

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

FORM 8-K

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

Date of Report (Date of earliest event reported): September 9, 2005  
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AETHLON MEDICAL, INC.  
(Exact name of registrant as specified in its charter)

|  |                                   |   |
|--|-----------------------------------|---|
| Nevada   | 0-21846                           | 13-3632859                                    |
| -----<br>(State or other jurisdiction<br>of incorporation) | -----<br>(Commission File Number) | -----<br>(IRS Employer<br>Identification No.) |
| 3030 Bunker Hill Street, Suite 400, San Diego, California  |                                   | 92109   |
| -----<br>(Address of principal executive offices)          |                                   | -----<br>(Zip Code)                           |

Registrant's telephone number, including area code: (858) 459-7800  
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Not applicable

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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

THIS FORM 8-K AND OTHER REPORTS FILED BY AETHLON MEDICAL, INC. (THE "COMPANY") FROM TIME TO TIME WITH THE SECURITIES AND EXCHANGE COMMISSION (COLLECTIVELY THE "FILINGS") CONTAIN FORWARD LOOKING STATEMENTS AND INFORMATION THAT ARE BASED UPON BELIEFS OF, AND INFORMATION CURRENTLY AVAILABLE TO, THE COMPANY'S MANAGEMENT AS WELL AS ESTIMATES AND ASSUMPTIONS MADE BY THE COMPANY'S MANAGEMENT. WHEN USED IN THE FILINGS THE WORDS "ANTICIPATE", "BELIEVE", "ESTIMATE", "EXPECT", "FUTURE", "INTEND", "PLAN" OR THE NEGATIVE OF THESE TERMS AND SIMILAR EXPRESSIONS AS THEY RELATE TO THE COMPANY'S OR THE COMPANY'S MANAGEMENT IDENTIFY FORWARD LOOKING STATEMENTS. SUCH STATEMENTS REFLECT THE CURRENT VIEW OF THE COMPANY WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO RISKS, UNCERTAINTIES, ASSUMPTIONS AND OTHER FACTORS RELATING TO THE COMPANY'S INDUSTRY, OPERATIONS AND RESULTS OF OPERATIONS AND ANY BUSINESSES THAT MAY BE ACQUIRED BY THE COMPANY. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD THE UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED, INTENDED OR PLANNED.

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On September 9, 2005, the Company's Board of Directors approved and the Company entered into a stock option agreement (the "Stock Option Agreement") with Mr. James A. Joyce, the Company's Chief Executive Officer in exchange for the cancellation of \$300,000 of debt owed to Mr. Joyce and his affiliates. The Stock Option Agreement, filed with this report as an exhibit, provides for a fully-vested, non-qualified, ten-year option to purchase up to 2,857,143 shares of restricted common stock with an exercise price of \$0.21 per share and carries piggy-back registration rights.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

On September 9, 2005, the Company's Board of Directors approved and the Company

entered into the Stock Option Agreement with Mr. James A. Joyce, the Company's Chief Executive Officer in exchange for the cancellation of \$300,000 of debt owed to Mr. Joyce and his affiliates. The Stock Option Agreement provides for a fully-vested, non-qualified, ten-year option to purchase up to 2,857,143 shares of restricted common stock with an exercise price of \$0.21 per share and carries piggy-back registration rights. A copy of the Stock Option Agreement is filed as an exhibit to this current report on Form 8-K.

This announcement is not an offer to sell securities of Aethlon Medical, Inc.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

4.1 James A. Joyce Stock Option Agreement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AETHLON MEDICAL, INC.

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(Registrant)

Date September 9, 2005

By: /s/ James A. Joyce

Name James A. Joyce

Title: Chief Executive Officer  
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AETHLON MEDICAL, INC.  
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock of Aethlon Medical, Inc. a Nevada corporation (the "Company"):

|                          |                            |
|--------------------------|----------------------------|
| OPTIONEE:                | James A. Joyce             |
| GRANT DATE:              | September 9, 2005          |
| EXERCISE PRICE:          | \$0.21 per share           |
| NUMBER OF OPTION SHARES: | 2,857,143                  |
| EXPIRATION DATE:         | September 9, 2015          |
| TYPE OF OPTION:          | Non-Statutory Stock Option |
| VESTING COMMENCE DATE:   | September 9, 2005          |

Optionee agrees to be bound by the terms of the Stock Option Agreement attached hereto as EXHIBIT A.

NO EMPLOYMENT OR SERVICE CONTRACT. Nothing in this Notice or in the attached Stock Option Agreement shall confer upon Optionee any right to continue in service in any capacity, including as an employee, for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's service and/or employment at any time for any reason, with or without cause.

DEFINITIONS. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice or in the attached Stock Option Agreement.

DATED: SEPTEMBER 9, 2005

AETHLON MEDICAL, INC.

By: \_\_\_\_\_  
Name: James W. Dorst, CFO

OPTIONEE

\_\_\_\_\_  
Name: James A. Joyce  
Address: \_\_\_\_\_  
\_\_\_\_\_

ATTACHMENTS

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EXHIBIT A - STOCK OPTION AGREEMENT

EXHIBIT A  
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STOCK OPTION AGREEMENT  
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AETHLON MEDICAL, INC.  
STOCK OPTION AGREEMENT  
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RECITALS

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The Board of Directors of Aethlon Medical, Inc. (the "Company"), in a telephonic Board Meeting held September 8, 2005 has deemed it fair and in the best interest of the Corporation and its stockholders that the Corporation issue to James A. Joyce an aggregate of 2,857,143 options to acquire restricted common stock.

The Optionee has agreed to immediately cancel \$300,000 out of a total liability owing to him from the Corporation of \$364,966.20.

All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix.

AGREEMENT

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NOW, THEREFORE, it is hereby agreed as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Grant Notice. The Option Shares shall be purchasable from time to time during the option term specified in Paragraph 2 at the Exercise Price.

2. OPTION TERM. This option shall have a term of ten (10) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5.

3. LIMITED TRANSFERABILITY. During Optionee's lifetime, this option shall be exercisable only by Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following Optionee's death.

4. DATES OF EXERCISE. This option shall become exercisable for the Option Shares in as specified in the Grant Notice.

5. ADJUSTMENT IN OPTION SHARES. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to this option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

6. SHAREHOLDER RIGHTS. The holder of this option shall not have any shareholder rights with respect to the Option Shares until such person shall have exercised the option, paid the Exercise Price and become a holder of record of the purchased shares.

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7. REGISTRATION RIGHTS. If the Company at any time proposes to register any of its securities under the Act for sale to the public, whether for its own account or for the account of other security holders or both, provided the Registrable Securities are not otherwise subject to an effective registration statement, the Company will cause such Registrable Securities to be included with the securities to be covered by the registration statement proposed to be filed by the Company. In the event that any registration pursuant to this Section 8 shall be, in whole or in part, an underwritten public offering of Common Stock of the Company, the number of shares of Registrable Securities to be included in such an underwriting may be reduced by the managing underwriter if and to the extent that the Company and the underwriter shall reasonably be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by the Company therein; provided, however, that the Company shall notify the Purchaser in writing of any such reduction. "Registrable Securities" means the number of shares of the Company's Common Stock set forth on the first page of the Notice of Grant of Stock Option.

10. MANNER OF EXERCISING OPTION.

(a) In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, the Optionee (or any other person or persons exercising the option) must take the following actions:

(i) Execute and deliver to the Company a written notice setting forth the number of Option Shares for which the option is exercised.

(ii) Pay the aggregate Exercise Price for the purchased shares in cash or in one or more of the following

forms:

(A) by cancellation of indebtedness of the Company to the Optionee;

(B) if approved by the Committee, by surrender of shares that either: (1) have been owned by the Optionee for more than one year and have been paid for within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares); or (2) were obtained by the Optionee in the public market;

(C) if approved by the Committee, by waiver of compensation due or accrued to the Optionee for services rendered;

(D) with respect only to purchases upon exercise of an Option, and provided that a public market for the Company's stock exists:

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(1) through a "same day sale" commitment from the Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby the Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(2) through a "margin" commitment from the Optionee and a NASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(E) Notwithstanding any provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Option for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Option (or the portion thereof being exercised) by surrender of this Option at the principal office of the Company together with the properly endorsed written notice in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X=Y (A-B) \\ \text{-----}$$

Where X= the number of shares of Common Stock to be issued to the Holder.

Y= the number of shares of Common Stock purchasable under the Option or, if only a portion of the Option is being exercised, the portion of the Option being exercised (at the date of such calculation).

A= the Fair Market Value of one share of the Company's Common Stock (at the date of such calculation).

B= Exercise Price (as adjusted to the date of such calculation).

(F) By any combination of the foregoing. Except to the extent the sale and remittance procedure is utilized in connection with the option exercise, payment of the Exercise Price must accompany the written notice delivered to the Company in connection with the option exercise.

(iii) Furnish to the Company appropriate documentation that the person or persons exercising

the option (if other than Optionee) have the right to exercise this option.

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(iv) Execute and deliver to the Company such written representations as may be requested by the Company in order for it to comply with the applicable requirements of federal and state securities laws.

(v) Make appropriate arrangements with the Company for the satisfaction of all federal, state and local income and employment tax withholding requirements applicable to the option exercise.

(b) As soon as practical after the Exercise Date, the Company shall issue to or on behalf of the Optionee (or any other person or persons exercising this option) a certificate for the purchased Option Shares, with the appropriate legends affixed thereto.

(c) In no event may this option be exercised for any fractional shares.

11. COMPLIANCE WITH LAWS AND REGULATIONS.

(a) The exercise of this option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Company and Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange (or the Nasdaq Stock Market or the Over-The Counter Bulletin Board, if applicable) on which the Common Stock may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Company of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

12. SUCCESSORS AND ASSIGNS. Except to the extent otherwise provided in Paragraph 3, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and the Optionee, the Optionee's assigns and the legal representatives, heirs and legatees of the Optionee's estate.

13. NOTICES. Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Optionee shall be in writing and addressed to the Optionee at the address indicated below the Optionee's signature line on the Grant Notice. All notices shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

14. GOVERNING LAW. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

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IN WITNESS WHEREOF, the parties have executed this Agreement on this 8th Day of September, 2005

AETHLON MEDICAL, INC., a Nevada corporation

By: \_\_\_\_\_  
James W. Dorst, Chief Financial Officer

OPTIONEE

\_\_\_\_\_  
James A. Joyce

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The following definitions shall be in effect under the Agreement:

1. AGREEMENT shall mean this Stock Option Agreement.
2. CODE shall mean the Internal Revenue Code of 1986, as amended.
3. COMMON STOCK shall mean the Company's common stock.
4. EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 8 of the Agreement.
5. EXERCISE PRICE shall mean the exercise price payable per Option Share as specified in the Grant Notice.
6. EXPIRATION DATE shall mean the date on which the option expires as specified in the Grant Notice.
7. FAIR MARKET VALUE. Fair Market Value of a share of Common Stock as of a particular date (the "DETERMINATION DATE") shall mean:

(a) If the Company's Common Stock is traded on an exchange or is quoted on the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") National Market or the NASDAQ SmallCap Market, then the closing or last sale price, respectively, reported for the last business day immediately preceding the Determination Date.

(b) If the Company's Common Stock is not traded on an exchange or on the NASDAQ National Market or the NASDAQ SmallCap Market but is traded on the NASD OTC Bulletin Board, then the mean of the average of the closing bid and asked prices reported for the last business day immediately preceding the Determination Date.

(c) Except as provided in clause (d) below, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree or in the absence of agreement by arbitration in accordance with the rules then in effect of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided.

(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of the Option are outstanding at the Determination Date.

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8. GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

9. GRANT NOTICE shall mean the Notice of Grant of Stock Option accompanying the Agreement, pursuant to which Optionee has been informed of the basic terms of the option evidenced hereby.

10. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

11. OPTION SHARES shall mean the number of shares of Common Stock subject to the option.

14. OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

15. VESTING SCHEDULE shall mean the vesting schedule specified in the Grant Notice pursuant to which the Optionee is to vest in the Option Shares.