

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, 2012

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 660, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 11, 2012, the registrant had outstanding 168,083,769 shares of common stock, \$.001 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (Unaudited)	March 31, 2012
ASSETS		
Current assets		
Cash	\$ 107,970	\$ 143,907
Accounts receivable	–	400,114
Deferred financing costs	1,593	120,563
Prepaid expenses and other current assets	62,820	31,452
Total current assets	<u>172,383</u>	<u>696,036</u>
Property and equipment, net	361	1,465
Patents and patents pending, net	123,944	130,817
Deposits	10,376	10,376
Total assets	<u>\$ 307,064</u>	<u>\$ 838,694</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 653,782	\$ 586,340
Due to related parties	734,070	730,070
Notes payable	370,025	654,796
Convertible notes payable, net of discounts	2,394,874	3,005,473
Derivative liabilities	1,810,138	3,588,615
Accrued liquidated damages	437,800	437,800
Other current liabilities	1,227,354	1,131,221
Total current liabilities	<u>7,628,043</u>	<u>10,134,315</u>
Commitments and Contingencies (Note 13)		
Stockholders' Deficit		
Common stock, par value \$0.001 per share; 500,000,000 shares authorized as of December 31, 2012 and 250,000,000 as of March 31, 2012; 163,548,935 and 117,515,892 shares issued and outstanding as of December 31, 2012 and March 31, 2012, respectively	163,551	117,518
Additional paid-in capital	51,223,946	47,170,146
Accumulated deficit	<u>(58,708,476)</u>	<u>(56,583,285)</u>
Total stockholders' deficit	<u>(7,320,979)</u>	<u>(9,295,621)</u>
Total liabilities and stockholders' deficit	<u>\$ 307,064</u>	<u>\$ 838,694</u>

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended December 31, 2012 and 2011
(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
REVENUES				
Government contract revenue	\$ 208,781	\$ 958,075	\$ 825,642	\$ 958,075
OPERATING EXPENSES				
Professional fees	441,965	427,419	1,370,085	1,037,613
Payroll and related expenses	507,377	487,959	1,620,943	1,553,514
General and administrative	196,278	384,025	563,036	623,712
Total operating expenses	<u>1,145,620</u>	<u>1,299,403</u>	<u>3,554,064</u>	<u>3,214,839</u>
OPERATING LOSS	<u>(936,839)</u>	<u>(341,328)</u>	<u>(2,728,422)</u>	<u>(2,256,764)</u>
OTHER EXPENSE (INCOME)				
Loss on debt conversion	26,716	-	122,775	-
Gain on change in fair value of derivative liability	(1,384,256)	(74,940)	(1,745,718)	(1,596,442)
Interest and other debt expenses	106,795	308,386	1,019,857	2,594,526
Interest income	(38)	(56)	(145)	(938)
Other	-	-	-	360,185
Total other expense (income)	<u>(1,250,783)</u>	<u>233,390</u>	<u>(603,231)</u>	<u>1,357,331</u>
NET INCOME (LOSS)	<u>\$ 313,944</u>	<u>\$ (574,718)</u>	<u>\$ (2,125,191)</u>	<u>\$ (3,614,095)</u>
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE				
	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED				
	<u>158,759,162</u>	<u>107,061,316</u>	<u>142,812,062</u>	<u>98,202,051</u>

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Month Periods Ended December 31, 2012 and 2011
(Unaudited)

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Cash flows from operating activities:		
Net income (loss)	\$ (2,125,191)	\$ (3,614,095)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,977	13,858
Stock based compensation	570,540	609,503
Loss on debt conversion	122,775	-
Non cash interest expense	11,846	538,736
Fair market value of common stock, warrants and options issued for services	185,851	328,327
Change in fair value of derivative liabilities	(1,745,718)	(1,596,442)
Loss on settlement of convertible note termination	-	360,186
Amortization of debt discount and deferred financing costs	585,871	1,703,219
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(31,368)	10,557
Accounts receivable	400,114	(183,367)
Accounts payable and other current liabilities	435,976	728,432
Due to related parties	4,000	-
Net cash used in operating activities	<u>(1,577,327)</u>	<u>(1,101,086)</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(1,735)
Net cash used in investing activities	<u>-</u>	<u>(1,735)</u>
Cash flows from financing activities:		
Principal repayments of notes payable	(29,610)	(15,000)
Net proceeds from the issuance of convertible notes payable	-	1,256,921
Proceeds from the issuance of common stock	1,571,000	-
Proceeds from collection of secured notes receivable	-	200,000
Net cash provided by financing activities	<u>1,541,390</u>	<u>1,441,921</u>
Net (decrease) increase in cash	(35,937)	339,100
Cash at beginning of period	<u>143,907</u>	<u>15,704</u>
Cash at end of period	<u>\$ 107,970</u>	<u>\$ 354,804</u>

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Nine Month Periods Ended December 31, 2012 and 2011
(Unaudited)

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 2,821	\$ 3,636
Supplemental disclosures of non-cash investing and financing activities:		
Debt and accrued interest converted to common stock	\$ 1,605,062	\$ 1,812,386
Deferred financing costs recorded in connection with debt amendment	\$ 2,500	\$ —
Debt discount recorded in connection with beneficial conversion feature of convertible notes and related warrants	\$ —	\$ 1,037,901
Reclassification of note payable to convertible notes payable	\$ 75,000	\$ —
Reclassification of warrant derivative liability into equity	\$ 32,759	\$ 263,689

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
December 31, 2012

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. ("Aethlon", the "Company", "we" or "us") is a medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components. Approval to embark on human trials is still needed to reach commercial viability of the Hemopurifier® and approval by the U.S. Food and Drug Administration ("FDA"). Successful outcomes of human trials will be required by the regulatory agencies of certain foreign countries where we intend to sell this device. We have submitted an Investigational Device Exemption ("IDE") to the FDA. Some of our patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(R) treatment technology.

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 accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and applicable sections 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 necessary to make the financial statements not misleading have been included. The condensed consolidated balance sheet as of March 31, 2012 was derived from our audited financial statements. Operating results for the nine months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending March 31, 2013. For further information, refer to our Annual Report on Form 10-K for the year ended March 31, 2012, which includes audited financial statements and footnotes as of March 31, 2012 and for the years ended March 31, 2012 and 2011.

NOTE 2. LIQUIDITY

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 \$7,456,000, recurring losses from operations and an accumulated deficit of approximately \$58,708,000 at December 31, 2012, 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, 2013 ("fiscal 2013"). 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 and anticipated receipts under the Defense Advanced Research Projects Agency (DARPA) contract, as discussed in Note 12, will be sufficient to meet our liquidity needs for fiscal 2013. However, no assurance can be given that we will receive any funds in connection with our capital raising efforts.

The unaudited condensed 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 condensed 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 condensed consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its wholly-owned subsidiary, Exosome Sciences, Inc. (collectively hereinafter referred to as the "Company" or "Aethlon"). There exist no material intercompany transactions or balances between Aethlon and its subsidiary.

INCOME (LOSS) PER COMMON SHARE

Basic loss per common 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 common 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 we had net losses for all three of the four periods presented, basic and diluted loss per common share are the same since additional potential common shares have been excluded as their effect would be antidilutive.

In the three month period ended December 31, 2012, we recorded net income primarily due to a significant gain from the change in the fair value of our derivative liabilities. Since that gain from the change in the fair value of our derivative liabilities is not expected to be ongoing, we have presented the basic and diluted income per common share for that period in the condensed consolidated statement of operations as noted above since the basic and diluted income per share are the same as shown below:

The basic and diluted income per share for the three month period ended December 31, 2012 is as follows:

Net income	\$	313,944
Basic income per share	\$	0.00
Diluted income per share	\$	0.00
Weighted average number of common shares outstanding		158,759,162
Diluted average number of common shares outstanding		294,265,098

The potentially dilutive common shares outstanding at December 31, 2012 and 2011, which include common shares underlying outstanding stock options, warrants and convertible debentures, were 135,505,936 and 114,215,775, respectively.

REVENUE RECOGNITION

With respect to revenue recognition, we entered into a government contract with DARPA and revenue reported for all periods presented relates to such contract. We adopted the Milestone method of revenue recognition for the DARPA contract under ASC 605-28 "Revenue Recognition – Milestone Method" and we believe we meet the requirements under ASC 605-28 for reporting contract revenue under the Milestone Method.

In order to account for this contract, the Company identifies the deliverables included within the contract and evaluates which deliverables represent separate units of accounting based on if certain criteria are met, including whether the delivered element has standalone value to the collaborator. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

A milestone is an event having all of the following characteristics:

- (1) There is substantive uncertainty at the date the arrangement is entered into that the event will be achieved. A vendor's assessment that it expects to achieve a milestone does not necessarily mean that there is not substantive uncertainty associated with achieving the milestone.
- (2) The event can only be achieved based in whole or in part on either: (a) the vendor's performance; or (b) a specific outcome resulting from the vendor's performance.
- (3) If achieved, the event would result in additional payments being due to the vendor.

A milestone does not include events for which the occurrence is either: (a) contingent solely upon the passage of time; or (b) the result of a counterparty's performance.

The policy for recognizing deliverable consideration contingent upon achievement of a milestone must be applied consistently to similar deliverables.

The assessment of whether a milestone is substantive is performed at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

- (1) The consideration is commensurate with either: (a) the vendor's performance to achieve the milestone; or (b) the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the vendor's performance to achieve the milestone;
- (2) The consideration relates solely to past performance; and
- (3) The consideration is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

A milestone is not considered substantive if any portion of the associated milestone consideration relates to the remaining deliverables in the unit of accounting (i.e., it does not relate solely to past performance). To recognize the milestone consideration in its entirety as revenue in the period in which the milestone is achieved, the milestone must be substantive in its entirety. Milestone consideration cannot be bifurcated into substantive and nonsubstantive components. In addition, if a portion of the consideration earned from achieving a milestone may be refunded or adjusted based on future performance, the related milestone is not considered substantive.

PATENTS

We capitalize the cost of patents, some of which were acquired, and amortize such costs over the estimated useful life, upon issuance or acquisition of the patent, not to exceed the remaining legal life.

RESEARCH AND DEVELOPMENT EXPENSES

We incurred research and development expenses during the three and nine month periods ended December 31, 2012 and 2011, which are included in various operating expense line items in the accompanying condensed consolidated statements of operations. Our research and development expenses in those periods were as follows:

	December 31, 2012	December 31, 2011
Three months ended	\$ 371,212	\$ 536,079
Nine months ended	\$ 1,034,294	\$ 864,443

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of certain convertible notes and related warrants at December 31, 2012 and March 31, 2012 are \$1,810,138 and \$3,588,615, respectively, 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.

EQUITY INSTRUMENTS FOR SERVICES PROVIDED BY PARTIES 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 and nine months ended December 31, 2012 and 2011.

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 condensed 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 guidance, as codified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815-40, *Derivatives and Hedging, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (previously EITF 07-5), 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 or warrant agreements in which the embedded conversion feature or exercise price contains certain provisions that may result in an adjustment of the conversion or exercise price, which results in the failure of these instruments to be considered to be indexed to our stock. Accordingly, under this guidance, we are required to record the estimated fair value of these instruments as derivative liabilities (see Note 9).

We re-measure the estimated fair value of derivative liabilities at each reporting period and record changes in fair value in other expense (income) in the current 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 (see Note 7).

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 OTCBB) 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 (see Note 10).

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

There were no recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, or the Securities and Exchange Commission during the nine months ended December 31, 2012 or that were issued in prior periods but do not become effective until future periods that in the opinion of management had, or are expected to have a material impact on our present or future consolidated financial statements.

NOTE 4. NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2012		March 31, 2012	
	Principal Balance	Accrued Interest	Principal Balance	Accrued Interest
12% Notes payable, past due	\$ 185,000	\$ 319,125	\$ 185,000	\$ 298,312
10% Note payable, past due	5,000	5,750	5,000	5,375
IP Law Firm Note, past due	—	—	29,610	986
Law Firm Note	—	—	75,000	104
Tonaquint Note	180,025	2,083	360,186	1,835
Total	<u>\$ 370,025</u>	<u>\$ 326,958</u>	<u>\$ 654,796</u>	<u>\$ 306,612</u>

During the nine month period ended December 31, 2012, we recorded interest expense of \$47,447 related to the contractual interest terms of our notes payable.

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 April 21, 2010, a holder of \$100,000 of the 12% Notes converted his principal balance and \$71,758 of accrued interest into 687,033 shares of common stock at an agreed conversion price of \$0.25 per share. We incurred a loss upon this conversion of \$68,703 since the closing price of our common stock was \$0.35 at the date of conversion. At December 31, 2012, 12% Notes with a principal balance of \$185,000 are outstanding, all of which are past due, in default, and bearing interest at the default rate of 15%. At December 31, 2012, interest payable on the 12% Notes totaled \$319,125 and we are recording interest at the default rate of 15%.

10% NOTES

At December 31, 2012, one 10% Note in the amount of \$5,000, which is past due and in default, remained outstanding. At December 31, 2012, interest payable on this note totaled \$5,750 and we are recording interest at the default rate of 15%.

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.

IP LAW FIRM NOTE

On August 2, 2011, we entered into a Promissory Note with our intellectual property law firm for the amount of \$49,610, which represented the amount we owed to that firm. The Promissory Note called for monthly payments of \$5,000 from August 2011 through December 2011 and bore interest at 10% per annum. We paid off this note and related accrued interest with cash in April 2012.

LAW FIRM NOTE

On March 22, 2012, we entered into a Promissory Note with our corporate law firm for the amount of \$75,000, which represented the majority of the amount we owed to that firm. The Promissory Note has a maturity date of December 31, 2012 and bears interest at five percent per annum. The note is convertible at the option of the holder into shares of our common stock at a 10% discount to the market price of the common stock on the date prior to conversion with a floor price on such conversions of \$0.08 per share. This ability of the holder to convert became exercisable upon the amendment of the Articles of Incorporation increasing the authorized shares of our common stock to a number greater than 250,000,000. As that increase in the authorized number of shares of our common stock was approved by our stockholders at a Special Stockholders Meeting on June 4, 2012, this note was reclassified to a convertible note as of June 30, 2012 (see Note 5).

TONAQUINT NOTE

On June 28, 2011, we entered into a Termination Agreement with Tonaquint, Inc. (see Note 5) under which both parties agreed that in consideration of the termination of a warrant, the waiving of all fees, penalties, the creation of the selling program and other factors, we agreed to issue an unsecured non-convertible promissory note (the "New Note") in the principal amount of \$360,186, which provides for annual interest at a rate of 6%, payable monthly in either cash or our stock, at our option. The New Note originally had a maturity date of April 30, 2012. We subsequently extended the note initially to July 31, 2012 and then to July 31, 2013 and subsequently to August 31, 2013 (see Note 14) and converted \$182,662 of the principal and \$7,910 of the accrued interest related to the note into common stock (see Note 6). We also recorded into principal \$2,500 of the lender's legal fees related to documentation of the extension agreement. We recorded a loss on conversion of \$50,262 on those partial conversions. At December 31, 2012, the balance of this note was \$180,025 and accrued interest totaled \$2,083.

NOTE 5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consisted of the following at December 31, 2012:

	<u>Principal</u>	<u>Unamortized Discount</u>	<u>Net Amount</u>	<u>Accrued Interest</u>
Amended and Restated Series A 12% Convertible Notes, past due	\$ 885,000	\$ —	\$ 885,000	\$ 354,000
2008 10% Convertible Notes, past due	25,000	—	25,000	14,479
December 2006 10% Convertible Notes, past due	17,000	—	17,000	15,250
October & November 2009 10% Convertible Notes	50,000	(1,540)	48,460	18,750
April 2010 10% Convertible Note	75,000	(5,501)	69,499	22,063
September 2010 10% Convertible Notes, past due	308,100	—	308,100	40,839
April 2011 10% Convertible Notes, past due	400,400	—	400,400	85,085
July and August 2011 10% Convertible Notes, \$257,656 past due	357,655	—	357,655	55,557
September 2011 Convertible Notes, past due	208,760	—	208,760	—
Law Firm Note	75,000	—	75,000	2,917
Total – Convertible Notes	<u>\$ 2,401,915</u>	<u>\$ (7,041)</u>	<u>\$ 2,394,874</u>	<u>\$ 608,940</u>

All but two of the Convertible Notes Payable in the above table are presently past due or will be due within one year of the December 31, 2012 balance sheet date. As a result, we expect to amortize all but \$2,820 of the remaining discounts during the fiscal year ending March 31, 2013.

During the nine months ended December 31, 2012, we recorded interest expense of \$370,581 related to the contractual interest rates of our convertible notes and interest expense of \$464,401 related to the amortization of debt discounts on the convertible notes for a total of \$835,252.

Convertible Notes Payable consisted of the following at March 31, 2012:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Amended and Restated Series A 12% Convertible Notes, past due	\$ 900,000	\$ —	\$ 900,000	\$ 168,750
2008 10% Convertible Notes, past due	25,000	—	25,000	11,667
December 2006 10% Convertible Notes, past due	17,000	—	17,000	13,246
October & November 2009 10% Convertible Notes, \$25,000 past due	75,000	(4,833)	70,167	22,500
April 2010 10% Convertible Note	75,000	(10,107)	64,893	16,438
September 2010 10% Convertible Notes	338,100	—	338,100	70,804
April 2011 10% Convertible Notes	400,400	—	400,400	40,040
July and August 2011 10% Convertible Notes	357,655	(109,911)	247,744	24,262
September 2011 Convertible Notes	238,760	(106,932)	131,828	—
November 2011 Convertible Notes	525,000	(51,220)	473,780	39,177
February 2012 Convertible Notes	525,000	(188,439)	336,561	12,120
Total – Convertible Notes	<u>\$ 3,476,915</u>	<u>\$ (471,442)</u>	<u>\$ 3,005,473</u>	<u>\$ 419,004</u>

AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated 12% Series A Convertible Promissory Notes (the "Amended and Restated Notes") with the holders of certain promissory notes previously issued by the Company ("Amended Series A 10% Convertible Notes" or the "Prior Notes"), and all amendments to the Prior Notes.

The Amended and Restated Notes, in the principal amount of \$900,000 matured on December 31, 2010. In connection with the restructuring we paid \$54,001 of accrued and default interest through the date of the restructuring, liquidated damages of \$205,000 and \$54,003 of prepaid interest through the expiration date in the aggregate amount of \$313,004 through the issuance of units ("Units") at a fixed rate of \$0.20 per Unit, each Unit consisting of one share of our common stock and one common stock purchase warrant to purchase one share of our common stock at a fixed exercise price of \$0.20 per share as prescribed in the Amended and Restated Note Agreement. The noteholders have antidilution price protection on the Amended and Restated Notes.

In addition to the extension of the expiration date of the Amended and Restated Notes to December 31, 2010, we agreed to increase the annual interest rate from ten percent to twelve percent. We also agreed to change the exercise prices on all of the warrants held by the noteholders to \$0.20 per share, to change certain formerly contingent warrants to non-contingent warrants and to extend the expiration date of their warrants to February 2016.

As of December 31, 2010, the Amended and Restated Notes matured and as of December 31, 2012 remain in default. We are accruing interest at the revised default rate of 20% following the expiration date of December 31, 2010.

In June 2012, the holder of \$15,000 of the Amended and Restated Notes converted his principal and related accrued interest into common stock per the conversion formula.

We have begun discussions with the noteholders regarding an extension to the notes but there can be no assurance that we will be able to do so on terms that we deem acceptable or at all. At December 31, 2012, the balance of the Amended and Restated Notes was \$885,000 and interest payable on the Amended and Restated Notes totaled \$354,000.

2008 10% CONVERTIBLE NOTES

One 2008 10% Convertible Note in the amount of \$25,000 which matured in January 2010 remained outstanding at September 30, 2012. This note is convertible into our common stock at \$0.50 per share. At December 31, 2012, the \$25,000 principal balance was in default and interest payable on the remaining note totaled \$14,479 and we are recording interest at the default rate of 15%.

DECEMBER 2006 10% CONVERTIBLE NOTES

At December 31, 2012, \$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, 2012, the \$17,000 balance of the notes was in default and interest payable on those notes totaled \$15,250 and we are recording interest at the default rate of 15%.

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 matured 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 this discount using the effective interest method over the term of the notes.

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 matured 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 this discount using the effective interest method over the term of the notes.

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 amortized them over the term of the notes using the effective interest method.

Prior to March 31, 2012, \$355,000 of the October and November 2009 financing had been converted to common stock. On March 31, 2012, we agreed to extend the expiration date and to change the exercise price of certain warrants of one of the note holders by two years in exchange for the extension of \$50,000 of the October & November 2009 10% Convertible Notes and the \$75,000 April 2010 10% Convertible Note (see below) by that same two year period. We recorded a charge of \$77,265 relating to this modification.

In July 2012, we issued 461,409 shares of common stock to the holder of the \$25,000 note in exchange for the value of the principal and related accrued interest of \$8,000 under the same terms that we used to sell units consisting of one share of common stock and one-half of a stock purchase warrant on June 29, 2012 (see Note 6). As part of that structure, the noteholder also received seven year warrants to purchase 230,705 share of common stock at a price of \$0.107 per share. We recorded a loss on conversion of \$45,796 on the conversions.

At December 31, 2012, there was one note remaining for \$50,000 and interest payable on that note was \$18,750.

APRIL 2010 10% CONVERTIBLE NOTE

In April 2010, we raised \$75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matures in October 2011 and is convertible into our common stock at a fixed conversion price of \$0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 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 amortized this discount using the effective interest method over the term of the note.

On March 31, 2012, we agreed to extend the expiration date and to change the exercise price of certain warrants of the note holder by two years in exchange for his extension of \$50,000 of the October & November 2009 10% Convertible Notes and the \$75,000 April 2010 10% Convertible Note by that same two year period. We recorded a charge of \$77,265 relating to this modification.

At December 31, 2012, the remaining outstanding principal balance is \$75,000 and interest payable on this note totaled \$22,063.

JULY 2010 6% CONVERTIBLE NOTES

In July 2010, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor"), whereby we issued and sold, and the Investor purchased: (i) a Convertible Promissory Note of the Company in the principal amount of \$890,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant"). As consideration for the issuance and sale of the Company Note and Warrant, the Investor paid cash in the amount of \$400,000 and issued two Secured Trust Deed Notes to us (the "Trust Notes") each in the principal amount of \$200,000. The variance of \$90,000 represents fees and expenses paid by us and an original issue discount which was recorded as deferred offering costs.

Over the term of the Tonaquint Convertible Note, all of the principal and accrued interest was converted to common stock per the terms of the Convertible Note. On June 28, 2011, we entered into a Termination Agreement with Tonaquint under which both parties agreed to terminate the warrant to prevent continuing dilution of our common stock and to eliminate confusion or disagreement as to the number of shares of common stock available for issuance under the warrant in the future. Accordingly, under the Termination Agreement we issued 3,599,913 shares of common stock upon the final exercise of the warrant, whereupon the warrant was terminated and is of no further force or effect. The Termination Agreement also provides for a "Common Stock Sale Limitation" on all of our common stock held by Tonaquint, Inc. Under the "Common Stock Sale Limitation", the daily limitation on the number of shares of common stock which Tonaquint, Inc. may sell into the market on any trading day is limited to the greater of (i) \$5,000 of sales amount, or (ii) 10% of the Average Daily Volume of our common stock sold on the Over The Counter Bulletin Board, where the Average Daily Volume shall mean the average daily volume for the prior three month period as reported on each trading day on Yahoo Finance with respect to our common stock. Under the terms of the Termination Agreement, Tonaquint, Inc. has waived and released us from any obligation to pay or perform any fees, penalties, costs, or assessments that were or are due, or would have become due, under the convertible note, the warrant and the note purchase agreement. In consideration of the termination of the warrant, the waiving of all fees, penalties, the creation of the selling program and other factors, we agreed to issue an unsecured non-convertible promissory note (the "New Note") in the principal amount of \$360,185, which provides for annual interest at a rate of 6%, payable monthly in either cash or our stock, at our option. The New Note originally had a maturity date of April 30, 2012 and was subsequently extended to August 31, 2013. At December 31, 2012, the balance of this note was \$180,025 and interest payable totaled \$2,083 (see Note 4 and Note 14).

SEPTEMBER 2010 10% CONVERTIBLE NOTES

On September 3, 2010, we entered into a Subscription Agreement with three accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of \$1,430,000. The initial closing under the Subscription Agreement resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of \$743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of \$0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of \$0.43575 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and matured on September 3, 2011. The aggregate gross cash proceeds were \$650,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share 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. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than \$0.30 nor less than \$0.20. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

The following conversions of the September 2010 10% Convertible Note have taken place during the fiscal year ended March 31, 2012 and the nine months ended December 31, 2012:

	Nine Months Ended December 31, 2012	Fiscal Year Ended March 31, 2012
Principal converted	\$ 30,000	\$ 405,500
Accrued interest converted	\$ 64,164	\$ 19,255

At December 31, 2012, the remaining principal balance of \$308,100 was in default and interest payable on these notes totaled \$40,839 and we are recording interest at the default rate of 15%.

APRIL 2011 10% CONVERTIBLE NOTES

In April 2011, we entered into a Subscription Agreement with two accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of \$385,000. The closing under the Subscription Agreement resulted in the issuance and sale by us of (i) convertible promissory notes in the aggregate principal amount of \$385,000, (ii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of \$0.125 per share, and (iii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of \$0.175 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and matured on April 1, 2012. The aggregate gross cash proceeds to us were \$350,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share 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. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than \$0.20 nor less than \$0.10. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

In addition, we issued (i) five-year warrants to purchase an aggregate of 812,500 shares of our common stock at an exercise price of \$0.125 per share, and (ii) five-year warrants to purchase an aggregate of 812,500 shares of our common stock at an exercise price of \$0.175 per share to the Purchasers. These warrants were issued as an antidilution adjustment under certain common stock purchase warrants held by the Purchasers that were acquired from us in September 2010.

At December 31, 2012, the outstanding principal balance was \$400,400 and was in default and interest payable on these notes totaled \$85,085 and we are recording interest at the default rate of 15%.

JULY & AUGUST 2011 10% CONVERTIBLE NOTES

During the three months ended September 30, 2011, we raised \$357,656 in 10% convertible notes. Those notes had a fixed conversion price of \$0.09 per share and carried an interest rate of 10%. The convertible notes matured in July and August 2012. We also issued those investors five year warrants to purchase 3,973,957 shares of common stock at \$0.125 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a \$257,926 discount against the principal of the notes. We amortized this discount using the effective interest method over the term of the note.

Effective July 14, 2011 holders of three notes totaling \$100,000 agreed to extend the expiration date of their notes to July 13, 2013.

At December 31, 2012, the outstanding principal balance was \$357,655, of which \$257,655 was in default and interest payable on these notes totaled \$55,557. Following the expiration of the maturity dates on the \$257,655 of notes that are now in default, we began to accrue interest at the default interest rate of 15%.

SEPTEMBER 2011 CONVERTIBLE NOTES

On September 23, 2011, we entered into a Subscription Agreement with two accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of \$253,760. The warrants carried a five-year term to purchase an aggregate of 3,625,143 shares of our common stock at an exercise price of \$0.10 per share. The convertible promissory notes do not bear an interest rate and mature on September 23, 2012. The aggregate net cash proceeds to us were \$175,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to \$0.07. Subject to adjustments as described in the notes, the conversion price may not be more than \$0.07. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a \$168,804 discount against the principal of the notes. We amortized this discount using the effective interest method over the term of the note.

In March 2012, following the six month anniversary of the note funding, one of the note holders converted \$15,000 of principal into common stock and in the nine months ended December 31, 2012, that note holder converted an additional \$30,000 of principal into common stock.

At December 31, 2012, the outstanding principal balance was \$208,760 and was in default and there was no accrued interest as these notes do not bear interest.

NOVEMBER 2011 CONVERTIBLE NOTES

In November 2011, we raised \$525,000 in 5% Original Issue Discount Unsecured Convertible Debentures from five accredited investors pursuant to which the investors purchased an aggregate principal amount of \$525,000 for an aggregate purchase price of \$500,000. The debentures bear interest at 20% per annum and matured on April 20, 2012. The debentures will be convertible at the option of the holders at any time into shares of our common stock, at a conversion price equal to \$0.0779, subject to adjustment. In connection with the debentures, the purchasers received warrants to purchase 3,369,706 shares of our common stock. The warrants are exercisable for a period of five years from the date of issuance at an exercise price of \$0.11, subject to adjustment.

Until December 31, 2012, upon any proposed issuance by us of our common stock or equivalents (or a combination thereof as defined in the subscription agreement) for cash consideration, the purchasers may elect, in their sole discretion, to exchange all or some of the debentures then held by such purchaser for any securities issued in a subsequent financing on a \$1.00 for \$1.00 basis, provided, however, this right shall not apply with respect to (i) an Exempt Issuance (as defined in the debenture) or (ii) an underwritten public offering of our common stock.

A Financial Industry Regulatory Authority (FINRA) registered broker-dealer was engaged as placement agent in connection with the transaction. We paid the placement agent a cash fee in the amount of \$50,000 (representing a 8% sales commission and a 2% unaccountable expense allowance) and issued the placement agent or its designees warrants to purchase an aggregate of 808,729 shares of common stock at \$0.11 per share. The warrants issued to the placement agent may be exercised on a cashless basis. In the event the placement agent exercises the warrants on a cashless basis, we will not receive any proceeds.

During the nine months ended December 31, 2012, all of the outstanding principal balances on these notes and all related accrued interest of \$53,803 were converted into common stock.

FEBRUARY 2012 CONVERTIBLE NOTES

In February 2012, we entered into a subscription agreement with five accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate principal amount of \$525,000 of 5% Original Issue Discount Unsecured Convertible Debentures for an aggregate purchase price of \$500,000 (the "Debenture"). These subscriptions represent the completion of the \$1,000,000 securities offering that was initiated and priced in November 2011 (see above).

The Debentures bear interest at 20% per annum and matured on April 20, 2012. The Debentures will be convertible at the option of the holders at any time into shares of our common stock, at a conversion price equal to \$0.0779, subject to adjustment. In connection with the subscription agreement, the Purchasers received warrants to purchase 3,369,707 shares of our common stock (the "Warrants"). The Warrants are exercisable for a period of five years from the date of issuance at an exercise price of \$0.11 per share, subject to adjustment. Each Purchaser may exercise such Purchaser's Warrant on a cashless basis if the shares of common stock underlying the Warrant are not then registered pursuant to an effective registration statement. In the event the Purchasers exercise the Warrants on a cashless basis, we will not receive any proceeds. The conversion price of the Debenture and the exercise price of the Warrants are subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

Until December 31, 2012, upon any proposed issuance by us of our Common Stock or Common Stock Equivalents (or a combination thereof as defined in the subscription agreement) for cash consideration (the "Subsequent Financing"), a Purchaser may elect, in its sole discretion, to exchange all or some of the Debenture then held by such Purchaser for any securities issued in a Subsequent Financing on a \$1.00 for \$1.00 basis, provided, however, this right shall not apply with respect to (i) an Exempt Issuance (as defined in the Debenture) or (ii) an underwritten public offering of our common stock.

Each Purchaser has contractually agreed to restrict its ability to exercise the Warrant and convert the Debenture such that the number of shares of our common stock held by the Purchaser and its affiliates after such conversion or exercise does not exceed 4.99% of our then issued and outstanding shares of common stock.

The full principal amount of the Debenture is due upon a default under the terms of the Debenture. The Debenture is a general unsecured debt obligation of ours arising other than in the ordinary course of business which constitutes a direct financial obligation of the Company.

A FINRA registered broker-dealer was engaged as placement agent in connection with the transaction. We paid the placement agent a cash fee in the amount of \$50,000 (representing an 8% sales commission and a 2% unaccountable expense allowance) and issued the placement agent or its designees warrants to purchase an aggregate of 815,774 shares of common stock at \$0.11 per share. The warrants issued to the placement agent may be exercised on a cashless basis. In the event the placement agent exercises the warrants on a cashless basis, we will not receive any proceeds.

During the nine months ended December 31, 2012, all of the outstanding principal balances on these notes and all related accrued interest of \$55,432 were converted into common stock.

LAW FIRM NOTE

On March 22, 2012, we entered into a Promissory Note with our corporate law firm for the amount of \$75,000, which represented the majority of the amount we owed to that firm. The Promissory Note has a maturity date of December 31, 2012 and bears interest at five percent per annum. The note is convertible at the option of the holder into shares of our common stock at a 10% discount to the market price of the common stock on the date prior to conversion with a floor price on such conversions of \$0.08 per share. This ability of the holder to convert became exercisable upon the amendment of the Articles of Incorporation increasing the authorized shares of our common stock to a number greater than 250,000,000. As that increase in the authorized number of shares of our common stock was approved by our stockholders at a Special Stockholders Meeting on June 4, 2012, this note was reclassified to a convertible note as of June 30, 2012 (see Note 4). The parties have agreed to extend the Maturity Date of the Note to February 28, 2013 (see Note 14).

At December 31, 2012, the outstanding principal balance on this note was \$75,000 and the interest payable on this note totaled \$2,917.

NOTE 6. EQUITY TRANSACTIONS

On April 5, 2012, we completed a unit subscription agreement with one accredited investor (the "Purchaser") pursuant to which the Purchaser purchased \$200,000 of units (the "Units" and each a "Unit"), with each Unit consisting of (i) one share of Common Stock, par value \$0.001 per share (the "Common Stock") at a price per share of \$0.08 and (ii) a warrant to purchase such number of shares of Common Stock as shall equal (a) fifty percent of the Subscription Amount *divided by* (b) \$0.08 (the "Warrant Shares") at an exercise price of \$0.125 per Warrant Share, (each, a "Warrant" and collectively, the "Warrants"). Based on the foregoing, Units consisting of 2,500,000 shares of Common Stock and Warrants to purchase 1,250,000 shares of Common Stock were issued on April 5, 2012.

The Warrants are exercisable for a period of seven years from the date of issuance at an exercise price of \$0.125, subject to adjustments for stock splits, stock dividends, recapitalizations and the like. The Purchaser may exercise the Warrant on a cashless basis if the shares of common stock underlying the Warrant are not then registered pursuant to an effective registration statement. In the event the Purchaser exercises the Warrant on a cashless basis, we will not receive any proceeds. There are no registration rights with respect to the Warrants or the Warrant Shares.

On June 19, 2012, we completed a unit subscription agreement with seven accredited investors (the "Purchasers") pursuant to which the Purchasers purchased \$592,000 of units (the "Units" and each a "Unit"), with each Unit consisting of (i) one share of Common Stock at a price per share of \$0.072 and (ii) a warrant to purchase such number of shares of Common Stock as shall equal (a) fifty percent of the Subscription Amount *divided by* (b) \$0.072 (the "Warrant Shares") at an exercise price of \$0.108 per Warrant Share.

On June 26, 2012, we completed a unit subscription agreement with one accredited investor pursuant to which the Purchaser purchased \$10,000 of units (the "Units" and each a "Unit"), with each Unit consisting of (i) one share of Common Stock at a price per share of \$0.072 and (ii) a warrant to purchase such number of shares of Common Stock as shall equal (a) fifty percent of the Subscription Amount *divided by* (b) \$0.072 (the "Warrant Shares") at an exercise price of \$0.107 per Warrant Share.

On August 29, 2012, we completed a unit subscription agreement with seven accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$271,000 (the "Subscription Amount") of restricted Common Stock at a price of \$0.08 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of the our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 3,387,500 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated to be \$0.12 per share based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

The Warrants are exercisable for a period of seven years from the date of issuance at an exercise price of \$0.12, subject to adjustments for stock splits, stock dividends, recapitalizations and the like. The Purchasers may exercise the Warrants on a cashless basis if the shares of Common Stock underlying the Warrants are not then registered pursuant to an effective registration statement. In the event that a Purchaser exercises the Warrant on a cashless basis, we will not receive any proceeds. There are no registration rights with respect to the Warrants or the Common Stock underlying the Warrants.

During the nine months ended December 31, 2012, we issued 21,884,428 shares of restricted common stock to holders of notes issued by the Company in exchange for the partial or full conversion of principal and interest of several notes payable in an aggregate amount of \$1,617,052 at an average conversion price of \$0.07 per share based upon the conversion formulae in the respective notes.

During the nine months ended December 31, 2012, we issued 116,000 shares of restricted common stock to settle past due accrued interest that we recorded as non-cash interest expense of \$11,846.

During the nine months ended December 31, 2012, we issued 1,553,803 restricted shares of common stock to service providers for investor relations and business development services valued at \$139,182 based upon the fair value of the shares issued. The average issuance price on the restricted share issuances was approximately \$0.09 per share.

During the nine months ended December 31, 2012, we issued 466,690 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of \$0.10 per share in payment for scientific consulting services valued at \$46,669 based on the value of the services provided .

In July 2012, we filed a registration statement on Form S-8 for the purpose of registering 5,000,000 common shares issuable under the 2010 Stock Plan under the Securities Act of 1933.

On July 24, 2012, we expanded our Board of Directors by an additional two seats and appointed two new outside directors to fill those seats.

In July 2012, our Board of Directors approved a new Board Compensation Program (the "New Program"), which modifies and supersedes the 2005 Directors Compensation Program (the "2005 Program") that was previously in effect. Under the New Program, in which only non-employee Directors may participate, an eligible Director will receive a grant of \$15,000 worth of options to acquire shares of Common Stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year; however for the new non-employee directors, the exercise price for this initial grant, \$0.076 per share, is based on the average of the closing bid prices of the Common Stock for the five trading days preceding the date of their appointment (July 24, 2012). These options will have a term of ten years and will be fully vested upon grant. In addition, each existing eligible Director will receive the same grant of \$15,000 worth of options to acquire shares of Common Stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year; provided however that for this current grant only, all of such grants shall be made at an exercise price of \$0.076 per share based on the average of the closing bid prices of the Common Stock for the five trading days preceding the date (July 24, 2012) of the appointment of two new directors to our Board of Directors.

At the beginning of each fiscal year, each Director eligible to participate in the New Program also will receive a grant of \$20,000 worth of options valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year. In addition, under the New Program eligible Directors will receive cash compensation equal to \$500 for each committee meeting attended and \$1,000 for each formal Board meeting attended.

The New Program eliminates the following features of the 2005 Program: (1) the annual payment of \$10,000 in cash compensation and (2) the granting of options to Directors based on a percentage of our issued and outstanding common stock.

In October 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$135,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.07 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 1,823,412 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

In November 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$213,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.06 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 3,435,484 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

In December 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$150,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.06 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 2,619,684 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

NOTE 7. ACCRUED LIQUIDATED DAMAGES

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 we will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated.

We have entered into registration payment arrangements in connection with certain financing arrangements, pursuant to which we raised an approximate aggregate amount of \$2,020,000, that require us to register the shares of common stock underlying the convertible debt and warrants issued in these financing transactions. Under these agreements we are liable for liquidated damages to the investors if we fail to file and/or maintain effective registration statements covering the specified underlying shares of common stock as noted below:

- With respect to a \$1,000,000 financing agreement – damages accrue at a rate of 1% - 1.5% per month until such time as the underlying shares of common stock would have been eligible for sale under Rule 144.
- With respect to financing agreements totaling \$715,000 – damages accrue at a rate of 2% per month, subject to an aggregate maximum liquidated damages amount of \$150,000.
- With respect to equity investments totaling \$305,000 – damages accrue at a rate of 2% per month until the expiration dates of warrants issued in connection with this financing, which range from December 31, 2010 through February 8, 2011 and are payable in common stock.

Since we have either failed to file, or failed to maintain the registration obligations under these agreements, as of December 31, 2012 and March 31, 2012, we have accrued estimated aggregate liquidated damages of \$437,800 in connection with the liquidated damage provisions of these agreements, which we believe represents our maximum exposure under these provisions. Accordingly, we do not expect to accrue any further liquidated damages in connection with these agreements. The actual amount of liquidated damages paid, if any, may differ from our estimates as it is our intention to negotiate with the investors the settlement of liquidated damages due and, as such, the ultimate amounts we may actually pay may be less than the amount currently accrued.

NOTE 8. OTHER CURRENT LIABILITIES

At December 31, 2012 and March 31, 2012, our other current liabilities were comprised of the following items:

	December 31, 2012	March 31, 2012
Accrued interest	\$ 941,794	\$ 725,616
Accrued legal fees	179,465	179,465
Deferred rent	5,445	5,607
Other	100,650	220,533
Total other current liabilities	<u>\$ 1,227,354</u>	<u>\$ 1,131,221</u>

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of \$2,291,916 (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, 2012, we had accrued interest in the amount of \$875,488 associated with these defaulted notes in accrued liabilities payable (see Notes 4 and 5).

NOTE 9. FAIR VALUE MEASUREMENTS

We follow FASB ASC 820, "FAIR VALUE MEASUREMENTS AND DISCLOSURES" ("ASC 820") in connection with assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The guidance applies to our derivative liabilities. We had no assets or liabilities measured at fair value on a non-recurring basis for any period reported.

ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories: We measure the fair value of applicable financial and non-financial assets based on the following fair value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

The fair value of our recorded derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a Level 3 classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

Our fair value measurements at the December 31, 2012 reporting date are classified based on the valuation technique level noted in the table below (there were no transfers in or out of level 3 for all periods presented):

Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities	<u>\$ 1,810,138</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,810,138</u>

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, in connection with our warrant and embedded conversion option derivative instruments utilizing the Binomial Lattice option pricing model:

	Nine Months Ended December 31, 2012
Risk free interest rate	0.05% - 0.60%
Average expected life	0.02 – 4.2 years
Expected volatility	76.0% - 107.1%
Expected dividends	None

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the nine months ended December 31, 2012:

	April 1, 2012	Recorded New Derivative Liabilities	Change in estimated fair value recognized in results of operations	Reclassification of Derivative Liability to Paid in capital	December 31, 2012
Derivative liabilities	\$ 3,588,615	\$ –	(\$ 1,745,718)	(\$ 32,759)	\$ 1,810,138

The fair value of derivative liabilities that we recorded in the nine months ended December 31, 2012 was related to our April 2011 convertible note, July & August 2011 10% convertible notes and the September 2011 convertible note offerings (see Note 5) and was based upon an independent valuation report.

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the nine months ended December 31, 2011:

	April 1, 2011	Recorded New Derivative Liabilities	Change in estimated fair value recognized in results of operations	Reclassification of Derivative Liability to Paid in capital	December 31, 2011
Derivative liabilities	2,002,896	\$ 1,107,940	(\$ 1,596,442)	(\$ 263,689)	\$ 1,250,705

The fair value of derivative liabilities that we recorded in the nine months ended December 31, 2011 was related to our April 2011 convertible note, July & August 2011 10% convertible notes and the September 2011 convertible note offerings (see Note 5) and was based upon an independent valuation report.

NOTE 10. STOCK COMPENSATION

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, 2012 and 2011:

	Three Months Ended December 30, 2012	Three Months Ended December 30, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Total share-based compensation expense	\$ 175,045	\$ 161,440	\$ 570,540	\$ 609,503
Total share-based compensation expense included in net loss	\$ 175,045	\$ 161,440	\$ 570,540	\$ 609,503
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

The following table breaks out the components of our 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, 2012 and 2011.

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Vesting of stock options	\$ 77,421	\$ 64,773	\$ 258,468	\$ 319,503
Incremental fair value of option modifications	957	-	22,071	-
Vesting expense associated with CEO restricted stock grant	96,667	96,667	290,001	290,000
Direct stock grants	-	-	-	-
Total share-based compensation expense	<u>\$ 175,045</u>	<u>\$ 161,440</u>	<u>\$ 570,540</u>	<u>\$ 609,503</u>
Total share-based compensation expense included in net loss	<u>\$ 175,045</u>	<u>\$ 161,440</u>	<u>\$ 570,540</u>	<u>\$ 609,503</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>

All of the stock-based compensation expense recorded during the nine months ended December 31, 2012 and 2011, which totaled \$570,540 and \$609,503, respectively, is included in payroll and related expense in the accompanying condensed consolidated statements of operations. Stock-based compensation expense recorded during the three months ended December 31, 2012 and 2011 had no impact on basic and diluted loss per common share. Stock-based compensation expense recorded during the nine months ended December 31, 2012 had no impact on basic and diluted loss per common share and the stock-based compensation expense recorded during the nine months ended December 31, 2011 increased basic and diluted loss per common share by \$0.01.

In July 2012, our Board of Directors approved a new Board Compensation Program (the "New Program"), which modifies and supersedes the 2005 Directors Compensation Program (the "2005 Program") that was previously in effect. Under the New Program, in which only non-employee Directors may participate, an eligible Director will receive a grant of \$15,000 worth of options to acquire shares of Common Stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year; however for the new non-employee directors, the exercise price for this initial grant, \$0.076 per share, is based on the average of the closing bid prices of the Common Stock for the five trading days preceding the date of their appointment (July 24, 2012). These options will have a term of ten years and will be fully vested upon grant. In addition, each existing eligible Director will receive the same grant of \$15,000 worth of options to acquire shares of Common Stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year; provided however that for this current grant only, all of such grants shall be made at an exercise price of \$0.076 per share based on the average of the closing bid prices of the Common Stock for the five trading days preceding the date (July 24, 2012) of the appointment of two new directors to our Board of Directors.

At the beginning of each fiscal year, each Director eligible to participate in the New Program also will receive a grant of \$20,000 worth of options valued at the exercise price based on the average of the closing bid prices of the Common Stock for the five trading days preceding the first day of the fiscal year. In addition, under the New Program eligible Directors will receive cash compensation equal to \$500 for each committee meeting attended and \$1,000 for each formal Board meeting attended.

In the nine months ended December 31, 2012, our Board of Directors granted, to our four outside directors, ten year options to acquire an aggregate of 1,667,105 shares of our common stock, all with an exercise price of \$0.076 per share.

In March 2012, our Chief Executive Officer and our Chief Financial Officer agreed to suspend the exercise of up to 12,588,243 of their 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 250,000,000 to 500,000,000. That proposal was approved by our stockholders at our Special Stockholders' Meeting on June 4, 2012. Following that approval we extended their stock options by the 70 days, which equaled the number of days that they had unreserved their shares. We valued the change in fair value of their vested 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 June 30, 2012 of \$19,838. For their unvested options, we recorded an increase to fair value of \$5,100, which will be expensed over the remaining vesting period of those options.

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to stock option grants utilizing the Binomial Lattice option pricing models at, and during the nine months ended December 31, 2012:

Risk free interest rate	1.44%
Average expected life	10 years
Expected volatility	117.5%
Expected dividends	None

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 six months ended September 30, 2012 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.

Options outstanding that have vested and are expected to vest as of December 31, 2012 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Vested	19,079,126	\$ 0.29	3.87
Expected to vest	2,016,672	\$ 0.17	7.72
Total	<u>21,095,798</u>	<u>\$ 0.28</u>	<u>4.24</u>

A summary of stock option activity during the nine months ended December 31, 2012 is presented below:

	Amount	Range of Exercise Price	Weighted Average Exercise Price
Stock options outstanding at March 31, 2012	19,428,693	\$0.21 - \$0.41	\$0.31
Exercised	-	\$ --	
Issued	1,667,105	\$0.076	\$0.076
Cancelled/Expired	-	\$ --	
Stock options outstanding at December 31, 2012	<u>21,095,798</u>	\$0.076 - \$0.41	\$0.28
Stock options exercisable at December 31, 2012	<u>19,079,126</u>	\$0.076 - \$0.41	\$0.29

At December 31, 2012, there was approximately \$399,488 of unrecognized compensation cost related to share-based payments, including our Chief Executive Officer's restricted stock grant, which is expected to be recognized over a weighted average period of 0.57 years.

On December 31, 2012, our stock options had a negative intrinsic value since the closing price on that date of \$0.10 per share was below the weighted average exercise price of our stock options

NOTE 11. WARRANTS

A summary of warrant activity during the nine months ended December 31, 2012 is presented below:

	Amount	Range of Exercise Price	Weighted Average Exercise Price
Warrants outstanding at March 31, 2012	59,807,849	\$0.07 - \$0.25	\$0.14
Exercised	-	\$ --	
Issued	12,912,227	\$0.09 - \$0.11	\$0.09
Cancelled/Expired	(871,000)	\$ 0.25	\$0.25
Warrants outstanding at December 31, 2012	<u>71,849,076</u>	\$0.07 - \$0.25	\$0.13
Warrants exercisable at December 31, 2012	<u>71,849,076</u>	\$0.07 - \$0.25	\$0.13

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to warrants utilizing the Binomial Lattice option pricing models at, and during the nine months ended December 31, 2012:

Risk free interest rate	0.086% - 1.56%
Average expected life	5 - 7 years
Expected volatility	91.5 - 94.3%
Expected dividends	None

NOTE 12. DARPA CONTRACT AND RELATED REVENUE RECOGNITION

As discussed in Note 1, we entered into a government contract with DARPA on September 30, 2011 and commenced work on such contract in October 2011. Originally, only the base year (year one contract) was effective for the parties, however, effective August 16, 2012, DARPA exercised the option on the second year of the contract. Years three through five are subject to DARPA exercising their option to enter into contracts for those years. The year one contract contains eight milestones of which five were achieved during the fiscal year ended March 31, 2012. In June 2012, we invoiced the US Government for the sixth milestone under our DARPA contract in the amount of \$216,747 and received that payment. In the September 2012 quarter, we invoiced the US government for the seventh and eighth milestones. In the December 2012 quarter, we invoiced the US government for the first milestone under the second year of the contract. The details of the four milestones achieved during the nine month period ended December 31, 2012 were as follows:

Milestone 2.2.2.3 – Perform preliminary quantitative real time PCR to measure viral load, and specific DNA or RNA targets. The milestone payment was \$216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to measure viral load of one or more targets as part of our submission for approval. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.2.1.4 – Obtain all necessary IRB documentation and obtain both institutional and Government approval in accordance with IRB documentation submission guidance prior to conducting human or animal testing. The milestone payment was \$183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We obtained all of the required documentation from both institutional and Government authorities. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M2 – Target capture > 50% in 24 hours for at least one target in blood or blood components. The milestone payment was \$216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours of one of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.3.1 – Build the ADAPT capture cartridges with the identified affinity agents. Measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The milestone payment was \$208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able build the ADAPT capture cartridges with the identified affinity agents and to measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

NOTE 13. 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.

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.

On July 5, 2012, Gemini Master Fund, Ltd., a Cayman Islands company ("Gemini"), filed a complaint against the Company in the Supreme Court of the State of New York, County of New York, entitled Gemini Master Fund Ltd. v. Aethlon Medical, Inc., Index No. 652358/2012 (the "Complaint"). In the Complaint, Gemini is seeking relief both in the form of money damages and delivery of shares of the Company's common stock. The Complaint alleges, among other things, that the Company is in default of a certain promissory note originally issued to Gemini on February 12, 2010 by failing to pay the note in full and by failing to honor certain requests by Gemini to convert principal and interest under the note into shares of the Company's common stock. Complaint also includes allegations that the Company has failed to issue shares upon the presentation of an exercise notice under a warrant originally issued to Gemini on November 22, 2010. The lawsuit also alleges that the Company should have issued shares pursuant to the exercise of two other warrants. The Company believes that it has defenses to the claims asserted and it intends to vigorously defend the lawsuit. There can be no assurances, however, that the litigation will be decided in the Company's favor as to all, or any part, of Gemini's Complaint. An adverse decision in the litigation could have an adverse effect on the Company's operations and could be dilutive to the Company's shareholders.

LEASES

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of \$6,475 per month on a four year lease that expires in September 2013. We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of \$2,917 per month on a two year lease that expires in October 2014.

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated events subsequent to December 31, 2012 through the date that the accompanying condensed consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

On January 4, 2013, the Depository Trust Company (DTC) informed our counsel that DTC determined to lift the deposit transaction restriction (DTC Chill) imposed on our common stock and will resume accepting deposits of our common stock for depository and book-entry transfer services.

In January 2013, we issued 150,542 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of \$0.08 per share in payment for scientific and legal consulting services valued at \$11,667 based on the value of the services provided.

In January 2013, we issued 246,429 shares of restricted common stock to the owner of a patent as a patent license payment valued at \$17,250 per the terms of the patent license.

In January 2013, we issued 379,005 restricted shares of common stock to a consultant for investor relations services valued at \$31,667, or an average of \$0.84 cents per share, based upon the fair value of the shares issued.

In January 2013, we extended the expiration date of the Tonaquint Note by one month to August 31, 2013 (see Note 4).

In February 2013, we issued 101,250 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of \$0.08 per share in payment for internal controls consulting services valued at \$8,100 based on the value of the services provided.

In February 2013, we issued 454,483 shares of restricted common stock to the holder of a note issued by the Company in exchange for the partial conversion of principal and interest in an aggregate amount of \$30,000 at an average conversion price of \$0.07 per share.

In February 2013, we invoiced the US Government for the second milestone in the second year under our DARPA contract in the amount of \$195,581.

In February 2013, we extended the expiration date of the Law Firm Note by two months to February 28, 2013 (see Note 5).

In February 2013, we completed unit subscription agreements with six accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$205,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.064 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 3,203,125 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

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 medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components. Approval to embark on human trials is still needed to reach commercial viability of the Hemopurifier® and approval by the U.S. Food and Drug Administration ("FDA"). Successful outcomes of human trials will be required by the regulatory agencies of certain foreign countries where we intend to sell this device. We have submitted an Investigational Device Exemption ("IDE") to the FDA. Some of our patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(R) treatment technology. On September 30, 2011, we entered into a contract with the United States of America, issued by SPAWAR Systems Center Pacific, pursuant to a contract award from the Defense Advanced Research Projects Agency ("DARPA"). Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers.

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, 100 F Street, N.E., 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 660, 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, 2012 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2011

Revenues

We recorded government contract revenue of \$208,781 in the three months ended December 31, 2012. This revenue arose from work performed under our government contract. On September 30, 2011, we entered into a contract with the United States of America, issued by SPAWAR Systems Center Pacific, pursuant to a contract award from the Defense Advanced Research Projects Agency ("DARPA"). Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA is a fixed-price contract with potential total payments to us of \$6,794,389 over the course of five years. Originally, only the base year (year one contract) was effective for the parties, however, effective August 16, 2012, DARPA exercised the option on the second year of the contract. DARPA has the option to enter into the contract for years three through five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

As of December 31, 2012, we have invoiced for and received nine milestone payments under the DARPA contract totaling \$2,183,831.

Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2012 were \$1,145,620 in comparison with \$1,299,403 for the comparable quarter a year ago. This decrease of \$153,783, or 11.8%, was due to a decrease in our general and administrative expenses of \$187,747, which was partially offset by increases in our payroll and related expenses of \$19,418 and in our professional fees of \$14,546.

The \$187,747 decrease in general and administrative expenses was primarily due to a \$210,844 reduction in DARPA-related general and administrative expenses.

The \$19,418 increase in payroll and related expenses was primarily due to increased payroll of \$5,813 due to hiring additional scientists for work under our DARPA contract and to an increase of \$13,605 in stock-based compensation.

The \$14,546 increase in our professional fees was primarily due to an increase in DARPA contract related professional fees of \$167,764, which was partially offset by a reduction in our non-DARPA-related professional fees of \$153,219.

Other (Income) Expense

Other (income) expense consists primarily of the change in the fair value of our derivative liability, other expense and interest expense. Other (income) expense for the three months ended December 31, 2012 was other income of \$1,250,783 in comparison with other expense of \$233,390 for the comparable quarter a year ago.

Change in Fair Value of Derivative Liability

Both periods include changes in the fair value of derivative liability. For the three months ended December 31, 2012, the change in the estimated fair value of derivative liability was a gain of \$1,384,256 and for the three months ended December 31, 2011, the change in estimated fair value was a gain of \$74,940.

Interest Expense

Interest expense was \$106,795 for the three months ended December 31, 2012 compared to \$308,386 in the corresponding prior period, a decrease of \$201,591. The various components of our interest expense are shown in the following table:

	Quarter Ended 12/31/12	Quarter Ended 12/31/11	Change
Interest Expense	\$ 103,421	\$ 127,654	\$ (24,233)
Amortization of Deferred Financing Costs	680	57,179	(56,499)
Amortization of Note Discounts	2,694	123,553	(120,859)
Total Interest Expense	<u>\$ 106,795</u>	<u>\$ 308,386</u>	<u>\$ (201,591)</u>

As noted in the above table, the two most significant factors in the \$201,591 decrease in interest expense were (a) the \$120,859 reduction in the amortization of debt discounts that was largely the result of the completion of the discount amortization on the majority of our convertible notes prior and (b) a \$56,499 reduction in the amortization of deferred offering costs that also was largely the result of the completion of the amortization on those costs.

Other

The three months ended December 31, 2012 contained a \$26,716 loss on debt conversion that related to the conversion to equity of \$90,000 in principal and accrued interest related to a note payable.

Net Loss

As a result of the increased expenses noted above, we recorded consolidated net income (loss) of approximately \$314,000 and \$(575,000) for the three month periods ended December 31, 2012 and 2011, respectively.

Basic and diluted income per common share were \$0.00 for the three month period ended December 31, 2012, respectively, compared to basic and diluted loss per common share of \$(0.01) for the period ended December 31, 2011.

NINE MONTHS ENDED DECEMBER 31, 2012 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2011

Revenues

We recorded government contract revenue of \$825,642 in the nine months ended December 31, 2012. This revenue arose from work performed under our government contract. On September 30, 2011, we entered into a contract with the United States of America, issued by SPAWAR Systems Center Pacific, pursuant to a contract award from the Defense Advanced Research Projects Agency (“DARPA”). Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA is a fixed-price contract with potential total payments to us of \$6,794,389 over the course of five years. Originally, only the base year (year one contract) was effective for the parties, however, effective August 16, 2012, DARPA exercised the option on the second year of the contract. DARPA has the option to enter into the contract for years three through five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

As of December 31, 2012, we have invoiced for and received nine milestone payments under the DARPA contract totaling \$2,183,831.

Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2012 were \$3,554,064 in comparison with \$3,214,839 for the comparable period a year ago. This increase of \$339,225, or 10.6%, was due to increases in professional fees of \$332,472 and in payroll and related expenses of \$67,429, which were partially offset by a decrease in our general and administrative expenses of \$60,676.

The \$332,472 increase in our professional fees was primarily due to an increase in DARPA contract related professional fees of \$422,660, which was partially offset by a reduction in our non-DARPA-related professional fees of \$90,188.

The \$67,429 increase in payroll and related expenses was primarily due to increased payroll of \$106,395 due to hiring three additional scientists for work under our DARPA contract which was partially offset by a decrease of \$38,963 in stock-based compensation.

The \$60,676 decrease in general and administrative expenses was primarily due to a \$64,390 reduction in DARPA-related general and administrative expenses.

Other (Income) Expense

Other (income) expense consists primarily of the change in the fair value of our derivative liability, other expense and interest expense. Other (income) expense for the nine months ended December 31, 2012 was other income of \$(603,231) in comparison with other expense of \$1,357,331 for the comparable period a year ago.

Change in Fair Value of Derivative Liability

Both periods include changes in the fair value of derivative liability. For the nine months ended December 31, 2012, the change in the estimated fair value of derivative liability was a gain of \$1,745,718 and for the nine months ended December 31, 2011, the change in estimated fair value was a gain of \$1,596,442.

Interest Expense

Interest expense was \$1,019,857 for the nine months ended December 31, 2012 compared to \$2,594,526 in the corresponding prior period, a decrease of \$1,574,669. The various components of our interest expense are shown in the following table:

	9 Months Ended 12/31/12	9 Months Ended 12/31/11	Change
Interest Expense	\$ 422,140	\$ 352,571	\$ 69,569
Amortization of Deferred Financing Costs	121,470	243,878	(122,408)
Non-Cash Interest Expense	11,846	538,736	(526,890)
Amortization of Note Discounts	464,401	1,459,341	(994,940)
Total Interest Expense	<u>\$ 1,019,857</u>	<u>\$ 2,594,526</u>	<u>\$ (1,574,669)</u>

As noted in the above table, the three most significant factors in the \$1,574,669 decrease in interest expense were (a) the \$994,940 reduction in the amortization of debt discounts that was largely the result of the completion of the discount amortization on the majority of our convertible notes prior, (b) a \$526,890 reduction in our non-cash interest expense that primarily related to a \$538,736 adjustment to derivative liabilities that related to the fair value of the April 2011 convertible notes in the September 2011 period with no comparable expense in the December 2012 period and (c) a \$122,408 reduction in the amortization of deferred offering costs that also was largely the result of the completion of the amortization on those costs.

Other

The nine months ended December 31, 2011 also contained a \$360,186 charge relating to the extinguishment of a convertible note and warrant and to the formation of a new note in that amount of \$360,185 as a result of that extinguishment. The nine months ended December 31, 2012 contained a \$122,775 loss on debt conversion that related to the conversion to equity of \$210,328 in principal and accrued interest related to a note payable.

Net Loss

As a result of the increased expenses noted above, we recorded a consolidated net loss of approximately \$2,125,000 and \$3,614,000 for the nine month periods ended December 31, 2012 and 2011, respectively.

Basic and diluted loss per common share were (\$0.01) for the nine month period ended December 31, 2012 compared to (\$0.04) for the period ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, we had a cash balance of \$107,970 and a working capital deficit of \$7,455,660. This compares to a cash balance of \$143,907 and a working capital deficit of \$9,438,279 at March 31, 2012. Between January 1, 2013 and February 11, 2013, we have raised \$205,000 from the private sale of our equity to investors. Our cash at December 31, 2012 plus additional funds raised to date subsequent to December 31, 2012 are not sufficient to meet our funding requirements during the next twelve months. Significant additional financing must be obtained in order to provide a sufficient source of operating capital and to allow us to continue to operate as a going concern. In addition, 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, 2013.

We do not expect revenue from operations will be sufficient to satisfy our funding requirements in the near term, and accordingly, our ability to continue operations and meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. 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.

Should the U.S. Government elect not to exercise the options for years three through five of our DARPA contract, the effects may be material to us. The loss of revenues from the DARPA contract would have a material impact on our revenues, operating cash flows and liquidity.

Beyond the immediate future, we currently believe that the following four areas may generate revenue for us:

- (1) Developing future products using the Aethlon ADAPTTM system with drug industry collaborators. Revenues in this area could come from product development fees, fees from research, regulatory and manufacturing support or from downstream royalties;
- (2) Applying for and winning additional U.S. Government grant or contract income;
- (3) Licensing or selling our ELLSA research diagnostic tools that identify and quantify exosomes; and
- (4) Commercializing the Hemopurifier® in India following a successful result in our Hepatitis-C-oriented clinical trial currently being conducted at the Medanta Medicity Institute (Medicity) in that country. Medicity's Institutional Review Board has agreed to allow compassionate usage of the Hemopurifier® for individuals who previously failed or subsequently relapsed standard-of-care drug regimens. In addition to offering Hemopurifier® therapy to the citizens of India, HCV-infected individuals from the United States, European Union and other regions of the world may pursue treatment through the expanded access program at Medicity. Details related to treatment protocol, inclusion criteria, patient approval processes and therapy pricing are anticipated to be finalized with Medicity later on in 2012.

One area of expense that increased over the nine months ended December 31, 2012 was in legal fees related to litigation (see note 13 to our financial statements). We incurred approximately \$150,000 related to that litigation over the nine month period. We have been informed by our insurance carrier that they will cover our legal fees related to that litigation now that we have met our \$150,000 deductible amount. We met that deductible threshold in October and as a result of the insurance coverage, we expect the legal fees related to that litigation to decrease in future periods.

Cash Flows

Cash flows from operating, investing and financing activities, as reflected in the accompanying Condensed Consolidated Statements of Cash Flows, are summarized as follows (in thousands):

	(In thousands)	
	For the nine months ended December 31, 2012	December 31, 2011
Cash (used in) provided by:		
Operating activities	\$ (1,577)	\$ (1,101)
Investing activities	-	(2)
Financing activities	1,541	1,442
Net (decrease) increase in cash	<u>\$ (36)</u>	<u>\$ 339</u>

NET CASH FROM OPERATING ACTIVITIES. We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately \$1,577,000 in the nine months ended December 31, 2012 compared to net cash used in operating activities of approximately \$1,101,000 in the nine months ended December 31, 2011, a decrease of \$476,000. The \$476,000 decrease was primarily due the following elements:

Change in Primary Components of Cash Flows from Operating Activities Between the Nine Months Ended December 31, 2012 and 2011 (In Thousands)	
Reduction in Net Loss	\$ 1,489
Change in Estimated Fair Value of Derivative Liabilities	(150)
Change in Amortization of Debt Discount and Deferred Financing Costs	(1,117)
Change in Other Non-Cash Charges	(951)
Changes in Operating Assets and Liabilities	253
	<u>\$ (476)</u>

NET CASH FROM INVESTING ACTIVITIES. During the nine months ended December 31, 2012, we did not have any investing activities. During the nine months ended December 31, 2011, we used approximately \$2,000 in cash for purchases of equipment.

NET CASH FROM FINANCING ACTIVITIES. Net cash generated from financing activities increased from \$1,442,000 in the nine months ended December 31, 2011 to approximately \$1,541,000 in the nine months ended December 31, 2012. Included in net cash provided by financing activities in the 2012 period was \$1,571,000 in proceeds from the issuance of common stock which was partially offset by approximately \$30,000 in repayments of notes payable and related accrued interest in cash. In the 2011 period, we received \$1,257,000 in proceeds from the issuance of convertible notes payable and \$200,000 from the collection of notes receivable associated with certain convertible note transactions.

An increase in working capital during the nine months ended December 31, 2012 in the amount of approximately \$1,982,000 changed our negative working capital position to approximately (\$7,456,000) at December 31, 2012 from a negative working capital of approximately (\$9,438,000) at March 31, 2012. The most significant factors in the increase in working capital noted above were a decrease in our derivative liability of \$1,778,000 and a decrease in our net convertible notes payable of \$611,000, which were partially offset by the collection of accounts receivable of \$400,114.

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.

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 revenue recognition, 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, 2012.

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 4. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), 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 a date as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our CEO and CFO concluded that, as of the end of such period, our disclosure controls and procedures are not 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 not 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 CEO and CFO, 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.

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.

On July 5, 2012, Gemini Master Fund, Ltd., a Cayman Islands company ("Gemini"), filed a complaint against the Company in the Supreme Court of the State of New York, County of New York, entitled Gemini Master Fund Ltd. v. Aethlon Medical, Inc., Index No. 652358/2012 (the "Complaint"). In the Complaint, Gemini is seeking relief both in the form of money damages and delivery of shares of the Company's common stock. The Complaint alleges, among other things, that the Company is in default of a certain promissory note originally issued to Gemini on February 12, 2010 by failing to pay the note in full and by failing to honor certain requests by Gemini to convert principal and interest under the note into shares of the Company's common stock. The Complaint also includes allegations that the Company has failed to issue shares upon the presentation of an exercise notice under a warrant originally issued to Gemini on November 22, 2010. The lawsuit also alleges that the Company should have issued shares pursuant to the exercise of two other warrants. The Company believes it has defenses to the claims asserted and it intends to vigorously defend the lawsuit. There can be no assurances, however, that the litigation will be decided in the Company's favor as to all, or any part, of Gemini's Complaint. An adverse decision in the litigation could have an adverse effect on the Company's operations and could be dilutive to the Company's shareholders.

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, 2012, 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 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$135,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.07 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 1,823,412 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

In November 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$213,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.06 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 3,435,484 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

In December 2012, we completed a unit subscription agreement with four accredited investors (the "Purchasers") pursuant to which the Purchasers purchased an aggregate of \$150,000 (the "Subscription Amount") of restricted Common Stock at an average price of \$0.06 per share. The Common Stock purchase price under the Subscription Agreement was determined to be 80% of the average closing price of our Common Stock for the five-day period immediately preceding the date of the Subscription Agreement, resulting in the issuance of 2,619,684 shares of Common Stock.

Each Purchaser also received one Common Stock Purchase Warrant for each two shares of Common Stock purchased under the Subscription Agreement. The Warrant exercise price was calculated based upon 120% of the average of the closing prices of our Common Stock for the five-day period immediately preceding the parties entering into the Subscription Agreement.

During the three months ended December 31, 2012, we issued 1,460,112 shares of restricted common stock to holders of notes issued by the Company in exchange for the partial or full conversion of principal and interest of a note payable in an aggregate amount of \$90,000 at an average conversion price of \$0.06 per share based upon the conversion formulae in the note.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As of December 31, 2012, various promissory and convertible notes payable in the aggregate principal amount of \$2,291,916 have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. At December 31, 2012, we had accrued interest in the amount of \$875,488 associated with these notes and accrued liabilities payable.

ITEM 4. MINE SAFETY DISCLOSURES.

We have no disclosure applicable to this item.

ITEM 5. OTHER INFORMATION.

(a)

We have no disclosure applicable to this item.

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. (2)
- 4.1 Form of Common Stock Purchase Warrant (for October through December 2012 issuances)*
- 10.1 Form of Subscription Agreement (for October through December 2012 issuances)*
- 31.1 Certification of Principal Executive Officer pursuant to Securities Exchange Act rules 13a- 14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
- 31.2 Certification of Principal Financial Officer pursuant to Securities Exchange Act rules 13a- 14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
- 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
- 101 Interactive Data Files

* Filed herewith.

- (1) Incorporated by reference to the filing of such exhibit with the Company's Annual Report on Form 10-K for the year ended March 31, 2012.
- (2) Incorporated by reference to the filing of such exhibit with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2012.

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 12, 2013

By: /s/ JAMES B. FRAKES
JAMES B. FRAKES
CHIEF FINANCIAL OFFICER
CHIEF ACCOUNTING OFFICER

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED UNLESS PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT OR (ii) AN EXEMPTION FROM APPLICABLE SECURITIES LAWS, IN WHICH CASE THE COMPANY MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED.

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

COMMON STOCK PURCHASE WARRANT

No. _____

Issue Date: _____, 2012

AETHLON MEDICAL, INC., a corporation organized under the laws of the State of Nevada (the "Company"), hereby certifies that, for value received, _____ or his assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time after the Issue Date until 5:00 p.m., P.S.T. on the seventh anniversary of the Issue Date (the "Expiration Date") or such sooner time as this warrant is terminated pursuant to Section 6 herein, up to _____ fully paid and nonassessable shares of the common stock of the Company (the "Common Stock"), at a per share purchase price of \$_____. The aforescribed purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "Purchase Price." The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein. The Company may reduce the Purchase Price without the consent of the Holder.

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 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.

(c) 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.

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 surrender of the original Warrant within seven (7) days of exercise to the Company at its principal office or at the office of its Warrant Agent (as provided hereinafter), accompanied by payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, if applicable, 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. This Warrant may only be exercised for a whole number of shares.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by surrender of this Warrant 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, 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. This Warrant may only be exercised for a whole number of shares.

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 this Warrant shall have been surrendered 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 five (5) days thereafter, 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 nonassessable 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.

1.7 Exercise Limitations. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to this Section 1 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Subscription Form, the Holder (together with the Holder's "Affiliates" (as that term is defined by Rule 144 promulgated under the Securities Act), and any other person or entity acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, unexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company (including, without limitation, any other Common Stock equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 1.7, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1.7 applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Subscription Form shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 1.7, in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent periodic or annual report, as the case may be, (y) a more recent public announcement by the Company or (z) a more recent notice by the Company or the Company's transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall confirm to the Holder within two business days orally and in writing the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Holder, upon not less than 61 days' prior notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 1.7, provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this Section 1.7 shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company and shall only apply to such Holder and no other Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1.7 to correct this paragraph (or any portion hereof) to the extent defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

2. Exercise in the Absence of Registration Statement. If, at any time while this Warrant is outstanding, the Company shall fail to maintain an effective registration statement covering all of the shares of Common Stock underlying this Warrant (the "Warrant Shares") for resale by the Holder, and the Holder has not declined to be included as a selling shareholder in such registration statement, then and only then the Holder may exercise this Warrant on a "cashless" basis as follows:

(a) Payment upon exercise may be made at the option of the Holder either in (i) cash, wire transfer or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Purchase Price, (ii) by delivery of Common Stock issuable upon exercise of the Warrant in accordance with Section (b) below or (iii) by a combination of any of the foregoing methods, for the number of Common Stock specified in such form (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the holder per the terms of this Warrant) and the Holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock determined as provided herein.

(b) If the Fair Market Value of one share of Common Stock is greater than the Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being cancelled) by delivery of a properly endorsed Subscription Form delivered to the Company, in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

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

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

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

A= Fair Market Value

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

For purposes of Rule 144 promulgated under the 1933 Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction in the manner described above shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Subscription Agreement.

For purposes of this Warrant, the "Fair Market Value" of a share of Common Stock as of a particular date (the "Determination Date") shall mean:

(a) If the Company's Common Stock is traded on an exchange or is quoted on the NASDAQ Global Market, NASDAQ Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange or the American Stock Exchange, LLC, then the average of the closing sale prices of the Common Stock for the five (5) Trading Days immediately prior to (but not including) the Determination Date;

(b) If the Company's Common Stock is not traded on an exchange or on the NASDAQ Global Market, NASDAQ Global Select Market, the NASDAQ Capital Market, the New York Stock Exchange or the American Stock Exchange, Inc., but is traded on the OTC Bulletin Board or in the over-the-counter market or Pink Sheets, then the average of the closing bid and ask prices reported for the five (5) Trading Days immediately prior to (but not including) the Determination Date;

(c) Except as provided in clause (d) below and Section 3.1, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree, or in the absence of such an agreement, by arbitration in accordance with the rules then standing of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided; or

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

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

3.1. Reorganization, Consolidation, Merger, etc. In case at any time or from time to time the Company shall (a) effect a reorganization, (b) consolidate with or merge into any other person or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, as a condition to the consummation of such a transaction, proper and adequate provision shall be made by the Company whereby the Holder of this Warrant, on the exercise hereof as provided in Section 1, at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall receive, in lieu of the Common Stock (or Other Securities) issuable on such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so exercised this Warrant, immediately prior thereto, all subject to further adjustment thereafter as provided in Section 4.

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 Los Angeles, California, as trustee for the Holder of the Warrants.

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 be adjusted, simultaneously with the happening of such event, 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 in this Section 4. The number of shares of Common Stock that the Holder of this Warrant thereafter shall be entitled to receive, on the exercise hereof as provided in Section 1, 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 10 hereof).

6. No Registration Rights. The Holder of this Warrant has not been granted any registration rights by the Company.

7. 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.

8. 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 at its expense, but with payment by the Transferor of any applicable transfer taxes, 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. No such transfers shall result in a public distribution of the Warrant.

9. 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.

10. 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 8, and replacing this Warrant pursuant to Section 9, 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.

11. 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.

12. 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: (i) if to the Company to: Aethlon Medical, Inc., 8910 University Center Lane, Suite 660, San Diego, California 92122, Fax (858) 332-1739, with a copy by facsimile only to: Law Office of Jennifer A. Post, Attn: Jennifer A. Post, Esq., Fax (800) 783-2983, (ii) if to the Holder to: _____, _____ ..

13. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the laws of the State of California. Any dispute relating to this Warrant shall be adjudicated in the City of San Diego in the State of California. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

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

AETHLON MEDICAL, INC.

By: _____
Name: James B. Frakes
Title: Chief Financial Officer

Witness:

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;
or

___ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2 of the 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 (check applicable box or boxes):

___ \$ _____ in lawful money of the United States;
and/or

___ the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ shares of Common Stock (using a Fair Market Value of \$ _____ per share for purposes of this calculation); and/or

___ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2 of the Warrant, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2.

After application of the cashless exercise feature as described above, _____ shares of Common Stock are required to be delivered pursuant to the instructions below.

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: _____
(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)

UNIT SUBSCRIPTION AGREEMENT

The undersigned (hereinafter the “**Subscriber**”) hereby confirms the Subscriber’s subscription for the purchase of Units consisting of (i) one share of Common Stock, par value \$0.001 per share (the “**Common Stock**”), of **AETHLON MEDICAL, INC.**, a Nevada corporation (the “**Company**”), and (ii) a seven-year warrant to purchase such number of shares of Common Stock of the Company as shall equal (a) fifty percent of the Subscription Amount set forth on the signature page hereto *divided by* (b) \$ _____ (the “**Warrant Shares**”) at an exercise price of \$ _____ per Warrant Share, in the form attached hereto as Exhibit A (each, a “**Warrant**” and collectively, the “**Warrants**”) on the terms described below.

The Units are sometimes referred to herein as the “**Securities**.” The Board of Directors of the Company has authorized the issuance and sale of up to \$5,000,000 of Units to be sold on or before December 31, 2012.

In connection with this subscription, the Subscriber and the Company agree as follows:

A. Subscription of the Subscriber.

1. Purchase of Units. The Subscriber hereby irrevocably agrees, represents and warrants with, to and for the benefit of the Company, that the Subscriber is executing this Agreement in connection with the subscription by the Subscriber for Units of the Company, resulting in the aggregate purchase price set forth on the Subscriber’s signature page hereto based upon the Issue Price (as defined herein). The Subscriber understands that the Company is relying upon the accuracy and completeness of the information contained herein in complying with its obligations under federal and state securities and other applicable laws. Subject to the terms and conditions of this Agreement, upon execution and delivery hereof by the Subscriber, the Subscriber hereby agrees to purchase the Units pursuant to the terms hereof, and against concurrent delivery of the purchase price for such shares. The date upon which the final subscription is accepted by the Company and the full Issue Price has been tendered to the Company shall be known as the “**Closing Date**.”

2. Offering. This offering of the Units (the “**Offering**”) is being made to a limited group of investors, all of whom shall represent to the Company pursuant to this Agreement, by completing the questionnaire attached hereto as Exhibit B, that they are “**accredited investors**,” as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”), or who have otherwise been qualified as investors by the Company. All of the Units offered hereby are being sold by the Company. The Company is offering the Units for the consideration set forth herein. The Company may sell less than all of the Units offered hereby, and shall be entitled to accept subscriptions and receive the Issue Price for each subscription prior to the entire Offering being subscribed for. The Offering is being made on a “best efforts” basis. The minimum subscription amount per investor is \$10,000. The maximum offering by the Company is \$5,000,000 worth of Units.

3. Issue Price. The “**Issue Price**” of the Units shall be equal to 80% of the average of the closing prices of the Company’s Common Stock for the five day period immediately preceding each funding under this Unit Subscription Agreement (for example, if the average of the five trailing closing prices is \$0.10, then the Issue Price would be **\$0.08**). The number of Warrant Shares will be based upon the same Issue Price formula with the exercise price being set at 120% of the average of the closing prices over the same five day period immediately preceding the funding. However, the Company reserves the right to not accept subscriptions if it deems the Issue Price on those subscriptions to be unacceptable based on the price of the Company’s Common Stock at that time.

B. Representations and Warranties of the Subscriber. The Subscriber hereby represents and warrants to the Company as of the date hereof:

1. Place of Business. The principal place of business address (or residence) set forth below is the Subscriber's true and correct principal place of business (or residence) and is the only jurisdiction in which an offer to sell the Units was made to the Subscriber, and the Subscriber has no present intention of moving the Subscriber's principal place of business to or of becoming a resident of any other state or jurisdiction.

2. Sale or Transfer of the Common Stock. The Subscriber understands that the Common Stock and the shares underlying the Warrants have not been registered under the Securities Act, or under the laws of any other jurisdiction. The Subscriber understands and agrees that transfer or sale of the Common Stock and the shares underlying the Warrants may be restricted or prohibited unless they are subsequently registered under the Securities Act and, where required, under the laws of other jurisdictions or an exemption from registration is available. The Subscriber will not offer, sell, transfer or assign the Subscriber's Common Stock or any interest therein and the shares underlying the Warrants in contravention of this Agreement, the Securities Act or any state or federal law. The Subscriber understands and acknowledges that, because of the substantial restrictions on the transferability of the Common Stock and the shares underlying the Warrants, it may not be possible for the Subscriber to liquidate the Subscriber's investment in the Company readily, even in the case of an emergency.

3. Representations of Investment Experience and Ability to Bear Risk. The Subscriber acknowledges that the Offering has not been registered with the Securities and Exchange Commission (or any other securities commission or authority of any other jurisdiction) because the Company is relying on an exemption from registration under Section 4(2) of the Securities Act.

4. Own Advice. In connection with the Subscriber's investment in the Company, the Subscriber has carefully considered and has discussed, to the extent the Subscriber believes such discussion necessary, with the Subscriber's professional legal, tax and financial advisers (the "**Investment Advisors**") the suitability of an investment in the Units for the Subscriber's particular tax and financial situation and the Subscriber has determined that the Units are a suitable investment for the Subscriber.

5. Company History; Risks. The Subscriber represents and warrants that the Subscriber is aware (i) that the Company has limited or no revenues; (ii) that the Units involve a substantial degree of risk of loss of the Subscriber's entire investment and that there is no assurance of any income from the Subscriber's investment; and (iii) that any federal and/or state income tax benefits that may be available to the Subscriber, if any, may be lost through the adoption of new laws or regulations, due to changes to existing laws and regulations and due to changes in the interpretation of existing laws and regulations. The Subscriber further represents that the Subscriber is relying solely on the Subscriber's own conclusions or the advice of the Subscriber's Investment Advisors with respect to tax aspects of any investment in the Units. The Subscriber further represents that it has read and reviewed the Company's filings made with the Securities and Exchange Commission.

6. Inquiries. The Subscriber and its Investment Advisors have been given access to, and prior to the execution of this Agreement, have been provided with an opportunity to ask questions of, and receive answers from, the Company's officers concerning the Company and the terms and conditions of the Offering and the Units, and to obtain any other information that the Subscriber and the Subscriber's Investment Advisors required with respect to the Company and an investment in the Company in order to evaluate such investment and verify the accuracy of all information furnished to the Subscriber and its Investment Advisors regarding the Company. All such questions, if asked, were answered satisfactorily and all information or documents provided were found to be satisfactory. Neither the Subscriber nor its Investment Advisors have been furnished any offering literature on which they have relied other than this Agreement, and the Subscriber and its Investment Advisors have relied only on this Agreement. At no time was the Subscriber presented with or solicited by any leaflet, public promotion meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general solicitation.

7. Authority. The Subscriber is authorized and has full right and power to subscribe for the Units and to perform the Subscriber's obligations pursuant to the provisions of this Agreement; the person signing this Agreement and any other instrument executed and delivered herewith on behalf of the Subscriber has been duly authorized by the Subscriber and has full power and authority to do so. If the Subscriber is a corporation, partnership, unincorporated association or other entity, the person signing this agreement has the legal capacity to authorize, deliver and be bound by this Agreement and to take all actions required pursuant hereto and further certifies that all necessary approvals of directors, shareholders or otherwise have been given and obtained; and if the Subscriber is an individual, the Subscriber is of the full age of majority in the jurisdiction in which the Subscriber is resident and is legally competent to execute, deliver and be bound by this Agreement and take all action pursuant hereto.

8. No Default. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with, or result in any violation of or default pursuant to, any provision of any governing instrument applicable to the Subscriber, or any agreement or other instrument to which the Subscriber is a party or by which the Subscriber or any of the Subscriber's properties are bound or any permit, franchise, judgment, decree, statute, rule or regulation applicable to the Subscriber or any of the Subscriber's business or properties.

9. ERISA. If the Subscriber is an employee benefit plan subject to ERISA, then the Subscriber acknowledges that the Subscriber has been informed of and understands the operations and business of the Company, and represents that the Subscriber's investment in the Company (i) is permissible under the documents and instruments governing such plan; (ii) satisfies the diversification requirements of ERISA; (iii) is prudent considering all the facts and circumstances; and (iv) is not a "**prohibited transaction**" within the meaning of Section 406 of ERISA.

10. Purchase Entirely For Own Account. This Agreement is made with the Subscriber in reliance upon the Subscriber's representations to the Company, which by the Subscriber's execution of this Agreement, the Subscriber hereby confirms, that the Common Stock and the shares underlying the Warrants issuable to the Subscriber will be acquired for investment for the Subscriber's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Subscriber has no present intention of selling, granting any participation in, or otherwise distributing the same. The Subscriber represents and warrants that the Subscriber has no contract, understanding, agreement or arrangement with any person to sell or transfer or pledge to such person or anyone else any of the Common Stock or the shares underlying the Warrants for which the Subscriber hereby subscribes (in whole or in part) or any interest therein; and the Subscriber represents and warrants that the Subscriber has no present plans to enter into any such contract, undertaking, agreement or arrangement.

11. The Subscriber represents and warrants that the funds representing the aggregate subscription price that will be advanced by the Subscriber hereunder will not represent proceeds of crime and the Subscriber acknowledges that the Company may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, and (i) to the best of the Subscriber's knowledge, none of the subscription funds to be provided by the Subscriber (a) have been or will be derived from or related to any activity that is deemed criminal under the laws of the United States of America, or any other jurisdiction, or (b) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (ii) the Subscriber shall promptly notify the Company if the Subscriber discovers that any of such representations cease to be true, and shall provide the Company with appropriate information in connection therewith.

12. The Subscriber represents and warrants that the current structure of this transaction and all transactions and activities contemplated hereunder is not a plan or scheme to evade the registration provisions of the Securities Act.

13. The Subscriber acknowledges that:

- (i) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Units; and
- (ii) there is no government or other insurance covering the Units; and
- (iii) there are risks associated with the purchase of the Units; and
- (iv) there are restrictions on the Subscriber's ability to resell the Common Stock and the shares underlying the Warrants and it is the responsibility of the Subscriber to find out what those restrictions are and to comply with them before selling the Common Stock or the shares underlying the Warrants.

14. The Subscriber represents and warrants that the Subscriber has not received nor does the Subscriber expect to receive any financial assistance from the Company, directly or indirectly, in respect of the Subscriber's purchase of the Units.

15. The Subscriber represents and warrants that neither the Company, nor any of its directors, officers, employees or representatives, have made any representations (oral or written) to the Subscriber regarding the future value of the Common Stock.

16. The Subscriber acknowledges that (i) the Company may complete secured or unsecured debt financings or equity financings in the future in order to develop the Company's business and to fund its ongoing development, (ii) there is no assurance that such financings will be available and, if available, on reasonable terms, (iii) any such future financings may have a dilutive effect on current security holders, including the Subscriber, and (iv) if such future financings are not available, the Company may be unable to fund its ongoing development and the lack of capital resources may result in the failure of its business.

17. The Subscriber will not, directly or indirectly, except in compliance with (that is, only to the extent required to comply with) the Securities Act and such other securities or "Blue Sky" laws as may be applicable, (i) offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Securities, (ii) engage in any short sale that results in a disposition of any of the Securities by the Subscriber, or (iii) hedge the economic risk of the Subscriber's investment in the Securities.

C. Representations and Warranties of the Company.

1. Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Nevada and has all requisite corporate power and corporate authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, except where the failure to be so qualified would not have a material adverse effect on the Company.

2. Capitalization. As of November 13, 2012, the authorized capital stock of the Company consists of 500,000,000 shares of Common Stock, of which (i) 156,956,675 shares are issued and outstanding, and (ii) 132,459,618 shares are reserved for issuance upon exercise of outstanding warrants, options and other convertible securities. All such issued and outstanding shares have been duly authorized and validly issued and have been offered, issued, sold, and delivered by the Company in compliance with applicable federal and state securities laws.

3. Authorization. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and all other agreements contemplated hereby and to issue the Common Stock and the shares underlying the Warrants in accordance with the terms hereof. All corporate action on the part of the Company and its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and all other agreements and obligations contemplated hereby, the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Common Stock to be issued hereunder has been taken. This Agreement constitutes the valid and legally binding obligation of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by general principles of equity, including concepts of materiality, reasonableness, good faith and fair dealing and by the possible unavailability of specific performance, injunctive relief or other equitable remedies.

4. No Violation. The Company's execution, delivery and performance of this Agreement and all other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby will not with or without the giving of notice or the lapse of time or both (A) violate any provision of law, statute, rule or regulation to which the Company is subject, (B) violate any order, judgment or decree applicable to it, or (C) conflict with or result in a breach or default under any term or condition of its applicable governing instruments or any agreement or other instrument to which it is a party or by which it is bound.

5. Valid Issuance of Common Stock and Warrants. The Common Stock and Warrants being issued hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and non-assessable and will be free of preemptive rights and restrictions on transfer other than restrictions on transfer under this Agreement and applicable state and federal securities laws. Assuming the truth and accuracy of the representations and warranties of the Subscriber for the Company's capital stock under this Agreement, the issuance of the Common Stock hereunder shall be exempt from registration under the Securities Act and any applicable state securities laws.

6. Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the valid execution of this Agreement and the consummation of the transactions contemplated by this Agreement except for filings pursuant to applicable state and federal securities laws which allow filings to be made following the Closing but in no event later than 15 days after the consummation of the transactions contemplated hereby. The Company is in compliance, in all material respects, with the USA Patriot Act.

7. Use of Proceeds. The proceeds from the sale of the Units will be made available for general working capital purposes.

D. Legend. The certificates representing the Common Stock and Warrants issued by the Company hereunder shall bear the following (or similar) legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED UNLESS PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT OR (ii) AN EXEMPTION FROM APPLICABLE SECURITIES LAWS, IN WHICH CASE THE COMPANY MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED.

E. Indemnification. The Subscriber agrees to indemnify and hold harmless the Company and its directors, officers, managers, members, employees, agents and affiliates against any and all loss, liability, claim, damage and expense whatsoever (including without limitation any and all expenses reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty or breach or failure by the Subscriber to comply with any covenant agreement made by the Subscriber herein. The Company agrees to indemnify and hold harmless the Subscriber and its directors, officers, managers, members, employees, agents and affiliates against any and all loss, liability, claim, damage and expense whatsoever (including without limitation any and all expenses reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty or breach or failure to comply with any covenant agreement made by the Company herein.

F. Modification. Neither this Agreement nor any provision hereof shall be waived, modified, discharged or terminated except by an instrument in writing signed by the party against whom any such waiver, modification, discharge or termination is sought.

G. Assignability. This Agreement and the rights and obligations hereunder are not transferable or assignable by the Subscriber.

H. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to principles of conflicts of law.

I. Survival of Representations and Warranties. All representations and warranties made by the Subscriber in this Agreement shall survive the execution and delivery of this Agreement, as well as any investigation at any time made by or on behalf of the Company and the issue and sale of the Units.

J. Reliance. The Subscriber understands and acknowledges that the Subscriber's representations, warranties, acknowledgements and agreements in this Agreement will be relied upon by the Company in determining the Subscriber's suitability as a purchaser of Units.

K. Further Assurances. The Subscriber agrees to provide, if requested, any additional information that may be requested or required to determine the Subscriber's eligibility to purchase the Units.

L. Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein.

M. Severability. In the event one or more of the provisions of this Agreement should be held, for any reason, to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date set forth on this signature page.

Number of shares of Units Subscribed for: _____

Number of shares of Common Stock: _____

Number of shares underlying Warrants: _____

Aggregate Purchase Price: \$ _____

Print Name of Subscriber (Individual,
Company, Limited Liability Company,
Corporation or Trust)

Print Name of Authorized
Representative

By: _____
Signature of Subscriber or
Authorized Representative

Capacity of Authorized
Representative

Date: _____-12

Address: _____

Social Security Number or U.S. Tax Identification No: _____

SUBSCRIPTION ACCEPTED:

AETHLON MEDICAL, INC., a Nevada corporation

By: _____
Name: James B. Frakes
Title: Chief Financial Officer

Date: _____

EXHIBIT A

Form of Warrant

EXHIBIT B

ACCREDITED INVESTOR QUESTIONNAIRE

1. The undersigned certifies that the undersigned is an “accredited investor,” as defined in Rule 501(a) under the Securities Act of 1933, as amended (the “Securities Act”), because the undersigned is (please check all that apply):
- a. _____ A director, executive officer or general partner of the issuer of the securities being offered or sold, or any director, executive officer or general partner of a general partner of the issuer;
 - b. _____ A natural person whose individual net worth, or joint net worth with that person’s spouse, exceeds \$1,000,000¹;
 - c. _____ A natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person’s spouse in excess of \$300,000 in each of those years and who has a reasonable expectation of reaching the same income level in the current year (please also complete Section 2 below);
 - d. _____ A corporation, Massachusetts or similar business trust, partnership or organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
 - e. _____ An entity in which all of the equity owners are “accredited investors”;
 - f. _____ A trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person, as described in Rule 506(b)(2)(ii) under the Securities Act (please also complete Section 3 below);
 - g. _____ A bank, as defined in Section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity;
 - h. _____ A broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended;
 - i. _____ An insurance company, as defined in Section 2(13) of the Securities Act;
 - j. _____ An investment company registered under the Investment Company Act of 1940, as amended, or a business development company, as defined in Section 2(a)(48) of such act;

¹ For purposes of calculating such net worth, (i) such person’s primary residence shall not be included as an asset; (ii) indebtedness secured by the primary residence, up to the estimated fair market value of the primary residence, shall not be included as a liability; (iii) the amount of any increase in the indebtedness secured by the primary residence incurred within 60 days prior to the purchase of the securities (other than as a result of the acquisition of the primary residence) shall be included as a liability; and (iv) indebtedness secured by the primary residence in excess of the estimated fair market value of the primary residence shall be included as a liability.

- k. _____ A Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958, as amended;
- l. _____ A plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000;
- m. _____ An employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons who are “accredited investors”; or
- n. _____ A private business development company, as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended.

2. Income. If you are an “accredited investor” relying on 1(c) above, please provide the following information.

a. Please specify the amount of your income in calendar years 2010 and 2011 and your projected income for 2012:

2010 \$ _____
 2011 \$ _____
 2012 \$ _____ (projected)

b. Please describe type of income:

Individual	_____
Joint	_____
Trust	_____
Beneficiary	_____
Shareholder	_____
Partner	_____

c. Current occupation: _____

d. Name of employer: _____

e. Position or Title: _____

f. Period Employed: _____

3. Investment Experience. If you are an “accredited investor” relying on 1(f) above, please provide the following information with respect to the individual making the investment decision.

(a) Business or professional education (school, dates of attendance, degrees):

(b) Details of any training or experience in financial, business or tax matters not disclosed in Item 3(a) immediately above:

(c) Please circle an option below to indicate the frequency of your investments in marketable securities (e.g., securities trading on the public markets):

Often Occasionally Seldom Never

(d) Please state the approximate number and total dollar amount of your prior investments in restricted securities (e.g., private placements):

Total Number _____ Total Amount Invested: \$ _____

(e) My current net worth, **after** making this investment and exclusive of homes, furnishings, and automobiles is:
\$ _____

The undersigned hereby certifies that the foregoing information is true and accurate to the best of the undersigned's knowledge and belief and that the undersigned will promptly notify the issuer of any changes to the foregoing.

Date: _____

Name of Investor: _____

Signature: _____

Printed name and title of person signing, if investor is entity:

Address: _____

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 12, 2013

/s/ JAMES A. JOYCE
JAMES A. JOYCE
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

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 Frakes, 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 12, 2013

/s/ JAMES B. FRAKES
JAMES B. FRAKES
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

EXHIBIT 32.1

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. (the "Registrant") on Form 10-Q for the three month period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer of the Registrant, 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 on Form 10-Q 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.

Dated: February 12, 2013

/s/ JAMES A. JOYCE

James A. Joyce
Chief Executive Officer
Aethlon Medical, Inc.

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.

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. (the "Registrant") on Form 10-Q for the three month period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof, I, James B. Frakes, Chief Financial Officer of the Registrant, 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 on Form 10-Q 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.

Dated: February 12, 2013

/s/ JAMES B. FRAKES
James B. Frakes
Chief Financial Officer
Aethlon Medical, Inc.