AETHLON MEDICAL INC
Form 10QSB
November 19, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003

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 [X] No [ ].

The number of shares of common stock of the registrant outstanding as of November 14, 2003 was 8,174,960.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET AT SEPTEMBER 30, 2003 (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 AND FOR THE

PART I.
FINANCIAL INFORMATION

All references to "us", "we", "Aethlon", "Aethlon Medical", or "the Company" refer to Aethlon Medical, Inc., its predecessors and its subsidiaries.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2003 (Unaudited)
ASSETS	
Current assets	
Cash	$ 937
Prepaid expenses	12,219
	13,156
Property and equipment, net	19,195
Patents and patents pending, net	249,010
Employment contract	31,734
Other assets	5,605

	$ 318,700

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable and accrued liabilities	$ 1,575,711
Due to related parties	1,533,908
Notes payable	392,500
Convertible notes payable	660,000
	4,162,119
Commitments and Contingencies	
Stockholders' Deficit	
Common stock,par value $0.001 per share; 25,000,000 shares authorized; 7,994,960 shares issued and outstanding	7,995
Additional paid-in capital	12,480,423
Deficit accumulated during development stage	(16,331,837)
	(3,843,419)
	$ 318,700

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

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended September 30, 2003 and 2002 and For the Period January 31, 1984 (Inception) Through September 30, 2003
(Unaudited)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Six Months Ended September 30, 2003	Six Months Ended September 3 2002
REVENUES				
Grant income	$ --	$ --	$ --	$ -
Subcontract income	--	--	--	-
Sale of research and development	--	--	--	-
	--	--	--	-
EXPENSES				
Personnel	107,478	164,941	210,131	298,38

Professional fees	80,932	223,823	136,164	334,16
Impairment	--	--	--	-
Other expenses	76,726	87,534	155,532	161,27
	265,136	476,298	501,827	793,82
OPERATING LOSS	(265,136)	(476,298)	(501,827)	(793,82
OTHER EXPENSE (INCOME)				
Interest and other debt expenses	21,994	170,385	203,495	253,65
Interest income	--	--	--	-
Other	--	--	--	(1,61
	21,994	170,385	203,495	252,02
NET LOSS	(287,130)	(646,683)	(705,322)	(1,045,85
BASIC AND DILUTED LOSS PER COMMON SHARE	($ 0.04)	($ 0.12)	($ 0.09)	($ 0.2
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,753,547	5,448,408	7,536,108	5,342,505

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

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AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended September 30, 2003 and 2002 and For the Period January 31, 1984 (Inception) Through September 30, 2003

(Unaudited)

	Six Months Ended September 30, 2003	Six Months Ended September 30, 2002	Janu (I Se
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (705,322)	$ (1,045,850)	$(
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	78,993	81,808	
Gain on sale of property and equipment	--	--	
Fair market value of warrants issued in connection with accounts payable and debt	--	(24,714)	
Fair market value of common stock, warrants and			

options issued for services	22,500	57,000
Beneficial conversion feature of convertible notes payable	150,000	230,000
Impairment of patents pending	--	--
Impairment of goodwill	--	--
Deferred compensation forgiven	--	--
Changes in operating assets and liabilities:		
Prepaid expenses	(1,909)	76,224
Other assets	--	--
Accounts payable and accrued liabilities	29,093	99,670
Due to related parties	118,909	233,612
Net cash used in operating activities	(307,736)	(292,250)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,659)	1,197)
Acquisition of patents and patents pending	--	(19,995)
Proceeds from sale of property and equipment	--	--
Cash of acquired company	--	--
Net cash used in investing activities	(2,659)	(21,192)

(continued)

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

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended September 30, 2003 and 2002 and For the Period January 31, 1984 (Inception) Through September 30, 2003

(Unaudited)

	Six Months Ended September 30, 2003	Six Months Ended September 30, 2002	January 31,1984 (Inception) Through September 30, 2003
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of notes payable	$ --	$ 255,000	$ 1,480,000
Principal payments on notes payable	(160,000)	(25,000)	(170,000)
Net proceeds from issuance of convertible notes payable	150,000	--	948,000
Net proceeds from issuance of common stock	315,000	74,000	3,469,603
Net cash provided by financing activities	305,000	304,000	5,727,603

NET (DECREASE) INCREASE IN CASH	(5,395)	(9,442)	937
CASH - beginning of period	6,332	10,667	--
CASH - end of period	$ 937	$ 1,225	$ 937

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

AETHLON MEDICAL, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. (the "Company") is a development stage therapeutic device company focused on expanding the applications of its Hemopurifier (TM) platform technology, which is designed to rapidly reduce the presence of infectious viruses and toxic viral proteins from human blood. In this regard, Aethlon Medical's core focus is the development of therapeutic devices that treat HIV/AIDS, Hepatitis-C, and other infectious diseases. In pre-clinical testing, the Company's lead product, AEMD-45 removed 55% of HIV from human blood in three hours and in excess of 85% in twelve hours. This same treatment cartridge was able to remove 90% of toxic proteins that deplete immune cells in one hour. In January of 2003, the Company completed early stage blood studies of its HCV-Hemopurifier, which documented a consistent ability to remove 58 percent of the Hepatitis-C virus from infected blood in two hours. The Company is in the development stage on the Hemopurifier and significant research and testing are still needed to reach commercial viability. Any resulting medical device or process will require approval by the U.S. Food and Drug Administration ("FDA"), and the Company has not yet begun efforts to obtain FDA approval on its current lead product candidate, which may take several years. Since many of the Company's patents were issued in the 1980's, they are scheduled to expire in the near future. Thus, such patents may expire before FDA approval, if any, is obtained.

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

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

The accompanying unaudited condensed consolidated financial statements of Aethlon Medical, Inc. (the "Company") have been prepared in accordance with GAAP 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 GAAP 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 six-month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending March 31, 2004. For further information, refer to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2003, which includes audited financial statements and footnotes as of and for the years ended March 31, 2003 and 2002.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

STOCK BASED COMPENSATION

At September 30, 2003, the Company has two stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related Interpretations.

No stock-based employee compensation cost is reflected in net loss, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," as amended to stock-based employee compensation.

	2003	2002
Net loss:		
As reported	$ (705,322)	$(1,045,850)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(26,000)	(120,000)
Pro forma	$ (731,322)	$(1,165,850)
Basic and diluted net loss per share:		
As reported	$ (0.09)	$ (0.20)

Pro forma	$ (0.10)	$ (0.22)

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 Statement of Financial Accounting Standards 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 total potential common shares that have not been included in such computation are approximately 1,140,000 (using the treasury stock method) at September 30, 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements discussed in the notes to the March 31, 2003 audited consolidated financial statements, filed previously with the U.S. Securities and Exchange Commission in Form 10-KSB, that were required to be adopted during the period ended September 30, 2003 did not have a significant impact on the Company's financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the September 30, 2002 financial statement presentation to correspond to the September 30, 2003 format.

NOTE 3. CONVERTIBLE PROMISSORY NOTES

CONVERTIBLE PROMISSORY NOTES

In April 2003, the Company issued a convertible note in the amount of $150,000, bearing interest at 9% per annum, with principal and interest due in June 2003, which is in default. The convertible note requires no payment of principal or interest during the term and may be converted to common stock of the Company at the conversion price of $0.25 per share at any time at the option of the noteholder. The Company has recorded a beneficial conversion feature ("BCF") of $150,000 in connection with the issuance of the note and amortized such amount to interest expense during the six month period ended September 30, 2003.

The Company is currently in default on approximately $1,052,500 of amounts owed under various notes payable and accrued liabilities and is currently seeking other financing arrangements to retire all past due notes.

NOTE 4. GOING CONCERN AND LIQUIDITY CONSIDERATIONS

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has experienced a loss of approximately $16.3 million for the period from January 31, 1984 (Inception) through September 30, 2003. The Company has not generated significant revenue or any profit from operations since inception. A substantial amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable.

Such factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. Management is in discussions with potential investors to pursue additional capital infusions into the Company, which management believes are necessary at least until such time that the Company generates sufficient revenues and achieves profitability and positive cash flow.

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

NOTE 5. COMMITMENTS AND CONTINGENCIES

REGISTRATION RIGHTS AGREEMENTS

The Company is obligated under various agreements to register its common stock, including the common stock underlying certain warrants and options. The Company is subject to penalties for failure to register such securities, the amount of which could be material to the Company's financial position, results of operations and cash flows. The Company filed a registration statement on Form SB-2 with the Securities and Exchange Commission in December 2000 to register the necessary securities. However, such registration statement was never declared effective. Management is currently unaware of any potential claims related to the lack of registration and plans to file a revised registration statement as funds to cover registration expenses become available. The Company may incur additional charges in exchange for further waivers through the date of an effective registration statement.

DELINQUENT SEC FILING

The Company's March 31, 2002 Form 10-KSB did not contain certain disclosure items in its Executive Compensation, Security Ownership of Certain Beneficial Owners and Management and Certain Relationships and Related Transactions. Such sections were intended to be incorporated by reference in the Company's proxy statement, which was not filed. The failure to file the proxy statement with the disclosures required in Form 10-KSB constitutes non-compliance with the periodic reporting requirements of the Securities and Exchange Act of 1934 (the "Exchange Act") and, among other things, could result in de-listing of the Company's common stock from the Over-the-Counter Bulletin Board ("OTCBB").

In addition, any owners of the Company's restricted securities who are otherwise eligible to sell such securities under Rule 144 may be temporarily unable to do so until such filing delinquency is cured. The Company intends to file an amendment to its Annual Report on Form 10-KSB for the year ended March 31, 2002 to cure such delinquency.

NOTE 6. STOCK TRANSACTIONS

In July 2003, the Company issued 380,000 shares of restricted common stock at prices ranging from $0.25 to $0.30 per share for cash totaling $100,000. In connection with the issuance of such shares, the Company granted the stockholders 380,000 warrants to purchase common stock of the Company at prices ranging from $0.25 to $0.30 per share. The warrants vest immediately and expire through July 2004.

In July 2003, the Company issued 50,000 shares of restricted common stock in conjunction with consulting activities rendered. The stock was valued at $20,000 based on the market price at issuance and such amount is included in the accompanying statement of operations.

In September 2003, the Company issued 160,000 shares of restricted common stock at $0.25 per share for cash totaling $40,000. In connection with the issuance of such shares, the Company granted the stockholder 160,000 warrants to purchase common stock of the Company at $0.25 per share. The warrants vest immediately and expire through September 2004.

In September 2003, the Company issued 60,000 shares of restricted common stock at $0.25 per share for cash totaling $15,000 in connection with the exercise of warrants.

NOTE 7. SUBSEQUENT EVENTS

In October 2003, the Company issued 80,000 shares of restricted common stock at $0.25 per share for cash totaling $20,000 in connection with the exercise of warrants.

In November 2003, the Company issued 40,000 shares of restricted common stock at $0.25 per share for cash totaling $10,000 in connection with the exercise of warrants.

In November 2003, the Company issued 60,000 shares of restricted common stock at $0.25 per share for cash totaling $15,000. In connection with the issuance of such shares, the Company granted the stockholder 60,000 warrants to purchase common stock of the Company at $0.25 per share. The warrants vest immediately and expire through November 2004.

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

The following discussion of Aethlon Medical's 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-QSB. 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-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 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.

THE COMPANY

Aethlon Medical is a development stage therapeutic device company that has not yet engaged in significant commercial activities. The primary focus of our resources is the advancement of our proprietary Hemopurifier(TM) platform treatment technology, which is designed to remove viruses and toxic viral proteins from human blood. Our main focus during fiscal 2004 is to prepare our HIV-Hemopurifier to treat HIV/AIDS for human clinical trials, and to initiate the pre-clinical human blood studies of our HCV-Hemopurifier for treating Hepatitis-C. See Item 1, "NATURE OF BUSINESS".

Our principal executive office is located at 7825 Fay Avenue, Suite 200, La Jolla, California 92037. Our telephone number is 858/456-5777, and our website is www.aethlonmedical.com.

We file annual, quarterly, special reports, proxy statements and other information with the Securities Exchange Commission (SEC). Reports, proxy statements and other information filed with the SEC can be inspected and copied at the public reference facilities of the SEC at 450 Fifth Street NW, Washington, DC 20549. Such material may also be accessed electronically by means of the SEC's website at www.sec.gov.

Our common stock, par value $0.001 per share, is traded on the OTCBB under the symbol "AEMD".

CRITICAL ACCOUNTING POLICIES

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, 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 our most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, contingencies and litigation. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations.

RESULTS OF OPERATIONS

THE THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2002.

OPERATING EXPENSES

Consolidated operating expenses were $265,136 for the three months ended September 30, 2003, versus $476,298 for the comparable period ended September 30, 2002. This decrease of 44.3% in operating expenses is principally attributable to decreased professional fees and personnel expenses due to reduced professionals associated with strategic and financial planning activities and reduced staff.

NET LOSS

We recorded a consolidated net loss of $287,130 and $646,683 for the quarters ended September 30, 2003 and 2002, respectively. The decrease in net loss of 55.6% was primarily attributable to reduced operating expenses and lower interest expense.

Basic and diluted loss per common share were ($0.04) for the three month period ended September 30, 2003 compared to ($0.12) for the same period ended September 30, 2002. This reduction in loss per share was primarily attributable to the decrease in net loss, as well as greater number of common shares outstanding during the three month period ended September 30, 2003, as compared to the three month period ended September 30, 2002.

THE SIX MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2002.

OPERATING EXPENSES

Consolidated operating expenses were $501,827 for the six months ended September 30, 2003, versus $793,822 for the comparable period ended September 30, 2002. This decrease of 36.8% in operating expenses is principally attributable to decreased professional fees and personnel expenses due to reduced professionals associated with strategic and financial planning activities and reduced staff.

NET LOSS

We recorded a consolidated net loss of $705,322 and $1,045,850 for the six month periods ended September 30, 2003 and 2002, respectively. The decrease in net loss of 32.6% was primarily attributable to reduced operating expenses and lower interest expense.

Basic and diluted loss per common share were ($0.09) for the six month period ended September 30, 2003 compared to ($0.20) for the same period ended September 30, 2002. This reduction in loss per share was primarily attributable to the decrease in net loss, as well as greater number of common shares outstanding during the six month period ended September 30, 2003, as compared to the six month period ended September 30, 2002.

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. Our cash position at September 30, 2003 was $937 as compared to $6,332, at March 31, 2003, representing a decrease of $5,395.

During the six months ended September 30, 2003, operating activities used net cash of $307,736. In our financing activities, we received $315,000 from the sale of common stock and $150,000 from issuance of a convertible note. We repaid in full a secured promissory note in the amount of $160,000.

During the six month period ended September 30, 2003, net cash used in operating activities primarily consisted of net loss of $705,322. Net loss was offset principally by depreciation of $78,993, a beneficial conversion feature of $150,000, accounts payable and accrued liabilities of $29,093 and amounts due to related parties of $118,909.

Changes in current assets and current liabilities of ($141,488) resulted in a negative working capital position of ($4,148,963) at September 30, 2003, as compared to a negative working capital of ($4,007,475) at March 31, 2003.

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. We are seeking to fund these and other operating needs in the next 12 months from funds to be obtained through a corporate acquisition of or merger with another entity with greater financial resources, or from the proceeds of additional private placements or public offerings of debt or equity securities, or both.

Due to the our recurring losses during the development stage, and continued need for capital, our independent certified public accountants have included an explanatory paragraph in their audit report in the Company's Form 10-KSB at March 31, 2003, stating that these factors raise substantial doubt about the Company's ability to continue as a going concern.

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

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

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

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the 34 Act) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic filings with the SEC and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on their most recent evaluation as of the Evaluation Date, the CEO and the CFO have also concluded that there are no significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, and such officers have identified no material weaknesses in internal controls.

There were no significant changes made in our internal control over financial reporting during the period covered by this report that are reasonably likely to significantly affect these controls subsequent to the date of their evaluation.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

In July 2003, the Company issued 380,000 shares of restricted common stock at prices ranging from $0.25 to $0.30 per share for cash totaling $100,000. In connection with the issuance of such shares, the Company granted the stockholders 380,000 warrants to purchase common stock of the Company at prices ranging from $0.25 to $0.30 per share. The warrants vest immediately and expire through July 2004.

In July 2003, the Company issued 50,000 shares of restricted common stock in conjunction with consulting activities rendered. The stock was valued at $20,000 based on the market price at issuance and such amount is included in the accompanying statement of operations.

In September 2003, the Company issued 160,000 shares of restricted common stock at $0.25 per share for cash totaling $40,000. In connection with the issuance of such shares, the Company granted the stockholder 160,000 warrants to purchase common stock of the Company at $0.25 per share. The warrants vest immediately and expire through September 2004.

In September 2003, the Company issued 60,000 shares of restricted common stock at $0.25 per share for cash totaling $15,000 in connection with the exercise of warrants.

In October 2003, the Company issued 80,000 shares of restricted common stock at $0.25 per share for cash totaling $20,000 in connection with the exercise of warrants.

In November 2003, the Company issued 40,000 shares of restricted common stock at $0.25 per share for cash totaling $10,000 in connection with the exercise of warrants.

In November 2003, the Company issued 60,000 shares of restricted common stock at $0.25 per share for cash totaling $15,000. In connection with the issuance of such shares, the Company granted the stockholder 60,000 warrants to purchase common stock of the Company at $0.25 per

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 $1,052,000 have reached maturity and are past due. The Company is currently seeking other financing arrangements to retire all past due notes.

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. The following documents are filed as part of this report:

31.1 Certification of CEO 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.

31.2 Certification of CFO 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.

32.1 Certification of James A. Joyce, Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

32.2 Certification of Edward C. Hall, Chief Financial Officer (Principal Accounting Officer) pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

(b) Reports on Form 8-K filed during the quarter ended September 30, 2003.

None

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: November 19, 2003

BY: /S/ JAMES A. JOYCE	BY: /S/ EDWARD C. HALL
JAMES A. JOYCE CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER	EDWARD C. HALL CHIEF FINANCIAL OFFICER

AETHLON MEDICAL, INC.