AETHLON MEDICAL INC
Form 10-Q
February 17, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from _____to_____

COMMISSION FILE NUMBER 0-21846

AETHLON MEDICAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA	13-3632859
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3030 BUNKER HILL ST, SUITE 4000, SAN DIEGO, CA 92109

(Address of principal executive offices) (Zip Code)

(858) 459-7800

(Registrant's telephone number, including area code)

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

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

Large accelerated filer [_]	Accelerated filer [_]
Non accelerated filer [_] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [_] NO [X]

As of February 12, 2009, the registrant had outstanding 47,081,465 shares of common stock, $.001 par value.

PART I. FINANCIAL INFORMATION

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2008 (Unaudited)	March 31, 2008
ASSETS		
Current assets		
Cash	$ 92,020	$ 254,691
Deferred financing costs	22,293	71,139
Prepaid expenses and other current assets	77,832	3,600
Total current assets	192,145	329,430
Property and equipment, net	2,652	8,313
Patents and patents pending, net	139,982	137,162
Other assets	13,200	13,200
Total assets	$ 347,979	$ 488,105
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued liabilities	$ 367,008	$ 351,261
Due to related parties	598,753	949,063
Notes payable, net of discounts	352,500	633,611
Convertible notes payable, net of discounts	2,412,973	152,530
Warrant obligation	--	633,095
Other current liabilities	709,391	1,090,809
Total current liabilities	4,440,625	3,810,369
Commitments and Contingencies (Note 8)		
Stockholders' Deficit		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 44,881,414 and 38,991,151 shares issued and outstanding as of December 31, 2008 and March 31, 2008, respectively	44,883	38,992
Additional paid-in capital	33,245,916	28,866,000
Deficit accumulated during development stage	(37,383,445)	(32,227,256)
	(4,092,646)	(3,322,264)
Total liabilities and stockholders' deficit	$ 347,979	$ 488,105

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

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended
December 31, 2008 and 2007 and
For the Period January 31, 1984 (Inception) Through December 31, 2008
(Unaudited)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
REVENUES				
Grant income	$ --	$ --	$ --	$ --
Subcontract income	--	--	--	--
Sale of research and development	--	--	--	--
	--	--	--	--
EXPENSES				
Professional Fees	151,022	132,419	593,622	573,495
Payroll and related	630,958	285,373	1,286,535	1,107,149
General and administrative	85,389	109,183	343,530	407,632
Impairment	--	--	--	--
	867,369	526,975	2,223,687	2,088,276
OPERATING LOSS	(867,369)	(526,975)	(2,223,687)	(2,088,276)
OTHER EXPENSE (INCOME)				
Loss on extinguishment of debt	1,063,344	489,013	1,063,344	489,013
Loss on settlement of accrued interest and damages	--	--	607,908	--
Change in fair value of warrant obligation	50,064	633,249	(213,903)	(280,776)
Interest and other debt expenses	363,964	952,068	1,477,854	1,077,794
Interest income	(187)	--	(2,701)	--
Other	--	1,778	--	20,027
	1,477,185	2,076,108	2,932,502	1,306,058
NET LOSS	$ (2,344,554)	$ (2,603,083)	$ (5,156,189)	$ (3,394,334)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.05)	$ (0.07)	$ (0.12)	$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC AND DILUTED	43,506,386	35,077,841	41,486,177	33,352,579

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

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 2008
(Unaudited)

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007	Janua (I De
Cash flows from operating activities:			
Net loss	$ (5,156,189)	$ (3,394,334)	$(3
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	12,534	16,616	
Amortization of deferred consulting fees	--	--	
Loss on settlement of accrued interest and damages	607,908	--	
Gain on sale of property and equipment	--	--	
Gain on settlement of debt	--	--	
Loss on settlement of accrued legal liabilities	--	--	
Stock based compensation	590,832	422,397	
Loss on debt extinguishment	1,063,344	489,013	
Fair market value of warrants issued in connection with accounts payable and debt	--	--	
Fair market value of common stock, warrants and options issued for services	249,186	197,107	
Change in fair value of warrant liability	(213,903)	(280,776)	
Amortization of debt discount and deferred financing costs	1,251,326	1,469,181	
Impairment of patents and patents pending	--	--	
Impairment of goodwill	--	--	
Deferred compensation forgiven	--	--	
Changes in operating assets and liabilities:			
Prepaid expenses	(14,315)	(430)	
Other assets	--	--	
Accounts payable and other current liabilities	136,799	(432,547)	
Due to related parties	(28,000)	(5,000)	
Net cash used in operating activities	(1,500,478)	(1,518,773)	(1
Cash flows from investing activities:			
Purchases of property and equipment	--	(4,215)	
Additions to patents and patents pending	(9,693)	(6,797)	

Proceeds from the sale of property and equipment	--	--	
Cash of acquired company	--	--	
Net cash used in investing activities	(9,693)	(11,012)	
Cash flows from financing activities:			
Proceeds from the issuance of notes payable	--	--	
Principal repayments of notes payable	--	--	
Proceeds from the issuance of convertible notes payable	430,000	500,000	
Proceeds from the issuance of common stock	917,500	922,950	1
Professional fees related to registration statement	--	--	
Net cash provided by financing activities	1,347,500	1,422,950	1
Net decrease in cash	(162,671)	(106,835)	
Cash at beginning of period	254,691	440,106	
Cash at end of period	$ 92,020	$ 333,271	$

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

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 2008
(Unaudited)

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007	Janu (De
Supplemental disclosures of non-cash investing and financing information:			
Debt and accrued interest converted to common stock	$ 39,325	$ --	$
Stock option exercise by director for accrued expenses	--	--	
Reclassification of warrant derivative liability to equity	419,192	--	
Additional convertible debt issued in connection with Debt restructuring	573,211	--	

Discount on 10% convertible notes	150,095	--
Conversion of amounts due to related parties to common stock by officers and directors	332,279	--
Debt discount on notes payable associated with detachable warrants	--	--
Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties	--	--
Issuance of common stock in connection with license agreements	--	--
Net assets of entities acquired in exchange for equity securities	--	--
Debt placement fees paid by issuance of warrants	13,307	--
Patent pending acquired for 12,500 shares of common stock	--	--
Common stock issued for prepaid expenses	--	--

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

AETHLON MEDICAL, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
December 31, 2008

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. ("Aethlon", "We" or the "Company") is a development stage medical device company focused on expanding the applications of our Hemopurifier (R) 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 acute viral conditions, chronic viral diseases and pathogens targeted as potential biological warfare agents. The Hemopurifier(R) combines the established scientific principles 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(R) cannot cure viral conditions but can prevent virus and toxins from infecting unaffected tissues and cells. We have completed pre-clinical blood testing of the Hemopurifier(R) to treat HIV and Hepatitis-C, and have completed human safety trials on Hepatitis-C infected patients in India and are in the process of obtaining regulatory approval from the U.S. Food and Drug Administration ("FDA") to initiate clinical trials in the United States.

The commercialization of the Hemopurifier(R) will require the completion of human efficacy clinical trials. The approval of any application of the Hemopurifier(R) in the United States will necessitate 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(R) will be cleared by the FDA as a device we can market to the medical community. We also expect to face similar regulatory challenges from foreign regulatory agencies, should we attempt to commercialize and market the Hemopurifier(R) outside of the United States. As a result, we have not generated revenues from the sale of any Hemopurifier(R) application. Additionally, there have been no independent validation studies of our Hemopurifiers(R) 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.

We are classified as a development stage enterprise under accounting principles generally accepted in the United States of America ("GAAP"), and have not generated revenues from our principal operations.

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

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. 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 necessary in order to make the financial statements not misleading have been included. The condensed consolidated balance sheet as of March 31, 2008 was derived from our audited financial statements. Operating results for the three and nine month periods ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ending March 31, 2009. For further information, refer to our Annual Report on Form 10-KSB for the year ended March 31, 2008, which includes audited financial statements and footnotes as of March 31, 2008 and for the years ended March 31, 2008 and 2007 and the period January 31, 1984 (Inception) through March 31, 2008.

NOTE 2. GOING CONCERN AND LIQUIDITY CONSIDERATIONS

The accompanying unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. We have experienced continuing losses from operations, are in default on certain debt, have negative working capital of approximately ($4,248,000), recurring losses from operations and a deficit accumulated during the development stage of approximately ($37,383,000) at December 31, 2008, which among other matters, raises significant doubt about our ability to continue as a going concern. We have not generated significant revenue or any profit from operations since inception. A significant amount of additional capital will be necessary to advance the development of our products to the point at which they may become commercially viable. Our current financial resources are insufficient to fund our capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2009. Therefore we will be required to seek additional funds through debt and/or equity financing arrangements to finance our current and long-term operations.

We are currently addressing our liquidity issue by exploring investment capital opportunities through the public markets, specifically, through private placement of common stock. If we are able to access debt/equity capital, then we believe we will have sufficient liquidity to meet our operating needs for the next twelve months. However, no assurance can be given that we will receive any funds in a connection with our capital raising efforts, in which case we will be required to significantly curtail operations, sell or license out significant portions of our technology, or possibly cease operations.

The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets that might be necessary should we be unable to continue as a going concern.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of our significant accounting policies presented below is designed to assist the reader in understanding our condensed consolidated interim financial statements. Such financial statements and related notes are the representations of our management, who are 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 wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc. and Cell Activation, Inc. (collectively hereinafter referred to as the "Company" or "Aethlon"). These subsidiaries are dormant and there are no material intercompany transactions or balances.

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. The potentially dilutive common shares outstanding for the three and nine month periods ended December 31, 2008 and 2007, which include shares underlying outstanding stock options, warrants and convertible debentures were as follows:

	December 31, 2008	December 31, 2007
Three months ended	14,048,072	16,453,788
Nine months ended	16,687,988	16,432,760

PATENTS

We capitalize the cost of patents, some of which were acquired, and amortize such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent.

RESEARCH AND DEVELOPMENT EXPENSES

We incurred approximately $526,000 and $592,000 of research and development expenses during the nine months ended December 31, 2008 and 2007, respectively. For the three months ended December 31, 2008 and 2007, we incurred approximately $143,000 and $153,000 of research and development expenses. Our research and development expenses are included in various operating expense line items in the accompanying condensed consolidated statements of operations.

EQUITY INSTRUMENTS FOR SERVICES PROVIDED BY OTHER THAN EMPLOYEES

We follow SFAS No. 123-R (as interpreted by Emerging Issues Task Force ("EITF") Issue No. 96-18, "ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS OR SERVICES") ("EITF No. 96-18") to account for transactions involving goods and services provided by third parties where we issue equity instruments as part of the total consideration. Pursuant to paragraph 7 of SFAS No. 123-R, we account for such transactions using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable.

We apply EITF No. 96-18, in transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, using the following methodology:

(a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).
(b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.
(c) For any transactions not meeting the criteria in (a) or (b) above, we re-measure the consideration at each reporting date based on its then current stock value.

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 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. We believe that no impairment existed at or during the three or nine months ended December 31, 2008.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below the market value of our common stock. 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, when applicable, in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are accreted to interest expense over the term of the notes using the effective yield basis.

DERIVATIVE LIABILITIES AND CLASSIFICATION

We evaluate free-standing instruments (or embedded derivatives) indexed to its common stock to properly classify such instruments within equity or as liabilities in our financial statements, pursuant to the requirements of the EITF Issue No. 00-19, "ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO AND POTENTIALLY SETTLED IN, A COMPANY'S OWN STOCK," EITF Issue No. 01-06, "THE MEANING OF INDEXED TO A COMPANY'S OWN STOCK," FSP EITF Issue No. 00-19-2, "ACCOUNTING FOR REGISTRATION PAYMENT ARRANGEMENTS," and SFAS No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES," as amended. Our policy is to settle instruments indexed to our common shares on a first-in-first-out basis. Pursuant to EITF Issue No. 00-19, the classification of an instrument indexed to our stock, which is carried as a liability, must be reassessed at each balance sheet date. If the classification required under this Consensus changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

REGISTRATION PAYMENT ARRANGEMENTS

We account for our liquidated damages on registration rights agreements in accordance with FASB Staff Position EITF Issue No. 00-19-2 "ACCOUNTING FOR REGISTRATION PAYMENT ARRANGEMENTS" which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "ACCOUNTING FOR CONTINGENCIES" ("SFAS No. 5"). Pursuant to SFAS No. 5, a liability related to potential liquidated damages if such damages were determined to be both probable and reasonably estimable.

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STOCK BASED COMPENSATION

Effective April 1, 2006, we adopted the provisions of SFAS No. 123-R, "Share-Based Payment," ("SFAS No. 123-R"). SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at the grant date, based on the fair value of the award. We previously accounted for awards granted under our equity incentive plan under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "ACCOUNTING FOR STOCK BASED COMPENSATION," as amended. The exercise price of options is generally equal to the market price of our common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board on the date of grant. Accordingly, no share-based compensation was recognized in the financial statements for periods prior to April 1, 2006.

Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost that we recognize beginning April 1, 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

From time to time, 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 and generally expire within five years from the grant date. Such grants are recorded based on the grant date fair value of the equity instruments.

In August 2000, we adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by our stockholders in December 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of our stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of 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 December 31, 2008, we had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited. All of these options vested prior to the adoption of SFAS 123-R. We have reserved 467,500 shares for future issuance.

Share-based compensation resulting from direct stock grants and from the application of SFAS No. 123-R to options outstanding resulted in expenses of $456,640 and $590,675 for the three and nine month periods ended December 31, 2008 and $69,446 and $422,397 for the three and nine month periods ended December 31, 2007. We use the Binomial Lattice option pricing model for estimating fair value of options granted.

The following table lists the components of our stock-based compensation for the three and nine month periods ended December 31, 2008:

	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2008
Stock Option Expense	$416,672	$546,064
Direct Stock Grants	39,968	44,768
Total Stock-Based Compensation Expense	$456,640	$590,832

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

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months End December 31, 20
Payroll and related	$ 456,640	$ 69,446	$ 590,832

Net share-based compensation effect in net loss from continuing operations	$ 456,640	$ 69,446	$ 590,832
Basic and diluted loss per common share	$ (0.01)	$ (0.00)	$ (0.01)

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In accordance with SFAS No. 123-R, we adjust share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect, if any, of adjusting the forfeiture rate for all expense amortization is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the three month period ended December 31, 2008 was insignificant.

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

	Nine Months Ended December 31	
	2008	2007
Annual dividends	zero	zero
Expected volatility	112.2%	91.2%
Risk free interest rate	1.02%	4.85%
Expected life	3.0 years	3.0 years

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" described in the SEC's Staff Accounting Bulletin No. 107 due to changes in the vesting terms and contractual life of current option grants compared to our historical grants. Options outstanding that have vested and are expected to vest as of December 31, 2008 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)
Vested (2)	11,439,060	$ 0.37	5.31	$ --
Expected to vest	3,383,334	0.35	9.35	$ --
Total	14,822,394			$ --

(1) These amounts represent the difference between the exercise price and $0.22, the closing market price of our common stock on December 31, 2008 as quoted on the Over-the-Counter Bulletin Board under the symbol "AEMD.OB" for all in-the-money options outstanding.

(2) 4,278,375 options were granted prior to April 1, 2006 (the date of adoption for SFAS 123-R) and were fully vested at the date of adoption.

Additional information with respect to stock option activity is as follows:

	Outstanding Options		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
March 31, 2008	10,954,060	$ 0.38	$1,643,109
Grants	4,050,000	--	
Exercises	--	--	
Cancellations	(181,666)	--	
December 31, 2008	14,822,394	$ 0.37	$ --
Options exercisable at:			
December 31, 2008	11,439,060	$ 0.37	

(1) Represents the difference between the exercise price and the March 31, 2008 or December 31, 2008 market price of our common stock, which was $0.53 and $0.22, respectively, for all in-the-money options outstanding.

At December 31, 2008, there was approximately $812,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 2.5 years.

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. We record a valuation allowance for deferred tax assets when, based on our best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2006, the FASB issued SFAS No. 157, "FAIR VALUE MEASUREMENTS," which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 simplifies and codifies related guidance within GAAP, but does not require any new fair value measurements. The guidance in SFAS No. 157 applies to derivatives and other financial instruments measured at estimated fair value under SFAS No. 133 and related pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted Statement of Financial Accounting Standards No. 157 ("SFAS No. 157") as of April 1, 2008. SFAS No. 157 applies to certain assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosure about fair value measurements. This Statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

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

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

The fair value of our warrant liabilities is determined based on observable market based inputs or unobservable inputs that are corroborated by market data, which is a Level 3 classification. We record variations in our warrant liability account on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

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

	Nine Months Ended December 31, 2008
Risk free interest rate	2.64% - 3.01%
Average expected life	3 - 5 years
Expected volatility	83.6% - 84.8%
Expected dividends	None

We did not record the fair value of any new warrants issued in the three months ended December 31, 2008 nor did we make any changes to our valuation techniques in either the quarter or nine month period ended December 31, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 expands the scope of specific types of assets and liabilities that an entity may carry at fair value on its statement of financial position, and offers an irrevocable option to record the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not yet elected to use the fair value option, and as such, our adoption AFAS No. 159 as of April 1, 2008 did not have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). This statement identifies the sources of and framework for selecting the accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States ("GAAP hierarchy"). Because the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, it is directed to the auditor rather than to the entity responsible for selecting accounting principles for financial statements presented in conformity with GAAP. Accordingly, the FASB concluded the GAAP hierarchy should reside in the accounting literature established by the FASB and issued this statement to achieve that result. The provisions of SFAS 162 are effective November 15, 2008, which is 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Management believes that adoption of SFAS 162 will not have a material effect on the consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the debt. Retrospective application to all periods presented is required and a cumulative-effect adjustment is recognized as of the beginning of the first period presented. This standard is effective for us in the first quarter of fiscal year 2010. We are currently evaluating the impact of FSP APB 14-1.

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

NOTE 4. NOTES PAYABLE

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

	Face Amount of Notes Payable	Note Discounts	Notes Payable, Net of Discounts
12% Notes payable, all past due	$ 347,500	--	$ 347,500
10% Note payable, past due	5,000	--	5,000
Total Notes Payable	$ 352,500	($ --)	$ 352,500

During the three months ended December 31, 2008, we restructured our 8% and 9% Notes and for accounting purposes, we recorded an extinguishment loss of approximately $1,063,000 (See Note 5 for further description). Our plans to satisfy the remaining outstanding balance on the 12% and 10% Notes include repayment with available funds or converting the notes to common stock at market value.

12% NOTES

From August 1999 through May 2005, we entered into various borrowing arrangements for the issuance of notes payable from private placement offerings (the "12% Notes). At December 31, 2008, 12% Notes with a principal balance of $347,500 are outstanding, all which are past due, in default, and bearing interest at the default rate of 15%. At December 31, 2008, interest payable on the 12% Notes totaled $323,188.

10% NOTES

From time to time, we issued convertible notes payable ("10% Note") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Notes required no payment of principal or interest during the term and may be converted to our common stock at the conversion price of $0.50 per share at any time at the option of the noteholder. The total amount of the original notes issued was $275,000. One 10% Note in the amount of $5,000, which is past due and in default, remains outstanding at December 31, 2008. At December 31, 2008, interest payable on this note totaled $3,750.

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8% NOTES

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

Under this transaction, we were obligated to issue registered common shares, upon exercise of the warrant. As a result, this warrant obligation did not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at the commitment date, we did not have any uncommitted registered shares to settle the warrant obligation and accordingly, such obligation was classified as a liability (outside of stockholders' deficit) in accordance with EITF Issue No.00-19. The warrants were valued at $693,050 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability with an offsetting debt discount recorded against the $495,000 face amount of the 8% Notes and the remaining $198,050 recorded as interest expense. The debt discount was amortized to expense over the term of the 8% Notes.

On October 8, 2008, the Company's registration statement covering the warrants underlying the 8% Notes was declared effective. Consequently, the warrant liability of $419,192 was reclassified into equity in accordance with EITF 00-19. On December 30, 2008, the 8% Notes were restructured into convertible notes on December 30, 2008. See Note 5 "Restructuring of 8% and 9% Notes"

2008 9% NOTES

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

Under this transaction, we were obligated to issue registered common shares, upon exercise of the warrants, As a result, this warrant obligation did not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at the commitment date, we did not have any uncommitted registered common shares to settle the warrant obligation and accordingly, such obligation was classified as a liability (outside of stockholders' deficit) in accordance with EITF Issue No. 00-19. The warrants were valued at $222,450 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability with an offsetting debt discount recorded against the $220,000 face amount of the 2008 9% Notes and the remaining $2,450 recorded as interest expense. The debt discount is amortized to expense over the term of the 2008 9% Notes.

On October 8, 2008, the Company's registration statement covering the warrants underlying the 8% Notes was declared effective. Consequently, the warrant liability of $419,192 was reclassified into equity in accordance with EITF 00-19. On December 30, 2008, the 8% Notes were restructured into convertible

notes on December 30, 2008. See Note 5 "Restructuring of 8% and 9% Notes"

NOTE 5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consist of the following at December 31, 2008:

	Principal	Discount	Net Amount
Amended Series A 10% Convertible Notes	$ 900,000	$(115,576)	$ 784,424
2008 10% Convertible Notes	430,000	(106,662)	323,338
December 2006 10% Convertible Notes	17,000	--	17,000
Restructured December 2008 10% Convertible Notes and Related Convertible Notes	1,288,211	--	1,288,211
Total - Convertible Notes	$2,635,211	$ (222,238)	$2,412,973

DECEMBER 2006 10% CONVERTIBLE NOTES

On December 15, 2006, we issued two 10% Convertible Notes ("December 10% Notes") totaling $50,000 to accredited investors. The December 10% Notes accrue interest at a rate of ten percent (10%) per annum and matured on March 15, 2007. Such notes are convertible into shares of restricted common stock at any time at the election of the holder at a fixed conversion price of $0.17 per share for any conversion occurring on or before the maturity date. In addition, upon issuance, we issued five-year Warrants ("December 10% Note Warrants") to purchase a number of shares equal to the number of shares into which the December 10% Notes can be converted at a fixed exercise price of $0.17. Additionally, if the December 10% Note Warrants were exercised prior to December 15, 2007, the holder would have received an additional warrant on the same terms as the December 10% Note Warrants on a one to one basis. The warrants can be settled in unregistered shares of our common stock. The December 10% Note Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $15,627, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the December 10% Notes. The convertible feature of the December 10% Notes provides for an effective conversion rate that is below market value. Pursuant to EITF No. 98-5 and EITF No. 00-27, we estimated the fair value of such beneficial conversion feature to be $34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the beneficial conversion feature were accreted to interest expense over the term of the December 10% Notes.

On May 1, 2008, a holder of $33,000 of the December 10% Notes converted his $33,000 principal amount and accrued interest of $6,325 at the agreed conversion rate of $0.17 per share. As a result, we issued 232,033 shares of common stock under this conversion.

At December 31, 2008, $17,000 of the December 10% Notes remained outstanding and in default.

AMENDED SERIES A 10% CONVERTIBLE NOTES

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

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

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

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

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

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

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

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

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

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

The new warrants issued in connection with the Amended Notes were evaluated pursuant to EITF Issue No. 00-19 and classified as equity instruments. In connection with the new warrants, we recorded $4,392,664 as an increase to additional paid in capital, based on the estimated fair value at issuance.

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

On July 30, 2008, the holders of the Amended Series A Convertible Notes notified us that we were in default on the notes due to our failure to register the warrants by March 31, 2008 and for failing to make required interest payments. We subsequently registered their warrants under a registration statement declared effective in October 2008. We were obligated to register the shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and to register the Class B-1 Warrants with the SEC by the 30th day following the issuance date of such warrants. Since we failed to effect a registration statement by March 31, 2008, we recorded liquidated damages of $15,000 per month through September 30, 2008, when we stopped recording damages due to the effectiveness of a registration statement in October 2008.

To satisfy the accrued interest and damages through September 30, 2008, on September 19, 2008, we issued 966,750 shares of restricted common stock, valued at the closing price of $0.49, and 966,750 warrants with a strike price of $0.20 in payment of accrued interest of $89,500 and accrued damages of $103,850 per the payment formula in the Loan Agreement. The difference in value of equity instruments issued upon settlement and the liabilities settled resulted in a non-cash loss on settlement of $607,908. We have not yet paid an agreed amount of legal fees, which total $15,379 and are accrued in our accounts payable, associated with the amendment to the notes.

2008 10% CONVERTIBLE NOTES

During the nine months ended December 31, 2008, we raised an aggregate amount of $430,000 from the sale to accredited investors of 10% convertible notes and warrants (2008 10% Convertible Notes). The notes are convertible into our common stock at a fixed conversion price of $0.50 per share prior to maturity and the warrants are exercisable at $0.50 per share for a period of three years ending between July and September 2011. In connection with this financing, we agreed to pay to the investment banking firm that arranged this sale a cash commission of seven percent of the proceeds and warrants equal to seven percent of the gross capital raised which we accounted for as deferred financing costs and amortize over the terms of convertible notes.

The warrants issued as part of the 2008 10% Convertible Notes can be settled in unregistered shares of our common stock. The warrants have been valued using a Binomial Lattice option pricing model and an associated discount of $150,095, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the 2008 10% Convertible Notes. The discount associated with the warrants is amortized over the term of the notes. The convertible feature of the 2008 10% Convertible Notes does not have a beneficial conversion pursuant to EITF 98-5.

CONVERSION AND RESTRUCTURING OF 8% NOTES AND 2008 9% NOTES INTO DECEMBER 2008 10% CONVERTIBLE NOTES

On December 30, 2008, we entered into an agreement with the holders of the 8% Notes and the 2008 9% Notes (see Note 4) to extend the maturity dates of those notes. As part of this arrangement, we also agreed to (a) extend the expiration dates of the warrants originally issued with those notes to July 1, 2012, (b) modify the interest rate to 10%, (c) issue notes in the amount of $265,911 representing loan extension fees, (d) issue new notes representing accrued interest and penalties incurred through September 30, 2008, (e) book the anticipated interest through maturity on the original principal amounts, the loan fees and the accrued interest and damages into another new note. All of these new notes and the modified original notes are convertible into our common stock at 80% of the market price on the date of conversion with a floor on the conversion price of $0.15 per share and a ceiling on the conversion price of $0.25 per share (see Note 4).

The following table summarizes the number of shares of our Common Stock issuable upon the conversion of the restructured December 2008 10% convertible notes using upon the floor conversion price of $0.15 per common share:

Modified Original Notes	4,766,667
New Notes	3,821,407
Total	8,588,074

For accounting purposes, the restructuring and amendment of the 8% and 9% Notes into December 2008 10% Convertible Notes was treated as an extinguishment pursuant to EITF Issue No. 06-6. The changes in the note agreements, conversion feature and warrants were considered substantive as prescribed in that consensus. Consequently, at the amendment date we initially recorded an estimated loss on extinguishment of $1,063,344 as follows:

Reacquisition Price (fair value of notes and warrants as amended)	$1,995,769
Less amounts relieved at date of extinguishment	
Accrued interest and accrued damages	(217,425)
Principal balance of original notes	(715,000)

Loss on extinguishment	$1,063,344
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NOTE 6. EQUITY TRANSACTIONS

In April 2008, we issued 10,170 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.59 per share in payment for regulatory affairs consulting services valued at $6,000 based on the value of the services. Effective as of April 22, 2008, per a patent license agreement, we issued 10,849 shares of restricted common stock to Boston University. This issuance represented the initial payment under the license agreement and was based on our share price at April 22, 2008 and the payment amount of $5,750.

In May 2008, we entered into a Private Placement Agreement with Fusion Capital Fund II, LLC, an Illinois limited liability company for the sale of 1,000,000 shares of our common stock for an aggregate purchase price of $500,000.

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

In May 2008, a holder of $33,000 of the December 10% Notes converted his $33,000 principal amount and accrued interest of $6,325 at the agreed conversion rate of $0.17 per share. As a result, we issued 232,033 shares of common stock under this conversion (See Note 5).

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

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In June 2008, we issued grants of restricted common stock to two employees of 5,000 shares each as additional compensation. Those grants were valued at $2,400 apiece based our closing stock price of $0.48 on the date of issuance.

In July 2008, our Chief Executive Officer converted $35,000 of accrued debt to 100,000 shares of unregistered common stock based upon the closing stock price of $0.35 per share on that day.

In July 2008, a board member and his spouse, both former executives at Hemex, a company we acquired in 1999, converted $147,279 of accrued debt to 446,300 shares of unregistered common stock based upon the closing stock price of $0.33 per share on that day.

In July 2008, our Chief Science Officer converted $150,000 of accrued debt to 468,750 shares of unregistered common stock based upon the closing stock price of $0.32 per share on that day.

In September 2008, we issued 110,138 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.45 per share in payment for legal services valued at $49,562 based on the value of the services.

In September 2008, we issued 38,150 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.40 per share in payment for regulatory affairs consulting services valued at $15,260 based on the value of the services.

In September 2008, we issued 966,750 shares of restricted common stock and 966,750 warrants with a strike price of $0.20 in payment of accrued interest of $89,500 and accrued damages of $103,850 (see note 5) per the payment formula in the Loan Agreement.

In October 2008, we issued 770,000 shares, of which 385,000 were through the exercise of registered warrants and 385,000 were issuances of restricted common stock, for gross proceeds of $192,500.

In October 2008, we issued 51,398 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.31 per share in payment for financial consulting services and research services valued at $16,080 based on the value of the services.

In November 2008, we issued 200,000 shares, of which 100,000 were through the exercise of registered warrants and 100,000 were issuances of restricted common stock, for gross proceeds of $50,000.

In November 2008, we issued 95,550 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for financial consulting services valued at $23,888 based on the value of the services.

In November 2008, we issued 98,684 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for legal services valued at $18,750 based on the value of the services.

In December 2008, we issued 59,950 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.28 per share in payment for legal services valued at $16,606 based on the value of the services.

In December 2008, we issued 700,000 shares of restricted common stock and 700,000 warrants with a strike price of $0.25 to an accredited investor for gross proceeds of $175,000.

In December 2008, we issued 338,099 shares of restricted common stock pursuant at $0.25 per share in payment for legal services valued at $84,288 based on the value of the services.

In December 2008, we issued 23,636 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.25 per share in payment for regulatory affairs consulting services valued at $6,000 based on the value of the services.

In December 2008, we issued 77,192 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.26 per share in payment for regulatory affairs consulting services valued at $20,070 based on the value of the services.

In December 2008, we issued 35,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.24 per share in payment for regulatory affairs consulting services valued at $8,400 based on the value of the services.

In December 2008, we issued 15,337 shares of restricted common stock pursuant at $0.33 per share in payment for public relations services valued at $5,000 based on the value of the services.

NOTE 7. OTHER CURRENT LIABILITIES

At December 31, 2008 and March 31, 2008, our other current liabilities were comprised of the following items:

	December 31, 2008	March 31, 2008
Accrued liquidated damages	34,500	337,400
Accrued interest	402,663	412,914
Accrued legal fees and other	272,228	340,495
Total other current liabilities	$ 709,391	$1,090,809

NOTE 8. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. We are not presently a party to any pending or threatened legal proceedings.

OTHER

We have not filed our income tax returns for certain prior periods. Whereas we are in the process of remediating this matter, we may be subject to penalties; however, those amounts are not expected to be significant.

NOTE 9. SUBSEQUENT EVENTS

In January 2009, we issued 23,566 shares of restricted common stock as a patent license payment valued at $5,750.

In January 2009, we issued 1,452,926 shares of common stock as a result of conversions of $419,473 of convertible notes payable, other notes payable and related accrued interest. The shares were issued to accredited investors.

In January 2009, we issued 105,869 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at an average price of $0.19 per share in payment for regulatory affairs consulting services valued at $19,550 based on the value of the services.

In January 2009, we issued 353,000 shares of restricted common stock and warrants to purchase 353,000 shares of common stock in exchange for $55,310. The shares were issued to an accredited investor.

In February 2009, we issued 28,947 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at $0.19 per share in payment for regulatory affairs consulting services valued at $5,500 based on the value of the services.

In February 2009, we issued 157,000 shares of restricted common stock and warrants to purchase 157,000 shares of common stock in exchange for $25,120. The shares were issued to an accredited investor.

In February 2009, we issued 78,743 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at a price of $0.18 per share in payment for regulatory affairs consulting services valued at $13,780 based on the value of the services.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by the condensed consolidated financial statements and notes thereto, included in Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-Q are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("the Securities Act"), and Section 21E of the Exchange Act. Such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Aethlon Medical, Inc. ("we", "us" or "the Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward looking statements contained in this Form 10-Q. Such potential risks and uncertainties include, without limitation, completion of our capital-raising activities, FDA approval of our products, other regulations, patent protection of our proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of our filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-Q, and we assume no obligation to update the forward-looking statements, or to update the reasons actual results could differ from those projected in such forward-looking statements.

We refer readers to the "Risk Factors" set forth in our Annual Report on Form 10-KSB file on July 15, 2008, for additional factors to be considered in reviewing this Quarterly Report.

THE COMPANY

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

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 http://www.aethlonmedical.com.

The accompanying unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. We have experienced continuing losses from operations, are in default on certain debt, have negative working capital of approximately ($2,731,000), recurring losses from operations and a deficit accumulated during the development stage of approximately ($35,938,000) at December 31, 2008, which among other matters, raises significant doubt about our ability to continue as a going concern. We have not generated significant revenue or any profit from operations since inception. A significant amount of additional capital will be necessary to advance the development of our products to the point at which they may become commercially viable. Our current financial resources are insufficient to fund our capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2009. Therefore we will be required to seek additional funds through debt and/or equity financing arrangements to finance our current and long-term operations.

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We are currently addressing our liquidity issue by exploring investment capital opportunities through the public markets, specifically, through private placement of common stock. We believe that our access to capital, together with existing cash resources, will be sufficient to meet our liquidity needs for fiscal 2009. However, no assurance can be given that we will receive any funds in connection with our capital raising efforts, in which case we will be required to significantly curtail operations, sell or license out significant portions of our technology, or possibly cease operations.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2007

Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2008 were $867,369 in comparison with $526,975 for the comparable quarter a year ago. This increase of $340,394, or 65%, was primarily due to an increase in payroll and related expenses of $345,585 and a decrease in general and administrative expenses of $23,794 partially offset by an increase in professional fees of $18,603.

The $345,585 increase in payroll and related expenses was largely due to a $347,718 increase in non-cash stock compensation expense.

The $23,794 decrease in general and administrative expenses was due primarily to decreases in lab supplies of $5,075, in laboratory fees of $1,575, in insurance expense of $7,101, in utility expenses of $4,857 and in conference expense of $5,495.

Our professional fees increased by $18,603 due to increased accounting-related fees of $9,986 and scientific and consulting fees expense of $27,578 partially offset by reduced legal fees of $18,820 and decreased investor relations expense of $4,155.

Other Expenses (Income)

Other expenses (income) consist primarily of the change in the fair value of our warrant liability, gain on extinguishment of debt, loss on settlement of accrued interest and damages, interest expense and other expense. Other expenses for the three months ended December 31, 2008 were $1,477,185 in comparison with other expense of $2,076,108 for the comparable quarter a year ago. Both periods included non-cash expense from the change in the fair value of warrant liability. For the three months ended December 31, 2008, the change in estimated fair value was $50,064 and for the three months ended December 31, 2007, the change in estimated fair value was $633,249.

We recorded a loss on extinguishment of debt of $1,063,344 in the three months ended December 31, 2008 compared to a loss on extinguishment of debt of $489,013 in the prior period. Both losses on extinguishment arose from the restructuring of notes payable.

Interest expense was $363,964 for the three months ended December 31, 2008 compared to $952,068, a decrease of $588,104. The largest component of our interest expense in the three months ended December 31, 2008 was the amortization of debt discount of $261,086 that arose from the valuation of any warrants or beneficial conversion feature associated with our debt instruments. That value was recorded as a discount against the face value of the notes and then amortized over the term of the notes. In the three months ended December 31, 2007 we amortized $902,299 of debt discounts.

Net Loss

As a result of the decreased expenses noted above, we recorded a consolidated net loss of approximately $2,345,000 and $2,603,000 for the quarters ended December 31, 2008 and 2007, respectively.

Basic and diluted loss per common share were ($0.05) for the three month period ended December 31, 2008 compared to ($0.07) for the period ended December 31, 2007. This decrease in loss per share was the result of the decreased net loss during the three month period ended December 31, 2008, as compared to the three month period ended December 31, 2007 combined with the increase in average shares outstanding.

NINE MONTHS ENDED DECEMBER 31, 2008 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2007

Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2008 were $2,223,687 in comparison with $2,088,276 for the comparable period a year ago. This increase of $135,411, or 6%, was due to an increase in Payroll & Related expenses of $179,386 and a decrease in general and administrative expenses of

$64,102 partially offset by an increase in professional fees of $20,127.

The $179,386 increase in payroll and related expenses was largely due to a $128,959 increase in non-cash stock compensation expense.

The $64,102 decrease in general and administrative expenses was due primarily to decreases in lab supplies of $23,008, in laboratory fees of $9,416, in insurance expense of $15,342, in utility expenses of $14,572 and in conference expense of $10,043.

Our professional fees increased by $20,127 due to increased accounting-related fees of $90,388 and business development expense of $25,546 partially offset by reduced legal fees of $51,599 and decreased investor relations expense of $56,760.

Other Expenses (Income)

Other expenses (income) consist primarily of the change in the fair value of our warrant liability, loss on settlement of accrued interest and damages, interest expense and other expense. Other expenses (income) for the nine months ended December 31, 2008 were $2,932,502 in comparison with other expense of $1,306,058 for the comparable period a year ago. Both periods included non-cash income from the change in the fair value of warrant liability. For the nine months ended December 31, 2008, the change in estimated fair value was $213,903 and for the nine months ended December 31, 2007, the change in estimated fair value was $280,776.

The loss on settlement of accrued interest and damages was $607,908. There was no comparable expense in the prior period.

We recorded a loss on extinguishment of debt of $1,063,344 in the nine months ended December 31, 2008 compared to a loss on extinguishment of debt of $489,013 in the prior period. Both losses on extinguishment arose from the restructuring of notes payable.

Interest expense was $1,477,854 for the nine months ended December 31, 2008 compared to $1,077,794, an increase of $258,420. The largest component of our interest expense in the nine months ended December 31, 2008 was the amortization of debt discount and deferred offering costs of $1,251,326 that arose from the valuation of any warrants or beneficial conversion feature and deferred offering costs associated with our debt instruments. That value of the debt discount was recorded as a discount against the face value of the notes and the deferred offering costs were capitalized as assets. Both the debt discount and the deferred offering costs were then amortized over the term of the notes. By comparison, we had $1,469,181 in amortization of debt discount and deferred offering costs in the nine months ended December 31, 2007.

Net Loss

As a result of the increased expenses noted above, we recorded a consolidated net loss of approximately $5,156,000 and $3,394,000 for the nine month periods ended December 31, 2008 and 2007, respectively.

Basic and diluted loss per common share were ($0.12) for the nine month period ended December 31, 2008 compared to ($0.10) for the period ended December 31, 2008. This decrease in loss per share was due to the increased net loss combined with the larger number of weighted average shares outstanding over the nine month period ended December 31, 2008 compared to the prior period.

LIQUIDITY AND CAPITAL RESOURCES

To date, we have funded our 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. At December 31, 2008 we had $92,000 in cash, compared to approximately $255,000 at March 31, 2008, representing a decrease of approximately $163,000. During the nine months ended December 31, 2008, operating activities used net cash of approximately $1,500,000, through our financing activities we received $917,500 from the issuance of common stock and $430,000 from the issuance of convertible notes.

During the nine month period ended December 31, 2008, net cash used in operating activities was approximately $1,500,000 and resulted from the approximate net loss of $5,156,000 coupled with the change in the estimated fair value of warrant liability of approximately $214,000. Those factors were offset principally by the amortization of note discount and deferred financing costs of $1,251,000, the loss on debt extinguishment of approximately $1,063,000, the loss on settlement of accrued interest and damages of $608,000, the fair market value of common stock of approximately $249,000 issued in payment for services and approximately $591,000 in stock-based compensation and an increase in accounts payable and accrued liabilities of approximately $137,000, and a reduction of due to related parties of approximately $28,000.

An decrease in working capital during the nine months ended December 31, 2008 in the amount of approximately $768,000 changed our negative working capital position to approximately $4,248,000 at December 31, 2008 from a negative working capital of approximately $3,481,000 at March 31, 2008.

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During the nine month period ended December 31, 2008, four of our officers and directors converted to our common stock $332,279 of accrued salaries and expenses due to them. These conversions had the effect of improving our working capital by $332,279.

Our current deficit in working capital requires 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. Subsequent to December 31, 2008, we raised an additional $80,970 through the sale of common stock and warrants to an accredited investor and we continue to seek additional financing.

We currently are in default on certain debt instruments. We are negotiating extension agreements or other forms of waivers with the note holders. There can be no assurance that we will successfully negotiate extensions or waivers to these defaults on terms acceptable to us or at all. If the negotiations are not successful, then we may face claims for payment by the noteholders.

Our operations to date have consumed substantial capital without generating revenues, and will continue to require substantial capital funds to conduct necessary research and development and pre-clinical and clinical testing of Hemopurifier(R) products, and to market any of those products that receive regulatory approval. We do not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Our future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, and our ability to establish collaborative arrangements, effect successful commercialization strategies, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future, and presently require a minimum of $168,000 per month to sustain operations.

We do not believe that inflation has had or is likely to have any material impact on our limited operations.

At the date of this filing, we plan to purchase significant amounts of equipment and hire significant numbers of employees subject to successfully raising additional capital.

PLAN OF OPERATION

We are a development stage medical device company that has not yet engaged in significant commercial activities. The primary focus of our resources is the advancement of our proprietary Hemopurifier(R) platform treatment technology, which is designed to rapidly reduce the presence of infectious viruses and toxins in human blood. Our focus is to prepare our Hemopurifier(R) to treat chronic viral conditions, acute viral conditions and viral-based bioterror threats in human clinical trials.

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

Subject to the availability of working capital, we anticipate continuing to increase spending on research and development over the next 12 months. Additionally, associated with our anticipated increase in research and development expenditures, we anticipate purchasing additional amounts of equipment during this period to support our laboratory and testing operations. Operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(R) products, as well as market any of those products that receive regulatory approval. We do not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is dependent for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

CRITICAL ACCOUNTING POLICIES

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

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to measurement of stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, and the classification of warrant obligations, and evaluation of contingencies.

The fair value of our warrant liabilities is determined based on unobservable inputs, which is a Level 3 classification. We record variations in our warrant liability account on our balance sheet at fair value with changes in fair value recorded as change in fair value of warrant liability in our consolidated statements of operations.

We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations.

There have been no changes to our critical accounting policies as disclosed in our Form 10-KSB for the year ended March 31, 2008.

OFF-BALANCE SHEET ARRANGEMENTS

There are no guarantees, commitments, lease and debt agreements or other agreements that could trigger an adverse change in our credit rating, earnings, cash flows or stock price, including requirements to perform under standby agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management evaluated our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as to whether such disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the chief executive officer, as appropriate to allow timely decisions regarding required disclosure. Based on our evaluation and subject to the foregoing, our Chief Executive Officer concluded that there were no material weaknesses in our disclosure controls and procedures and that such disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance of achieving the desired control objectives, and therefore there were no corrective actions taken.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Since our evaluation as of March 31, 2008 we have had no significant changes in our internal controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. We are not presently a party to any pending or threatened legal proceedings.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

All of the following stock issuances were made pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Act"). There was no general solicitation or advertising of the offerings or issuances. The offerings were made in compliance with Regulation D of the Securities Act with respect to investors we deem to be "accredited" as defined in Regulation 501 of the Act, and Section 4(2) of the Securities Act with respect to all other offerings. The cash proceeds (if any) were used for general working capital purposes.

In October and November 2008, warrant holders exercised 485,000 warrants with a strike price of $0.50 per share and received a matching issuance of 485,000 restricted shares of common stock. This generated $242,500 in proceeds. The warrant holders are accredited investors.

In December 2008, we issued 700,000 shares of restricted common stock and 700,000 warrants with a strike price of $0.25 to an accredited investor for gross proceeds of $175,000.

In December 2008, we issued options to our Chief Executive Officer, our Chief Science Officer, our two outside directors and another employee to purchase an aggregate amount of 4,050,000 shares of our common stock. The exercise prices were at market or above and ranged from $0.25 to $0.41 per share. The options all have lives of up to ten years.

In January 2009, we issued 23,566 shares of restricted common stock as a patent license payment valued at $5,750.

In January 2009, we issued 1,452,926 shares of common stock as a result of conversions of $419,473 of convertible notes payable, other notes payable and related accrued interest. The shares were issued to accredited investors.

In January 2009, we issued 353,000 shares of restricted common stock and warrants to purchase 353,000 shares of common stock in exchange for $55,310. The shares were issued to an accredited investor.

In February 2009, we issued 157,000 shares of restricted common stock and warrants to purchase 157,000 shares of common stock in exchange for $25,120. The shares were issued to an accredited investor.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of $352,500 have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. Additionally, on July 30, 2008, the holders of the Amended Series A Convertible Notes notified us that we were in default on the notes due to our failure to register the warrants by March 31, 2008, for failing to make required interest payments and failing to pay certain legal fees. We subsequently issued shares of common stock and warrants in payment of the accrued interest and damages and filed a registration statement to fulfill our registration obligations. As that registration statement was declared effective, we no longer accrue liquidated damages relating to that financing. We have not yet paid the required legal fees to the holders' counsel.

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

None.

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

(a) Exhibits. The following documents are filed as part of this report:

31 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act rules 13a- 15 and 15d-15(c) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of James A. Joyce, Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AETHLON MEDICAL, INC.

Date: FEBRUARY 17, 2009

BY: /S/ JAMES A. JOYCE

JAMES A. JOYCE
CHAIRMAN, PRESIDENT, CHIEF
ACCOUNTING OFFICER AND
CHIEF EXECUTIVE OFFICER