

AETHLON MEDICAL INC
Form 10-Q
February 17, 2011

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, 2010

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

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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 13, 2011, the registrant had outstanding 73,985,870 shares of common stock, \$.001 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets		
Cash	\$ 234,240	\$ 67,950
Deferred financing costs	140,433	99,672
Notes receivable	400,000	—
Prepaid expenses and other current assets	29,855	12,071
Total current assets	804,528	179,693
Note receivable	—	300,000
Property and equipment, net	10,295	15,182
Patents and patents pending, net	142,272	142,340
Deposits	9,210	8,786
Total assets	\$ 966,305	\$ 646,001
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 218,547	\$ 232,313
Due to related parties	599,267	579,267
Notes payable	190,000	290,000
Convertible notes payable, net of discounts	1,858,615	1,631,999
Derivative liabilities	5,936,109	1,054,716
Accrued liquidated damages	680,000	493,000
Other current liabilities	765,585	766,940
Total current liabilities	10,248,123	5,048,235
Commitments and Contingencies (Note 13)		
Stockholders' Deficit		
Common stock, par value \$0.001 per share; 250,000,000 shares authorized as of December 31, 2010 and March 31, 2010; 72,379,488 and 61,913,508 shares issued and outstanding as of December 31, 2010 and March 31, 2010, respectively	72,381	61,914
Additional paid-in capital	41,511,440	38,296,362
Deficit accumulated during development stage	(50,865,639)	(42,760,510)
Total stockholders' deficit	(9,281,818)	(4,402,234)
Total liabilities and stockholders' deficit	\$ 966,305	\$ 646,001

See accompanying notes.

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended December 31, 2010 and 2009 and
For the Period January 31, 1984 (Inception) Through December 31, 2010
(Unaudited)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009	January 31, 1984 (Inception) through December 31, 2010
REVENUES					
Grant income	\$—	\$—	\$—	\$—	\$1,424,012
Subcontract income	—	—	—	—	73,746
Sale of research and development	—	—	—	—	35,810
	—	—	—	—	1,533,568
OPERATING EXPENSES					
Professional fees	386,828	283,355	889,161	846,381	9,749,327
Payroll and related	534,747	286,468	2,350,825	959,593	14,735,123
General and administrative	125,126	146,154	378,701	384,204	6,799,396
Impairment	—	—	—	—	1,313,253
Total operating expenses	1,046,701	715,977	3,618,687	2,190,178	32,597,099
OPERATING LOSS	(1,046,701)	(715,977)	(3,618,687)	(2,190,178)	(31,063,531)
OTHER EXPENSE (INCOME)					
Loss on extinguishment of debt	963,018	—	3,189,942	—	5,595,506
Loss on settlement of accrued interest and damages	—	—	68,703	—	410,687
(Gain)/loss on change in fair value of derivative liability	(430,077)	77,426	(2,098,954)	(167,336)	(656,059)
Interest and other debt expenses	594,128	692,770	3,346,247	1,185,482	13,265,318
Interest income	(5,599)	(295)	(19,496)	(1,006)	(42,821)
Other	(300,000)	—	—	—	1,229,477
Total other expense (income)	821,470	769,901	4,486,442	1,017,140	19,802,108)
NET LOSS	\$(1,868,171)	\$(1,485,878)	\$(8,105,129)	\$(3,207,318)	\$(50,865,639)
BASIC AND DILUTED LOSS PER COMMON SHARE					
	\$(0.03)	\$(0.03)	\$(0.12)	\$(0.06)	
	70,918,490	58,230,294	67,991,430	55,369,652	

WEIGHTED AVERAGE NUMBER OF
COMMON SHARES OUTSTANDING –
BASIC AND DILUTED

See accompanying notes.

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010 AND 2009 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 2010
(Unaudited)

	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009	January 31, 1984 (Inception) Through December 31, 2010
Cash flows from operating activities:			
Net loss	\$ (8,105,129)	\$ (3,207,318)	\$ (50,865,639)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	14,301	9,568	1,073,178
Amortization of deferred consulting fees	-	-	109,000
Non-cash loss on settlement of notes and accrued liabilities	-	-	1,180,196
Non-cash gain on sale of property and equipment	-	-	(13,065)
Non-cash gain on settlement of debt	-	-	(131,175)