes at the time outstanding.

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

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

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

17. COLLECTION FEES. Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all costs of suit and preparation for such suit (and whether at trial or appellate level), in the event the unpaid principal amount of this Note, or any payment of Interest is not paid when due, or in the event Holder is made party to any litigation because of the existence of the Indebtedness evidenced by this Note,

or if at any time Holder should incur any attorneys' fees in any proceeding under the Federal Bankruptcy Code (or other similar laws for the protection of debtors generally) in order to collect any Indebtedness hereunder or to preserve, protect or realize upon any security for, or guarantee or surety of, such Indebtedness whether suit be brought or not, and whether through courts of original jurisdiction, as well as in courts of appellate jurisdiction, or through a bankruptcy court or other legal proceedings.

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

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

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

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

22. REPRESENTATIONS AND WARRANTIES TO SURVIVE CLOSING. All representations, warranties and covenants contained herein shall survive the execution and delivery of this Note and the issuance of any Conversion Shares upon the conversion hereof.

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

24. Definitions.

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

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

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

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

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

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

"ISSUE DATE" means the date on which the Note is originally issued.

"MATURITY DATE" means January 2, 2007.

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

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

"SUBSIDIARY" means any subsidiary of the Company.

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

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

IN WITNESS WHEREOF, this Note has been issued on the 15th day of December, 2005.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce

Its Chairman and CEO

Mailing Address of Holder:

Claypoole Capital, LLC
48 West Glenn Drive
Phoenix, Arizona 85021

Mailing Address of Company:

3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

EXHIBIT A

SCHEDULE OF ADVANCES

DATE	AMOUNT
12/15/05	$5,000

EXHIBIT B

CONVERSION NOTICE

(To be signed only upon conversion of this Note)

TO: AETHLON MEDICAL, INC.

The undersigned, the registered holder of the 10 % Series A Convertible Note (the "Note") of AETHLON MEDICAL, INC. (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of $_____ unpaid principal amount of the Note and $_____ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing shares of Common Stock, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

_____
(Signature and name of the registered holder)

_____
Print Name

Dated:_____

EXHIBIT 10.36

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

AETHLON MEDICAL, INC.

COMMON STOCK PURCHASE WARRANT

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of $.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, $ .001 par value, at a price of $.20 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price").

This Warrant was issued to the Holder in connection with the Holder's conversion of all or part of a 10% Series A Convertible Note issued by the Company into its Common Stock.

1. Terms of the Warrant.

1.1 Time of Exercise. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on _____, 2005 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., _____, 2008 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease.

1.2 Manner of Exercise.

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

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

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

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

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

1.3 Exchange of Warrant. This Warrant may be split-up, combined or

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

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

1.5 Transfer and Assignment. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act").

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

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

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

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

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

1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution,

convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also

specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

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

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

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

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

1.10 Limitation on Exercise Rights. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the 10% Series A Convertible Notes (the "Notes") issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as

reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership,

joint venture, trust, estate or unincorporated organization.

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

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

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

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

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

2.5 No Fractional Shares. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

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

3. Registration Under the Securities Act of 1933.

3.1 Registration and Legends. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to

distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

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

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

3.3 Registration Rights. The Holders of the Notes and Warrants or Common Stock issued to the Holder without an effective Registration Statement under the Act (the "Restricted Shares") shall have the right, under the terms of a Registration Rights Agreement between the Holder and the Company, to cause the Company register the Common Stock underlying the Notes and Warrants (the "Underlying Common Stock") or Restricted Shares in a Registration Statement under the Act filed by the Company with the Commission.

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

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

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

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

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

or by an injunction against a violation of any of the terms hereof or otherwise.

7. Other Matters.

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

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

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

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

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

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

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

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the ____ day of _____, 2005.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

AETHLON MEDICAL, INC.

Assignment

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

Dated:_____

Signed:_____

Print Name:_____

Subscription Form

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

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

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

Dated:_____ Signed:_____

Address:_____

EXHIBIT 10.37

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is entered into as of December 15, 2005, by and among AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and the parties who are signatories to this Agreement (collectively referred to as the "Holders").

WHEREAS, the Company sold to the Holders up to $1,000,000 principal amount of 10% Series A Convertible Notes (the "Notes"), which are convertible into units (the "Units") comprised of one share of the Company's Common Stock (the "Common Stock") and one Common Stock purchase warrant (the "Warrant") exercisable to purchase Common Stock at a price of $.20 per share in a private placement (the "Offering");

WHEREAS, in order to induce the Holders to purchase the Notes, the Company has entered into this Agreement to register the Common Stock issuable upon conversion of the Notes (the "Conversion Shares") and upon exercise of the Warrants (the "Warrant Shares") under the Securities Act of 1933, as amended (the "Act") in accordance with the provisions of this Agreement.

WHEREAS, the Conversion Shares and Warrant Shares are collectively referred to in this Agreement as "Registrable Securities."

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

1. DEFINITIONS.

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

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

1.2 "EFFECTIVENESS DATE" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the shares of Notes and Warrants, the ninetieth (90th) calendar day following the Filing Date and, with respect to any additional Registration Statements which may be required pursuant to Section 3.3, the ninetieth (90th) calendar day following the date on which the Company first knows, or reasonably should have known, that such additional Registration Statement is required hereunder; provided, however, if the Company is notified by the Commission that one of the above Registration Statements will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to such Registration Statement shall be the tenth (10th) Trading Day following the date on which the Company is so notified if such date precedes the dates required above.

1.3 "EFFECTIVENESS PERIOD" shall have the meaning set forth in Section 2.1.

1.4 "FILING DATE" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the Notes and Warrants, the later of November 30, 2005 or 30 days after the date the Company completes an additional financing of at least $1.0 million but in no event later than December 31, 2005 and, with respect to any additional Registration Statements which may be required pursuant to Section 3.3, the thirtieth (30th) day following the date on which the Company first knows, or reasonably should have known that such additional Registration Statement is required hereunder.

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

1.6 "INDEMNIFIED PARTY" shall have the meaning set forth in Section 5.3.

1.7 "INDEMNIFYING PARTY" shall have the meaning set forth in Section 5.3.

1.8 "PROSPECTUS" means the prospectus included in a Registration Statement (including, without limitation, a prospectus

that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by a Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

1.9 "REGISTRABLE SECURITIES" means all of the shares of Common Stock issuable upon conversion in full of the Notes and exercise in full of the Warrants, and the shares of Common Stock issuable in lieu of the payment of liquidated damages, together with any securities issued or issuable upon any stock split, dividend or other distribution recapitalization or similar event with respect to the foregoing.

1.10 "REGISTRATION STATEMENT" means the registration statements required to be filed hereunder and any additional registration statements contemplated by Section 3.3, including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

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

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

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

1.14 "WARRANTS" shall mean the Common Stock purchase warrants issued to the Holders upon conversion of the Notes.

2. SHELF REGISTRATION.

2.1 On or prior to each Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering the resale of all Registrable Securities applicable to such Filing Date for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on Form SB-2 or another appropriate form in accordance herewith) and shall contain (except if otherwise directed by the Holders) the "Plan of Distribution" in substantially the form attached hereto as EXHIBIT A. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the applicable Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the expiration date of the Warrants or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k), as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "EFFECTIVENESS PERIOD").

2.2 The Registration Statements to be filed hereunder shall include a number of shares of Common Stock equal to no less than the sum of (i) 150% of the number of shares of Common Stock issuable upon conversion in full of the Notes subject to such Registration Statement, assuming for such purposes that Notes are outstanding for their full term and the lowest possible Conversion Price, as defined in the Notes, applies and (ii) 150% of the number of shares of Common Stock issuable upon exercise in full of the Warrants subject to such Registration Statement.

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

2.3.1 a Registration Statement is not filed on or prior to its respective Filing Date (if the Company files such

Registration Statement without affording the Holder the

opportunity to review and comment on the same as required by Section 3.1 hereof, the Company shall not be deemed to have satisfied this Subsection 2.3.1); or

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

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

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

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

2.4 On an Event Date, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one percent (1.0%) of the original principal amount of the Notes of such Holder. On every month after the Event Date until the applicable Event is cured, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one and one-half percent (1.5%) of the original principal amount of the Notes. If the Warrants have been issued and are "in the money," the penalties shall be computed based on the value of any outstanding Warrants on an Event Date and on each month following an Event Date until the Event is cured. The value of the Warrants for such purposes shall be the difference between the closing price of the Common Stock on the Event Date (and after the Event Date, the average of the closing sales prices during the applicable month) and the exercise price multiplied by the number of shares of Common Stock issuable upon exercise of the Warrants. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at a rate of twelve (12%) per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages

are due until such amounts, plus all such interest thereon, are paid in full. At the option of the Company, shares of Common Stock may be issued to the Holder in lieu of a cash payment for such liquidated damages based upon the Conversion Price then in effect, provided that such shares have been registered for resale by such Holder and the Company provides the Holder with at least five (5) Business Days' irrevocable notice prior to the date such payment is due. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

3. REGISTRATION PROCEDURES. In connection with the Company's registration obligations hereunder, the Company shall:

3.1 Not less than five (5) Business Days prior to the filing of each Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall (i) furnish to the Holders and their Special Counsel copies of all such documents proposed to be filed, which documents

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

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

3.3 File additional Registration Statements if the number of Registrable Securities at any time exceeds seventy-five percent (75%) of the number of shares of Common Stock then registered for the account of the Holders in all existing Registration Statements hereunder.

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

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

any amendment or supplement thereto.

3.6 Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders and their Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions

of the Registrable Securities covered by a Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

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

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

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

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

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

3.12 Notwithstanding anything herein to the contrary, if at any time or from time to time during the Effectiveness Period, the Company notifies the Holders in writing of the existence of a Potential Material Event (as defined below), the Holders shall not offer or sell any Securities from the time of the giving of notice with respect to a Potential Material Event until the Holders receive written notice from the Company that such Potential Material Event either has been disclosed to the public or no longer constitutes a Potential Material Event; PROVIDED, HOWEVER, that, subject to Subsections 3.12.1 and 3.12.2, the Company may not so suspend the right to such holders of Securities for more than sixty (60) calendar days in the aggregate during any twelve-month period, and if such period is exceeded, such period shall be deemed an "Event" and the Company shall be liable to the Holder for liquidated damages pursuant to Section 2(c); PROVIDED, FURTHER, subject to Subsections 3.12.1 and 3.12.2, the failure to

maintain a Registration Statement for not more than sixty (60) calendar days in the aggregate during any twelve (12) month period as a result of a Potential Material Event shall not be deemed a breach of this Agreement, provided the Company timely pays the Holder such liquidated damages. The Company must give the Holders at least thirty (30) calendar days' prior written notice that such a blackout period

(without indicating the nature of such blackout period) will occur and such notice must be acknowledged in writing by the Holders. Failure to provide the Holders with such notice shall constitute an Event during the entire applicable period that the Registration Statement is suspended. "Potential Material Event" means any of the following:

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

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

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

4. REGISTRATION EXPENSES. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Nasdaq OTC Bulletin Board and any Subsequent Market

on which the Common Stock is then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)); (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders); (iii) messenger, telephone and delivery expenses; (iv) fees and disbursements of counsel for the Company; and (v) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement; and (vi) and fees and expenses of the Special Counsel up to $20,000. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

5. INDEMNIFICATION.

5.1 INDEMNIFICATION BY THE COMPANY. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each

of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in a Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in a Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (ii) in the case of an occurrence of an event of the type specified in

Section 3.4(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6.5. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

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

5.3 CONDUCT OF INDEMNIFICATION PROCEEDINGS.

5.3.1 If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "INDEMNIFIED PArty"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it

shall be finally determined by a court of competent

jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

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

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

5.4 CONTRIBUTION.

5.4.1 If a claim for indemnification under Section 5.1 or 5.2 is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall

be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5.3, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in

accordance with its terms.

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

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

6. MISCELLANEOUS.

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

6.2 NO INCONSISTENT AGREEMENTS. Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities,

that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as and to the extent specified in Schedule 6.2 hereto, neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

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

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

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

6.6 PIGGY-BACK REGISTRATIONS. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of

others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen (15) days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered, subject to customary underwriter cutbacks applicable to all Holders of registration rights; provided, that, the Company shall not be required to register any Registrable Securities pursuant to this Section 6.6 that are eligible for resale pursuant to Rule 144(k) promulgated under the Securities Act.

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

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

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

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

6.11 CUMULATIVE REMEDIES. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

6.12 SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and

restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

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

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

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

AETHLON MEDICAL, INC.

By: /s/ James Joyce

Name: James Joyce
Title: President and Chief Executive Officer

HOLDER SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT

Signature of Holder

$5,000
Outstanding Principal Amount of Notes

CLAYPOOLE CAPITAL, LLC

Name of Holder

EXHIBIT A

PLAN OF DISTRIBUTION

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

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the Selling Stockholders to sell

a specified number of such shares at a stipulated price per share;

- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

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

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

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

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

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors of Aethlon Medical, Inc.

We hereby consent to the incorporation by reference into this Registration Statement on Form SB-2 of Aethlon Medical, Inc. of our report dated June 27, 2005, relating to the consolidated balance sheet of Aethlon Medical, Inc. as of March 31, 2005 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, 2005. We also consent to the reference to our Firm under the caption "Experts".

\s\ SQUAR, MILNER, REEHL & WILLIAMSON, LLP

Newport Beach, California
January 9, 2006