

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2000

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.)

7825 FAY AVENUE, SUITE 200, LA JOLLA, CA 92037

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(858) 456-5777

-----  
(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  No .

Number of shares of common stock outstanding  
on December 31, 2000 2,771,652

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Balance Sheets at December 31, 2000 (unaudited)  
and March 31, 2000

Consolidated Statements of Operations (unaudited) for the three and nine months  
ended December 31, 2000 and December 31, 1999

Consolidated Statements of Cash Flows (unaudited) for the nine months ended  
December 31, 2000 and December 31, 1999

Consolidated Statement of Stockholders' Deficiency (unaudited)

Notes to Consolidated Financial Statements

ITEM 2. Management's Discussion and Analysis or Plan of Operation

PART II. OTHER INFORMATION

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	December 31, 2000 (unaudited)	March 31, 2000	
ASSETS			
<S>	<C>	<C>	
CURRENT ASSETS			
Cash	\$1,622	\$217,017	
Accounts receivable	32,043	61,495	
Prepaid expenses	24,349	36,940	
Employee advances	-	15,800	
	-----		
Total current assets	58,014	331,252	
PROPERTY AND EQUIPMENT, NET		33,984	41,535
OTHER ASSETS			
Patents and trademarks, net	407,795	177,065	
Deferred debt expense, net	134,745	273,738	
Goodwill, net	1,558,091	495,088	
Other	1,330	1,330	
	-----		
Total other assets	2,101,961	947,221	
	-----		
Total assets	\$2,193,959	\$1,320,008	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

Accounts payable:			
Trade	\$756,044	\$740,562	
Related parties	236,217	234,324	
Notes payable, net of discount	1,220,238	526,708	
Accrued liabilities	346,661	201,631	
Deferred compensation	329,835	329,835	
	-----		
Total current liabilities	2,888,995	2,033,060	

Convertible notes, 8 %, due November 1, 2002, net of discount	223,134	-	
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STOCKHOLDERS' DEFICIENCY

Common stock - \$.001 par value 25,000,000 shares authorized; 2,771,652 and 2,672,500 shares issued and outstanding		2,772	2,673
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Additional paid in capital - common stock	4,242,132	3,290,865
Additional paid in capital - warrants and options	1,865,187	739,826
Deficit accumulated during development stage	(7,028,261)	(4,746,416)

Total stockholders' deficiency (918,170) (713,052)

Total liabilities and stockholders' deficiency \$2,193,959 \$1,320,008

</TABLE>

See accompanying notes.

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

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>

<CAPTION>

	Three months ended		Cumulative During			
	December 31		Nine months ended		Development Stage	
	2000	1999	2000	1999	January 31, 1984	
					To	
					December 31, 2000	
	<C>	<C>	<C>	<C>	<C>	
<b>REVENUE</b>						
Grant income	\$ -	\$ -	\$ -	\$ -	\$ 1,430,799	
Subcontract income	-	-	-	-	73,746	
Sale of research and development	-	-	-	-	35,810	
Other income	500	-	22,979	-	53,976	
Interest income	-	-	-	-	17,415	
Total revenue	500	-	22,979	-	1,611,746	
<b>EXPENSES</b>						
Interest and debt expense	508,101	101,474	1,175,248	128,738	1,691,094	
Personnel costs	179,774	110,247	525,480	314,940	3,830,605	
Professional and consulting fees	112,883	67,647	213,123	208,436	784,361	
Amortization-goodwill	42,454	-	127,361	-	140,056	
Rent and office expense	40,139	19,575	101,467	53,733	593,181	
Insurance	10,028	13,138	43,491	19,409	133,977	
Laboratory supplies	24,475	-	38,206	-	140,589	
Travel and meetings	6,525	9,538	26,403	19,009	170,558	
Miscellaneous	8,142	295	25,544	3,815	130,474	
Depreciation	4,092	2,555	11,925	7,319	146,843	
Amortization-patents	2,043	2,043	6,129	6,129	49,028	
Equipment and maintenance	-	827	-	6,307	-	
R & D consultation	-	-	-	-	240,463	
Subcontract expense	-	-	-	-	195,964	
Contractual costs	-	-	-	-	192,112	
Dues and subscriptions	-	-	-	-	13,596	
Total expenses	939,483	326,512	2,300,694	761,528	8,624,530	
LOSS BEFORE INCOME TAXES		(938,983)	(326,512)	(2,277,705)	(761,528)	(7,012,784)
PROVISION FOR INCOME TAXES		2,675	81	4,140	228	15,477
NET LOSS	\$ (941,658)	\$ (326,593)	\$(2,281,845)	\$ (761,756)	\$(7,028,261)	
<b>PER SHARE - BASIC AND DILUTED:</b>						
Net loss	\$ (0.34)	\$ (0.13)	\$ (0.82)	\$ (0.29)		

Weighted average number of  
common shares outstanding 2,771,652 2,595,000 2,771,652 2,595,000

See accompanying notes.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>  
<CAPTION>

	Cumulative During		
	Nine months ended	Development Stage	
	December 31	January 31, 1984	
	To		
	2000	1999	December 31, 2000
	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$(2,281,845)	\$ (761,756)	\$(7,028,261)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	11,925	7,319	146,843
Amortization-patents & goodwill		133,490	6,129 189,083
Amortization-debt expense & note discount		1,048,359	12,126 1,319,517
Services paid by issuance of warrants		8,373	- 13,373
Deferred compensation forgiven		-	- 217,223
(Increase) decrease in assets:			
Accounts receivable and advances		45,252	(15,800) 30,623
Prepaid expenses	18,981	(32,349)	(17,959)
Other assets	-	(1,330)	(1,329)
Increase (decrease) in liabilities:			
Accounts payable	61,482	169,318	659,466
Accrued liabilities	145,030	117,847	413,899
Deferred compensation	-	15,827	329,834
	-----	-----	-----
Net cash used by operating activities	(808,953)	(482,669)	(3,727,688)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(6,478)	(7,922)	(177,382)
Sale of equipment	4,000	-	4,000
Purchase of patents	-	-	(120,564)
Cash of acquired company	2,286	-	10,728
	-----	-----	-----
Net cash used by investing activities	(192)	(7,922)	(283,218)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in notes payable	687,500	597,000	1,804,500
Deferred debt costs	(93,750)	(59,000)	(208,500)
Repayment of notes payable		(25,000)	(64,500)
Loans from stockholders	-	-	370,384
Advances from affiliate	-	-	122,100
Proceeds from issuance of common stock		-	- 1,988,544
	-----	-----	-----
Net cash provided by financing activities	593,750	513,000	4,012,528
NET INCREASE IN CASH	(215,395)	22,409	1,622
CASH, BEGINNING	217,017	3,052	-
	-----	-----	-----
CASH, END	\$ 1,622	\$ 25,461	\$ 1,622

SUPPLEMENTAL DISCLOSURES OF CASH  
FLOW INFORMATION

Cash paid during the period for:

Interest	\$ 100,774	\$ 4,703	\$ 143,081
Income taxes	\$ 2,783	-	9,945

SUPPLEMENTAL DISCLOSURES OF NONCASH  
INVESTING AND FINANCING ACTIVITIES

Loans converted to common stock of Hemex	\$ -	\$ -	\$ 435,094
Net assets of entities acquired in exchange for the issuance of common stock and options	\$ 1,200,000	\$ -	\$ 1,839,014
Patent acquired for 12,500 shares of common stock	\$ -	\$ -	\$ 100,000
Patent costs included in liabilities	\$ 95,817	\$ -	\$ 95,817
Debt placement fees paid by issuance of warrants	\$ 52,207	\$ -	\$ 298,320
Allocation of note proceeds to note discount	\$ 384,245	\$ -	\$ 1,119,071
Beneficial conversion feature on note	\$ 150,000	\$ -	\$ 150,000

</TABLE>

See accompanying notes.

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY (UNAUDITED)

<TABLE>

<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID IN CAPITAL- CAPITAL	WARRANTS and OPTIONS	ACCUMULATED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT MARCH 31, 2000		2,672,500	\$ 2,673	\$ 3,290,865	\$ 739,826	\$ (4,746,416) \$ (713,052)
Issuance of common stock and options for acquisition of Cell Activation	99,152	99	801,267	398,634		1,200,000
Warrants to acquire common stock issued with promissory notes				218,780		218,780
Warrants issued as compensation for sale of promissory notes				328,318		328,318
Warrants to acquire common stock issued with convertible note				165,466		165,466
Beneficial conversion feature on note				150,000		150,000
Options granted to directors for fees				14,163		14,163
Net loss for the nine months ended December 31, 2000				(2,281,845)	(2,281,845)	
BALANCE AT DECEMBER 31, 2000		2,771,652	\$ 2,772	\$ 4,242,132	\$ 1,865,187	\$ (7,028,261) \$ (918,170)

</TABLE>

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2000

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Aethlon Medical, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the

instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ending March 31, 2001. For further information, refer to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2000, which includes audited financial statements and footnotes as of and for the years ended March 31, 2000 and 1999.

The consolidated financial statements include the accounts of Aethlon Medical, Inc. and its wholly owned subsidiaries, Hemex, Inc., Aethlon, Inc., Syngen Research, Inc., and Cell Activation, Inc. Syngen Research and Cell Activation are doing business as Aethlon Laboratories, Inc. All significant intercompany balances and transactions have been eliminated.

#### NOTE 2. CAPITAL TRANSACTION

On April 10, 2000, the Company acquired all the outstanding common stock of Cell Activation, Inc. ("Cell") in exchange for 99,152 shares of common stock of the Company. In addition, all the outstanding stock options of Cell were exchanged for options to purchase 50,848 shares of common stock of the Company for \$.3933 per share. The options expire in 2007. The acquisition has been accounted for using the purchase method of accounting whereby the results of operations of Cell since the date of acquisition have been included in the accompanying Statement of Operations.

The purchase price for Cell was \$1,200,000 which was allocated between the shares and options based on the estimated fair value of each component of the consideration. Thus the value allocated to the 99,152 shares of stock was \$801,366, and the value allocated to the options for 50,848 shares of stock was \$398,634. The excess of the purchase price over the tangible assets acquired has been allocated \$141,041 to patents and trademarks and \$1,190,364 to goodwill. Patents will be amortized over their life from date of issuance, and goodwill will be amortized over ten years. Had the Cell acquisition taken place on April 1, 1999, the impact on the Company's results of operations for the three and nine months ended December 31, 1999 would not have been material.

#### NOTE 3. NOTES PAYABLE

During the quarter ended December 31, 2000, the Company issued a two-year 8% convertible note in the principal amount of \$375,000. A detachable warrant to purchase 119,048 shares of the Company's common stock was issued in connection with this note. Aethlon has allocated the proceeds from the note to the warrant and the note on a pro-rata basis based on the estimated fair value of each financial instrument separately. The fair value of the warrant was estimated using the Black-Scholes pricing model, and present value calculations were made to estimate the fair value of the note without the warrant. Of the note proceeds, \$165,466 was allocated to the warrant and recorded as note discount. The note discount is being amortized as additional interest and debt expense over the two-year term of the related note. The note is convertible into common stock of the Company at \$3.15 per share or, if less, at 75% of the average of the three lowest closing bid prices for the Company's stock during the ten trading days prior to conversion. The Company has determined that the intrinsic value to the investor of this beneficial conversion feature is \$150,000, and this amount has been charged to interest expense and added to additional paid-in capital.

At December 31, 2000 outstanding 12% promissory notes in the aggregate principal amount of \$525,000 have reached their one-year maturity, and interest on such notes for periods after maturity is accruing at the annual rate of 15%.

#### NOTE 4. OTHER OPTIONS AND WARRANTS

On November 6, 2000, the Company approved the issuance of options for 200,000 shares of its common stock to the Company's general counsel. The options are exercisable at \$3.25 per share and expire on December 31, 2005. Under an agreement between the Company and its general counsel, any proceeds from the sale of shares obtained through exercise of these options in excess of the

exercise price will be applied to reduce the outstanding legal fees of general counsel. In accordance with this agreement, no expense has been recorded by the Company with respect to these options.

On December 29, 2000, the Company issued warrants for 35,250 shares of its common stock as compensation for the sale of promissory notes. The warrants are exercisable at \$5.00 per share and expire on various dates between November 4, 2004 and September 14, 2005.

At December 31, 2000, there were options and warrants outstanding for a total of 1,736,194 shares of common stock at exercise prices from \$.3933 to \$6.00, averaging \$3.86.

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

### PLAN OF OPERATION

The Company is in the initial stages of its operations and has not yet engaged in significant commercial activities. During the fiscal year ending March 31, 2001, the Company plans to continue its research and development activities relating to the Hemopurifier-TM-, with particular priority on the Hemopurifier-TM- for the removal of HIV virus from the blood.

The implementation of the Company's business plan is dependent upon its ability to raise equity capital. During the fiscal year ended March 31, 2000 and the nine months ended December 31, 2000, the Company financed its research and development activities through the private placement of approximately \$1,365,000 principal amount of 12-month notes bearing interest at 12% per annum. The Company has entered into an agreement with an investment banking firm under which the firm will use its best efforts to sell \$10 million of the Company's common stock in a private placement offering. The Private Placement Memorandum was issued in July 2000 but was withdrawn in September pending revisions in the business plan. The Company expects to re-issue the Memorandum during the fiscal year beginning April 1, 2001.

On November 1, 2000, the Company entered into a Subscription Agreement under which up to \$5,000,000 in convertible notes may be issued to a financial institution. Under this arrangement, a note for \$375,000 was issued on November 1, 2000 and a second note for \$200,000 was issued on February 12, 2001. There is no assurance that the terms and conditions prescribed in the Subscription Agreement for the issuance of additional convertible notes will be satisfied.

The Company believes that the successful completion of the \$10 million stock offering will satisfy the Company's anticipated capital requirements related to the development of its business for three years; however, additional financing may be required in the case of further acquisitions or to successfully develop other technologies. At the present time, the Company has no plans to purchase significant amounts of equipment or hire significant numbers of additional employees prior to the successful completion of the private placement of its common stock.

Presently Aethlon has no internal source of cash resources and has no expectation for internally generated cash over the next twelve months. Aethlon's ongoing research and development activities over the next twelve months will be dependent upon funding from the aforementioned private placement of equity, the sale of additional convertible notes, or other sources of capital.

### FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-QSB are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("the Securities Act"), and Section 21E of the Securities Exchange Act of 1934 ("the Exchange Act"). 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. ("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-QSB. Such potential risks and uncertainties include, without limitation, completion of the Company's capital-raising activities, FDA approval of the Company's products, other regulations, patent protection of the Company's proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of the Company's filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-QSB, and the Company assumes 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.

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## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None

#### ITEM 2. CHANGES IN SECURITIES

None

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

#### ITEM 5. OTHER INFORMATION

None

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - None

(b) No Reports on Form 8-K were filed during the quarter ended December 31, 2000.

### 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 20, 2000

/s/ Franklyn S. Barry, Jr.  
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Franklyn S. Barry, Jr., President

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