

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 September 30, 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
(State or other jurisdiction of
incorporation or organization)

13-3632859
(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 September 30, 2000 2,771,652

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Balance Sheets (unaudited) at September 30, 2000 (unaudited)
and March 31, 2000

Consolidated Statements of Operations (unaudited) for the three and six months
ended September 30, 2000 and September 30, 1999

Consolidated Statements of Cash Flows (unaudited) for the six months ended
September 30, 2000 and September 30, 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

SIGNATURES

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

| <S> | September 30, 2000 (unaudited) <C> | March 31, 2000 <C> |
|---|---|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 1,677 | \$ 217,017 |
| Accounts receivable | 47,312 | 61,495 |
| Prepaid expenses | 24,764 | 36,940 |
| Employee advances | 12,300 | 15,800 |
| | ----- | |
| Total current assets | 86,053 | 331,252 |
| PROPERTY AND EQUIPMENT, NET | 34,683 | 41,535 |
| OTHER ASSETS | | |
| Patents and trademarks, net | 401,759 | 177,065 |
| Deferred debt expense, net | 166,567 | 273,738 |
| Goodwill, net | 1,600,544 | 495,088 |
| Other | 1,330 | 1,330 |
| | ----- | |
| Total other assets | 2,170,200 | 947,221 |
| | ----- | |
| Total assets | \$ 2,290,936 | \$ 1,320,008 |
| | ===== | |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES | | |
| Accounts payable: | | |
| Trade | \$ 903,240 | \$ 740,562 |
| Related parties | 236,964 | 234,324 |
| Notes payable, net of discount | 1,043,453 | 526,708 |
| Accrued liabilities | 287,906 | 201,631 |
| Deferred compensation | 329,835 | 329,835 |
| | ----- | |
| Total current liabilities | 2,801,398 | 2,033,060 |
| 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 |
| Additional paid in capital - common stock | 4,092,132 | 3,290,865 |
| Additional paid in capital - warrants and options | 1,481,237 | 739,826 |
| Deficit accumulated during development stage | (6,086,603) | (4,746,416) |
| | ----- | |
| Total stockholders' deficiency | (510,462) | (713,052) |
| | ----- | |
| Total liabilities and stockholders' deficiency | \$2,290,936 | \$ 1,320,008 |
| | ===== | |

</TABLE>

See accompanying notes.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

Cumulative During

Development Stage

through

September 30,

2000

<S>

<C>

REVENUE

Grant income

\$ 1,430,799

Subcontract income

73,746

Sale of research and development

35,810

Other income

53,476

Interest income

17,415

Total revenue

1,611,246

EXPENSES

Interest and debt expense

1,182,993

Personnel costs

3,650,831

Professional fees

671,478

Amortization-goodwill

97,602

Rent and office expense

553,042

Insurance

123,949

Travel and meetings

164,033

Laboratory supplies

116,114

Miscellaneous

122,332

Depreciation

142,751

Amortization-patents

46,985

Equipment and maintenance

170,802

R & D consultation

240,463

Subcontract expense

195,964

Contractual costs

192,112

Dues and subscriptions

13,596

Total expenses

7,685,047

LOSS BEFORE INCOME TAXES

(6,073,801)

PROVISION FOR INCOME TAXES

12,802

NET LOSS

\$ (6,086,603)

=====

PER SHARE:

Net loss

\$ (4.31)

Three months ended

Six months ended

September 30,

September 30,

September 30,

September 30,

2000

1999

2000

1999

<C>

<C>

<C>

<C>

\$

\$

\$

\$

1,158

-

22,479

-

352,949

25,190

667,147

25,805

184,654

116,606

345,706

204,693

46,801

75,060

100,240

140,789

43,721

-

84,907

-

32,206

18,758

61,328

34,158

16,751

6,271

33,463

6,271

7,133

5,631

19,878

9,471

7,249

-

13,731

-

13,288

3,502

17,402

3,520

3,788

2,439

7,833

4,764

2,043

3,502

4,086

5,545

3,513

-

5,480

-

-

-

-

-

-

-

-

-

-

-

-

-

714,096

256,959

1,361,201

435,016

(712,938)

(256,959)

(1,338,722)

(435,016)

806

91

1,465

147

\$ (713,744)

\$ (257,050)

\$ (1,340,187)

\$ (435,163)

\$ (0.26)

\$ (0.10)

\$ (0.48)

\$ (0.17)

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Weighted average number of common shares outstanding 1,413,197 | 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

<TABLE>
<CAPTION>

| During Stage | Six months ended September 30, | Six months ended September 30, | Cumulative Development through September 2000 |
|--|--------------------------------------|--------------------------------------|---|
| 30, | 2000 | 1999 | 2000 |
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss (6,086,603) | \$ (1,340,187) | \$ (435,163) | \$ |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | |
| Depreciation 142,751 | 7,833 | 4,764 | |
| Amortization-patents & goodwill 144,586 | 88,993 | 5,545 | |
| Amortization-debt expense & note discount 862,419 | 591,261 | - | |
| Services paid by issuance of warrants 13,373 | 8,373 | - | |
| Deferred compensation forgiven 217,223 | - | - | |
| (Increase) decrease in assets: | | | |
| Accounts receivable and advances 3,054 | 17,683 | - | |
| Prepaid expenses (18,374) | 18,566 | - | |
| Other assets (1,329) | - | - | |
| Increase (decrease) in liabilities: | | | |
| Accounts payable 621,896 | 23,912 | 101,021 | |
| Accrued liabilities 355,144 | 86,275 | 139,789 | |
| Deferred compensation 329,834 | - | 15,827 | |
| | ----- | | |
| Net cash used by operating activities (3,416,026) | (497,291) | (168,217) | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment (173,989) | (3,085) | (4,204) | |
| Sale of equipment 4,000 | 4,000 | - | |
| Purchase of patents (120,564) | - | - | |
| Cash of acquired company 10,728 | 2,286 | - | |
| | ----- | | |
| Net cash used by investing activities (279,825) | 3,201 | (4,204) | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase in notes payable 1,365,000 | 312,500 | 212,500 | |
| Deferred debt costs (148,500) | (33,750) | (13,750) | |
| 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 | 278,750 | 198,750 |
| 3,697,528 | | |
| NET INCREASE IN CASH | (215,340) | 26,329 |
| 1,677 | | |
| CASH, BEGINNING | 217,017 | 3,052 |
| - | | |
| ----- | | |

| | | | |
|-----------|----------|-----------|----|
| CASH, END | \$ 1,677 | \$ 29,381 | \$ |
| 1,677 | | | |

SUPPLEMENTAL DISCLOSURES OF CASH
FLOW INFORMATION

| | | | |
|----------------------------------|-----------|------|----|
| Cash paid during the period for: | | | |
| Interest | \$ 58,319 | \$ - | \$ |
| 100,626 | | | |
| Income taxes | \$ 559 | - | |
| 7,721 | | | |

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 | \$ 87,739 | \$ - | \$ |
| 87,739 | | | |
| Debt placement fees paid by issuance of warrants | \$ 52,369 | \$ - | \$ |
| 298,482 | | | |
| Allocation of note proceeds to note discount | \$ 193,726 | \$ - | \$ |
| 928,552 | | | |

See accompanying notes.

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

<TABLE>
<CAPTION>

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | PAID IN CAPITAL | PAID IN CAPITAL- WARRANTS and OPTIONS | ACCUMULATED DEFICIT |
|--|------------------------|------------------------|--------------------|--|------------------------|
| TOTAL | <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 | | | | 193,726 | |
| 193,726 | | | | | |
| Warrants issued as compensation for sale of promissory notes | | | | 134,888 | |
| 134,888 | | | | | |
| Options granted to directors for fees | | | | 14,163 | |
| 14,163 | | | | | |
| Net loss for the six months | | | | | |

ended September 30, 2000
\$ (1,340,187)

(1,340,187)

BALANCE AT SEPTEMBER 30, 2000 2,771,652 \$ 2,772 \$ 4,092,132 \$ 1,481,237 \$ (6,086,603)
\$ (510,462)

=====
</TABLE>

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 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 six month periods ended September 30, 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 excess of the purchase price over the fair value of the net 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 six months ended September 30, 1999 would have been immaterial.

NOTE 3. NOTES PAYABLE

During the quarters ended September 30, 2000 and June 30, 2000, the Company issued additional one-year promissory notes in the principal amount of \$200,000 and \$112,500, respectively. Detachable warrants to purchase 156,250 shares of the Company's common stock were issued in connection with these notes. Of the note proceeds, \$193,726 was allocated to the warrants and recorded as note discount. The note discount is being amortized as additional interest expense over the one-year term of the related notes. At September 30, 2000 outstanding notes in the aggregate principal amount of \$125,000 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. SUBSEQUENT EVENTS

In October 2000, the Company entered into an agreement with a financial institution for the issuance of 8% convertible notes. The initial offering is for \$750,000, of which \$375,000 was issued in November 2000 and the remaining \$375,000 is expected to be issued before the end of December. The successful completion of this initial offering will enable the Company to continue its operations into the fourth fiscal quarter.

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.

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-, and commence clinical trials for the device to remove iron 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 six months ended September 30, 2000, the Company financed its research and development activities through the private placement of \$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 in December, 2000.

In October 2000, the Company arranged for the sale of \$750,000 in convertible notes to a financial institution. Under this arrangement, notes for \$375,000 were issued in November 2000 and the remaining \$375,000 is expected to be issued before the end of December. The successful completion of this interim financing will enable the Company to continue its operations into the fourth fiscal quarter.

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.

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.

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

The Company held its Annual Meeting of Shareholders on September 25, 2000.

The matters voted upon at the Annual Meeting were election of directors, approval of the 2000 Stock Option Plan, and ratification of the selection of Freed Maxick Sachs & Murphy, P.C. as auditors for the Company.

As to the election of directors and ratification of auditors, 2,076,683 votes were cast in favor with no votes cast against or withheld. As to the Stock Option Plan, 2,003,031 shares were voted in favor, 12,712 shares voted against, and 13,978 shares abstained. There were 46,962 broker non-votes on this matter.

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 September 30, 2000. On July 17, 2000, a Form 8-K/A was filed which contained audited financial statements of Syngen Research, Inc., an acquired business, and certain related pro forma financial information.

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 14, 2000

/s/ Franklyn S. Barry, Jr.

Franklyn S. Barry, Jr., President

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EXHIBIT INDEX

27. Financial Data Schedule.

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<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF AETHLON MEDICAL INC. FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

| <S> | <C> | <C> |
|------------------------------|-------------|-------------|
| <PERIOD-TYPE> | 3-MOS | 6-MOS |
| <FISCAL-YEAR-END> | MAR-31-2001 | MAR-31-2001 |
| <PERIOD-START> | JUL-01-2000 | APR-01-2000 |
| <PERIOD-END> | SEP-30-2000 | SEP-30-2000 |
| <CASH> | 1,677 | 1,677 |
| <SECURITIES> | 0 | 0 |
| <RECEIVABLES> | 47,312 | 47,312 |
| <ALLOWANCES> | 0 | 0 |
| <INVENTORY> | 0 | 0 |
| <CURRENT-ASSETS> | 86,053 | 86,053 |
| <PP&E> | 168,826 | 168,826 |
| <DEPRECIATION> | 134,143 | 134,143 |
| <TOTAL-ASSETS> | 2,290,936 | 2,290,936 |
| <CURRENT-LIABILITIES> | 2,801,398 | 2,801,398 |
| <BONDS> | 0 | 0 |
| <PREFERRED-MANDATORY> | 0 | 0 |
| <PREFERRED> | 0 | 0 |
| <COMMON> | 2,772 | 2,772 |
| <OTHER-SE> | (513,234) | (513,234) |
| <TOTAL-LIABILITY-AND-EQUITY> | 2,290,936 | 2,290,936 |
| <SALES> | 0 | 0 |
| <TOTAL-REVENUES> | 1,158 | 22,479 |
| <CGS> | 0 | 0 |
| <TOTAL-COSTS> | 0 | 0 |
| <OTHER-EXPENSES> | 361,147 | 694,054 |
| <LOSS-PROVISION> | 0 | 0 |
| <INTEREST-EXPENSE> | 352,949 | 667,147 |
| <INCOME-PRETAX> | (712,938) | (1,338,722) |
| <INCOME-TAX> | 806 | 1,465 |
| <INCOME-CONTINUING> | (713,744) | (1,340,187) |
| <DISCONTINUED> | 0 | 0 |
| <EXTRAORDINARY> | 0 | 0 |
| <CHANGES> | 0 | 0 |
| <NET-INCOME> | (713,744) | (1,340,187) |
| <EPS-BASIC> | (.26) | (.48) |
| <EPS-DILUTED> | (.26) | (.48) |

</TABLE>