

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

FORM 10-Q

(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, 2009

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 000-21846

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.)

8910 UNIVERSITY CENTER LANE, SUITE 255, SAN DIEGO, CA 92122

\_\_\_\_\_  
(Address of principal executive offices) (Zip Code)

(858) 459-7800

\_\_\_\_\_  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

As of February 12, 2010, the registrant had outstanding 60,166,423 shares of common stock, \$.001 par value.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2009 <u>(Unaudited)</u>	March 31, 2009 <u></u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 48,600	\$ 6,157
Deferred financing costs	47,859	--
Prepaid expenses and other current assets	<u>11,109</u>	<u>37,011</u>
Total current assets	107,568	43,168
Property and equipment, net	10,182	2,603
Patents and patents pending, net	146,968	138,417
Deposits	<u>7,168</u>	<u>13,200</u>
Total assets	<u>\$ 271,886</u>	<u>\$ 197,388</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities		
Accounts payable	\$ 304,337	\$ 460,074
Due to related parties	609,331	634,896
Notes payable	290,000	302,500
Convertible notes payable, net of discounts	1,445,583	2,069,720
Derivative liabilities	587,627	--
Other current liabilities	<u>1,178,752</u>	<u>679,498</u>
Total current liabilities	4,415,630	4,146,688
Commitments and Contingencies (Note 9)		
Stockholders' Deficit		
Common stock, par value \$0.001 per share; 250,000,000 and 100,000,000 shares authorized as of December 31, 2009 and March 31, 2009; 59,355,101 and 49,454,131 shares issued and outstanding as of December 31, 2009 and March 31, 2009, respectively	59,356	49,455
Additional paid-in capital	37,374,195	34,312,659
Deficit accumulated during development stage	<u>(41,577,295)</u>	<u>(38,311,414)</u>
Total liabilities and stockholders' deficit	<u>\$ 271,886</u>	<u>\$ 197,388</u>

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

AETHLON MEDICAL, INC.  
(A Development Stage Company)  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
For the Three Months and Nine Months Ended December 31, 2009 and 2008 and  
For the Period January 31, 1984 (Inception) Through December 31, 2009  
(Unaudited)

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008	January 31, 1984 (Inception) through December 31, 2009
<b>REVENUES</b>					
Grant income	\$ --	\$ --	\$ --	\$ --	\$ 1,424,012
Subcontract income	--	--	--	--	73,746
Sale of research and development	--	--	--	--	35,810
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,533,568</u>
<b>EXPENSES</b>					
Professional fees	283,355	151,022	846,381	593,622	8,638,840
Payroll and related	286,468	630,958	959,593	1,286,535	12,085,319
General and administrative	146,154	85,389	384,204	343,530	6,282,286
Impairment	--	--	--	--	1,313,253
	<u>715,977</u>	<u>867,369</u>	<u>2,190,178</u>	<u>2,223,687</u>	<u>28,319,698</u>
<b>OPERATING LOSS</b>	<u>(715,977)</u>	<u>(867,369)</u>	<u>(2,190,178)</u>	<u>(2,223,687)</u>	<u>(26,786,130)</u>
<b>OTHER EXPENSE (INCOME)</b>					
Loss on extinguishment of debt	--	1,063,344	--	1,063,344	2,760,674
Loss on settlement of accrued interest and damages	--	--	--	607,908	607,908
Loss (gain) on change in fair value of derivative liability	77,426	50,064	(167,336)	(213,903)	1,454,282
Interest and other debt expenses	692,770	363,964	1,185,482	1,477,854	9,540,252
Interest income	(295)	(187)	(1,006)	(2,701)	(21,192)
Other	--	--	--	--	449,241
	<u>769,901</u>	<u>1,477,185</u>	<u>1,017,140</u>	<u>2,932,502</u>	<u>14,791,165</u>
<b>NET LOSS</b>	<u>\$ (1,485,878)</u>	<u>\$ (2,344,554)</u>	<u>\$ (3,207,318)</u>	<u>\$ (5,156,189)</u>	<u>\$ (41,577,295)</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ (0.12)</u>	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>58,230,294</u>	<u>43,506,386</u>	<u>55,369,652</u>	<u>41,486,177</u>	

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

AETHLON MEDICAL, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008 AND  
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 2009  
(Unaudited)

	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008	January 31, 1984 (Inception) Through December 31, 2009
<b>Cash flows from operating activities:</b>			
Net loss	\$ (3,207,318)	\$ (5,156,189)	\$ (41,518,732)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	9,568	12,534	1,054,792
Amortization of deferred consulting fees	--	--	109,000
Loss on settlement of accrued interest and damages	--	607,908	607,264
Gain on sale of property and equipment	--	--	(13,065)
Gain on settlement of debt	--	--	(131,175)
Loss on settlement of accrued legal liabilities	--	--	142,245
Stock based compensation	401,840	590,832	2,084,616
Fair value of warrants issued upon conversion	31,549	--	31,549
Fair market value of common shares donated to research institute	25,000	--	25,000
Loss on debt extinguishment	--	1,063,344	2,741,318
Fair market value of warrants issued in connection with accounts payable and debt	--	--	2,715,736
Fair market value of common stock, warrants and options issued for services	515,576	249,186	4,662,519
Change in fair value of derivative liability	(167,336)	(213,903)	1,454,282
Amortization of debt discount and deferred financing costs	557,293	1,251,326	4,556,075
Impairment of patents and patents pending	--	--	416,026
Impairment of goodwill	--	--	897,227
Deferred compensation forgiven	--	--	217,223
Changes in operating assets and liabilities:			
Prepaid expenses	25,902	(14,315)	180,387
Deposits	6,032	--	(7,168)
Accounts payable and other current liabilities	445,980	136,799	2,945,146
Due to related parties	(25,565)	(28,000)	1,260,142
Net cash used in operating activities	<u>(1,381,479)</u>	<u>(1,500,478)</u>	<u>(15,549,593)</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(10,274)	--	(283,124)
Additions to patents and patents pending	(15,424)	(9,693)	(402,767)
Proceeds from the sale of property and equipment	--	--	17,065
Cash of acquired company	--	--	10,728
Net cash used in investing activities	<u>(25,698)</u>	<u>(9,693)</u>	<u>(658,098)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from the issuance of notes payable	--	--	2,350,000
Principal repayments of notes payable	(24,000)	--	(376,500)
Net proceeds from the issuance of convertible notes payable	1,358,420	430,000	3,926,420
Proceeds from the issuance of common stock	115,200	917,500	10,433,102
Professional fees related to registration statement	--	--	(76,731)
Net cash provided by financing activities	<u>1,449,620</u>	<u>1,347,500</u>	<u>16,256,291</u>
Net (decrease) increase in cash	42,443	(162,671)	48,600
Cash at beginning of period	<u>6,157</u>	<u>254,691</u>	<u>--</u>
Cash at end of period	<u>\$ 48,600</u>	<u>\$ 92,020</u>	<u>\$ 48,600</u>

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

AETHLON MEDICAL, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE NINE MONTHS ENDED DECEMBER 31, 2009 AND 2008 AND  
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 2009  
(Unaudited)

	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008	January 31, 1984 (Inception) Through December 31, 2009
Supplemental disclosures of non-cash investing and financing information:			
Reclassification of accounts payable to notes payable	\$ 24,001	\$ --	\$ 24,001
Reclassification of warrant derivative liability into equity	--	419,192	419,192
Additional convertible debt issued in debt restructuring	--	573,211	573,211
Debt and accrued interest converted to common stock	1,279,037	371,604	5,130,508
Stock option exercise by director for accrued expenses	--	--	95,000
Debt discount on convertible notes payable associated with conversion feature and warrants	1,380,386	150,095	3,840,201
Issuance of common stock, warrants and options in settlement of accrued expenses and due to related parties	--	--	1,003,273
Issuance of common stock in connection with acquisition of patent pending and with license agreements	--	--	118,000
Net assets of entities acquired in exchange for equity securities	--	--	1,597,867
Debt placement fees paid by issuance of warrants	--	13,307	856,845
Common stock issued for prepaid expenses	--	--	161,537
Derivative Liabilities recorded in connection with warrant reclassification and embedded conversion feature	759,963	--	759,963

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

AETHLON MEDICAL, INC.  
(A Development Stage Company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
December 31, 2009

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. ("Aethlon", "We" or the "Company") is a development stage medical device company focused on expanding the applications of our Hemopurifier (R) platform technology, which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. In this regard, our core focus is the development of therapeutic devices that treat acute viral conditions, chronic viral diseases and pathogens targeted as potential biological warfare agents. The Hemopurifier(R) combines the established scientific principles of affinity chromatography and hemodialysis as a means to mimic the immune system's response of clearing viruses and toxins from the blood before cell and organ infection can occur. The Hemopurifier(R) cannot cure viral conditions but can prevent viruses and toxins from infecting unaffected tissues and cells. We have completed pre-clinical blood testing of the Hemopurifier(R) to treat HIV and Hepatitis-C, and have completed human safety trials on Hepatitis-C infected patients in India and are in the process of obtaining regulatory approval from the U.S. Food and Drug Administration ("FDA") to initiate clinical trials in the United States.

The commercialization of the Hemopurifier(R) will require the completion of human efficacy and safety-related clinical trials. The approval of any application of the Hemopurifier(R) in the United States will necessitate the approval of the FDA to initiate human studies. Such studies could take years to demonstrate safety and effectiveness in humans and there is no assurance that the Hemopurifier(R) will be cleared by the FDA as a device we can market to the medical community. We also expect to face similar regulatory challenges from foreign regulatory agencies should we attempt to commercialize and market the Hemopurifier(R) outside of the United States. As a result, we have not generated revenues from the sale of any Hemopurifier(R) application. Additionally, there have been no independent validation studies of our Hemopurifiers(R) to treat infectious disease. We manufacture our products on a small scale for testing purposes but have yet to manufacture our products on a large scale for commercial purposes. All of our pre-clinical human blood studies have been conducted in our laboratories under the direction of Dr. Richard Tullis, our Chief Science Officer.

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to make the financial statements not misleading have been included. We have evaluated subsequent events through February 12, 2010, the last business day before our condensed consolidated financial statements were issued. The condensed consolidated balance sheet as of March 31, 2009 was derived from our audited financial statements. Operating results for the three and nine month periods ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending March 31, 2010. For further information, refer to our Annual Report on Form 10-K for the year ended March 31, 2009, which includes audited financial statements and footnotes as of March 31, 2009 and for the years ended March 31, 2009 and 2008 and the period January 31, 1984 (Inception) through March 31, 2009.

## NOTE 2. GOING CONCERN AND LIQUIDITY CONSIDERATIONS

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. We have experienced continuing losses from operations, are in default on certain debt, have negative working capital of approximately (\$4,308,000), recurring losses from operations and a deficit accumulated during the development stage of approximately (\$41,577,000) at December 31, 2009, which among other matters, raises significant doubt about our ability to continue as a going concern. We have not generated significant revenue or any profit from operations since inception. A significant amount of additional capital will be necessary to advance the development of our products to the point at which they may become commercially viable. Our current financial resources are insufficient to fund our capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2010 ("fiscal 2010"). Therefore we will be required to seek additional funds through debt and/or equity financing arrangements to finance our current and long-term operations.

We are currently addressing our liquidity needs by exploring investment capital opportunities through the private placement of common stock or issuance of additional debt. We believe that our access to additional capital, together with existing cash resources, will be sufficient to meet our liquidity needs for fiscal 2010. However, no assurance can be given that we will receive any funds in connection with our capital raising efforts.

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

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc., Syngen Research, Inc., Cell Activation, Inc. and Exosome Sciences, Inc. (collectively hereinafter referred to as the "Company" or "Aethlon").

Hemex, Inc. is dormant and Aethlon, Inc., Syngen Research, Inc. and Cell Activation, Inc. were dormant and were dissolved effective November 25, 2009. In December 2009, we formed Exosome Sciences, Inc. to conduct our future cancer-related activities. There exist no material intercompany transactions or balances between Aethlon and any of our subsidiaries.

### LOSS PER COMMON SHARE

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued, and if the additional common shares were dilutive. As the Company had net losses for all periods presented, basic and diluted loss per share are the same, since additional potential common shares have been excluded as their effect would be antidilutive.

The potentially dilutive common shares outstanding for the quarters ended December 31, 2009 and 2008, which include shares underlying outstanding stock options, warrants and convertible debentures were 50,105,718 and 43,610,714, respectively.

### PATENTS

We capitalize the cost of patents, some of which were acquired, and amortize such costs over the estimated useful life, upon issuance of the patent.



## RESEARCH AND DEVELOPMENT EXPENSES

We incurred research and development expenses during the three and nine month periods ended December 31, 2009 and 2008, which are included in various operating expense line items in the accompanying consolidated statements of operations. Our research and development expenses in those periods were as follows:

	December 31, 2009	December 31, 2008
Three months ended	\$ 155,059	\$ 143,150
Nine months ended	\$ 389,758	\$ 522,993

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's cash, accounts payable and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The fair value of certain convertible notes and related warrants at December 31, 2009 approximates \$587,627 based upon a third party valuation report that we commissioned. Warrants classified as derivative liabilities are reported at their estimated fair value, with changes in fair value being reported in current period results of operations.

Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties because the transactions cannot be assumed to have been consummated at arm's length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practicable due to the lack of data regarding similar instruments, if any, and the associated potential costs.

## EQUITY INSTRUMENTS FOR SERVICES PROVIDED BY OTHER THAN EMPLOYEES

We account for transactions involving goods and services provided by third parties where we issue equity instruments as part of the total consideration using the fair value of the consideration received (i.e., the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable.

In transactions, when the value of the goods and/or services is not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, we use the following methodology:

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

## IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. We believe that no impairment occurred at or during the three months ended December 31, 2009.

## BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below the market value of our common stock. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We record the estimated fair value of the BCF, when applicable, in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are accreted to interest expense over the term of the notes using the effective interest method.

## DERIVATIVE LIABILITIES AND CLASSIFICATION

We evaluate free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. Our policy is to settle instruments indexed to our common shares on a first-in-first-out basis.

The classification of a derivative instrument is reassessed at each balance sheet date. If the classification changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

On April 1, 2009 we adopted new Financial Accounting Standards Board ("FASB") guidance that requires us to apply a two-step model in determining whether a financial instrument or an embedded feature is indexed to our own stock and thus enables it to qualify for equity classification. We have identified several convertible debt agreements in which the embedded conversion feature contains certain provisions that may result in an adjustment of the conversion price, which results in the failure of the embedded conversion feature to be considered to be indexed to our stock. Accordingly, under this guidance, we are required to record the estimated fair value of the embedded conversion feature as a derivative liability. As a result of the adoption of this guidance, the estimated fair value of the embedded conversion feature (See SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS below) was recorded as a derivative liability (at the date of issuance), and a cumulative effect adjustment was recorded to our accumulated deficit. In addition, we have re-measured such derivative liability at estimated fair value as of December 31, 2009 and have recorded the change in the fair value for the three and nine months ended December 31, 2009 in other expense (income) in the accompanying Condensed Consolidated Statement of Operations.

## REGISTRATION PAYMENT ARRANGEMENTS

We account for contingent obligations to make future payments or otherwise transfer consideration under a registration payment arrangement separately from any related financing transaction agreements, and any such contingent obligations are recognized only when it is determined that it is probable that the Company will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated. On October 7, 2008, the SEC declared effective a registration statement that covered all of the shares and warrants that had previously been generating liquidated damages pursuant to registration rights agreements and as a result, we ceased recording such liquidated damages at that time.

However, the above referenced registration statement ceased being effective in July 2009. As a result, as of December 31, 2009, we have accrued potential liquidated damages in the aggregate amount of \$351,000, which represents amounts owed through December 31, 2009, plus the additional estimated amounts that will be owed through April 2010, at which time we currently expect to have an effective registration statement back on file with the SEC. The actual amount of liquidated damages owed for the period subsequent to December 31, 2009 through the date that the registration statement is declared effective may be more or less than the amount estimated as of December 31, 2009 in the event that the actual length of time required for us to achieve an effective registration statement differs from our current estimate. We also intend to negotiate the amount of liquidated damages due and, as such, the ultimate amounts we may actually pay may be less than the amount currently accrued.

## STOCK BASED COMPENSATION

Employee stock options and rights to purchase shares under stock participation plans are accounted for under the fair value method. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board) on the date of grant. Compensation cost recognized by the Company includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of the then current accounting standards, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of subsequent accounting standards. We use a Binomial Lattice option pricing model for estimating fair value of options granted.

In June 2009, our Chief Executive Officer agreed to suspend the exercise of up to 9,588,243 of his stock options, which allowed us to utilize the shares underlying those stock options in capital raising activities while we presented our stockholders with a proposal to increase the number of authorized shares from 100,000,000 to 250,000,000. That proposal was approved by our stockholders at our Annual Meeting on September 16, 2009. Following that approval we extended the Chief Executive Officer's stock options by the 100 days that he had unreserved his shares. We valued the change in fair value of his stock options due to this extension, and based on the change in fair value, recorded an increase to our stock based compensation expense in the quarter ended September 30, 2009 of \$64,678 for his vested options. For his unvested options, we recorded an increase to fair value of \$15,308 which will be expensed over the remaining vesting period of those options.

The following table summarizes share-based compensation expenses relating to shares and options granted and the effect on basic and diluted loss per common share during the three and nine months ended December 31, 2009 and 2008:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Payroll and related	\$ 103,093	\$ 456,640	\$ 401,840	\$ 590,832
Total share-based compensation expense included in net loss	\$ 103,093	\$ 456,640	\$ 401,840	\$ 590,832
Basic and diluted loss per common share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The cumulative effect of adjusting the forfeiture rate for all expense amortization is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the three and nine months ended December 31, 2009 was insignificant.

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" as described in the SEC's guidance due to changes in the vesting terms and contractual life of current option grants compared to our historical grants.

We did not issue any stock option grants in the nine months ended December 31, 2009. In the nine months ended December 31, 2008, we issued 4,050,000 stock option grants.

Options outstanding that have vested and are expected to vest as of December 31, 2009 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Vested	12,789,060	\$ 0.37	5.14
Expected to vest	1,700,000	0.35	8.67
Total	14,489,060		

At December 31, 2009, there was approximately \$356,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 0.86 years.

On December 31, 2009, our stock options had a negative intrinsic value since the closing price on that date of \$0.30 per share was below the weighted average exercise price of our stock options.

#### INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. We record a valuation allowance for deferred tax assets when, based on our best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

## SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In May 2009, the FASB issued a new accounting standard related to subsequent events, which provides guidance on events that occur after the balance sheet date but prior to the issuance of the financial statements. The new accounting standard distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. Furthermore, the new accounting standard requires disclosure of the date through which subsequent events were evaluated. The new accounting standard is effective for interim and annual periods after June 15, 2009. We adopted the new accounting standard for the quarter ended June 30, 2009, and have evaluated subsequent events through February 15, 2010.

In June 2009, the FASB issued a new accounting standard which provides guidance related to the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of a previously issued standard. The new accounting standard stipulates the FASB Accounting Standards Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The new accounting standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard during the quarter ended September 30, 2009 did not have a material impact on our statements of operations or financial position.

In May 2008, the FASB issued a new accounting standard which provides guidance relating to accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This new standard requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The standard also requires an accretion of the resulting debt discount over the expected life of the debt. Retrospective application to all periods presented is required and a cumulative-effect adjustment is recognized as of the beginning of the first period presented. This standard was effective for us in the first quarter of fiscal year 2010. The adoption of this standard did not have a material impact on our financial statements.

In June 2008, the FASB issued a new accounting standard which provides guidance relating to determining whether an instrument (or embedded feature) is indexed to an entity's own stock and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to our own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. The standard provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the standard's scope exception.

We adopted this new standard effective April 1, 2009. The adoption of the standard's requirements can affect the accounting for warrants or convertible debt that contain provisions that protect holders from a decline in the stock price (or "down-round" protection). For example, warrants with such provisions will no longer be recorded in equity. Down-round protection provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price. We evaluated whether convertible debt or warrants to acquire stock of the Company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price and/or shares to be issued under the respective warrant agreements based on a variable that is not an input to the fair value of a "fixed-for-fixed" option. We determined that we have several convertible debt agreements in which the terms provide for a possible adjustment to the conversion price, and as such, the embedded conversion feature fails to be indexed solely to our stock under this pronouncement.

As a result of the adoption of this standard, we classified the estimated fair value of the embedded conversion feature of the convertible debt agreement described above, which was determined to be \$279,201, as a derivative liability on April 1, 2009 and recorded a cumulative effect adjustment to retained earnings (deficit) based on the difference between amounts recognized at the date of issuance and April 1, 2009.

In April 2009, the FASB issued an amendment to an existing standard which provides guidance relating to interim disclosures about fair value of financial instruments. This new standard requires the disclosure of the carrying amount and the fair value of all financial instruments for interim reporting periods and annual financial statements of publicly traded companies (even if the financial instrument is not recognized in the balance sheet), including the methods and significant assumptions used to estimate the fair values and any changes in such methods and assumptions. This new standard is effective for interim reporting periods ending after June 15, 2009. We adopted this pronouncement during the quarter ended June 30, 2009 without material impact to our financial statements.

The Sarbanes-Oxley Act of 2002 ("the Act") introduced new requirements regarding corporate governance and financial reporting. Among the many requirements of the Act is for management to annually assess and report on the effectiveness of its internal control over financial reporting under Section 404(a) and for its registered public accountant to attest to this report under Section 404(b). The SEC has modified the effective date and adoption requirements of Section 404(a) and Section 404(b) implementation for non-accelerated filers multiple times, such that we were required to issue our management report on internal control over financial reporting in our annual report on Form 10-K for the fiscal year ended March 31, 2009. Based on current SEC requirements, we will be required to have our independent registered public accounting firm attest to the effectiveness of internal controls over financial reporting for our fiscal year ending March 31, 2011.

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

#### NOTE 4. NOTES PAYABLE

Notes payable consist of the following at December 31, 2009:

	<u>Principal</u>
12% Notes payable, all past due	\$ 285,000
10% Note payable, past due	5,000
Total Notes Payable	<u>\$ 290,000</u>

Notes payable consisted of the following at March 31, 2009:

	<u>Principal</u>
12% Notes payable, all past due	\$ 297,500
10% Note payable, past due	5,000
Total Notes Payable	<u>\$ 302,500</u>

#### 12% NOTES

From August 1999 through May 2005, we entered into various borrowing arrangements for the issuance of notes payable from private placement offerings (the "12% Notes"). On November 4, 2009, a holder of \$12,500 of the 12% Notes converted his principal balance and \$15,625 of accrued interest to common stock at the then current market price of \$0.43 per share. At December 31, 2009, 12% Notes with a principal balance of \$285,000 are outstanding, all of which are past due, in default, and bearing interest at the default rate of 15%. At December 31, 2009, interest payable on the 12% Notes totaled \$303,125.

#### 10% NOTES

From time to time, we issued notes payable ("10% Notes") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Notes required no payment of principal or interest during the term. The total amount of the original notes issued was \$275,000. One 10% Note in the amount of \$5,000, which is past due and in default, remains outstanding at December 31, 2009. At December 31, 2009, interest payable on this note totaled \$4,250.

Management's plans to satisfy the remaining outstanding balance on these 12% and 10% Notes include converting the notes to common stock at market value or repayment with available funds. During the fiscal year ended March 31, 2009, we restructured our 8% and 9% Notes and for accounting purposes, we recorded an extinguishment loss of approximately \$977,000.

NOTE 5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consist of the following at December 31, 2009:

	<u>Principal</u>	<u>Discount</u>	<u>Net Amount</u>
Amended Series A 10% Convertible Notes, past due	\$ 900,000	\$ --	\$ 900,000
2008 10% Convertible Notes	45,000	(3,507)	41,493
December 2006 10% Convertible Notes, past due	17,000	--	17,000
May & June 2009 10% Convertible Notes	300,000	(152,039)	147,961
July & August 2009 10% Convertible Notes	668,250	(329,124)	339,126
October & November 2009 10% Convertible Notes	380,250	(380,247)	3
Total - Convertible Notes	<u>\$ 2,310,500</u>	<u>\$ (864,917)</u>	<u>\$ 1,445,583</u>

Convertible Notes Payable consisted of the following at March 31, 2009:

	<u>Principal</u>	<u>Discount</u>	<u>Amount</u>
Amended Series A 10% Convertible Notes, past due	\$ 900,000	\$ --	\$ 900,000
2008 10% Convertible Notes	45,000	(8,683)	36,317
December 2006 10% Convertible Notes, past due	17,000	--	17,000
Restructured December 2008 10% Convertible Notes and Related Convertible Notes	1,116,403	--	1,116,403
Total - Convertible Notes	<u>\$ 2,078,403</u>	<u>\$ (8,683)</u>	<u>\$ 2,069,720</u>

AMENDED SERIES A 10% CONVERTIBLE NOTES

At December 31, 2009, \$900,000 of the Amended Series A 10% Convertible Notes remained outstanding and in default. These notes are convertible into our common stock at \$0.20 per share. At December 31, 2009, interest payable on those notes totaled \$135,000.

2008 10% CONVERTIBLE NOTES

2008 10% Convertible Notes in the aggregate amount of \$45,000 remain outstanding at December 31, 2009. These notes are convertible into our common stock at \$0.50 per share. At December 31, 2009, interest payable on those notes totaled \$6,353. The notes mature in January and February 2010.

#### DECEMBER 2006 10% CONVERTIBLE NOTES

At December 31, 2009, \$17,000 of the December 2006 10% Notes remained outstanding and in default. These notes are convertible into our common stock at \$0.17 per share. At December 31, 2009, interest payable on those notes totaled \$7,508.

#### RESTRUCTURED DECEMBER 2008 10% CONVERTIBLE NOTES AND RELATED CONVERTIBLE NOTES

None of the Restructured December 2008 10% Convertible Notes and Related Convertible Notes remained outstanding at December 31, 2009. All of the remaining principal and accrued interest was converted into 2,511,264 common shares at an average conversion price of \$0.19 per share during the three months ended December 31, 2009.

#### MAY & JUNE 2009 10% CONVERTIBLE NOTES

In May and June 2009, we raised an aggregate amount of \$350,000 from the sale to accredited investors of 10% convertible notes ("May & June 2009 10% Convertible Notes"). The May & June 2009 10% Convertible Notes mature at various dates between November 2010 through December 2010 and are convertible into our common stock at a fixed conversion price of \$0.20 per share prior to maturity. If the investors opt to convert their convertible debt to our common stock, then they will receive a matching three year warrant to purchase unregistered shares of our common stock at a price of \$0.20 per share. We have measured the warrants but have not recorded them given their contingent terms.

After consideration of the warrants, we recorded a discount associated with the beneficial conversion feature of \$233,735 related to the May & June 2009 10% Convertible Notes and we are amortizing that discount over the terms of the May & June 2009 10% Convertible Notes using the effective interest method.

During the three months ended December 31, 2009, the holders of two of the May & June 2009 10% Convertible Notes converted a total of \$50,000 in notes to 250,000 shares of our common stock under the conversion feature of the notes. Due to these conversions, we accelerated the remaining discount of \$15,928 associated with those two converted notes and recorded that amount as interest expense in the three months ended December 31, 2009. We also issued 250,000 warrants as a result of those conversions, the fair value of which had been measured on the issuance dates of the relevant convertible notes using the Binomial lattice method at \$31,550. We recorded that \$31,550 amount as interest expense in the three months ended December 31, 2009.

At December 31, 2009, interest payable on those notes totaled \$14,194.

#### JULY & AUGUST 2009 10% CONVERTIBLE NOTES

In July and August 2009, we raised an aggregate amount of \$668,250 from the sale to three investment funds of 10% convertible notes ("July & August 2009 10% Convertible Notes"). Each note carries a one-year term and is convertible into our common stock at 80% of market with a floor of \$0.15 cents and a ceiling of \$0.25 cents per share. As additional consideration, the investors also received 1,336,500 three year warrants to purchase our common stock at \$0.50 per share, although that exercise price is subject to change based on certain conditions. The conversion feature may additionally be adjusted in the event of future financing by the Company. Because the conversion feature and warrant exercise price each can be reset based on future events, they are considered derivatives.

We commissioned a valuation study on this transaction from a third party valuation firm and based on the results of that study, we recorded a discount associated with the derivative liability of \$475,762 associated with the conversion feature. We commissioned a valuation of the derivative liability to measure the fair value of the derivative liability at December 31, 2009 and based on the results of that study, we recorded a fair value at December 31, 2009 of \$597,627. As a result of this fair value change we recorded a gain of \$122,626 in the three months ended December 31, 2009.

We are amortizing the discount associated with the July & August 2009 10% Convertible Notes and associated warrants using the effective interest method. Deferred financing costs incurred in connection with this financing totaled \$60,750, which were capitalized and are being amortized using the effective interest method.

At December 31, 2009, interest payable on those notes totaled \$27,418.

## OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised \$430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible Notes mature at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of \$0.25 per share prior to maturity. The investors also received matching three year warrants to purchase unregistered shares of our common stock at a price of \$0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing the discount associated with the October & November 2009 10% Convertible Notes and associated warrants using the effective interest method.

Three of the investors immediately converted their convertible notes totaling \$70,000 into 280,000 shares of our common stock under the conversion formula. As a result, we accelerated the discount of \$70,000 associated with their notes and recorded that amount as interest expense in the three months ended December 31, 2009.

Deferred financing costs of \$20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the \$20,250 of deferred financing costs and are amortizing them over the term of the notes using the effective interest method.

At December 31, 2009, interest payable on these notes totaled \$9,506.

## NOTE 6. EQUITY TRANSACTIONS

In April 2009, we issued 71,519 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.17 per share in payment for financial consulting services and research services valued at \$12,158 based on the value of the services.

In April 2009, we issued 1,688,211 shares of common stock as a result of conversions of \$263,478 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In April 2009, an accredited investor exercised a warrant to purchase 555,556 shares of our common stock at the agreed strike price of \$0.18 per share for cash proceeds of \$100,000. We issued that investor a five year warrant to purchase 555,556 shares at \$0.18 per share and a conditional warrant to purchase a like number of shares at the same strike price if that warrant is exercised.

In April 2009, we issued 490,000 shares of restricted common stock valued at the closing price in payment for investor relations services.

In April 2009, we issued 25,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In April 2009, we issued 32,935 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.23 per share in payment for internal controls consulting services valued at \$7,575 based on the value of the services provided.

In April 2009, we issued 12,372 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for regulatory affairs consulting services valued at \$2,660 based on the value of the services provided.

In April 2009, we issued 80,000 shares of restricted common stock and warrants to purchase 80,000 shares of common stock in exchange for \$15,200. The shares were issued to an accredited investor.



In April 2009, we issued 43,021 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.17 per share in payment for financial consulting services valued at \$7,744 based on the value of the services provided.

In April 2009, we issued 70,870 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.20 per share in payment for legal services valued at \$14,500 based on the value of the services provided.

In April 2009, we issued 22,817 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In May 2009, holders of certain convertible notes converted \$139,256 of principal and accrued interest into 878,059 shares of our common stock pursuant to the terms of the notes at an average conversion rate of approximately \$0.16 per share.

In May 2009, we issued 13,043 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services valued at \$3,000 based on the value of the services provided.

In May 2009, we issued 10,714 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services valued at \$3,000 based on the value of the services provided.

In May 2009, we issued 51,118 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.19 per share in payment for financial consulting services valued at \$9,713 based on the value of the services provided.

In May 2009, we issued 22,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.25 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In May 2009, we issued 34,602 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for financial consulting services valued at \$7,613 based on the value of the services provided.

In May 2009, we issued 40,104 shares of restricted common stock at \$0.24 in payment for financial advisory services valued at \$9,625 based on the value of the services provided.

In May 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In June 2009, we issued 20,500 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs consulting services valued at \$4,920 based on the value of the services provided.

In June 2009, we issued 57,055 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for scientific and financial consulting services valued at \$12,552 based on the value of the services provided.

In June 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In June 2009, we issued 23,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services valued at \$5,290 based on the value of the services provided.

In June 2009, we issued 48,106 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for scientific and financial consulting services valued at \$10,583 based on the value of the services provided.

In June 2009, we issued 779,956 shares of common stock as a result of conversions of \$143,512 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In June 2009, we issued 16,176 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.34 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

On June 29, 2009, Mr. Joyce, our Chief Executive Officer entered into an Option Suspension Agreement, whereby Mr. Joyce agreed to not exercise his stock options pending the filing of amended articles of incorporation of the Company increasing the Company's authorized capital. Accordingly of Mr. Joyce's total options, 2,857,143 could not be exercised until the amended articles of incorporation were filed, and 6,731,090 could not be exercised until the later of June 9, 2010 or the filing of the amended articles of incorporation. We filed the amendment to our articles of incorporation on September 21, 2009. The Agreement also provided Mr. Joyce certain protections in the event the Company shall undergo a change of control transaction while his options are suspended. Such protections include the right to receive, in the form of cash payments, the positive value of his options (which remain subject to suspension) at the time of such transaction.

In addition, we committed to issue 4,000,000 shares of restricted common stock, to Mr. Joyce at a price per share of \$0.24, which shall vest in equal installments over a thirty six month period commencing June 9, 2010.

In July 2009, we registered 1,000,000 additional shares under our 2003 Consultant Stock Plan through the filing of a Form S-8 Registration Statement.

In July 2009, we issued 518,649 shares of common stock as a result of conversions of \$100,566 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In July 2009, we issued 18,333 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.30 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In July 2009, we issued 51,971 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.28 per share in payment for legal services valued at \$14,500 based on the value of the services provided.

In July 2009, we issued 11,647 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.34 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In July 2009, we issued 19,643 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.28 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In July 2009, we issued a convertible promissory note in the principal amount of \$330,000 to an accredited investor. The note is convertible into shares of our common stock at a price per share that is equal to the lesser of (i) \$0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of \$0.15 per share. The investor also received warrants to purchase 660,000 shares of our common stock at an exercise price of \$0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In August 2009, we issued two convertible promissory note in the principal amount of \$338,250 to two accredited investors. These notes are convertible into shares of our common stock at a price per share that is equal to the lesser of (i) \$0.25, or (ii) the average of the closing bid prices of the common stock for the three days immediately preceding the conversion date, subject in any case to a floor of \$0.15 per share. The investors also received warrants to purchase 676,500 shares of our common stock at an exercise price of \$0.50 per share. See JULY & AUGUST 2009 10% CONVERTIBLE NOTES in note 5.

In August 2009, we issued 21,154 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.26 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In August 2009, we issued 14,143 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In August 2009, we issued 22,917 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In September 2009, we issued 36,094 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for financial consulting services valued at \$7,941 based on the value of the services provided.

In September 2009, we issued 20,370 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.27 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In September 2009, we issued 16,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs consulting services valued at \$3,840 based on the value of the services provided.

In September 2009, we issued 19,784 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.28 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In September 2009, we issued 12,000 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services valued at \$3,000 based on the value of the services provided.

In October 2009, we issued 100,000 shares of restricted common stock as a donation to a scientific research foundation valued at \$25,000 based on the closing price of \$0.25.

In October 2009, we issued 319,033 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for financial consulting services valued at \$70,187 based on the value of the services provided.

In October 2009, we issued 22,088 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.25 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In October 2009, we issued 37,585 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.22 per share in payment for financial consulting services valued at \$8,269 based on the value of the services provided.

In October 2009, we issued 2,511,264 shares of common stock as a result of conversions of \$481,297 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In October 2009, we issued 15,231 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.26 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In October 2009, we issued 11,702 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.47 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In October and November 2009, we raised \$430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of \$0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at \$0.25 per share. We also issued to a finder as deferred offering costs a convertible note for \$20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling \$70,000 to 280,000 shares of our common stock per the conversion formula in the notes (see Note 5).

In November 2009, we issued 117,759 shares of common stock as a result of conversions of \$38,595 of notes payable (\$15,200 in a 12% Note Payable, see Note 4, and \$10,000 in a May & June 2009 10% Convertible Note, see Note 5) and related accrued interest. The shares were issued to accredited investors.

In November 2009, we issued 14,103 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.39 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In November 2009, we issued 89,397 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.36 per share in payment for legal services valued at \$32,451 based on the value of the services provided.

In November 2009, we issued 19,688 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.35 per share in payment for financial consulting services valued at \$6,891 based on the value of the services provided.

In November 2009, we issued 15,068 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.37 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In December 2009, we issued 9,900 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.40 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In December 2009, we issued 50,313 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.30 per share in payment for financial consulting services valued at \$15,094 based on the value of the services provided.

In December 2009, we issued 114,066 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.30 per share in payment for financial consulting services valued at \$34,220 based on the value of the services provided.

In December 2009, we issued 17,188 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.32 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In December 2009, we issued 11,314 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.35 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In December 2009, we issued 18,333 shares of common stock pursuant to our S-8 registration statement covering our 2003 Consultant Stock Plan at \$0.30 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In December 2009, we issued 211,665 shares of common stock as a result of the conversion of a \$40,000 convertible note payable (see Note 5) and related accrued interest. The shares were issued to an accredited investor.

#### NOTE 7. OTHER CURRENT LIABILITIES

At December 31, 2009 and March 31, 2009, our other current liabilities were comprised of the following items:

	December 30, 2009	March 31, 2009
Accrued interest	\$ 528,100	\$ 352,204
Accrued legal fees	211,865	211,865
Deferred rent	921	--
Accrued liquidated damages	351,000	--
Other	85,945	115,429
Total other current liabilities	<u>\$ 1,177,831</u>	<u>\$ 679,498</u>

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of \$1,207,000 (as identified in Notes 4 and 5 above) have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. At December 31, 2009, we had accrued interest in the amount of \$415,496 associated with these defaulted notes in accrued liabilities payable (see Notes 4 and 5).

## NOTE 8. FAIR VALUE MEASUREMENTS

On April 1, 2008, we adopted guidance issued by the FASB that defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. Financial instruments measured at fair value on a recurring basis as of December 31, 2009 are classified based on the valuation technique level noted in the table below:

	Total	Active Markets for Identical Instruments Level 1	Significant Observable Inputs Level 2	Unobservable Inputs Level 3
<b>Assets:</b>				
None	\$ --	\$ --	\$ --	\$ --
<b>Liabilities:</b>				
Derivative liability	\$ 587,627	\$ --	\$ --	\$ 587,627

Based on estimated fair value of the derivative liability at December 31, 2009, we have recorded a loss of \$77,426 and a gain of \$167,336 for the three and nine months ended December 31, 2009, respectively, in other expense (income) in the accompanying Condensed Consolidated Statements of Operations, based on the change in fair value in those periods.

The table below sets forth a summary of changes in the fair value of our Level 3 derivative liability for the nine months ended December 31, 2009:

	Recorded Initial Fair Value on April 1, 2009	Recorded Fair Value of Derivative Liabilities in July & August, 2009	Change in Estimated Fair Value Recognized in Results of Operations	Fair Value at December 31, 2009
Derivative Liability	\$ 279,201	\$ 475,762	\$ (167,336)	\$ 587,627

## NOTE 9. COMMITMENTS AND CONTINGENCIES

### LEGAL MATTERS

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities. In connection with our termination of our lease at our former headquarters, our former landlord, BMR 3030 Bunker Hill Street LLC, commenced an action in the Superior Court of California, County of San Diego, against us on September 14, 2009 seeking damages of approximately \$25,000 for alleged unpaid rent and for surrender of the premises. All amounts were timely paid and the premises were timely surrendered. This action was dismissed in November 2009.

The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. Other than as mentioned here, we are not presently a party to any pending or threatened legal proceedings.

## LEASES

In September 2009, we gave notice that we were terminating the month-to-month rental arrangement for our offices and laboratory effective October 3, 2009 and we entered into two new leases for office and laboratory space. The terms of the new leases are three years and two years, respectively, and the initial base lease payments are \$4,746 per month and \$1,667 per month, respectively. We expect that the cost of our new facilities will be less than the cost of our old facilities, which was \$10,075 per month for rent and common area maintenance charges.

## NOTE 9. SUBSEQUENT EVENTS

In January 2010, we issued 36,683 shares of restricted common stock as a patent license payment valued at \$11,500.

In January 2010, we issued 14,474 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at \$0.38 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In January 2010, we issued 731,251 shares of restricted common stock and 731,251 warrants to purchase our common stock at \$0.20 per share to repay \$146,250 of interest on certain convertible debentures accrued through January 31, 2010 (see Note 5).

In January 2010, we issued 13,200 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at \$0.30 per share in payment for regulatory affairs consulting services valued at \$3,960 based on the value of the services provided.

In January 2010, we issued 15,714 shares of common stock pursuant to our S-8 registration statement covering our Amended and Restated 2003 Consultant Stock Plan at \$0.35 per share in payment for business development consulting services valued at \$5,500 based on the value of the services provided.

In January 2010, we raised \$250,000 from the sale to an accredited investor of 10% convertible notes. The convertible notes mature in July 2011 and are convertible into our common stock at a fixed conversion price of \$0.25 per share prior to maturity. The investor also received matching three year warrants to purchase unregistered shares of our common stock at a price of \$0.25 per share. This investment concluded our 10% convertible debt round that began in October 2009. In aggregate, we issued \$700,250 in 10% convertible notes in that financing round.

In February 2010, we entered into an amendment to our lease for our administrative offices to move into a slightly larger space in the same building. We agreed to extend our lease for an additional year and otherwise the terms of the lease were unchanged.

On February 12, 2010, we raised \$300,000 in cash and received a secured promissory note in the amount of \$300,000 in exchange for the issuance by the Company of a \$660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of \$0.30 and a minimum price per share of \$0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of \$0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at \$0.50 per share. The Note was issued in a private placement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

### FORWARD LOOKING STATEMENTS

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

### THE COMPANY

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

### WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act and must file reports, proxy statements and other information with the SEC. The reports, information statements and other information we file with the Commission can be inspected and copied at the Commission Public Reference Room, 450 Fifth Street, N.W. Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The Commission also maintains a Web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants, like us, which file electronically with the Commission. Our headquarters are located at 8910 University Center Lane, Suite 255, San Diego, CA 92122. Our phone number at that address is (858) 459-7800. Our Web site is <http://www.aethlonmedical.com>.

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED DECEMBER 31, 2009 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2008

##### Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2009 were \$715,977 in comparison with \$867,369 for the comparable quarter a year ago. This decrease of \$151,392, or 18%, was primarily due to a decrease in payroll and related expenses of \$344,490, which was partially offset by increases in professional fees of \$132,333 and in general and administrative expenses of \$60,765.



The \$344,490 decrease in payroll and related expenses was primarily due to a \$314,071 decrease in stock based compensation and to a \$26,250 decrease in our research and development related payroll due to staff reductions.

The \$132,333 increase in our professional fees was primarily due to a \$71,319 increase in our accounting and financial consulting fees. We also had a \$33,000 increase in fees related to business development work and a \$13,840 increase in our legal fees. We also had a \$11,176 increase in scientific consulting fees, largely related to the development of our new manufacturing practices. \$211,992, or 75%, of our professional fees for the three months ended December 31, 2009 were paid for through issuances of our common stock.

The \$60,765 increase in general and administrative expenses was due primarily to a \$25,000 stock-based contribution to a scientific research institute and to a \$24,079 increase in lab supplies. Those increases were partially offset by a decrease in our rent expense of \$19,823 as a result of our move to less expensive facilities.

#### Other Expenses (Income)

Other expenses (income) consist primarily of the change in the fair value of our derivative liability and interest expense. Other expenses for the three months ended December 31, 2009 were \$769,901 in comparison with \$1,477,185 for the comparable quarter a year ago.

Both periods include changes in the fair value of derivative liability. For the three months ended December 31, 2009, the change in the estimated fair value of derivative liability was a charge of \$77,426 and for the three months ended December 31, 2008, the change in estimated fair value was a charge of \$50,064.

Interest expense was \$692,770 for the three months ended December 31, 2009 compared to \$363,964 in the corresponding prior period, an increase of \$328,806. The various components of our interest expense are shown in the following table:

	Quarter Ended 12/31/09	Quarter Ended 12/31/08	Change
Interest Expense	\$ 81,832	\$ 91,948	\$ (10,116)
Amortization of Deferred Financing Costs	19,921	10,930	8,991
Liquidated damages	351,000	--	351,000
Amortization of Note Discounts	240,017	261,086	(21,069)
<b>Total Interest Expense</b>	<b>\$ 692,770</b>	<b>\$ 363,964</b>	<b>\$ 328,806</b>

As noted in the above table, the most significant factor in the \$328,806 increase in interest expense was the \$351,000 in accrued damages that we accrued due to a lapse in the effectiveness of a registration statement we had filed with the SEC. A lesser factor was the \$31,550 charge for amortization of debt discounts related to warrants that were issued as certain noteholders converted their notes to our common stock. Those increases were partially offset by a \$52,619 reduction in amortization of note discounts.

#### Net Loss

As a result of the increased expenses noted above, we recorded a consolidated net loss of approximately \$1,486,000 and \$2,345,000 for the quarters ended December 31, 2009 and 2008, respectively.

Basic and diluted loss per common share were (\$0.03) for the three month period ended December 31, 2009 compared to (\$0.05) for the period ended December 31, 2008.

## Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2009 were \$2,190,178 in comparison with \$2,223,687 for the comparable period a year ago. This decrease of \$33,509, or 2%, was due to decreases in payroll and related expenses of \$326,942 which was partially offset by increases in professional fees of \$252,759 and in general and administrative expenses of \$40,674.

The \$326,942 decrease in payroll and related expenses was primarily due to a \$149,516 decrease in stock based compensation and to a \$127,136 decrease in our research and development-related payroll and a \$49,415 decrease in administrative-related payroll due to staff reductions.

The \$40,674 increase in general and administrative expenses arose from a number of factors, including a \$25,000 stock-based contribution to a scientific research institute, a \$20,695 increase in investor relations and travel expense which were partially offset by a \$14,986 reduction in our insurance expense and a \$38,525 reduction in lab supplies.

The \$252,759 increase in our professional fees arose from a number of factors, including a \$64,769 charge by a contract manufacturer for establishing the systems to manufacture our product under the FDA's good manufacturing practices and also to produce both a trial product manufacturing run and to produce our first commercial batch of products. Other factors included a \$32,635 increase in our accounting and financial consulting fees, a \$73,454 increase in fees related to business development work and a \$104,656 increase in our investor relations-related expenses. The above-noted increases were partially offset by a \$32,342 reduction in our scientific consulting fees. \$525,201, or approximately 62%, of our professional fees for the nine months ended December 31, 2009 were paid for through issuances of our common stock.

## Other Expenses (Income)

Other expenses (income) consist primarily of the change in the fair value of our derivative liability and interest expense. Other expenses for the nine months ended December 31, 2009 were \$1,017,140 in comparison with \$2,932,502 for the comparable period a year ago.

The nine month period ended December 31, 2008 included a \$1,063,344 loss on extinguishment of debt and a \$607,908 charge for a loss on the issuance of common stock and warrants in payment of accrued interest and penalties to certain convertible noteholders. There were no comparable charges in the nine month period ended December 31, 2009.

Both periods include changes in the fair value of derivative liability. For the nine months ended December 31, 2009, the change in the estimated fair value of derivative liability was a gain of \$167,336 and for the nine months ended December 31, 2008, the change in estimated fair value was a gain of \$213,903.

Interest expense was \$1,185,482 for the nine months ended December 31, 2009 compared to \$1,477,854 in the corresponding prior period, a decrease of \$292,372. The various components of our interest expense are shown in the following table:

	Nine Months Ended 12/31/09	Nine Months Ended 12/31/08	Change
Interest Expense	\$ 245,639	\$ 226,386	\$ 19,253
Amortization of Deferred Financing Costs	33,141	92,253	(59,112)
Liquidated damages	351,000	--	351,000
Amortization of Note Discounts	555,702	1,159,215	(603,703)
Total Interest Expense	<u>\$ 1,185,482</u>	<u>\$ 1,477,854</u>	<u>\$ (292,372)</u>

As noted in the above table, the primary factor in the \$643,372 reduction in interest expense was the \$635,063 reduction in amortization of note discounts. This occurred because a significant portion of our note discounts were fully amortized as of December 31, 2009. Amortization of deferred offering costs also decreased by \$59,112. Partially offsetting the reductions in amortization of note discounts and of deferred offering costs was the \$351,000 in accrued damages that we accrued due to a lapse in the effectiveness of a registration statement we had filed with the SEC and the \$31,550 charge for the amortization of debt discounts related to warrants that were issued as certain noteholders converted their notes to our common stock.

## Net Loss

As a result of the increased expenses noted above, we recorded a consolidated net loss of approximately \$3,207,000 and \$5,156,000 for the nine month periods ended December 31, 2009 and 2008, respectively.

Basic and diluted loss per common share were (\$0.06) for the nine month period ended December 31, 2009 compared to (\$0.12) for the period ended December 31, 2008.

## 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 December 31, 2009 was approximately \$49,000 compared to approximately \$6,000, at March 31, 2009, representing an increase of approximately \$43,000. During the nine months ended December 31, 2009, operating activities used net cash of approximately \$1,381,000, while we received approximately \$1,450,000 from financing activities from the issuance of common stock and convertible notes. In addition, during this period we used \$26,000 in investing activities related to expenditures related to additions to patents and patents pending and to fixed asset acquisitions.

During the nine month period ended December 31, 2009, net cash used in operating activities resulted primarily from the approximate net loss of \$3,207,000 and the non-cash gain of approximately \$167,000 relating to the change in the estimated fair value of derivative liability offset by the amortization of note discounts of approximately \$557,000, fair market value of common stock of approximately \$516,000 issued in payment for services, approximately \$402,000 in stock-based compensation and the accrual for damages of \$351,000.

A decrease in working capital during the nine months ended December 31, 2009 in the amount of approximately \$204,000 changed our negative working capital position to approximately (\$4,308,000) at December 31, 2009 from a negative working capital of approximately (\$4,104,000) at March 31, 2009.

Our current deficit in working capital requires us to obtain funds in the short-term to be able to continue in business, and in the longer term to fund research and development on products not yet ready for market. Subsequent to December 31, 2009, we raised an additional \$250,000 through the sale to accredited investors of convertible notes and common stock purchase warrants, however, we continue to seek additional financing.

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

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

Subject to the availability of working capital, we anticipate continuing to increase spending on research and development over the next 12 months. Additionally, associated with our anticipated increase in research and development expenditures, we anticipate purchasing additional amounts of equipment during this period to support our laboratory and testing operations. Operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(R) products, as well as market any of those products that receive regulatory approval. We do not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is dependent for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future, and presently require a minimum of \$150,000 per month to sustain operations.

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

At the date of this filing, we plan to invest significantly into purchases of our raw materials and into our contract manufacturing arrangement subject to successfully raising additional capital.

In September 2009, we terminated our month-to-month rental arrangement for our offices and laboratory and we entered into two new leases for office and laboratory space. The terms of the new leases are three years and two years, respectively, and the initial base lease payments are \$4,746.15 per month and \$1,667.00 per month, respectively. We expect that the cost of our new facilities will be less than the cost of our old facilities.

#### CRITICAL ACCOUNTING POLICIES

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

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

There have been no changes to our critical accounting policies as disclosed in our Form 10-K for the year ended March 31, 2009.

#### OFF-BALANCE SHEET ARRANGEMENTS

We have no obligations required to be disclosed herein as off-balance sheet arrangements.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a Smaller Reporting Company as defined by rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

#### ITEM 4T. CONTROLS AND PROCEDURES.

##### DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our acting Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities. In connection with our termination of our lease at our former headquarters, our former landlord, BMR 3030 Bunker Hill Street LLC, commenced an action in the Superior Court of California, County of San Diego, against us on September 14, 2009 seeking damages of approximately \$25,000 for alleged unpaid rent and for surrender of the premises. All amounts were timely paid and the premises were timely surrendered. This action was dismissed in November 2009.

The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. Other than as set forth here, we are not presently a party to any pending or threatened legal proceedings.

### ITEM 1A. RISK FACTORS.

As a Smaller Reporting Company as defined by rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

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

During the quarter ended December 31, 2009, we issued the following securities which were not registered under the Securities Act of 1933, as amended, and have not been included previously in a Current Report on Form 8-K. We did not employ any form of general solicitation or advertising in connection with the offer and sale of the securities described below. In addition, we believe the purchasers of the securities are "ACCREDITED INVESTORS" for the purpose of Rule 501 of the Securities Act. For these reasons, among others, the offer and sale of the following securities were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act or Regulation D promulgated by the SEC under the Securities Act:

In October 2009, we issued 2,511,264 shares of common stock as a result of conversions of \$481,297 of convertible notes payable and related accrued interest. The shares were issued to accredited investors.

In October and November 2009, we raised \$430,000 through the issuance of 10% convertible notes to accredited investors. The notes are convertible into our common stock at a fixed conversion price of \$0.25 per share. The investors also received 1,720,000 three year warrants to purchase shares of our common stock at \$0.25 per share. We also issued to a finder as deferred offering costs a convertible note for \$20,250 on the same terms as those received by the investors. Three of the investors in this financing immediately converted their notes totaling \$70,000 to 280,000 shares of our common stock per the conversion formula in the notes.

In November 2009, we issued 117,759 shares of common stock as a result of conversions of \$38,595 of notes payable (\$15,200 in a 12% Note Payable and \$10,000 in a May & June 2009 10% Convertible Note) and related accrued interest. The shares were issued to accredited investors.

In December 2009, we issued 211,665 shares of common stock as a result of the conversion of a \$40,000 convertible note payable and related accrued interest. The shares were issued to an accredited investor.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of \$1,207,000 have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. Additionally, on July 30, 2008, the holders of the Amended Series A Convertible Notes notified us that we were in default on the notes due to our failure to register the warrants by March 31, 2008 and for failing to make required interest payments. At December 31, 2009, we had accrued interest in the amount of \$415,496 associated with these notes and accrued liabilities payable.

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

We did not submit any matters to a vote of security holders during the quarter ended December 31, 2009.

## ITEM 5. OTHER INFORMATION.

Beginning in October and to date through February 2010, we have raised \$680,000 through the issuance in a private placement of 10% convertible notes to accredited investors. The notes are convertible into 2,720,000 shares of our common stock at a fixed conversion price of \$0.25 per share. The investors also received 2,720,000 three year warrants to purchase shares of our common stock at \$0.25 per share. We also issued to a finder as deferred offering costs a convertible note for \$20,250 on the same terms as these received by the investors.

In February 2010, we entered into an amendment to our lease for our administrative offices to move into a slightly larger space in the same building. We agreed to extend our lease for an additional year and otherwise the terms of the lease were unchanged.

On February 12, 2010, we raised \$300,000 in cash and received a secured promissory note in the amount of \$300,000 in exchange for the issuance of a \$660,000 principal amount 10% convertible promissory note (the "Note") to one accredited investor. The conversion price per share is equal to eighty percent (80%) of the average of the three lowest closing bid prices of our common stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the conversion date, subject to a maximum price per share of \$0.30 and a minimum price per share of \$0.20. The Note is convertible into a maximum of 3,300,000 shares of our common stock at the minimum price per share of \$0.20. The investor also received 660,000 three-year warrants to purchase shares of our common stock at \$0.50 per share. The Note was issued in a private placement.

## ITEM 6. EXHIBITS.

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

- 3.1 Articles of Incorporation of Aethlon Medical, Inc., as amended (1)
- 3.2 Bylaws of Aethlon Medical, Inc. (1)
- 10.1 10% Convertible Note\*
- 10.2 Class C Common Stock Purchase Warrant\*
- 10.3 First Amendment to Lease, dated as of February 1, 2010, between Glenborough Aventine, LLC and Aethlon Medical, Inc.\*
- 10.4 Securities Purchase Agreement, dated as of February 12, 2010\*
- 10.5 Convertible Promissory Note, dated February 12, 2010\*
- 10.6 Warrant to Purchase Common Stock, dated February 12, 2010\*
- 10.7 Secured Promissory Note, dated February 12, 2010\*
- 31.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act rules 13a- 15 and 15d-15(c) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of James A. Joyce, Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith.

(1) Incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009.

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 thereunto duly authorized.

AETHLON MEDICAL, INC.

Date: FEBRUARY 16, 2010

By: /s/ JAMES A. JOYCE

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





EXHIBIT 10.1

*THIS NOTE AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE NOTE NOR SUCH SHARES OF COMMON STOCK MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.*

AETHLON MEDICAL, INC.

10% CONVERTIBLE NOTE

\$ \_\_,000

**FOR VALUE RECEIVED**, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to \_\_\_\_\_, whose address is \_\_\_\_\_, or registered assigns (the "Holder"), the sum of \_\_\_\_\_ Dollars (\$ \_\_,000) in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein.

1. **Interest.** This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. The Company shall pay all Interest on the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

2. **Payments.** All payments under this Note shall first be credited against the payment of accrued and unpaid Interest, if any, and the remainder shall be credited against principal. All payments due hereunder shall be payable at the Company's option in common stock of the Company sent to the mailing address provided below, or at such other place as the Holder shall designate in writing for such purpose from time to time. If a payment under this Note otherwise would become due and payable on a Saturday, Sunday or legal holiday (any other day being a "Business Day"), the due date of the payment shall be extended to the next succeeding Business Day, and Interest, if any, shall be payable thereon during such extension.

3. **Pre-Payments and Maturity Date.** This Note shall be due and payable in full, including all accrued Interest thereon, on \_\_\_\_\_, 2011 (the "Maturity Date") reflecting the eighteen month term of this Note. At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion thereof) redeemed.

4. **Conversion of Note.**

4.1 *Conversion of Note/Conversion Price.* This Note, including principal and interest, is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the Maturity Date at the rate of \$0.25 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

4.2 *Adjustment Based Upon Stock Dividends, Combination of Shares or Recapitalization.* The Conversion Price shall be adjusted in the event that the Company shall at any time (i) pay a stock dividend on the Common Stock; (ii) subdivide its outstanding Common Stock into a greater number of shares; (iii) combine its outstanding Common Stock into a smaller number of shares; (iv) issue by reclassification of its Common Stock any other special capital stock of the Company; or (v) distribute to all holders of Common Stock evidences of indebtedness or assets (excluding cash dividends) or rights or warrants to subscribe for Common Stock (other than those mentioned above). Upon the occurrence of an event requiring adjustment of the Conversion Price, and thereafter, the Holder, upon surrender of this Note for conversion, shall be entitled to receive the number of shares of Common Stock or other capital stock of the Company that the Holder would have owned or have been entitled to receive after the happening of any of the events described above had this Note been converted immediately prior to the happening of such event.

4.3 *Adjustment Based Upon Merger or Consolidation.* In case of any consolidation or merger to which the Company is a party (other than a merger in which the Company is the surviving entity and which does not result in any reclassification of or change in the outstanding Common Stock of the Company), or in case of any sale or conveyance to another person, firm, or corporation of the property of the Company as an entirety or substantially as an entirety, the Holder shall have the right to convert this Note into the kind and amount of securities and property (including cash) receivable upon such consolidation, merger, sale or conveyance by the Holder of the number of shares of Common Stock into which such Note might have been converted immediately prior thereto.

4.4 *Exercise of Conversion Privilege.*

4.4.1 The Conversion Privilege provided for in this Note shall be exercisable by the Holder by written notice to the Company or its successor and the surrender of this Note in exchange for the number of shares (or other securities and property, including cash, in the event of an adjustment of the Conversion Price) into which this Note is convertible based upon the Conversion Price.

4.4.2 The Holder's conversion right may be exercised at any time and from time to time but prior to payment in full of the principal amount of the accrued interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the Maturity Date or redemption date of this Note.

4.4.3 The Holder may exercise the right to convert all or any portion of the principal amount and accrued Interest on this Note by delivery of (i) this Note and (ii) a completed Conversion Notice in the form attached as **Exhibit A** on a Business Day to the Company's principal executive offices. Such conversion shall be deemed to have been made immediately prior to the close of business on the Business Day of such delivery a conversion notice (the "Conversion Date"), and the Holder shall be treated for all purposes as the record holder of the shares of Common Stock into which this Note is converted as of such date.

4.4.4 Upon conversion of the entire principal amount and accrued Interest of this Note and the delivery of shares of Common Stock upon conversion of this Note, except as otherwise provided in Paragraph 20, "Representations and Warranties to Survive Closing," the Company shall be forever released from all of its obligations and liabilities under this Note.

4.5 *Corporate Status of Common Stock to be Issued.* All Common Stock (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

4.6 *Issuance of Certificate.* Upon the conversion of this Note, the Company shall, within five (5) Business Days of such conversion, issue to the Holder a certificate or certificates representing the number of shares of the Common Stock (or other securities in the event of an adjustment of the Conversion Price) to which the conversion relates.

5. **Status of Holder of Note.** This Note shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company or to any rights whatsoever except the rights herein expressed, and no dividends shall be payable or accrue in respect of this Note or the securities issuable upon the conversion hereof unless and until this Note shall be converted. Upon the conversion of this Note, the Holder shall, to the extent permitted by law, be deemed to be the holder of record of the shares of Common Stock issuable upon such conversion, notwithstanding that the stock transfer books of the Company shall then be closed or that the certificates representing such shares of Common Stock and Warrants shall not then be actually delivered.

6. **Reservation of Shares of Common Stock.** The Company shall reserve out of its authorized shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, a number of shares sufficient to enable it to comply with its obligation to issue shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, upon the conversion of this Note.

7. **Transfer Restrictions; Exemption from Registration.**

7.1 The Holder agrees that (i) this Note and the shares of Common Stock issuable upon conversion have not been registered under the Act and may not be sold or transferred without registration under the Act or unless an exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

7.2 If an opinion of counsel of Holder provides that registration is not required for the proposed conversion or transfer of this Note or the proposed transfer of the shares of Common Stock issuable upon conversion and that the proposed conversion or transfer in the absence of registration would require the Company to take any action including executing and filing forms or other documents with the Securities and Exchange Commission (the "SEC") or any state securities agency, or delivering to the Holder any form or document in order to establish the right of the Holder to effectuate the proposed conversion or transfer, the Company agrees promptly, at its expense, to take any such action; and provided, further, that the Company will reimburse the Holder in full for any expenses (including but not limited to the fees and disbursements of such counsel, but excluding brokers' commissions) incurred by the Holder or owner of shares of Common Stock on his, her or its behalf in connection with such conversion or transfer of the Note or transfer of the shares of Common Stock.

8. **Information on Company.** Holder has been furnished with or has had access at the EDGAR Website of the SEC to the Company's Form 10-K filed on July 2, 200 for the fiscal year ended March 31, 2000, and the financial statements included therein, together with all subsequent filings made with the SEC available at the EDGAR website (hereinafter referred to collectively as the "**Reports**"). In addition, Holder may have received in writing from the Company such other information concerning its operations, financial condition and other matters as Holder has requested in writing, identified thereon as OTHER WRITTEN INFORMATION (such other information is collectively, the "**Other Written Information**"), and considered all factors Holder deems material in deciding on the advisability of investing in this Note (and underlying shares of Common Stock).

8. **Information on Subscriber.** Holder is, and will be at the time of the exercise of the Warrants, an "**accredited investor**", as such term is defined in Regulation D promulgated by the SEC under the 1933 Act, is experienced in investments and business matters, has made investments of a speculative nature and has purchased securities of United States publicly-owned companies in private placements in the past and, with its representatives, has such knowledge and experience in financial, tax and other business matters as to enable Holder to utilize the information made available by the Company to evaluate the merits and risks of and to make an informed investment decision with respect to the proposed purchase, which represents a speculative investment. Holder has the authority and is duly and legally qualified to purchase and own the Note and underlying shares of Common Stock. Holder is able to bear the risk of such investment for an indefinite period and to afford a complete loss thereof. The information set forth on the signature page hereto regarding Holder is accurate.

9. **Rule 144.**

If the Company (a) has or registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

10. **Default.** The Company shall perform its obligations and covenants hereunder and in each and every other agreement between the Company and Holder pertaining to the Indebtedness evidenced hereby. The following provisions shall apply upon failure of the Company so to perform.

10.1 *Event of Default.* Any of the following events shall constitute an "Event of Default" hereunder:

10.1.1 Failure by the Company to pay principal when due and payable hereunder on the Maturity Date;

10.1.2 Failure of the Company to pay Interest when due hereunder, which failure continues for a period of thirty (30) days after the due date of the amount involved; or

10.1.3 The entry of an order for relief under Federal Bankruptcy Code as to the Company or entry of any order appointing a receiver or trustee for the Company or approving a petition in reorganization or other similar relief under bankruptcy or similar laws in the United States of America or any other competent jurisdiction, and if such order, if involuntary, is not satisfied or withdrawn within sixty (60) days after entry thereof; or the filing of a petition by the Company seeking any of the foregoing, or consenting thereto; or the filing of a petition to take advantage of any debtor's act; or making a general assignment for the benefit of creditors; or admitting in writing inability to pay debts as they mature.

10.2 *Acceleration.* Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the Holder, all sums evidenced hereby, including all principal, Interest, fees and all other amounts due hereunder, shall become immediately due and payable.

10.3 *Notice by Company.* Upon the happening of any Event of Default specified in this paragraph that is not cured within the respective periods prescribed above, the Company will give prompt written notice thereof to the Holder of this Note.

10.4 *No Waiver.* Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent Event of Default, or in the event of continuance of any existing Event of Default after demand or performance thereof.

10.5 *Default Interest.* Default Interest will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured.

10.6 *Pursuit of any Remedy.* Holder may not pursue any remedy under the Note unless (i) the Company shall have received written notice of a continuing Event of Default from the Holder and (ii) the Company shall have received a request from Holder to pursue such remedy.

**11. Assignment, Transfer or Loss of the Note.**

11.1 No Holder of this Note may assign, transfer, hypothecate or sell all or any part of this Note or in any way alienate or encumber the Note without the express written consent of the Company, the granting or denial of which shall be within the absolute discretion of the Company. Any attempt to effect such transfer without the consent of the Company shall be null and void. The Company has not registered this Note under the Act or the applicable securities laws of any state in reliance on exemptions from registration. Such exemptions depend upon the investment intent of the Holder at the time he acquires his Note. The Holder is acquiring this Note for his own account for investment purposes only and not with a view toward distribution or resale of such Note within the meaning of the Act and the applicable securities laws of any state. The Company shall be under no duty to register the Note or to comply with an exemption in connection with the sale, transfer or other disposition under the applicable laws and regulations of the Act or the applicable securities laws of any state. The Company may require the Holder to provide, at his expense, an opinion of counsel satisfactory to the Company to the effect that any proposed transfer or other assignment of the Note will not result in a violation of the applicable federal or state securities laws or any other applicable federal or state laws or regulations.

11.2 All expenses, including reasonable legal fees incurred by the Company in connection with any permitted transfer, assignment or pledge of this Note will be paid by the Holder requesting such transfer, assignment or pledge.

11.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at its principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12. **Notices.** All notices provided for herein shall be validly given if in writing and delivered personally or sent by certified mail, postage prepaid, to the office of the Company or such other address as the Company may from time to time designate in writing sent by certified mail, postage prepaid, to the Holder at his address set forth below or such other address as the Holder may from time to time designate in writing to the Company by certified mail, postage prepaid.

13. **Usury.** All Interest, Default Interest, fees, charges, goods, things in action or any other sums or things of value, or other contractual obligations (collectively, the "Additional Sums") paid by the Company hereunder, whether pursuant to this Note or otherwise, with respect to the Indebtedness evidenced hereby, or any other document or instrument in any way pertaining to the Indebtedness, which, under the laws of the State of California may be deemed to be Interest with respect to such loan or Indebtedness, shall, for the purpose of any laws of the State of California, which may limit the maximum amount of Interest to be charged with respect to such loan or Indebtedness, be payable by the Company as, and shall be deemed to be, Interest and for such purposes only, the agreed upon and contracted rate of Interest shall be deemed to be increased by the Additional Sums. Notwithstanding any provision of this Note to the contrary, the total liability for payments in the nature of Interest under this Note shall not exceed the limits imposed by applicable law. The Company shall not assert a claim, and shall actively resist any attempts to compel it to assert a claim, respecting a benefit under any present or future usury laws against any Holder of this Note.

14. **Binding Effect.** This Note shall be binding upon the parties hereto and their respective heirs, executors, administrators, representatives, successors and permitted assigns.

15. **Collection Fees.** Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all costs of suit and preparation for such suit (and whether at trial or appellate level), in the event the unpaid principal amount of this Note, or any payment of Interest is not paid when due, or in the event Holder is made party to any litigation because of the existence of the Indebtedness evidenced by this Note, or if at any time Holder should incur any attorneys' fees in any proceeding under the Federal Bankruptcy Code (or other similar laws for the protection of debtors generally) in order to collect any Indebtedness hereunder or to preserve, protect or realize upon any security for, or guarantee or surety of, such Indebtedness whether suit be brought or not, and whether through courts of original jurisdiction, as well as in courts of appellate jurisdiction, or through a bankruptcy court or other legal proceedings.

16. **Construction.** This Note shall be governed as to its validity, interpretation, construction, effect and in all other respects by and in accordance with the laws and interpretations thereof of the State of California. Unless the context otherwise requires, the use of terms in singular and masculine form shall include in all instances singular and plural number and masculine, feminine and neuter gender.

17. **Severability.** In the event any one or more of the provisions contained in this Note or any future amendment hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note or such other agreement, and in lieu of each such invalid, illegal or unenforceable provision there shall be added automatically as a part of this Note a provision as similar in terms to such invalid, illegal or unenforceable provision as may be possible and be valid, legal and enforceable.

18. **Entire Agreement.** This Note Agreement represents the entire agreement and understanding between the parties concerning the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, representations and warranties with respect thereto.

19. **Governing Law; Jurisdiction; Jury Trial.** The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its shareholders. All other questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by the internal laws of the State of California, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of California or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego for the adjudication of any dispute hereunder or in connection herewith or therewith, or with any transaction contemplated hereby or discussed herein, or in any manner arising in connection with or related to the transactions contemplated hereby or involving the parties hereto whether at law or equity and under any contract, tort or any other claim whatsoever and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing or faxing a copy thereof to such party at the address for such notices as listed in this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.

20. **Headings.** The headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

21. **Definitions.**

*"Affiliate"* of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.



"Board of Directors" means, with respect to any Person, the Board of Directors of such Person or any committee of the Board of Directors of such Person duly authorized to act on behalf of the Board of Directors of such Person.

"Capital Stock" means, with respect to any Person, any and all shares, interests, equity participations or other equivalents (however designated) of corporate stock or partnership interests and any and all warrants, options and rights with respect thereto (whether or not currently exercisable), including each class of common stock and preferred stock of such Person.

"GAAP" means generally accepted accounting principles as in effect in the United States of America as of the Issue Date.

"Holder" means a Person in whose name a Note is registered on the Company's books.

"Indebtedness" means, without duplication, with respect to any Person, (a) all obligations of such Person (i) in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof); (ii) evidenced by bonds, notes, debentures or similar instruments; (iii) representing the balance deferred and unpaid of the purchase price of any property or services (other than accounts payable or other obligations arising in the ordinary course of business); (iv) evidenced by bankers' acceptances or similar instruments issued or accepted by banks, (v) for the payment of money relating to a capitalized lease obligation under GAAP; or (vi) evidenced by a letter of credit or a reimbursement obligation of such Person with respect to any letter of credit; (b) all net obligations of such Person under interest rate swap obligations and foreign currency hedges; (c) all liabilities of others of the kind described in the preceding clauses (a) or (b) that such Person has guaranteed or that are otherwise its legal liability; (d) Indebtedness (as otherwise defined in this definition) of another Person secured by lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, the amount of such obligations being deemed to be the lesser of (1) the full amount of such obligations so secured, and (2) the fair market value of such asset, as determined in good faith by the Board of Directors of such Person, which determination shall be evidenced by a board resolution; and (e) any and all deferrals, renewals, extensions, refinancings and refundings (whether direct or indirect) of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (a), (b), (c), (d) or this clause (e), whether or not between or among the same parties.

"Issue Date" means the date on which the Note is originally issued.

"Maturity Date" means \_\_\_\_\_, 2011.

"Person" means any individual, corporation, partnership, joint venture, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

A "subsidiary" of any Person means (i) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person, (ii) a partnership in which such Person or a subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if such Person or its subsidiary is entitled to receive more than fifty percent (50%) of the assets of such partnership upon its dissolution, or (iii) any other Person (other than a corporation or partnership) in which such Person, directly or indirectly, at the date of determination thereof, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of directors or other governing body of such Person.

"Subsidiary" means any subsidiary of the Company.

"Voting Stock" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency to vote in the election of members of the Board of Directors or other governing body of such Person.

22. **Miscellaneous.** Except as otherwise provided herein, the Company waives demand, diligence, presentment for payment and protest, notice of extension, dishonor, maturity and protest. Time is of the essence with respect to the performance of each and every covenant, condition, term and provision hereof.

IN WITNESS WHEREOF, this Note has been issued on the \_\_\_\_\_ day of \_\_\_\_\_ 2009.

**AETHLON MEDICAL, INC.**

By: /s/ James Joyce

\_\_\_\_\_  
James Joyce  
Chief Executive Officer

**[HOLDER:]**

**By:**

**Name:**

**Title:**

**EXHIBIT A**

**FORM OF WARRANT**

See Attached

**EXHIBIT B**

**CONVERSION NOTICE**

(To be signed only upon conversion of this Note)

TO: **AETHLON MEDICAL, INC.**

The undersigned, the registered holder of the 10 % Convertible Note (the "Note") of **AETHLON MEDICAL, INC.** (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of \$\_\_\_\_\_ unpaid principal amount of the Note and \$\_\_\_\_\_ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing shares of Common Stock, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

\_\_\_\_\_  
(Signature and name of the registered holder)

\_\_\_\_\_  
Print Name

Dated: \_\_\_\_\_



**EXHIBIT 10.2**

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Right to Purchase \_\_\_\_\_ shares of Common Stock of Aethlon Medical, Inc. (subject to adjustment as provided herein)

**CLASS C COMMON STOCK PURCHASE WARRANT**

No. 2008-C-0\_\_

Issue Date: \_\_\_\_\_, 2009

AETHLON MEDICAL, INC., a corporation organized under the laws of the State of Nevada (the "Company"), hereby certifies that, for value received, \_\_\_\_\_, or its assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time commencing after the Issue Date until 5:00 p.m., E.S.T on the third anniversary of the Issue Date (the "Expiration Date"), up to \_\_\_\_\_ fully paid and nonassessable shares of Common Stock at a per share purchase price of \$0.25. The aforescribed purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "Purchase Price."

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Aethlon Medical, Inc. and any corporation which shall succeed or assume the obligations of Aethlon Medical, Inc. hereunder.

(b) The term "Common Stock" includes (a) the Company's Common Stock, \$.001 par value per share, as authorized on the date of the Note, and (b) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

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(d) The term “Other Securities” refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(e) The term “Warrant Shares” shall mean the Common Stock issuable upon exercise of this Warrant.

1. Exercise of Warrant.

1.1. Number of Shares Issuable upon Exercise. From and after the Issue Date through and including the Expiration Date, the Holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 1.2 or upon exercise of this Warrant in part in accordance with subsection 1.3, shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2. Full Exercise. This Warrant may be exercised in full by the Holder hereof by delivery of an original or facsimile copy of the form of subscription attached as Exhibit A hereto (the “Subscription Form”) duly executed by such Holder and delivery within two days thereafter of payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect. The original Warrant is not required to be surrendered to the Company until it has been fully exercised.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by delivery of a Subscription Form in the manner and at the place provided in subsection 1.2 except that the amount payable by the Holder on such partial exercise shall be the amount obtained by multiplying (a) the number of whole shares of Common Stock designated by the Holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise provided the Holder has surrendered the original Warrant, the Company, at its expense, will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, the whole number of shares of Common Stock for which such Warrant may still be exercised.

1.4. Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the Holder hereof acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such Holder any such rights.

1.5. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Holder of the Warrants pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

1.6. Delivery of Stock Certificates, etc. on Exercise The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which delivery of a Subscription Form shall have occurred and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within seven (7) business days thereafter ("Warrant Share Delivery Date"), the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and non-assessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction multiplied by the then fair market value of one full share of Common Stock, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

3. Adjustment for Reorganization, Consolidation, Merger, etc.

3.1. Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Company consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Company, or (F) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in (1) a transaction where the consideration paid to the holders of the Common Stock consists solely of cash, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the 1934 Act, or (3) a transaction involving a person or entity not traded on a national securities exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market, cash equal to the Black-Scholes Value. For purposes of any such exercise, the determination of the Purchase Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Purchase Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3.1 and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. "Black-Scholes Value" shall be determined in accordance with the Black-Scholes Option Pricing Model obtained from the "OV" function on Bloomberg L.P. using (i) a price per share of Common Stock equal to the VWAP of the Common Stock for the Trading Day immediately preceding the date of consummation of the applicable Fundamental Transaction, (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Warrant as of the date of such request and (iii) an expected volatility equal to the 100 day volatility obtained from the HVT function on Bloomberg L.P. determined as of the Trading Day immediately following the public announcement of the applicable Fundamental Transaction.



3.2. Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, prior to such dissolution, shall at its expense deliver or cause to be delivered the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrants after the effective date of such dissolution pursuant to this Section 3 to a bank or trust company (a "Trustee") having its principal office in California, NY, as trustee for the Holder of the Warrants. Such property shall be delivered only upon payment of the Warrant exercise price.

3.3. Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the Other Securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any Other Securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transaction described in this Section 3, then only in such event will the Company's securities and property (including cash, where applicable) receivable by the Holder of the Warrants be delivered to the Trustee as contemplated by Section 3.2.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the Holder of this Warrant shall thereafter, on the exercise hereof, be entitled to receive shall be adjusted to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4 be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 4 be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrants, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant Agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder hereof to receive copies of all financial and other information distributed or required to be distributed to the holders of the Company's Common Stock.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor"). On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the "Transferor Endorsement Form") and together with an opinion of counsel reasonably satisfactory to the Company that the transfer of this Warrant will be in compliance with applicable securities laws, the Company will issue and deliver to or on the order of the Transferor thereof a new Warrant or Warrants of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense, twice only, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Registration Rights. The Company shall use its best efforts to effect one or more registration statements that shall include all the Common Stock issuable upon the exercise of this Warrant. The Company shall use best efforts to file such registration statements promptly following the date of issuance of this Warrant, cause such registration statements to be declared effective by the Securities and Exchange Commission as promptly as possible thereafter, and use best efforts to maintain their effectiveness at all times following their initial effectiveness. The Holder agrees to cooperate with the Company in furnishing all information required or reasonably requested by the Company in order to prepare and file, or seek the effectiveness of, any registration statements that include the shares of Common Stock issuable upon the exercise of this Warrant.

10. Maximum Exercise. The Holder shall not be entitled to exercise this Warrant on an exercise date, in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on an exercise date, and (ii) the number of shares of Common Stock issuable upon the exercise of this Warrant with respect to which the determination of this limitation is being made on an exercise date, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock on such date. For the purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities 1934 Act, and Rule 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate exercises which would result in the issuance of more than 4.99%. The restriction described in this paragraph may be waived, in whole or in part, upon sixty-one (61) days prior notice from the Holder to the Company to increase such percentage to up to 9.99%, but not in excess of 9.99%. The Holder may decide whether to convert a Convertible Note or exercise this Warrant to achieve an actual 4.99% or up to 9.99% ownership position as described above, but not in excess of 9.99%.

11. Warrant Agent. The Company may, by written notice to the Holder of the Warrant, appoint an agent (a “Warrant Agent”) for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such Warrant Agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: if to the Company, to: Aethlon Medical, Inc., 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109, Attn: James A. Joyce, CEO, telecopier: (858) 272-2738, with a copy by telecopier only to: Law Office of Jennifer A. Post, 340 North Camden Drive, Suite 302, Beverly Hills, California 90210 Attn: Jennifer Post, Esq., telecopier: (800) 783-2983, and (ii) if to the Holder, to the address and telecopier number listed on the first paragraph of this Warrant.

14. Law Governing This Warrant. This Warrant shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Warrant shall be brought only in the state courts of California or in the federal courts located in the state and county of California. The parties to this Warrant hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The Company and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

15. Restricted Stock. Holder understands and acknowledges that the Warrant Shares have not been, and when issued will not be, registered with the Securities and Exchange Commission. Further, the Holder understands and acknowledges that the certificates representing the Warrant Shares, when issued, shall bear a restrictive legend.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

AETHLON MEDICAL, INC.

By: \_\_\_\_\_  
Name:

**HOLDER:**

**By:**  
**Name:**  
**Title:**

**Exhibit A**

**FORM OF SUBSCRIPTION**  
(to be signed only on exercise of Warrant)

TO: AETHLON MEDICAL, INC.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. \_\_\_\_), hereby irrevocably elects to purchase (check applicable box):

\_\_\_\_\_ shares of the Common Stock covered by such Warrant.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$ \_\_\_\_\_. Such payment takes the form of \$ \_\_\_\_\_ in lawful money of the United States.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an exemption from registration under the Securities Act.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature must conform to name of holder as specified on the face of the Warrant)

\_\_\_\_\_  
(Address)

**Exhibit B**

**FORM OF TRANSFEROR ENDORSEMENT**

(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of AETHLON MEDICAL, INC. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of AETHLON MEDICAL, INC. with full power of substitution in the premises.

<u>Transferees</u>	<u>Percentage Transferred</u>	<u>Number Transferred</u>

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
(Signature must conform to name of holder as specified  
on the face of the warrant)

Signed in the presence of:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
\_\_\_\_\_  
(address)

ACCEPTED AND AGREED:  
[TRANSFEREE]

\_\_\_\_\_  
\_\_\_\_\_  
(address)

\_\_\_\_\_  
(Name)



FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("Agreement") is made and entered into as of February 1, 2010, by and between Glenborough Aventine, LLC, a Delaware limited liability company, ("Landlord") and Aethlon Medical, Inc., a Nevada corporation (together, "Tenant").

RECITALS

This Agreement is made with reference to the following facts and objectives:

A. By Office Lease by and between Landlord and Tenant dated as of September 16, 2009, (the "Lease") Tenant leases the Premises depicted in Exhibit A to the Lease, demised in Section 1.1.1 of the Lease, and described in Section 2 of the Summary of Basic Lease Information of the Lease ("Summary") as Suite 255 (relocated herein) deemed to contain approximately 1,791 (increased after relocation) rentable square feet of space and located at 8910 University Center Lane, San Diego, California 92122, in the Building known as The Aventine.

B. Landlord and Tenant desire to relocate the Premises subject to the provisions set forth below.

NOW, THEREFORE, Landlord and Tenant hereby agree as follows:

AGREEMENT

1. On February 15, 2010, (the "Effective Date") Tenant shall relocate to Suite 660 and the following modifications and amendments shall be made to the Lease:

- The reference to Suite 255 in Section 2.2 of the Summary shall be replaced by Suite 660.
- The reference to 1,791 rentable square feet of space in Section 2.2 of the Summary shall be replaced by 2,281 rentable square feet of space.
- Exhibit A attached hereto and made a part hereof depicting Suite 660 shall be deemed to have replaced former Exhibit A to the Lease.
- The reference to 0.8248% as Tenant's Share in Section 6 of the Summary shall be replaced by 1.0504%
- The September 30, 2012, Expiration Date provided by Section 3.3 of the Lease shall be replaced by September 30, 2013.
- The 2009 Base Year set forth in Section 5 of the Summary shall remain unchanged.
- The \$5,084.20 Security Deposit set forth in Section 8 of the Summary shall be replaced with \$6,701.81. Therefore, Tenant shall remit an additional \$1,617.61 to Landlord when it returns its signed originals of this Agreement to Landlord for review and approval to increase the Security Deposit to said \$6,701.81.



The monthly Base Rent schedule in Section 4 of the Summary shall be replaced by the following:

February 15, 2010,	through	September 30, 2010,	\$6,044.65 / month
October 1, 2010,	through	September 30, 2011,	\$6,256.21 / month
October 1, 2011,	through	September 30, 2012,	\$6,475.19 / month
October 1, 2012,	through	September 30, 2013,	\$6,701.81 / month

2. Tenant shall retain its existing Option to Extend as set forth in Section 31 of the Addendum to Lease.

3. The ROFO (right of first offer) set forth in Section 30 of the Addendum to Lease is of no further force or effect.

4. Landlord has already installed new carpet and paint in Suite 660 to prepare it for marketing as a "spec suite" or model suite. No additional work has been promised to Tenant or will be provided.

5. Tenant may commence its move-in to Suite 660 on the weekend immediately preceding the Effective Date (on February 13 and 14) at no additional charge. All insurance requirements and other provisions of the Lease shall apply to both the old and new Premises during any said overlap in occupancy, except for payment of Base Rent on Suite 660 until the Effective Date.

6. Tenant may immediately (following full execution of this Agreement) begin cabling Suite 660 for telephone and data wiring. All insurance requirements and other provisions of the Lease shall apply to both the old and new Premises during any said early access for cabling, except for payment of Base Rent on Suite 660 until the Effective Date.

7. Capitalized terms not defined herein are defined in the Lease. All other terms, covenants, and conditions of the Lease remain in full force and effect, but to the extent there are any inconsistencies between this Agreement and the Lease, this Agreement shall govern. There are no oral agreements or other written agreements on the subject matter of this Agreement which are separate from this Agreement.

[Remainder of page intentionally blank; signature blocks on next page.]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the date first above written.

LANDLORD:

GLENBOROUGH AVENTINE, LLC,  
a Delaware limited liability company

By: /s/ signature  
Its: SVP

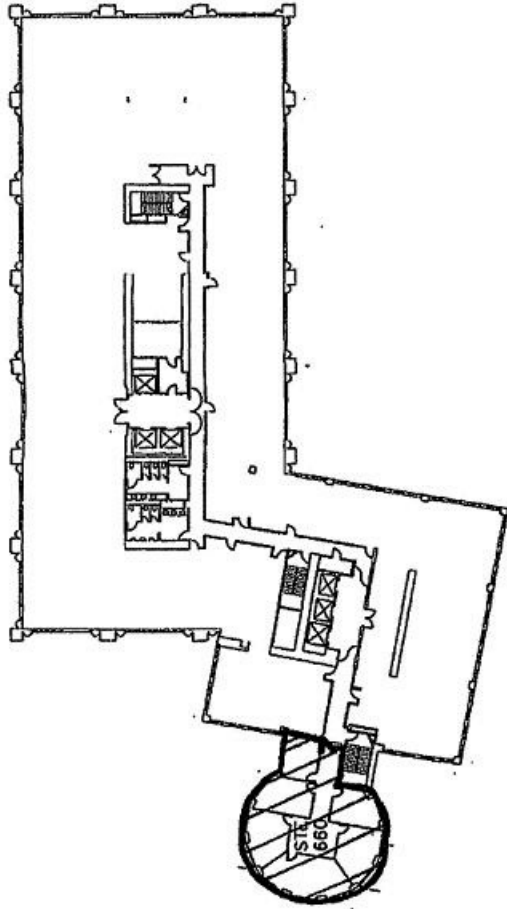
TENANT:

AETHLON MEDICAL, INC.,  
a Nevada corporation

By: /s/ James Joyce  
Name: James Joyce  
Title: Chairman, CEO

By: /s/ James Frakes  
Name: James B. Frakes  
Title: SVP - Finance

**EXHIBIT A**



FLOOR 6   
Aventine Office Building  
8810 University Center  
San Diego, CA 92122  
STEVENSON  
SYSTEMS INC.  
AVCH

**FINAL**  
Suite# 660  
ID#: 5-41



**SECURITIES PURCHASE AGREEMENT**

This Securities Purchase Agreement (“**Agreement**”) is entered into as of February 12, 2010 by and between AETHLON MEDICAL, INC., a corporation organized under the laws of the State of Nevada (the “**Company**”), and the Person set forth on the signature page hereto as the “**Purchaser**” hereunder (“**Purchaser**”).

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, securities of the Company in a PIPE Transaction as set forth herein;

NOW THEREFORE, in consideration of the foregoing premise and the covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Purchaser agree as follows:

**1. Incorporation by Reference; Definitions.**

- (a) *Incorporation.* This Agreement incorporates by reference, as if set forth herein in its entirety and including without limitation all terms, conditions and provisions set forth therein, the PipeFund Services Organization Standard Transaction Document labeled GTC 1-10 (General Terms and Conditions) available and accessible at [www.pipfund.com](http://www.pipfund.com) (“**PST Document GTC**”); *provided, however*, that to the extent any of the terms, conditions or provisions of this Agreement (without such incorporation) contradict or conflict with the terms, conditions or provisions of PST Document GTC, this Agreement shall control.
- (b) *Defined Terms.* Each initially capitalized term used but not defined in this Agreement (including PST Document GTC as incorporated herein pursuant to the preceding Section), and each initially capitalized term used but not defined in any other Transaction Document, shall have the meaning ascribed thereto in the PipeFund Services Organization Standard Transaction Document labeled 1-10 DEF (Definitions) available and accessible at [www.pipfund.com](http://www.pipfund.com).
- (c) *PipeFund Transaction Code.* This Securities Purchase Agreement shall be known as “Securities Purchase Agreement #AEMD-10-A”.

**2. Securities.** The Company agrees to issue and sell, and the Purchaser agrees to purchase, in consideration for payment by the Purchaser of its Subscription Amount indicated below and on the Purchaser’s signature page hereto, upon the terms and conditions contained in this Securities Purchase Agreement, the following Securities:

- (a) *Note.* Convertible Promissory Note of the Company, in the form attached hereto as Exhibit A (“**Note**”), with an aggregate original principal amount equal to \$660,000; and
- (b) *Warrant.* 3-year Warrant, in the form attached hereto as Exhibit B, to purchase 660,000 Warrant Shares, having an initial exercise price equal to \$0.50.

3. **Purchase Price; Form of Payment; Closing.** The Subscription Amount for the Note and Warrant to be purchased by the Purchaser hereunder shall be \$600,000. At Closing, the Purchaser shall pay the Subscription Amount (a) by wire transfer of \$300,000 in immediately available funds to the Company, and (b) by delivering to the Company a Secured Promissory Note in the principal amount of \$300,000 in the form attached hereto as Exhibit C (the "**Promissory Note**"). There shall be no Funds Escrow Agent or Documents Escrow Agent for the Closing, provided that the original Note, Warrant and Promissory Note shall be delivered to the Company's counsel to be held in escrow pending the Company's receipt of the Purchaser's wire transfer. Notwithstanding anything to the contrary contained in Section 2.3(a)(viii) of PST Document GTC, the Company shall not be required to deliver a Legal Opinion, Officer's Certificate or Secretary's Certificate under subsections (B), (C) and (D) thereof, provided that the Company shall furnish to the Purchaser copies of the Company's current Certificate of Incorporation and Bylaws and Board resolutions authorizing the Transactions.

4. **Expenses.** On or prior to the Closing, the Company shall pay the Purchaser a non-refundable, non-accountable sum equal to \$10,000 as and for the fees, costs and expenses (including without limitation legal fees and disbursements expenses but excluding the Origination Fee below) incurred by the Purchaser in connection with the Purchaser's negotiation, preparation and execution of the Transaction Documents ("**Expense Amount**"). In addition, the Company shall pay the Purchaser, for making the loans evidenced by the Note, an origination fee equal to 3% of the Purchaser's Subscription Amount hereunder, payable as follows: \$9,000 upon the Closing ("**Initial Origination Fee**") and 3% of the amount of each cash principal payment made under the Promissory Note by the Purchaser, which fee may be withheld and offset from such cash principal payment. The Purchaser may withhold and offset the Expense Amount, the Initial Origination Fee and the PipeFund expenses from the payment of the Purchaser's Subscription Amount otherwise payable hereunder at Closing, which offset shall constitute partial payment of such Subscription Amount in an amount equal to such offset.

5. **Company Address for Notices:**

Aethlon Medical, Inc.  
8910 University Center Lane, Suite 660  
San Diego, CA 92122  
Attn: James A. Joyce, CEO  
Facsimile: (858) 272-2738

*With a copy to:*  
Law Office of Jennifer A. Post  
340 North Camden Drive, Suite 302  
Beverly Hills, California 90210  
Attn: Jennifer A. Post, Esq.  
Facsimile: (800) 783-2983

6. **Modifications and Additional Terms.**

- (a) No Registration Rights: Rule 144. Sections 6.1 through 6.5 of PST Document GTC are hereby deleted such that the Purchaser shall not have any registration rights. The Company acknowledges and agrees that, for purposes of Rule 144, the holding period for the shares of Common Stock issuable upon conversion or otherwise pursuant to the Note issued to the Purchaser shall have commenced on the date of original issuance of the Note. After six months following the Closing Date, any and all shares of Common Stock issued upon conversion of the Note issued to the Purchaser shall be issued free and clear of any and all legends and restrictions thereon, provided that the Purchaser is not an Affiliate of the Company at such time.
- (b) The Bulletin Board shall be an Eligible Market.
- (c) Negative Covenants. So long as the Note is outstanding, without the consent of the Purchaser, the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly:

- (i) amend its Certificate of Incorporation or Bylaws so as to materially and adversely affect any rights of the Purchaser (an increase in the amount of authorized shares and an increase in the number of directors will not be deemed adverse to the rights of the Purchaser); or
- (ii) repay, repurchase or offer to repay, repurchase or otherwise acquire or make any dividend or distribution in respect of any of its Common Stock, preferred stock, or other equity securities other than to the extent permitted or required under the Transaction Documents.

***[Signature Page Follows]***

IN WITNESS WHEREOF, as of the date first written above, the Parties hereto have duly executed, or caused their authorized officers to duly execute, this Securities Purchase Agreement #AEMD-10-A with file name "SPA -- AEMD v.2".

**COMPANY:**

AETHLON MEDICAL, INC.

By: /s/ James B Frakes

Name: James B Frakes

Title: Authorized Signatory

**PURCHASER:**

**1. Signature:**

**GEMINI MASTER FUND, LTD.**

By: GEMINI STRATEGIES, LLC

By: /s/ Steven W. Winters

Name: Steven W. Winters

Title: President

**2. Subscription Amount: \$600,000.00**

**3. Maximum Ownership Percentage:**

*The Maximum Ownership Percentage shall be 9.9% if no box is checked below.*

4.9%

9.9%

Other: \_\_\_\_\_%

None

[Purchaser Signature Page to Securities Purchase Agreement # AEMD-10-A P. 1/2]

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**PURCHASER:** \_\_\_\_\_  
(Print Name)

**4. Address for Notices:**

\_\_\_\_\_  
(Name or c/o Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(Contact Name)

\_\_\_\_\_  
(Facsimile)

\_\_\_\_\_  
(Telephone)

\_\_\_\_\_  
(Email Address)

*With a copy to, if any:*

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(Contact Name)

\_\_\_\_\_  
(Facsimile)

\_\_\_\_\_  
(Telephone)

\_\_\_\_\_  
(Email Address)

**5. Residence/Organization and TIN:**

\_\_\_\_\_  
(State/Jurisdiction of Primary Residence (for individuals)  
or Organization (for entities))

\_\_\_\_\_  
(Social Security or Employer/Tax Identification Number,  
if applicable)

**6. Special Instructions Where Securities to Be Delivered:**

For Common Stock:

For Other Securities:

Exhibit A

FORM OF CONVERTIBLE NOTE

**Exhibit B**

**FORM OF WARRANT**

Exhibit C

FORM OF PROMISSORY NOTE



NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

P r i n c i p a l Amount:  
\$660,000.00  
Purchase Price: \$600,000.00

Issue Date: February 12, 2010

**CONVERTIBLE PROMISSORY NOTE**

FOR VALUE RECEIVED, AETHLON MEDICAL, INC., a Nevada corporation (hereinafter called "**Borrower**"), hereby promises to pay to the order of GEMINI MASTER FUND, LTD., c/o Gemini Strategies, LLC, 135 Liverpool Drive, Suite C, Cardiff, California 92007 (the "**Holder**"), without demand, the sum of Six Hundred Sixty Thousand Dollars (\$660,000.00) ("**Principal Amount**"), with interest accruing thereon, on February 15, 2011 (the "**Maturity Date**"), if not sooner paid.

This Convertible Promissory Note ("**Note**") is being issued pursuant to that certain Securities Purchase Agreement entered into between the Borrower and the Holder on or about the date hereof ("**Securities Purchase Agreement**" or "**Subscription Agreement**"); capitalized terms used herein and not otherwise defined shall have the meaning set forth in the Subscription Agreement.

**ARTICLE I**

**GENERAL PROVISIONS**

1.1 **Interest Rate.** Interest payable on this Note shall accrue at the annual rate of ten percent (10%) and be payable on the first business day of each month and on the Maturity Date, accelerated or otherwise, when the principal and remaining accrued but unpaid interest shall be due and payable, or sooner as described below.

1.2 **Payment Grace Period.** The Borrower shall not have any grace period to pay any monetary amounts due under this Note. During the pendency of an Event of Default (as described in Article III), a default interest rate of fifteen percent (15%) per annum shall be in effect.

1.3 **Conversion Privileges.** The Conversion Rights set forth in Article II shall remain in full force and effect immediately from the date hereof and until the Note is paid in full regardless of the occurrence of an Event of Default. This Note shall be payable in full on the Maturity Date, unless previously converted into Common Stock in accordance with Article II hereof.

1.4 No Prepayment. This Note may not be prepaid or redeemed in whole or in part without the prior written consent of the Holder.

**ARTICLE II**  
**CONVERSION RIGHTS**

The Holder shall have the right to convert the principal and any interest due under this Note into shares ("**Conversion Shares**") of the Borrower's Common Stock, \$0.01 par value per share ("**Common Stock**") as set forth below.

2.1 Conversion into the Borrower's Common Stock.

(a) The Holder shall have the right at any time and from time to time to convert any outstanding and unpaid principal portion of this Note, and accrued interest, at the election of the Holder (the date of giving of such notice of conversion being a "**Conversion Date**") into fully paid and non-assessable shares of Common Stock as such stock exists on the date of issuance of this Note, or any shares of capital stock of Borrower into which such Common Stock shall hereafter be changed or reclassified, at the conversion price as defined in Section 2.1(b) hereof (the "**Conversion Price**"), determined as provided herein. Upon delivery to the Borrower of a completed Notice of Conversion, a form of which is annexed hereto as Exhibit A, Borrower shall issue and deliver to the Holder within three (3) business days after the Conversion Date (such third day being the "**Delivery Date**") that number of shares of Common Stock for the portion of the Note converted in accordance with the foregoing. At the election of the Holder, the Borrower will deliver accrued but unpaid interest on the Note, if any, through the Conversion Date directly to the Holder on or before the Delivery Date. The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing that portion of the principal of the Note and interest, if any, to be converted, by the Conversion Price.

(b) Subject to adjustment as provided in Section 2.1(c) hereof, the conversion price per share shall be equal to eighty percent (80%) of the average of the three lowest closing bid prices of the Common Stock as reported by Bloomberg L.P. on the Principal Market for the ten (10) trading days preceding the Conversion Date. Subject to adjustment as described herein, the Conversion Price may not be more than \$0.30 ("**Max Price**") nor less than \$0.20 ("**Floor Price**"). For clarification, in connection with any adjustment to the Conversion Price pursuant to subsection (c) below, such Floor Price and Max Price figures shall be adjusted accordingly.

(c) The Conversion Price and number and kind of shares or other securities to be issued upon conversion determined pursuant to Section 2.1(a), shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

A. Merger, Sale of Assets, etc. If (A) the Borrower effects any merger or consolidation of the Borrower with or into another entity, (B) the Borrower effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Borrower or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Borrower consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Borrower, or (F) the Borrower effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "**Fundamental Transaction**"), this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to convert into such number and kind of shares or other securities and property as would have been issuable or distributable on account of such Fundamental Transaction, upon or with respect to the securities subject to the conversion right immediately prior to such Fundamental Transaction. The foregoing provision shall similarly apply to successive Fundamental Transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section shall apply to such securities of such successor or purchaser after any such Fundamental Transaction.

B. Reclassification, etc. If the Borrower at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note, as to the unpaid principal portion thereof and accrued interest thereon, shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

C. Stock Splits, Combinations and Dividends. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Borrower's capital stock in shares of Common Stock, the Conversion Price shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

D. Share Issuance. So long as this Note is outstanding, if the Borrower shall issue any Common Stock except for the Exempt Issuances, prior to the complete conversion or payment of this Note, for a consideration per share that is less than the Conversion Price that would be in effect at the time of such issue, then, and thereafter successively upon each such issuance, the Conversion Price shall be reduced to such other lower issue price. For purposes of this adjustment, the issuance of any security or debt instrument of the Borrower carrying the right to convert such security or debt instrument into Common Stock or of any warrant, right or option to purchase Common Stock shall result in an adjustment to the Conversion Price upon the issuance of the above-described security, debt instrument, warrant, right, or option and again upon the issuance of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the then applicable Conversion Price. Common Stock issued or issuable by the Borrower for no consideration will be deemed issuable or to have been issued for \$0.001 per share of Common Stock. The reduction of the Conversion Price described in this paragraph is in addition to the other rights of the Holder described in the Subscription Agreement. For clarification, following any Subsequent Issuance which has a fixed conversion price less than the then applicable Max Price, the Max Price shall be reduced to equal such conversion fixed price. Notwithstanding anything contained herein, if the Borrower effects any Subsequent Issuance which has a fixed conversion price less than the Floor Price or a variable rate conversion price with a floor price less than the Floor Price, then there shall no longer be any Floor Price hereunder (i.e., the Floor Price shall be zero).

E. Pro Rata Distributions. If the Borrower, at any time while this Note is outstanding, distributes to all holders of Common Stock evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security (other than the Common Stock, which shall be subject to subsection (C) above), then in each such case the Conversion Price shall be adjusted by multiplying such Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to 1 outstanding share of the Common Stock as determined by the Board of Directors of the Borrower in good faith. In either case the adjustments shall be described in a statement delivered to the Holder describing the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to 1 share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.



(d) Whenever the Conversion Price is adjusted pursuant to Section 2.1(c) above, the Borrower shall promptly mail to the Holder a notice setting forth the Conversion Price after such adjustment and setting forth a statement of the facts requiring such adjustment.

(e) During the period the conversion right exists, Borrower will reserve from its authorized and unissued Common Stock not less than an amount of Common Stock equal to 150% of the amount of shares of Common Stock issuable upon the full conversion of this Note. Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. Borrower agrees that its issuance of this Note shall constitute full authority to its officers, agents, and transfer agents who are charged with the duty of executing and issuing stock certificates to execute and issue the necessary certificates for shares of Common Stock upon the conversion of this Note.

2.2 Method of Conversion. This Note may be converted by the Holder in whole or in part as described in Section 2.1(a) hereof. Upon partial conversion of this Note, a new Note containing the same date and provisions of this Note shall, at the request of the Holder, be issued by the Borrower to the Holder for the principal balance of this Note and interest which shall not have been converted or paid.

2.3 Maximum Conversion. Notwithstanding anything to the contrary contained herein, the Borrower shall not effect any conversion of this Note, and the Holder shall not have the right to convert any portion of this Note (or otherwise acquire Conversion Shares with respect to this Note), to the extent that after giving effect to the issuance of Common Stock upon such conversion (or other issuance), the Holder Group would beneficially own in excess of the Maximum Ownership Percentage of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon such conversion (including for such purpose the shares of Common Stock issuable upon such conversion or issuance) ("**Beneficial Ownership Limitation**"). For purposes of calculating the Beneficial Ownership Limitation, the number of shares of Common Stock beneficially owned by the Holder Group shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder (including without limitation Regulation 13D-G), *provided, however*; that such beneficial ownership shall exclude any shares of Common Stock issuable upon conversion, exchange or exercise of (or purchase of Common Stock under) any Convertible Securities or Options outstanding at the time of determination and beneficially owned by the Holder Group which contain a limitation on conversion, exchange, exercise or purchase analogous to the Beneficial Ownership Limitation contained herein. To the extent that the Beneficial Ownership Limitation contained herein applies, the determination of whether and to what extent this Note is convertible (vis-à-vis other Convertible Securities or Options, including without limitation other Notes and the Warrant, beneficially owned by the Holder Group) shall be on the basis of first submission to the Borrower for conversion, exchange, exercise or purchase, as the case may be, or as otherwise determined in the sole discretion of the Holder, and the submission of a Notice of Conversion shall be

deemed to be the Holder's determination of whether and to what extent this Note is convertible (vis-à-vis such other Convertible Securities or Options), in each case subject to the Beneficial Ownership Limitation. In determining the number of outstanding shares of Common Stock for purposes of calculating the Beneficial Ownership Limitation, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (i) the Borrower's most recent Periodic Report containing such information, (ii) a more recent public announcement by the Borrower, or (iii) any other notice or disclosure by the Borrower or the Borrower's Transfer Agent setting forth the number of shares of Common Stock outstanding, and the Holder may rely on knowledge it may have concerning any shares of Common Stock issued which are not reflected in the preceding clauses (i) through (iii) (e.g., issuances to the Holder upon a prior Note conversion since the date as of which such number of outstanding shares of Common Stock was reported). Upon the written or oral request of the Holder, the Borrower shall within two (2) Business Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. Each delivery of a Notice of Conversion by the Holder will constitute a representation by the Holder that it has evaluated the limitation set forth in this Section 4(c) and determined, based on this Section 4(c), that the issuance of the full number of Conversion Shares requested in such Notice of Conversion is permitted under this Section 4(c), and the Borrower shall have no obligation to verify or confirm such determination. No conversion of this Note in violation of this Section 4(c) but otherwise in accordance with this Note shall affect the status of the Conversion Shares as validly issued, fully-paid and nonassessable. By written notice to the Borrower, the Holder may at any time and from time to time increase or decrease the Maximum Ownership Percentage to any other percentage specified in such notice (or specify that the Beneficial Ownership Limitation shall no longer be applicable), *provided, however*, that (A) any such increase (or inapplicability) shall not be effective until the sixty-first (61st) day after such notice is delivered to the Borrower, (B) any such increase or decrease shall apply only to the Holder and not to any other holder of Notes, and (C) the Maximum Ownership Percentage shall not be less than 4.9%. The provisions of this Section 4(c) shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 4(c) to correct this provision (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation contained herein or to make changes or supplements necessary or desirable to properly give effect to such limitation. The Beneficial Ownership Limitation contained in this Section shall apply to a successor Holder of this Note. If at any time the Beneficial Ownership Limitation makes this Note unconvertible in whole or in part, the Borrower shall not by reason thereof be relieved of its obligation to issue shares of Common Stock at any time or from time to time thereafter upon conversion of this Note as and when shares of Common Stock may be issued in compliance with such limitation.

#### 2.4 Delivery of Conversion Shares.

(a) Upon the conversion of this Note or part thereof, the Borrower shall, at its own cost and expense, take all necessary action, including obtaining and delivering an opinion of counsel, to assure that the Borrower's transfer agent shall issue stock certificates in the name of Holder (or its permitted nominee) or such other persons as designated by Holder and in such denominations to be specified at conversion representing the number of shares of Common Stock issuable upon such conversion. If such opinion of counsel is not rendered by the Borrower's counsel, Borrower shall instruct its transfer agent to accept an opinion of counsel selected by the Holder.

(b) Within three (3) business days (such third business day being the "**Unlegended Shares Delivery Date**") after the business day on which the Borrower has received (i) a notice that Conversion Shares, or any other Common Stock held by Holder has been sold pursuant to a registration statement or Rule 144 under the 1933 Act, (ii) a representation that the prospectus delivery requirements, or the requirements of Rule 144, as applicable and if required, have been satisfied, (iii) the original share certificates representing the shares of Common Stock that have been sold, and (iv) in the case of sales under Rule 144, customary representation letters of the Holder and, if required, Holder's broker regarding compliance with the requirements of Rule 144, the Borrower at its expense, (y) shall deliver, and shall cause legal counsel selected by the Borrower to deliver to its transfer agent (with copies to Holder) an appropriate instruction and opinion of such counsel, directing the delivery of shares of Common Stock without any legends (the "**Unlegended Shares**"); and (z) cause the transmission of the certificates representing the Unlegended Shares together with a legended certificate representing the balance of the submitted Common Stock certificate, if any, to the Holder at the address specified in the notice of sale, via express courier, by electronic transfer or otherwise on or before the Unlegended Shares Delivery Date.

(c) In lieu of delivering physical certificates representing the Unlegended Shares, upon request of Holder, so long as the certificates therefor do not bear a legend and the Holder is not obligated to return such certificate for the placement of a legend thereon, the Borrower shall cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system, if such transfer agent participates in such DWAC system. Such delivery must be made on or before the Unlegended Shares Delivery Date.

(d) The Borrower understands that a delay in the delivery of the Unlegended Shares pursuant to Section later than the Unlegended Shares Delivery Date could result in economic loss to the Holder. As compensation to the Holder for such loss, the Borrower agrees to pay late payment fees (as liquidated damages and not as a penalty) to the Holder for late delivery of Unlegended Shares in the amount of \$100 per business day after the Delivery Date for each \$10,000 of purchase price of the Unlegended Shares subject to the delivery default. If during any 360 day period, the Borrower fails to deliver Unlegended Shares as required by this Section for an aggregate of thirty days, then each Holder or assignee holding Securities subject to such default may, at its option, require the Borrower to redeem all or any portion of the Shares subject to such default at a price per share equal to the greater of (i) 120%, or (ii) a fraction in which the numerator is the highest closing price of the Common Stock during the aforescribed thirty day period and the denominator of which is the lowest conversion price during such thirty day period, multiplied by the price paid by Holder for such Common Stock ("**Unlegended Redemption Amount**"). The Borrower shall pay any payments incurred under this Section in immediately available funds upon demand.

(e) In the event a Holder shall request delivery of Unlegended Shares as described in this Section and the Borrower is required to deliver such Unlegended Shares pursuant to this Section, the Borrower may not refuse to deliver Unlegended Shares based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, or for any other reason, unless, an injunction or temporary restraining order from a court, on notice, restraining and or enjoining delivery of the Unlegended Shares shall have been sought and obtained by the Borrower and the Borrower has posted a surety bond for the benefit of such Holder in the amount of 120% of the amount of the aggregate purchase price of the Common Stock which are subject to the injunction or temporary restraining order, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to the Holder to the extent Holder obtains judgment in Holder's favor.

(f) In addition to any other rights available to Holder, if the Borrower fails to deliver to a Holder Unlegended Shares as required pursuant to this Note and after the Unlegended Shares Delivery Date, the Holder or a broker on the Holder's behalf, purchases (in an open market transaction or otherwise) shares of common stock to deliver in satisfaction of a sale by such Holder of the shares of Common Stock which the Holder was entitled to receive from the Borrower (a "**Buy-In**"), then the Borrower shall pay in cash to the Holder (in addition to any remedies available to or elected by the Holder) the amount by which (A) the Holder's total purchase price (including brokerage commissions, if any) for the shares of common stock so purchased exceeds (B) the aggregate purchase price of the shares of Common Stock delivered to the Borrower for reissuance as Unlegended Shares together with interest thereon at a rate of 15% per annum accruing until such amount and any accrued interest thereon is paid in full (which amount shall be paid as liquidated damages and not as a penalty). For example, if a Holder purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to \$10,000 of purchase price of shares of Common Stock delivered to the Borrower for reissuance as Unlegended Shares, the Borrower shall be required to pay the Holder \$1,000, plus interest. The Holder shall provide the Borrower written notice indicating the amounts payable to the Holder in respect of the Buy-In.

(g) In the event commencing six months after the Closing Date and ending twenty-four months thereafter, the Holder is not permitted to resell any of the Conversion Shares without any restrictive legend or if such sales are permitted but subject to volume limitations or further restrictions on resale as a result of the unavailability to Holder of Rule 144(b)(1)(i) under the 1933 Act or any successor rule (a "**144 Default**"), for any reason other than as a result of an action taken or omitted to be taken by Holder, and except for Holder's status as an Affiliate or "control person" of the Borrower, then the Borrower shall pay such Holder as liquidated damages and not as a penalty an amount equal to two percent (2%) for each thirty days (or such lesser pro-rata amount for any period less than thirty days) thereafter of the purchase price of the Conversion Shares subject to such 144 Default during the pendency of the 144 Default. Liquidated Damages shall not be payable pursuant to this Section in connection with Shares for such times as such Shares may be sold by the holder thereof without volume or other restrictions pursuant to Rule 144(b)(1)(i) promulgated under the 1933 Act or pursuant to an effective registration statement.

### ARTICLE III

#### EVENT OF DEFAULT

The occurrence of any of the following events of default ("**Event of Default**") shall, at the option of the Holder hereof, make all sums of principal and interest then remaining unpaid hereon and all other amounts payable hereunder immediately due and payable, upon demand, without presentment, or grace period, all of which hereby are expressly waived, except as set forth below:

- 3.1 Failure to Pay Principal or Interest. The Borrower fails to pay any installment of principal, interest or other sum due under this Note when due.
- 3.2 Breach of Covenant. The Borrower breaches any material covenant or other term or condition of the Subscription Agreement, Transaction Documents or this Note in any material respect and such breach, if subject to cure, continues for a period of ten (10) business days after written notice to the Borrower from the Holder.
- 3.3 Breach of Representations and Warranties. Any material representation or warranty of the Borrower made herein, in the Subscription Agreement, Transaction Documents, or in any agreement, written statement or certificate given in writing pursuant hereto or in connection therewith shall be false or misleading in any material respect as of the date made and the Closing Date.
- 3.4 Liquidation. Any dissolution, liquidation or winding up of Borrower or any substantial portion of its business.
- 3.5 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due.

3.6 Maintenance of Assets. The failure by Borrower to maintain any material intellectual property rights, personal, real property or other assets which are necessary to conduct its business (whether now or in the future).

3.7 Receiver or Trustee. The Borrower or any Subsidiary of Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business; or such a receiver or trustee shall otherwise be appointed.

3.8 Judgments. Any money judgment, writ or similar final process shall be entered or filed against Borrower or any of its property or other assets for more than \$100,000, unless stayed vacated or satisfied within forty-five (45) days.

3.9 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law, or the issuance of any notice in relation to such event, for the relief of debtors shall be instituted by or against the Borrower or any Subsidiary of Borrower.

3.10 Delisting. Delisting of the Common Stock from any Eligible Market; failure to comply with the requirements for continued listing on an Eligible Market for a period of ten (10) consecutive trading days.

3.11 Non-Payment. A default by the Borrower under any one or more obligations in an aggregate monetary amount in excess of \$100,000 for more than twenty (20) days after the due date, unless the Borrower is contesting the validity of such obligation in good faith, except for those defaults disclosed in the Recent Reports (including future occurrences of the same such defaults) provided such defaults are not reasonably likely to have a Material Adverse Effect .

3.12 Stop Trade. An SEC or judicial stop trade order or Principal Market trading suspension that lasts for five or more consecutive trading days.

3.13 Failure to Deliver Common Stock or Replacement Note. Borrower's failures to timely deliver Common Stock to the Holder pursuant to and in the form required by this Note, including without limitation Section 2.4 above, or, if required, a replacement Note.

3.14 Reservation Default. Failure by the Borrower to have reserved for issuance upon conversion of the Note or upon exercise of the Warrants issued in connection with the Subscription Agreement, the number of shares of Common Stock as required in the Subscription Agreement, this Note and the Warrants.

3.15 Financial Statement Restatement. The restatement after the date hereof of any financial statements filed by the Borrower with the Securities and Exchange Commission for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statements, have constituted a Material Adverse Effect.

3.16 Other Note Default. The occurrence of any Event of Default under any Other Note.

3.17 Cross Default. A default by the Borrower of a material term, covenant, warranty or undertaking of any other agreement to which the Borrower and Holder are parties, or the occurrence of a material event of default under any such other agreement to which Borrower and Holder are parties which is not cured after any required notice and/or cure period.

## ARTICLE IV

### MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile (or email of a PDF or similar image format file for delivery of Notices of Conversion), addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the first business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Borrower to: Aethlon Medical, Inc., 8910 University Center Lane, Suite 660, San Diego, CA 92122, Attn: James A. Joyce, CEO, facsimile: (858) 272-2738, Email: [jj@aethlonmedical.com](mailto:jj@aethlonmedical.com), with a copy (not for Notices of Conversion) by telecopier only to: Law Office of Jennifer A. Post, 340 North Camden Drive, Suite 302, Beverly Hills, California 90210, Attn: Jennifer A. Post, Esq., facsimile: (800) 783-2983, and (ii) if to the Holder, to the name, address and facsimile number set forth on the front page of this Note.

4.3 Amendment Provision. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns. The Borrower may not assign its obligations under this Note.

4.5 Cost of Collection. If default is made in the payment of this Note, Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles that would result in the application of the substantive laws of another jurisdiction. Any action brought by either party against the other concerning the transactions contemplated by this Agreement must be brought only in the civil or state courts of New York or in the federal courts located in the State and county of New York. Both parties and the individual signing this Agreement on behalf of the Borrower agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or unenforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Borrower in any other jurisdiction to collect on the Borrower's obligations to Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other decision in favor of the Holder.

4.7 Maximum Payments. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum rate permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum rate permitted by applicable law, any payments in excess of such maximum rate shall be credited against amounts owed by the Borrower to the Holder and thus refunded to the Borrower.

4.8 Non-Business Days. Whenever any payment or any action to be made shall be due on a Saturday, Sunday or a public holiday under the laws of the State of New York, such payment may be due or action shall be required on the next succeeding business day and, for such payment, such next succeeding day shall be included in the calculation of the amount of accrued interest payable on such date.

4.9 Redemption. This Note may not be prepaid, redeemed or called without the consent of the Holder.

4.10 Shareholder Status. The Holder shall not have rights as a shareholder of the Borrower with respect to unconverted portions of this Note. However, the Holder will have the rights of a shareholder of the Borrower with respect to the Shares of Common Stock to which it is entitled to receive after delivery by the Holder of a Conversion Notice to the Borrower.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, Borrower has caused this Note to be signed in its name by an authorized officer as of the 1<sup>st</sup> day of February, 2010.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

Name: James A. Joyce

Title: President

WITNESS:

/s/ James B. Frakes



**NOTICE OF CONVERSION**

(To be executed by the Registered Holder in order to convert the Note)

The undersigned hereby elects to convert \$\_\_\_\_\_ of the principal and \$\_\_\_\_\_ of the interest due on the Note issued by AETHLON MEDICAL, INC. on February 12, 2010 into Shares of Common Stock of AETHLON MEDICAL, INC. (the "Borrower") according to the conditions set forth in such Note, as of the date written below.

Date of Conversion: \_\_\_\_\_

Conversion Price: \_\_\_\_\_

Number of Shares of Common Stock Beneficially Owned on the Conversion Date: Less than 5% of the outstanding Common Stock of AETHLON MEDICAL, INC.

Shares To Be Delivered: \_\_\_\_\_

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_



NEITHER THIS WARRANT NOR THE SECURITIES FOR WHICH THIS WARRANT IS EXERCISABLE HAVE BEEN REGISTERED FOR RESALE WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE ISSUER MAY BE REQUIRED IN CONNECTION WITH ANY SUCH UNREGISTERED RESALE (OTHER THAN PURSUANT TO RULE 144 OF THE SECURITIES ACT). NOTWITHSTANDING THE FOREGOING, THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY SUCH SECURITIES PROVIDED THAT ANY EXERCISE OF ANY RIGHTS BY ANY SECURED PARTY SHALL COMPLY WITH THESE LEGEND REQUIREMENTS.

THIS WARRANT DOES NOT REQUIRE PHYSICAL SURRENDER OF THE WARRANT IN THE EVENT OF A PARTIAL EXERCISE. AS A RESULT, FOLLOWING ANY EXERCISE OF ANY PORTION OF THIS WARRANT, THE NUMBER OF SHARES OF COMMON STOCK FOR WHICH THIS WARRANT MAY BE EXERCISED MAY BE LESS THAN THE NUMBER OF SHARES SET FORTH BELOW.

AETHLON MEDICAL, INC.

WARRANT TO PURCHASE COMMON STOCK

Date of Issuance: February 12, 2010 (“**Issuance Date**”)

AETHLON MEDICAL, INC., a Nevada corporation (the “**Company**”), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, GEMINI MASTER FUND. LTD., the registered holder hereof or its permitted assigns (the “**Holder**”), is entitled to purchase from the Company up to a total of 660,000 shares (“**Warrant Shares**”) of the Company’s Common Stock at an exercise price equal to \$0.50 per share (as may be adjusted from time to time as provided herein, the “**Exercise Price**”) at any time during the period (“**Exercise Period**”) commencing on the Issuance Date and ending on and including the date which is three (3) years following the Issuance Date (“**Expiration Date**”), subject to the terms and conditions set forth herein. The Holder’s Maximum Ownership Percentage is 4.9 (which may be changed only as specified in PST Document WAR, as defined below).

**1. Incorporation by Reference; Definitions.**

- (a) *Warrant Series.* This Warrant to Purchase Common Stock (“**Warrant**”) is issued pursuant to that certain Securities Purchase Agreement dated on or about the date hereof by and between the Company and the Holder (the “**Securities Purchase Agreement**”).
- (b) *Incorporation.* This Warrant incorporates by reference, as if set forth herein in its entirety and including without limitation all terms, conditions and provisions set forth therein, the PipeFund Services Organization Standard Transaction Document labeled WAR 1-10 (Standard Warrant Terms) available and accessible at [www.pipefund.com](http://www.pipefund.com) (“**PST Document WAR**”); *provided, however*, that to the extent any of the terms, conditions or provisions of this Warrant (without such incorporation) contradict or conflict with the terms, conditions or provisions of PST Document WAR, this Warrant shall control.

- (c) *Defined Terms.* Each initially capitalized term used herein and not otherwise defined herein shall have the meaning ascribed thereto in PST Document WAR or the Securities Purchase Agreement (including without limitation definitions incorporated therein by reference to PST Document GTC or by reference indirectly to PST Document DEF, each a PipeFund Standard Transaction Document available and accessible at [www.pipefund.com](http://www.pipefund.com)).

**2. Specific/Additional Terms.**

This Warrant shall have Weighted-Average Anti-Dilution Adjustment.

This Warrant shall have Cashless Exercise at all times during which there is not an effective Registration Statement covering the resale of all Warrant Shares by the Holder, which Registration Statement is not subject to any suspension or stop order and contains a Prospectus therein that is current and available for use by the Holder and not subject to any blackout or similar circumstance.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the Issuance Date set forth above.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce  
Name: James A. Joyce  
Title: President



SECURED PROMISSORY NOTE

\$300,000

Date of Issuance:  
February 12, 2010

FOR VALUE RECEIVED, GEMINI MASTER FUND, LTD., a Caymans Islands corporation (the "Company"), hereby promises to pay AETHLON MEDICAL, INC. (the "Lender"), the principal sum of Three Hundred Thousand Dollars (\$300,000.00) (the "Principal Amount"), plus interest calculated pursuant to Section 1 below. Unless earlier paid under the terms hereof, the principal and accrued interest shall be due and payable by the Company on demand by the Lender at any time after April 1, 2011 (the "Maturity Date").

This Secured Promissory Note (the "Promissory Note") is issued in connection with that certain Securities Purchase Agreement between the parties hereto, dated as of the date hereof (the "Purchase Agreement"), and initially capitalized terms used but not defined herein shall have the meaning set forth in the Purchase Agreement.

1. Interest. The Company promises to pay interest to Lender at the rate of five percent (5%) per annum, simple interest, on the outstanding principal amount of this Promissory Note, which interest shall be calculated from the date of this Promissory Note, until the date on which all amounts due and payable on this Promissory Note are paid in full or this Promissory Note is otherwise cancelled (the "Payoff Date"). Interest hereunder shall be paid on a monthly basis, commencing on the 15<sup>th</sup> date of the month following the month of issuance of this Promissory Note. All accrued and unpaid interest shall be due and payable on the Payoff Date. All computations of interest shall be made on the basis of a year of 365 or 366 days, as the case may be, for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Nothing contained in this Promissory Note shall require the Company at any time to pay interest at a rate exceeding the maximum rate allowable under applicable law and any payments in excess of such maximum shall be refunded to the Company or credited to reduce the principal amount hereunder.

2. Payment. All payments shall be made in lawful money of the United States of America at the principal office of the Company, or at such other place as the holder hereof may from time to time designate in writing to the Company. Payment shall be credited first to Costs (as defined below), if any, then to accrued interest due and payable and any remainder applied to principal. Prepayment of principal, in part or in full, together with accrued interest, may be made from time to time in the sole discretion of the Company without the Lender's consent. Any amounts payable hereunder, either pursuant to Section 3 below, at maturity or otherwise, may be paid, at the election of the Company, by reducing the outstanding balance under the Note (as defined in the Purchase Agreement) by such amount. Without limiting the foregoing, if an Event of Default (as defined in the Note) occurs under the Note, the Company may offset any amounts due under the Note from the balance outstanding under this Promissory Note.

3. Prepayment Obligation. Notwithstanding the option of the Company to prepay any portion of this Promissory Note, as set forth in Section 2 hereof, the Company shall prepay, on a monthly basis beginning on the first business day of the seventh (7<sup>th</sup>) full calendar month after the Closing Date (each date referred to herein as the "Periodic Prepayment Date"), an amount of principal equal to not less than One Hundred Thousand Dollars (\$100,000.00) (or such lesser amount that equals the remaining outstanding principal and accrued and unpaid interest under this Promissory Note), with the amount, if any, in excess of such sum to be determined by and in the sole and absolute discretion of the Company, until all principal and accrued and unpaid interest under this Promissory Note has been paid, subject to the satisfaction of each of the following conditions on each Periodic Prepayment Date:

3.1 The Company may immediately sell all of the Cash Conversion Shares pursuant to Rule 144, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule, where "Cash Conversion Shares" shall mean any and all Conversion Shares (as defined in the Note) issued or issuable upon conversion of such portion of the Note which has been effectively paid for in cash (either upon the Closing Date or pursuant to prepayments or repayments hereunder);

3.2 No Event of Default (as defined in the Note) of a material nature has occurred and is continuing under the Note;

3.3 The average VWAP for every period of ten consecutive Trading Days during the term of this Promissory Note shall not be less than \$0.20 per share (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like); and

3.4 The Lender shall have honored all conversion requests under the Note within the applicable time period set forth in the Note.

The amount of any such prepayment made by the Company under the terms of this Section 3 (each such prepayment referred to herein as a "Periodic Prepayment") shall be credited first to Costs, if any, then to accrued interest due and payable under this Promissory Note and the remainder applied to principal. Any prepayment made by the Company under this Promissory Note in excess of any otherwise required Periodic Prepayment may be applied to any future required Periodic Prepayment at the option of the Company, subject to the sole and absolute discretion of the Company. In the event that the Company fails to deliver any Periodic Prepayment that is otherwise required under the terms of this Section 3, the Lender's sole and exclusive remedy shall be limited to the Interest Rate being increased by 0.25 percentage points per Periodic Prepayment required under this Section 3 that is not paid by the Company to the Lender, provided however, that in no event shall the Interest Rate exceed an amount equal to twelve and one-half percent (12.5%). In no event shall any failure by the Company to pay any Periodic Prepayment required hereunder give any right to the Lender to collect upon the Collateral or otherwise collect any outstanding sums under this Promissory Note.

4. Recourse. Each party hereto accepts and agrees that this Promissory Note is a full recourse promissory note and that subject to the terms of this Promissory Note, Lender may exercise any and all remedies available to it under the terms of this Promissory Note and under law.

5. Security Interest.

5.1 To secure the payment and performance of the Company's obligations under this Promissory Note, provided however that any obligations of the Company to prepay any amounts under this Promissory Note pursuant to Section 3 are not so secured, the Company hereby grants to Lender a security interest in the Company's entire right, title, and interest in and to all of the following, wherever located and whether now existing or owned or hereafter acquired or arising (collectively, the "Collateral"):

(a) all accounts, accounts receivable, contract rights, rights to payment, letters of credit, documents, securities, promissory notes, debentures, money, and investment property, whether held directly or through a securities intermediary, and other obligations of any kind owed to the Company, however evidenced; and

(b) all products and proceeds, including insurance proceeds, of any and all of the foregoing.

Notwithstanding the foregoing, no security interest is granted in any contract rights if such grant causes a default enforceable under applicable law or if a third party has the right enforceable under applicable law to terminate the Company's rights under or with respect to any such contract and such third party has exercised such right of termination. The Company represents and covenants that the Collateral has, and shall at all times so long as this Note is outstanding have, a fair market value greater than \$1 million (without consideration of the value of the Note or Conversion Shares). The Company represents and warrants that it has full authority to grant the foregoing security interest and that no consent or approval of any third party is required for the granting of the security interest. The Company represents and warrants that notwithstanding Section 14, the provisions of this Section 5.1 are sufficient to grant a security interest under the laws of the Cayman Islands and that such grant is enforceable against the Company under the laws of the Cayman Islands and that no other corporate or governmental action is required to vest in favor of Lender a security interest in the Collateral.

5.2 The security interest on the Collateral granted by this Promissory Note shall continue and remain in effect until terminated pursuant to subsection 5.4 below.



5.3 The Company shall execute any further documents reasonably requested by Lender, which are necessary or appropriate to perfect Lender's security interest in the Collateral.

5.4 Upon the Payoff Date, the security interest granted pursuant to this Section 5 shall terminate, and Lender shall promptly execute and deliver to the Company such documents and instruments reasonably requested by the Company as shall be necessary to evidence termination of all security interests given by the Company to Lender hereunder.

5.5 So long as an Event of Default does not exist, the Company shall have the right to possess the Collateral, manage its property and sell its inventory in the ordinary course of business.

6. Event of Default. An "Event of Default" shall exist under this Promissory Note upon the happening of a failure of the Company to pay the outstanding Principal Amount and all other outstanding sums under this Promissory Note, including accrued and unpaid interest thereon, on the Maturity Date, provided that such sums have not previously been paid, at the Company's sole option, prior to the Maturity Date, which failure is not cured within 15 days after the Company's receipt of written notice thereof sent by Lender to the Company. Any failure by the Company to pay any Periodic Prepayment that may otherwise be due under this Promissory Note shall not be an Event of Default under this Promissory Note. Upon the occurrence of an Event of Default, Lender shall have all of the rights and remedies afforded by the Uniform Commercial Code as from time to time in effect in the State of California or afforded by other applicable law.

7. [Intentionally omitted.]

8. Amendments and Waivers; Cure Period. This Promissory Note may not be amended without the prior written consent of each of the Company and the Lender. Any waiver by the Company or the Lender of a breach of any provision of this Promissory Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Promissory Note. The failure of the Company or the Lender to insist upon strict adherence to any term of this Promissory Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Promissory Note. Any waiver by the Company or the Lender must be in writing. Any amendment or waiver effected in accordance with this Section 8 shall be binding upon Lender and Lender's successors and assigns. Any party to this Promissory Note shall have a cure period of not less than thirty (30) days after receipt of written notice of any alleged breach or default (except as may otherwise be provided for a payment default) under the terms of this Promissory Note to cure such alleged breach or default.

9. Transmittal of Notices. Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally, or sent by telecopier machine or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally, or by telecopier machine or overnight courier service as follows:

If to the Lender, to:  
AETHLON MEDICAL, INC.  
8910 University Center Lane, Suite 660  
San Diego, CA 92122  
Attn: James A. Joyce, CEO  
Facsimile: (858) 272-2738

If to the Company, to:  
GEMINI MASTER FUND, LTD.  
c/o Gemini Strategies, LLC  
135 Liverpool Drive, Suite C  
Cardiff, California 92007  
Fax: (858) 509-8808

Each of the Lender or the Company may change the foregoing address by notice given pursuant to this Section 9.

10. Successors and Assigns. This Promissory Note applies to, inures to the benefit of, and binds the successors and assigns of the parties hereto. Neither the Lender nor the Company may assign its rights under this Promissory Note without the written consent of the other party to this Promissory Note, provided, however, that the Company may assign its obligations under this Promissory Note to any Affiliate of the Company in the sole and absolute discretion of the Company, without any prior consent by the Lender, provided that such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Promissory Note including the granting of a security interest in such Affiliate's assets in accordance with the terms of Section 5.1. Upon any such transfer of this Promissory Note by the Company or the Lender, the Lender shall, upon notice, surrender this Promissory Note to the Company for reissuance of a new note to the transferee. Any transfer of this Promissory Note may be effected only pursuant to the terms hereof and by surrender of this Promissory Note to the Company and reissuance of a new note to the transferee. The Lender and any subsequent holder of this Promissory Note receives this Promissory Note subject to the foregoing terms and conditions, and agrees to comply with the foregoing terms and conditions for the benefit of the Company and any other Lenders.

11. Officers and Directors Not Liable. In no event shall any officer or director or affiliate of the Company be liable for any amounts due and payable pursuant to this Promissory Note.

12. Expenses. Should any party hereto employ an attorney for the purpose of enforcing or construing this Promissory Note, or any judgment based on this Promissory Note, in any legal proceeding whatsoever, including insolvency, bankruptcy, arbitration, declaratory relief or other litigation, the prevailing party shall be entitled to receive from the other party or parties thereto reimbursement for all reasonable attorneys' fees and all reasonable costs, including but not limited to service of process, filing fees, court and court reporter costs, investigative costs, expert witness fees, and the cost of any bonds, whether taxable or not (collectively, "Costs"), and that such reimbursement shall be included in any judgment or final order issued in that proceeding. The "prevailing party" means the party determined by the court to most nearly prevail and not necessarily the one in whose favor a judgment is rendered.

13. Remedies Not Waived. No course of dealing between the parties hereto or any delay in exercising any rights hereunder shall operate as a waiver by such party.

14. Governing Law. This Promissory Note shall be governed by and construed under the laws of the State of California as applied to other instruments made by California residents to be performed entirely within the State of California. With respect to any suit, action or proceedings relating to this Promissory Note, each of the Lender and the Company irrevocably submits to the exclusive jurisdiction of the courts of the State of California sitting in San Diego and the United States District Court located in the City of San Diego and hereby waives, to the fullest extent permitted by applicable law, any claim that any such suit, action or proceeding has been brought in an inconvenient forum. Subject to applicable law, each of the Company and the Lender agrees that final judgment against it in any legal action or proceeding arising out of or relating to this Promissory Note shall be conclusive and may be enforced in any other jurisdiction within the United States by suit on the judgment, a certified copy of which judgment shall be conclusive evidence thereof and the amount of the indebtedness, or by such other means provided by law.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Company has duly caused this Promissory Note to be executed and delivered on the date first above written.

**GEMINI MASTER FUND, LTD.**

By: GEMINI STRATEGIES, LLC, as investment manager

By: /s/ Steven Winters

Steven Winters, Managing Member



CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James Joyce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aethlon Medical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2010

/s/ JAMES A. JOYCE

JAMES A. JOYCE  
CHIEF EXECUTIVE OFFICER AND  
CHIEF ACCOUNTING OFFICER  
(PRINCIPAL EXECUTIVE OFFICER AND  
PRINCIPAL ACCOUNTING OFFICER)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aethlon Medical, Inc. on Form 10-Q for the fiscal quarter ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. Based on my knowledge, the Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Date: February 16, 2010

By: /s/ James A. Joyce  
James A. Joyce  
Chief Executive Officer and Chief Accounting  
Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Aethlon Medical, Inc. and will be retained by Aethlon Medical, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.