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, 2015

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 001-37487

AETHLON MEDICAL, INC.
(Exact name of registrant as specified in its charter)

NEVADA	13-3632859
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9635 GRANITE RIDGE DRIVE, SUITE 100, SAN DIEGO, CA 92123
(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 4, 2016, the registrant had outstanding 7,622,393 shares of common stock, $.001 par value.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2015 (Unaudited)	March 31, 2015
ASSETS		
Current assets		
Cash	$ 3,250,897	$ 855,596
Accounts receivable	1,668	193,341
Deferred financing costs	91,102	82,324
Prepaid expenses and other current assets	91,617	73,135
Total current assets	3,435,284	1,204,396
Property and equipment, net	43,684	56,091
Patents and patents pending, net	96,452	103,325
Deposits	17,443	16,776
Total assets	$ 3,592,863	$ 1,380,588
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 215,903	$ 342,133
Due to related parties	155,112	146,112
Convertible notes payable, current portion	434,643	–
Other current liabilities	78,231	85,731
Total current liabilities	883,889	573,976
Noncurrent liabilities		
Convertible notes payable, noncurrent portion	–	155,229
Total noncurrent liabilities	–	155,229
Total liabilities	883,889	729,205
Commitments and Contingencies (Note 13)		
Equity		
Common stock, par value $0.001 per share; 10,000,000 shares authorized as of December 31, 2015 and March 31, 2015; 7,622,393 and 6,657,046 shares issued and outstanding as of December 31, 2015 and March 31, 2015, respectively	7,621	6,657
Additional paid-in capital	87,996,431	82,238,507
Accumulated deficit	(85,254,522)	(81,629,714)
Total Aethlon Medical, Inc. stockholders' equity before noncontrolling interests	2,749,530	615,450
Noncontrolling interests	(40,556)	35,933
Total equity	2,708,974	651,383
Total liabilities and equity	$ 3,592,863	$ 1,380,588

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended December 31, 2015 and 2014
(Unaudited)

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
REVENUES				
Government contract revenue	$ 301,033	$ 33,434	$ 681,907	$ 563,805
OPERATING EXPENSES				
Professional fees	387,820	82,029	1,315,253	792,463
Payroll and related expenses	614,731	570,939	1,670,809	1,735,979
General and administrative	382,612	467,446	994,305	895,543
Total operating expenses	1,385,163	1,120,414	3,980,367	3,423,985
OPERATING LOSS	(1,084,130)	(1,086,980)	(3,298,460)	(2,860,180)
OTHER EXPENSE				
Loss on debt conversion	–	222,939	–	2,754,062
Interest and other debt expenses	148,904	148,723	402,837	293,522
Other Expense	–	143,363	–	143,363
Total other expense	148,904	515,025	402,837	3,190,947
NET LOSS BEFORE NONCONTROLLING INTERESTS	(1,233,034)	(1,602,005)	(3,701,297)	(6,051,127)
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(15,866)	(51,548)	(76,489)	(140,683)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (1,217,168)	$ (1,550,457)	$ (3,624,808)	$ (5,910,444)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.16)	$ (0.26)	$ (0.50)	$ (1.12)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	7,616,619	6,032,126	7,318,019	5,254,459

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended December 31, 2015 and 2014
(Unaudited)

	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
Cash flows from operating activities:		
Net loss	$ (3,701,297)	$ (6,051,127)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	28,587	28,014
Stock based compensation	152,133	338,580
Fair market value of common stock, warrants and options issued for services	–	225,158
Loss on extension of warrants	–	143,363
Loss on debt conversion	–	2,754,062
Amortization of debt discount and deferred financing costs	360,636	131,074
Changes in operating assets and liabilities:		
Accounts receivable	191,673	79,951
Prepaid expenses and other current assets	(109,149)	4,396
Accounts payable and other current liabilities	(133,730)	(776,559)
Due to related parties	9,000	(28,689)
Net cash used in operating activities	(3,202,147)	(3,151,777)
Cash flows from investing activities:		
Purchases of office equipment	(9,307)	–
Net cash used in investing activities	(9,307)	–
Cash flows from financing activities:		
Proceeds from the issuance of notes payable	–	415,000
Principal repayments of notes payable	–	(500,920)
Proceeds from the issuance of common stock, net	5,606,755	4,763,153
Net cash provided by financing activities	5,606,755	4,677,233
Net increase in cash	2,395,301	1,525,456
Cash at beginning of period	855,596	1,250,279
Cash at end of period	$ 3,250,897	$ 2,775,735
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ –	$ 435,139
Supplemental disclosures of non-cash investing and financing activities:		
Debt and accrued interest converted to common stock	$ –	$ 2,065,787
Reclassification of warrant derivative liability into equity	$ –	$ 10,679,067
Deferred financing costs recorded	$ –	$ 117,280
Reclassification of accrued interest to convertible notes payable	$ –	$ 25,766
Debt discount related to warrants and beneficial conversion feature	$ –	$ 527,780
Cashless exercise of warrants	$ 5	$ 21,516

See accompanying notes.

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

ORGANIZATION

Aethlon Medical, Inc. and subsidiary ("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. On June 25, 2013, the United States Food and Drug Administration (FDA) approved an Investigational Device Exemption (IDE) that allows us to initiate human feasibility studies of the Aethlon Hemopurifier® in the U.S. Under the feasibility study protocol, we will enroll ten end-stage renal disease patients who are infected with the Hepatitis C virus (HCV) to demonstrate the safety of Hemopurifier therapy. Successful completion of this study will allow us the opportunity to initiate pivotal studies that are required for market clearance to treat HCV and other disease conditions in the U.S.

Successful outcomes of human trials will also be required by the regulatory agencies of certain foreign countries where we intend to sell this device. 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 treatment technology.

In October 2013, our majority owned subsidiary, Exosome Sciences, Inc. (“ESI”), commenced operations with a focus on advancing exosome-based strategies to diagnose and monitor the progression of cancer, infectious disease and other life-threatening conditions.

Our common stock is traded on the Nasdaq Capital Market under the symbol “AEMD.”

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“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, 2015 was derived from our audited financial statements. Operating results for the nine months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the year ending March 31, 2016. For further information, refer to our Annual Report on Form 10-K for the year ended March 31, 2015, which includes audited financial statements and footnotes as of March 31, 2015 and 2014 and for the years then ended.

Certain reclassifications have been made to the previously presented consolidated financial statements and condensed consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on previously reported results of consolidated operations or equity.

On April 14, 2015, we completed a 1-for-50 reverse stock split. Accordingly, authorized common stock was reduced from 500,000,000 shares to 10,000,000 shares, and each 50 shares of outstanding common stock held by stockholders were combined into one share of common stock. The accompanying condensed consolidated financial statements and accompanying notes have been retroactively revised to reflect such reverse stock split as if it had occurred on April 1, 2014. All share and per share amounts have been revised accordingly.

2. LOSS PER COMMON SHARE

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

As of December 31, 2015 and 2014, a total of 2,764,894 and 2,205,525 potential common shares, consisting of shares underlying outstanding stock options, warrants and convertible notes payable were excluded as their inclusion would be antidilutive.

3. RESEARCH AND DEVELOPMENT EXPENSES

Our research and development costs are expensed as incurred. We incurred research and development expenses during the three and nine month periods ended December 31, 2015 and 2014, 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, 2015	December 31, 2014
Three months ended	$ 147,803	$ 214,165
Nine months ended	$ 576,191	$ 747,657

4. SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

Management is evaluating significant recent accounting pronouncements that are not yet effective for us, including the new accounting standard on revenue recognition, Accounting Standards Update (ASU) 2014-09 (Topic 606), the new accounting standard related to presentation of financial statements - going concern qualifications, ASU 2014-15, the new accounting standard on consolidation, ASU 2015-02, the new accounting standard on extraordinary and unusual items on income statements, ASU 2015-01, and the new accounting standard on imputation of interest, simplifying the presentation of debt issuance costs, ASU 2015-03 and have not yet concluded whether any such pronouncements will have a significant effect on our future consolidated financial statements.

5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consisted of the following at December 31, 2015:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable – Current Portion:				
November 2014 10% Convertible Notes	$ 527,780	$ (93,137)	$ 434,643	$ 60,841
Total – Convertible Notes Payable – Current Portion	527,780	(93,137)	434,643	60,841
Convertible Notes Payable – Non-Current Portion	–	–	–	–
Total Convertible Notes Payable	$ 527,780	$ (93,137)	$ 434,643	$ 60,841

During the nine months ended December 31, 2015, we recorded interest expense of $39,584 related to the contractual interest rates of our convertible notes, interest expense of $279,414 related to the amortization of debt discount and interest expense of $81,222 related to the amortization of deferred financing costs for a total interest expense of $400,220 related to our convertible notes in the nine months ended December 31, 2015.

Convertible Notes Payable consisted of the following at March 31, 2015:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable – Non-Current Portion:				
November 2014 10% Convertible Notes	$ 527,780	$ (372,551)	$ 155,229	$ 21,258
Total – Convertible Notes Payable – Non-Current Portion	527,780	(372,551)	155,229	21,258
Total Convertible Notes Payable	$ 527,780	$ (372,551)	$ 155,229	$ 21,258

During the fiscal year ended March 31, 2015, we recorded interest expense of $24,625 related to the contractual interest rates of our convertible notes, interest expense of $155,230 related to the amortization of debt discounts on the convertible notes and interest expense of $118,147 related to the amortization of deferred financing costs for a total of $298,002.

NOVEMBER 2014 10% CONVERTIBLE NOTES

In November 2014, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $527,780 and (ii) five year warrants to purchase up to 47,123 shares of common stock at a fixed exercise price of $8.40 per share. These notes bear interest at the annual rate of 10% and mature on April 1, 2016.

The aggregate gross cash proceeds to us were $415,000 after subtracting legal fees of $35,000; the balance of the principal amount of the notes represents a $27,780 due diligence fee and an original issuance discount. We recorded deferred financing costs of $112,780 to reflect the legal fees, due diligence fee and original issuance discount and will amortize those costs over the life of the notes using the effective interest method.

The estimated relative fair value of warrants issued in connection with the November 2014 10% Convertible Notes was recorded as a debt discount and is amortized as additional interest expense over the term of the underlying debt. We recorded debt discount of $240,133 based on the relative fair value of these warrants. In addition, as the effective conversion price of the debt was less than market price of the underlying common stock on the date of issuance, we recorded an additional debt discount of $287,647 related to the beneficial conversion feature. As of December 31, 2015, the $527,780 principal amount outstanding under this agreement is presented net of unamortized debt discount of $93,137.

These notes are convertible at the option of the holders into shares of our common stock at a fixed price of $5.60 per share, for up to an aggregate of 94,246 shares of common stock. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

The pricing on both the conversion price and on the warrant exercise price reflected a negotiation that began in September 2014 and continued through funding in November 2014. During that period of time the price of our common stock rose significantly, which complicated the pricing negotiations. We ended up with pricing the notes and warrants at levels consistent with our prior equity unit issuances in October 2014.

Amendment of Convertible Promissory Note Terms

On November 12, 2015, we entered into an Amendment of Terms with the two investors that participated in the November 2014 10% Convertible Notes. The Amendment of Terms modifies the terms of the subscription agreement, notes and warrants to, among other things, extend the maturity date of the notes from April 1, 2016 to June 1, 2016, temporarily reduce the number of shares that we must reserve with respect to conversion of the notes, and temporarily suspend the time period during which one of the investors may exercise its warrants in order to provide us with additional authorized shares to issue as part of our ordinary business operations. In exchange for the investors' agreements in the Amendment of Terms, we paid one of the investors a cash fee of $90,000, which we recorded as deferred financing costs and will amortize over the remaining term of the notes. During the three and nine months ended December 31, 2015, $20,769 of amortization related to the amendment has been included in interest expense in the accompanying condensed consolidated statements of operations.

AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated Series A 12% Convertible Promissory Notes (the "Amended and Restated Notes") with the holders of certain promissory notes previously issued by us, extending the due date to December 31, 2010 on the aggregate principal balance of $900,000. During the fiscal year ended March 31, 2013, the holders of $15,000 of the Notes converted their principal and related accrued interest into common stock. During the fiscal year ended March 31, 2015, the holders of the remaining $885,000 of the Notes converted their principal and related accrued interest into common stock. There was no balance remaining at March 31, 2015.

The following transactions related to the Amended and Restated Notes impacted our condensed consolidated statements of operations and statements of cash flows in the nine month period ended December 31, 2014.

Weiner Note Conversion

On June 24, 2014, we entered into an agreement with the Ellen R. Weiner Family Revocable Trust (the "Trust"), a holder of a Series A 12% Convertible Note (the "Note"), which previously was classified as being in default. As per the agreement, the Trust converted past due principal of $660,000 and an accrued interest balance of $343,200 into restricted common stock, representing all amounts outstanding to the Trust.

Additionally, the Trust agreed to waive anti-dilution price protection underlying warrants previously issued to the Trust. On June 26, 2014, three other parties who held similar warrants also agreed to waive their anti-dilution price protection.

Under its agreement, the Trust converted the entire $1,003,200 past due principal and interest balance on the Note, which previously was in default, into an aggregate of 466,365 restricted shares of our common stock and five-year warrants to acquire up to 136,190 shares of our common stock at an exercise price of $2.10 per share (which exercise price was the result of certain contractual price adjustments previously made during 2011) and up to 7,944 shares of our common stock at an exercise price of $5.40 per share (collectively, the "Conversion Securities"). Based on the fair value of the warrants and shares issued to the Trust for the accrued interest, we recorded a loss on settlement of notes of $1,791,421 during the June 2014 period.

In exchange for the Trust's conversion in full of the Note and accrued interest and for the waivers of anti-dilution price protection in the previously issued warrants, in addition to the Conversion Securities, we issued to the Trust 1,500 restricted shares of common stock as a service fee, changed the exercise price of all of the previously issued warrants to $2.10 per share and extended the expiration date of all of the previously issued warrants to July 1, 2018. We valued the 1,500 share service fee at $12,000 based on our closing price on the date of the agreement and recorded that value as interest expense during the June 2014 period.

Bird Estate Extension

On July 8, 2014, we executed a written restructuring agreement (the "Agreement") with the Estate of Allan Bird (the "Estate"), a holder of a Series A 12% Convertible Note (the "Note"), which previously was classified as being in default. Since the negotiations for the Agreement were completed in the month of June, we recorded the impact of the Agreement as of June 30, 2014. In the Agreement, the Estate agreed to extend the expiration date of the Note to April 1, 2016, to convert approximately $116,970 of accrued interest to equity, and to waive anti-dilution price protection underlying the Note and warrants previously issued to the Estate.

Under the Agreement, the Estate converted the entire $116,970 past due interest balance on the Note, which previously was in default, into an aggregate of 51,837 restricted shares of our common stock. The Estate received five-year warrants to acquire up to 46,429 shares of our common stock at an exercise price of $2.10 per share (which exercise price was the result of certain contractual price adjustments previously made during 2011). Based on our common stock prices during a period of negotiation with the Estate including during calendar year 2013, the Estate also received five-year warrants to acquire up to 2,708 shares of our common stock at an exercise price of $5.40 (collectively known as the "Conversion Securities"). Based on the fair value of the warrants and shares issued to the Estate for the accrued interest, we recorded a loss on settlement of notes of $663,209 during the June 2014 period.

In exchange for the Estate's extension of the Note, the conversion of accrued interest and the waivers of anti-dilution price protection in the previously issued warrants, in addition to the Conversion Securities, we also issued to the Estate 500 restricted shares of common stock as an extension fee and extended the expiration date of all of the previously issued warrants to July 1, 2018. We valued the 500 share extension fee at $4,500 based on our closing price and recorded that value as a deferred financing cost, which we will amortize over the extended two year life of the note.

As a result of the waiver of anti-dilution protection by the Trust and the Estate, as of June 30, 2014, we no longer had any derivative liabilities as all of the holders of the financial instruments that had price antidilution protection waived such price antidilution protection. As a result of those waivers, we reclassified into equity our derivative liability balance of $10,679,067 as of June 30, 2014.

6. EQUITY TRANSACTIONS IN THE NINE MONTHS ENDED DECEMBER 31, 2015

REVERSE STOCK SPLIT

On April 14, 2015, we completed a 1-for-50 reverse stock split. Accordingly, authorized common stock was reduced from 500,000,000 shares to 10,000,000 shares, and each 50 shares of outstanding common stock held by stockholders were combined into one share of common stock. The accompanying condensed consolidated financial statements and accompanying notes have been retroactively revised to reflect such reverse stock split as if it had occurred on April 1, 2014. All share and per share amounts have been revised accordingly.

ISSUANCES OF COMMON STOCK AND WARRANTS

The following are Aethlon Medical, Inc.'s Equity Transactions in the Nine Months Ended December 31, 2015:

On April 28, 2015, we issued 951 shares of common stock as the result of rounding up of fractional shares that arose due to our reverse stock split.

On June 25, 2015, we sold $6,000,000 of units, comprised of common stock and warrants, to 18 accredited investors at a price of $6.30 per unit. Each unit consisted of one share of common stock and 0.75 of a five-year warrant to purchase one share of common stock at an exercise price of $6.30 per share. Accordingly, we issued a total of 952,383 shares of restricted common stock and warrants to purchase 714,285 shares of common stock. For its services as sole placement agent for the financing, we paid Roth Capital Partners, LLC ("Roth") a cash fee of $285,512 and expense reimbursement of $75,000 and we issued them a five-year warrant to purchase 32,371 shares of common stock at an exercise price of $6.30 per share. We received $5,591,988 in net proceeds from this financing. As the warrants that were issued to the investors and to Roth were issued in connection with common stock for cash, they were considered issued in connection with the financing transaction and the warrant fair value, which was valued using a binomial lattice model, was recorded to additional paid-in-capital.

In connection with the financing, Mr. James Joyce, our Chief Executive Officer, Mr. James Frakes, our Chief Financial Officer and Dr. Chetan Shah, a director of our company, each agreed to waive their right to exercise certain stock options and warrants held by them representing the right to acquire 402,318 shares of common stock in the aggregate (the "Waivers"). The Waivers were required in order to make a sufficient number of shares of common stock available for issuance and will expire when we amend our Articles of Incorporation to increase sufficiently the number of authorized shares of common stock available for issuance.

During the three months ended September 30, 2015, we issued an aggregate of 5,292 shares of common stock to an accredited investor upon the exercise of previously issued warrants. The warrants were exercised on a cashless or "net" basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 1,744 shares of common stock.

During the three months ended December 31, 2015, we issued an aggregate of 6,757 restricted shares of common stock to two investors upon the exercise of previously issued warrants. The warrants were exercised for cash and we received cash proceeds of $14,766 for an average purchase price of $2.19 per share per the terms of the warrants.

The following are Aethlon Medical, Inc.'s Equity Transactions in the Nine Months Ended December 31, 2014:

In the three months ended June 30, 2014, we completed unit subscription agreements with seven accredited investors pursuant to which we issued 43,849 shares of our common stock and 21,924 warrants to purchase our common stock for net cash proceeds of $320,800. Such warrants have exercise prices ranging from $9.65 to $11.80 per share.

As discussed above in Note 5, during the three months ended June 30, 2014, we issued 314,286 shares of restricted common stock to the holder of one of the Series A 12% Convertible Notes in exchange for the conversion in full of the $660,000 principal balance of that note, 152,079 shares of restricted common stock in exchange for conversion of $343,200 of accrued interest and 1,500 shares of restricted common stock as a restructuring fee. During that period, we also issued the other holder of the Series A 12% Convertible Notes 51,837 shares of restricted common stock in exchange for conversion of $116,970 of accrued interest and 500 shares of restricted common stock as a restructuring fee.

During the three months ended June 30, 2014, we issued 4,383 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $8.50 per share in payment for legal services, internal controls consulting services and regulatory consulting services collectively valued at $38,268 based on the value of the services provided.

During the three months ended September 30, 2014, we issued 7,199 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $7.00 per share in payment for legal and scientific consulting services valued at $49,090 based on the value of the services provided.

During the three months ended September 30, 2014, we issued 7,806 shares of restricted common stock at an average price of $9.50 per share in payment for investor relations consulting services valued at $75,000 based on the value of the services provided.

During the three months ended September 30, 2014, we issued 38,750 shares of restricted common stock to the holders of three convertible notes in exchange for the partial or full conversion of principal and interest in the aggregate amount of $81,375 at a conversion price of $2.10 per share.

On July 24, 2014, we issued an aggregate of 50,079 shares of restricted common stock and a seven-year warrant to issue up to 25,040 shares of common stock at an exercise price of $6.60 per share to Dr. Chetan Shah, a director. The common stock and warrant were issued to Dr. Shah upon the conversion of an aggregate of $220,349 of unpaid principal and accrued interest due under a 10% Convertible Note previously issued to Dr. Shah by us on July 9, 2013.

On September 17, 2014, we issued to the holder of the remaining 2008 10% Convertible Note units consisting of an aggregate of 9,564 shares of restricted common stock and unit warrants to acquire up to an aggregate of 4,782 shares of common stock at an exercise price of $4.80 per share (see Note 5). The units were issued to the note holder upon the conversion of an aggregate of $45,906 of unpaid principal and accrued interest due under the promissory note, which represented the entire amount outstanding under the note. We recorded a loss on debt conversion of $65,493 on this transaction.

During the three months ended September 30, 2014, we issued to four investors 53,465 shares of restricted common stock through the cash exercise of eight warrants for $259,474 of cash at an average exercise price of approximately $5.00 per share. As an inducement to those investors, we issued them replacement warrants to acquire up to an aggregate of 53,465 shares of common stock on the same terms as the warrants they exercised.

During the three months ended September 30, 2014, we issued and sold to three accredited investors units consisting of (a) 2,000 restricted shares of our common stock, par value $.001 per share, at prices per share ranging from $4.55 to $4.70 and (b) a five-year warrant to purchase 1,000 shares of common stock at exercise prices ranging from $6.80 to $7.15 per share. In total, the investors purchased for cash an aggregate of $90,000 of units. The investors acquired an aggregate of 19,500 shares of common stock and warrants to acquire up to an aggregate of 9,750 shares of common stock.

December 2014 Quarter Issuances of Common Stock and Warrants

Note Conversions

During the three months ended December 31, 2014, we issued an aggregate of 284,745 shares of common stock to two accredited investors upon the conversion of an aggregate of $597,965 of unpaid principal and accrued interest due under promissory notes we previously issued to the investors. The conversion price per share was $2.10 (see note 5).

During the three months ended December 31, 2014, we issued an aggregate of 112,500 shares of common stock to convert in full the outstanding principal balance of $225,000 and interest balance of $11,250 on the remaining note from 2010 through the issuance of 112,500 shares of common stock. The conversion price per share was $2.10.

During the three months ended December 31, 2014, we issued to an accredited investor units consisting of an aggregate of 36,716 shares of common stock and warrants to acquire up to an aggregate of 36,716 shares of common stock at an exercise price of $5.15 per share. The units were issued to the investor upon the conversion of an aggregate of $189,087 of unpaid principal and accrued interest due under two promissory notes we previously issued to the investor. The amounts converted represented the entire principal and interest outstanding under the notes and the notes held by that holder were retired.

Issuance of Convertible Notes

During the three months ended December 31, 2014, we sold to two accredited investors (i) convertible promissory notes in the aggregate principal amount of $527,780 and (ii) five year warrants to purchase up to 47,123 shares of common stock at a fixed exercise price of $8.40 per share. The convertible promissory notes bear interest at the annual rate of 10% and originally were set to mature on April 1, 2016. The aggregate gross cash proceeds to us were $415,000 after subtracting legal fees of $35,000; the balance of the principal amount of the notes represents a $27,780 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 fixed price of $5.60 per share, for up to an aggregate of 94,246 shares of common stock (see Note 5).

Common Stock Issuances

During the three months ended December 31, 2014, we issued 7,486 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $7.30 per share in payment for legal and scientific consulting services valued at $54,800 based on the value of the services provided.

During the three months ended December 31, 2014, we issued 780 shares of restricted common stock at an average price of $10.50 per share in payment for investor relations consulting services valued at $8,000 based on the value of the services provided.

Equity Unit Investments

During the three months ended December 31, 2014, we issued and sold to eight accredited investors units consisting of (a) 2,000 restricted shares of our common stock at prices per share ranging from $5.25 to $5.70 and (b) a five-year warrant to purchase 1,000 shares of common stock at exercise prices ranging from $7.70 to $8.35 per share. In total, the investors purchased for cash an aggregate of $502,700 of units. The investors acquired an aggregate of 90,125 shares of common stock and warrants to acquire up to an aggregate of 45,063 shares of common stock.

During the three months ended December 31, 2014, we sold $3,300,000 of units at a price of $15.00 per unit (the "December Financing"). Each unit consists of one share of common stock and a warrant to purchase 1.2 shares of common stock at an exercise price per share of $15.00. We sold a total of 220,000 units in the financing consisting of 220,000 shares of common stock and warrants to purchase 264,000 shares of common stock at an exercise price of $15.00 per share.

Roth Capital Partners, LLC served as sole placement agent for the December Financing and received a cash fee of $231,000, expense reimbursement of $25,000, and a five-year warrant to purchase 11,000 shares of common stock at an exercise price of $15.00 per share for its services in the financing. In addition, we paid $10,000 in legal expenses to the investors' counsel. We also paid $32,572 to our counsel related to this financing. The net proceeds to us after the placement fee and legal fees were $3,001,428.

Warrant Exercises and Issuance of New Warrants upon Exercise

During the three months ended December 31, 2014, we issued an aggregate of 113,422 shares of common stock and seven-year warrants to issue up to an aggregate of 113,422 shares of common stock at exercise prices ranging from $4.65 to $5.80 per share to eight accredited investors. One of the investors was Dr. Chetan Shah, one of our directors. We issued the common stock and warrants to the investors upon the cash exercise of previously issued warrants held by them. The investors paid an aggregate of $579,251 upon exercise of the previously outstanding warrants at exercise prices ranging from $4.65 to $5.80 per share.

Warrant Exercises

During the three months ended December 31, 2014, we issued an aggregate of 430,333 shares of common stock to accredited investors upon the exercise of previously issued warrants. The warrants were exercised on a cashless or "net" basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 605,304 shares of common stock.

Stock Option Exercises

During the three months ended December 31, 2014, two former employees exercised stock options to purchase 1,000 common shares through a cash payment of $9,500 with an exercise price of $9.50 per share.

7. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

Certain of our officers and other related parties have advanced us funds, agreed to defer compensation and/or paid expenses on our behalf to cover working capital deficiencies. These unsecured and non-interest-bearing liabilities have been included as due to related parties in the accompanying condensed consolidated balance sheets.

Other related party transactions are disclosed elsewhere in these notes to consolidated financial statements.

8. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

	December 31, 2015	March 31, 2015
Accrued interest	$ 60,841	$ 21,258
Other accrued liabilities	17,390	64,473
Total other current liabilities	$ 78,231	$ 85,731

9. 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, 2015 and 2014.

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
Vesting of stock options	$ 50,711	$ 77,900	$ 152,133	$ 338,580
Total stock-based compensation expense	50,711	77,900	152,133	338,580
Weighted average number of common shares outstanding – basic and diluted	7,616,619	6,032,126	7,318,019	5,254,459
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.06)

All of the stock-based compensation expense recorded during the nine months ended December 31, 2015 and 2014, which totaled $152,133 and $338,580, respectively, is included in payroll and related expense in the accompanying condensed consolidated statements of operations.

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 nine months ended December 31, 2015 was insignificant and resulted in no adjustments.

In connection with our June 2015 financing (see Note 6), Mr. James Joyce, our Chief Executive Officer, Mr. James Frakes, our Chief Financial Officer and Dr. Chetan Shah, a director of our Company, each agreed to temporarily suspend their right to exercise certain stock options and warrants held by them representing the right to acquire 402,318 shares of common stock in the aggregate (the “Temporary Waivers”). The Temporary Waivers were required in order to make a sufficient number of shares of common stock available for issuance and will expire when we amend our Articles of Incorporation to increase sufficiently the number of authorized shares of common stock available for issuance.

There were no stock option grants during the nine months ended December 31, 2015.

During the nine months ended December 31, 2014, our Board of Directors approved the following grants of options to certain officers and directors of the Company:

- To Mr. James A. Joyce, an option to acquire an aggregate of 30,000 shares of our common stock at an exercise price of $9.50 per share, the closing price of our common stock on the date of grant. The fair value of this stock option at the date of grant was $246,000. The option vested as to 10,000 shares on the grant date for a vesting expense of $82,000 and will vest as to an additional 10,000 shares on each of the first two anniversaries of the grant date. Unless earlier exercised or terminated, the option will expire June 6, 2024.

- To Mr. Rodney S. Kenley, an option to acquire an aggregate of 5,000 shares of our common stock at an exercise price of $9.50 per share, the closing price of our common stock on the date of grant. The fair value of this stock option at the date of grant was $41,000. The option vested as to 1,667 shares on the grant date for a vesting expense of $13,667 and will vest as to an additional 1,667 shares on the first anniversary of the grant date and 1,666 shares on the second anniversary of the grant date. Unless earlier exercised or terminated, the option will expire June 6, 2024.

- To Mr. James B. Frakes, an option to acquire an aggregate of 5,000 shares of our common stock at an exercise price of $9.50 per share, the closing price of our common stock on the date of grant. The fair value of this stock option at the date of grant was $41,000. The option vested as to 1,667 shares on the grant date for a vesting expense of $13,667 and will vest as to an additional 1,667 shares on the first anniversary of the grant date and 1,666 shares on the second anniversary of the grant date. Unless earlier exercised or terminated, the option will expire June 6, 2024.

- To Dr. Richard H. Tullis, an option to acquire an aggregate of 1,000 shares of our common stock at an exercise price of $9.50 per share, the closing price of our common stock on the date of grant. The fair value of this stock option at the date of grant was $8,200. The option vested as to 333 shares on the grant date for a vesting expense of $2,733 and will vest as to an additional 333 shares on the first anniversary of the grant date and 334 shares on the second anniversary of the grant date. Unless earlier exercised or terminated, the option will expire June 6, 2024.

In addition to the above grants to our officers, during the nine months ended December 31, 2014, our Board of Directors also approved the grant of options to five employees to acquire an aggregate of 7,400 shares of our common stock at an exercise price of $9.50 per share, the closing price of our common stock on the date of grant. The aggregate fair value of those stock options at the date of grant was $60,680. Those options vested as to 2,467 shares on the grant date for a vesting expense of $20,227 and will vest as to an additional 2,467 shares on the first anniversary of the grant date and 2,466 shares on the second anniversary of the grant date. Unless earlier exercised or terminated, the option will expire June 6, 2024.

Also during the nine months ended December 31, 2014, we issued 3,684 stock options to each of our three outside directors. Those grants vested over the fiscal year ending March 31, 2015 and have an exercise price of $9.50 per share.

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, 2014:

Risk free interest rate	2.6%
Average expected life	10 years
Expected volatility	90.23%
Expected dividends	None

The expected volatility was based on the historic volatility. The expected life of options granted was 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, 2015 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Vested	445,557	$ 11.40	4.67
Expected to vest	50,133	$ 6.36	7.98
Total	495,690		

A summary of stock option activity during the nine months ended December 31, 2015 is presented below:

	Amount	Range of Exercise Price	Weighted Average Exercise Price
Stock options outstanding at March 31, 2015	501,690	$4.00-$20.50	$ 12.50
Exercised	–	–	–
Granted	–	–	–
Cancelled/Expired	(6,000)	$20.50	$ 20.50
Stock options outstanding at December 31, 2015	495,690	$4.00-$20.50	$ 10.89
Stock options exercisable at December 31, 2015	445,557	$4.00-$20.50	$ 11.66

At December 31, 2015, there was approximately $189,850 of unrecognized compensation cost related to share-based payments, which is expected to be recognized over a weighted average period of 0.94 years.

On December 31, 2015, our stock options had a negative intrinsic value since the closing price on that date of $6.79 per share was below the weighted average exercise price of our stock options.

10. WARRANTS

During the nine months ended December 31, 2015, we issued 746,656 warrants with an exercise price of $6.30 per share. Those warrants were issued in connection with our June 2015 financing (see Note 6).

A summary of warrant activity during the nine months ended December 31, 2015 is presented below:

	Amount	Range of Exercise Price	Weighted Average Exercise Price
Warrants outstanding at March 31, 2015	1,430,738	$2.10 - $15.00	$ 6.84
Exercised	(12,049)	$2.10 - $5.40	$ 2.15
Issued	746,656	$6.30	$ 6.30
Cancelled/Expired	(1,252)	$2.10	$ 2.10
Warrants outstanding at December 31, 2015	2,164,093	$2.10 - $15.00	$ 6.68
Warrants exercisable at December 31, 2015	2,164,093	$2.10 - $15.00	$ 6.68

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, 2015:

Risk free interest rate	1.70%
Average expected life	5 years
Expected volatility	98.6%
Expected dividends	None

The expected volatility was based on the historic volatility. The expected life of options granted was 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.

11. DARPA CONTRACT AND RELATED REVENUE RECOGNITION

We entered into a contract with the Defense Advanced Research Projects Agency on September 30, 2011. Under the Defense Advanced Research Projects Agency 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 the Defense Advanced Research Projects Agency was a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we will perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

Originally, only the base year (year one contract) was effective for the parties, however, the Defense Advanced Research Projects Agency subsequently exercised its option on the remaining years of the contract. 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.

Due to budget restrictions within the Department of Defense, on February 10, 2014, the Defense Advanced Research Projects Agency reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction reduced the possible payments under the contract by $858,491 over years three through five. We completed a re-budgeting of the expected costs on the remaining years of the Defense Advanced Research Projects Agency contract based on the reduced milestones and have concluded that the reductions in our costs due to the scaled back level of work will almost entirely offset the anticipated revenue levels based on current assumptions.

In the nine months ended December 31, 2015, we invoiced the U.S. Government for the twenty-fifth, twenty-sixth and twenty-seventh milestones under our DARPA contract in the aggregate amount of $669,292 and received the payments related to those milestones. The details of those milestones were as follows:

Milestone M6 – Define Aethlon's GMP manufacturing process and revise and upgrade Aethlon's quality procedures and policies to the current state of the art. The milestone payment was $186,164. 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 defined our GMP manufacturing process and that we revised and upgraded our quality procedures and policies to the current state of the art for a company of our size. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.5.1.1 - Complete Aethlon's GMP procedure and establish and maintain all GMP documentation for the company. The milestone payment was $186,164. 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 completed our GMP procedures and established and maintained all GMP documentation for the company. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.5.2.2 – Finish construction and begin delivery of 50 prototype cartridges for testing by the systems integrator. The milestone payment was $296,964. 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 completed the construction of 50 prototype cartridges and were prepared to deliver the cartridges to the systems integrator. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

During the nine months ended December 31, 2014, we invoiced DARPA for three milestones totaling $444,723. The details of those milestones were as follows:

Milestone 2.4.2.2 – Determine capacity requirements of affinity resin to multiple simultaneous targets. The milestone payment was $197,362. 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 determine the capacity requirements of affinity resin to multiple simultaneous targets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.4.2.4 – Finish construction and delivery of 25 experimental cartridges for testing by the system integrator. The milestone payment was $50,000. 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 delivered the 25 cartridges to the systems integrator as part of our submission for approval. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M9 – Target capture > 90% in 24 hours for at least 3 targets ex vivo in blood or blood components using the optimized cartridge. The milestone payment was $197,361. 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 approximately 90% in 24 hours for at least 3 targets ex vivo in blood or blood components using the optimized cartridge. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

12. SEGMENTS

We operate our businesses principally through two reportable segments: Aethlon, which represents our therapeutic business activities, and ESI, which represents our diagnostic business activities. Our reportable segments have been determined based on the nature of the potential products being developed.

Aethlon's revenue is generated primarily from government contracts to date and ESI does not yet have any revenues. We have not included any allocation of corporate overhead to the ESI segment.

The following tables set forth certain information regarding our segments and other operations that conforms to the consolidated balance sheet and statement of operations presented in this Report:

	Nine Months Ended December 31,	
	2015	2014
Revenues:		
Aethlon	$ 681,907	$ 563,805
ESI	–	–
Total Revenues	$ 681,907	$ 563,805
Operating Losses:		
Aethlon	$ (2,916,016)	$ (2,156,769)
ESI	(382,442)	(703,411)
Total Operating Loss	$ (3,298,458)	$ (2,860,180)
Net Losses:		
Aethlon	$ (3,318,853)	$ (5,347,716)
ESI	(382,442)	(703,411)
Net Loss Before Non-Controlling Interests	$ (3,701,295)	$ (6,051,127)
Cash:		
Aethlon	$ 3,221,006	$ 2,446,820
ESI	29,891	328,915
Total Cash	$ 3,250,897	$ 2,775,735
Total Assets:		
Aethlon	$ 3,514,098	$ 2,735,913
ESI	78,765	420,582
Total Assets	$ 3,592,863	$ 3,156,495
Capital Expenditures:		
Aethlon	$ 9,307	$ –
ESI	–	–
Capital Expenditures	$ 9,307	$ –
Depreciation and Amortization:		
Aethlon	$ 13,902	$ 13,328
ESI	14,685	14,686
Total Depreciation and Amortization	$ 28,587	$ 28,014
Interest Expense:		
Aethlon	$ (402,837)	$ (293,522)
ESI	–	–
Total Interest Expense	$ (402,837)	$ (293,522)

13. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

We entered into an employment agreement with our Chairman of the Board ("Chairman") effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days' notice, will be in effect until the Chairman retires or ceases to be employed by us. Under the terms of the agreement, if the Chairman is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary, which was increased to $385,000 per year in September 2015.

We entered into an employment agreement with Dr. Tullis ("Tullis") effective January 10, 2000 as our Chief Science Officer ("CSO"). Under the terms of the agreement, if Tullis is terminated he may become eligible to receive a salary continuation payment in the amount of twelve months base salary, which is $195,000 per year.

Retention Agreements

On October 16, 2015, following a recommendation of our Compensation Committee, we approved retention bonus grants to three of our executive officers under a newly established Aethlon Senior Management Retention Program to maintain management stability going forward. The Board approved a $100,000 retention bonus for Mr. James A. Joyce, our Chief Executive Officer, a $50,000 retention bonus for Mr. Rodney S. Kenley, our President, and a $50,000 retention bonus for Mr. James B. Frakes, our Chief Financial Officer.

In connection with the bonus granted to Mr. Joyce, we entered into an amendment of Mr. Joyce's Employment Agreement dated April 1, 1999. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Joyce's employment with us for "Cause" (as defined in his employment agreement) or Mr. Joyce terminates his employment with us other than for "Good Reason" (as defined in his employment agreement), Mr. Joyce must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Joyce for "Good Reason," Mr. Joyce will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Kenley, we entered into an amendment of Mr. Kenley's Offer Letter dated October 27, 2010. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Kenley's employment with us for "Cause" (as defined in the amendment) or Mr. Kenley terminates his employment with us other than for "Good Reason" (as defined in the amendment), Mr. Kenley must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Kenley for "Good Reason," Mr. Kenley will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Frakes, we entered into a Retention Bonus Agreement with Mr. Frakes. Pursuant to the agreement, if within two years of the effective date of the agreement, we terminate Mr. Frakes' employment with us for "Cause" (as defined in the agreement) or Mr. Frakes terminates his employment with us other than for "Good Reason" (as defined in the agreement), Mr. Frakes must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Frakes for "Good Reason," Mr. Frakes will not be required to repay any portion of the bonus received by him.

LEASE COMMITMENTS

We currently rent approximately 2,600 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 at the rate of $6,054 per month on a four year lease that expires in January 2019. 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 $4,168 per month on a one year lease that expires in November 2016.

Our Exosome Sciences, Inc. subsidiary previously rented approximately 2,055 square feet of office and laboratory space at 11 Deer Park Drive, South Brunswick, NJ at the rate of $3,917 per month on a one year lease that expired in October 2015. In October 2015, Exosome Sciences, Inc. relocated to a different suite at the same office complex. That new suite is comprised of approximately 541 square feet of office and laboratory space and is located at 9 Deer Park Drive, South Brunswick, NJ at the rate of $1,352 per month under a month to month lease basis. In January 2016, we exercised our 30 day notice to terminate the Exosome Sciences' lease in New Jersey as part of a consolidation of our laboratory operations in San Diego (see Note 14).

Rent expense approximated $23,000 and $43,000 for the three month periods ended December 31, 2015 and 2014, respectively, and $113,000 and $127,000 for the nine month periods ended December 31, 2015 and 2014, respectively, and is included in general and administrative expenses in the condensed consolidated statements of operations.

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. We are not presently a party to any pending or threatened legal proceedings.

14. SUBSEQUENT EVENTS

Management has evaluated events subsequent to December 31, 2015 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.

Termination of Exosome Sciences, Inc. Lease

In January 2016, we exercised our 30 day notice to terminate the Exosome Sciences' lease in New Jersey (see Note 13) as part of a consolidation of our laboratory operations in San Diego.

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 Securities Exchange Act of 1934, as amended (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" or "us") 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, U.S. Food and Drug Administration, or 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 “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.

Overview

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.

In June 2013, the FDA approved our investigational device exemption application to initiate a ten-patient human clinical trial in one location in the U.S. to treat dialysis patients who are infected with the Hepatitis C virus. The principal investigator of that clinical trial recently began recruiting patients. Successful outcomes of that human trial as well as at least one follow-on human trial will be required by the FDA in order to commercialize our products in the U.S. The regulatory agencies of certain foreign countries where we intend to sell this device will also require one or more human clinical trials.

Some of our patents may expire before we receive FDA approval to market our products in the U.S. or we receive approval to market our products in a foreign country. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier treatment technology.

In September 2015, DARPA exercised its option to extend our contract with that agency through September 30, 2016.

Through Exosome Sciences, Inc., our majority-owned subsidiary, we are also studying potential diagnostic techniques for identifying and monitoring neurological conditions and cancer. We consolidate Exosome’s activities in our consolidated financial statements.

Our common stock is traded on the Nasdaq Capital Market under the symbol “AEMD.”

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act and must file reports, proxy statements and other information with the Commission. The reports, proxy 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 Commission 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 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123. 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, 2015 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2014

Revenues

We recorded government contract revenue in the three months ended December 31, 2015 and 2014. This revenue arose from work performed under our government contract with the Defense Advanced Research Projects Agency, or DARPA, and our subcontract with Battelle Memorial Institute as follows:

	Three Months Ended 12/31/15	Three Months Ended 12/31/14	Change in Dollars
DARPA Contract	$ 296,964	$ –	$ 296,964
Battelle Subcontract	4,069	33,434	(29,365)
Total Government Contract Revenue	$ 301,033	$ 33,434	$ 267,599

DARPA Contract

We entered into a contract with DARPA on September 30, 2011. 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 was a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we will perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties; however, DARPA subsequently exercised its option on the remaining years of the contract. 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. We cannot assure you 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.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction will reduce the possible payments under the contract by $858,469 over years three through five.

In the three months ended December 31, 2015, we invoiced the U.S. Government for the twenty-seventh milestone under our DARPA contract in the amount of $296,964 and received that payment on that milestone. During the three months ended December 31, 2014 we did not invoice DARPA for any milestones.

Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2015 were $1,385,163 in comparison with $1,120,414 for the comparable quarter a year ago. This increase of $264,749, or 23.6%, was due to increases in professional fees of $305,791 and in payroll and related expenses of $43,792, which were partially offset by a decrease in general and administrative expenses of $84,834.

The $305,791 increase in our professional fees was primarily due to an increase in our non-DARPA-related professional fees of $317,562. We also had an increase in our ESI-related professional fees of $9,218. Those increases were partially offset by a reduction in our DARPA-related professional fees of $20,989. The $317,562 increase in our non-DARPA-related professional fees was primarily due to $424,264 of credits and write-offs on accrued professional fees taken in the December 2014 period as part of a negotiation of payoffs of those accrued fees. There was no comparable activity in the 2015 period. Without those write-offs in the 2014 period, our non-DARPA-related professional fees in the 2015 period were $106,702 below the pre write-off amount of non-DARPA-related professional fees in the 2014 period. The $9,218 increase in our ESI-related professional fees was due to increased intellectual property activity. The $20,989 decrease in our DARPA-related professional fees was due to decreased activity under the contract.

The $43,792 increase in payroll and related expenses was primarily due to a $70,981 increase in cash-based compensation, which was partially offset by a $27,189 decrease in stock-based compensation due to vesting of stock option grants issued in July 2013 and June 2014. The $70,981 increase in cash-based compensation primarily arose from an increase of $175,860 at Aethlon which was partially offset by a reduction of $104,879 at ESI due to headcount reductions. The increase in cash-based compensation at Aethlon was primarily due to retention bonus payments of $200,000 which were partially offset by headcount reductions.

The $84,834 decrease in general and administrative expenses was primarily due to an increase of $5,023 in our non-DARPA-related general and administrative expenses, which was partially offset by a $82,747 decrease in the general and administrative expenses at ESI and a $7,112 decrease in our DARPA-related general and administrative expenses.

Other Expense

Other expense consists primarily of losses on extinguishment of debt and interest expense. Other expense for the three months ended December 31, 2015 was $148,904 in comparison with other expense of $515,025 for the comparable quarter a year ago.

Loss on Extinguishment of Debt and Other

We recorded a loss on extinguishment of debt of $222,939 for the three months ended December 31, 2014 that related to the conversion to equity of $189,087 in principal and accrued interest related to two notes payable. We did not recognize any losses on extinguishment of debt in the three months ended December 31, 2015.

The three months ended December 31, 2014 also included a charge of $143,363 for the change in fair value related to the extension of the warrants of a note holder in exchange for a postponement in the agreed payment date of his notes.

Interest Expense

Interest expense was $148,904 for the three months ended December 31, 2015 compared to $148,723 in the corresponding prior period, an increase of $181. The various components of our interest expense are shown in the following table:

	Quarter Ended 12/31/15	Quarter Ended 12/31/14	Change
Interest Expense	$ 13,985	$ 39,151	$ (25,166)
Amortization of Deferred Financing Costs	41,781	47,480	(5,699)
Amortization of Note Discounts	93,138	62,092	31,046
Total Interest Expense	$ 148,904	$ 148,723	$ 181

As noted in the above table, the most significant factors in the $181 increase in interest expense were the $5,699 decrease in the amortization of deferred financing costs and a $25,166 reduction in our contractual interest expense that was primarily due to lower levels of notes outstanding in the 2015 period. Those reductions were offset by a $31,046 increase in the amortization of note discounts, which related to the amortization against the discount on the convertible notes that we issued in November 2014, which were only outstanding for a portion of the 2014 period and all of the 2015 period.

Net Loss

As a result of the changes in revenues and expenses noted above, our net loss before noncontrolling interests decreased from approximately $1,602,000 in the quarter ended December 31, 2014 to approximately $1,233,000 for the quarter ended December 31, 2015.

Basic and diluted loss attributable to common stockholders was ($0.16) for the three month period ended December 31, 2015 compared to ($0.26) for the three month period ended December 31, 2014.

NINE MONTHS ENDED DECEMBER 31, 2015 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2014

Revenues

We recorded government contract revenue in the nine months ended December 31, 2015 and 2014. This revenue arose from work performed under our government contract with the Defense Advanced Research Projects Agency, or DARPA, and our subcontract with Battelle Memorial Institute as follows:

	Nine Months Ended 12/31/15	Nine Months Ended 12/31/14	Change in Dollars
DARPA Contract	$ 669,292	$ 444,723	$ 224,569
Battelle Subcontract	12,615	119,082	(106,467)
Total Government Contract Revenue	$ 681,907	$ 563,805	$ 118,102

DARPA Contract

We entered into a contract with DARPA on September 30, 2011. 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 was a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we will perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties; however, DARPA subsequently exercised its option on the remaining years of the contract. 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. We cannot assure you 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.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction will reduce the possible payments under the contract by $858,469 over years three through five.

In the nine months ended December 31, 2015, we invoiced the U.S. Government for the twenty-fifth, twenty-sixth and twenty-seventh milestones under our DARPA contract in the amount of $372,328 and received payments on those invoices. During the nine months ended December 31, 2014 we invoiced DARPA for three milestones totaling $444,723.

Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2015 were $3,980,367 in comparison with $3,423,985 for the comparable period a year ago. This increase of $556,382, or 16.2%, was due to increases in professional fees of $522,790 and in general and administrative expenses of $98,762, which were partially offset by a decrease in payroll and related expenses of $65,170.

The $522,790 increase in our professional fees was primarily due to an increase in our non-DARPA-related professional fees of $637,075, which was partially offset by a reduction in our professional fees at ESI of $52,354 and in our DARPA-related professional fees of $61,931. The $637,075 increase in our non-DARPA-related general and administrative expenses was primarily due to $424,264 of credits and write-offs on accrued professional fees taken in the December 2014 period as part of a negotiation of payoffs of those accrued fees. There was no comparable activity in the 2015 period. Without those write-offs in the 2014 period, our non-DARPA-related professional fees in the 2015 period were $212,811 above the pre write-off amount of non-DARPA-related professional fees in the 2014 period. That increase was primarily due to increases in legal fees and in accounting fees, both of which largely related to work on several registration statements related to our financings.

The $98,762 increase in general and administrative expenses was primarily due to an increase of $277,862 in our non-DARPA-related general and administrative expenses, which was partially offset by a $107,231 decrease in the general and administrative expenses at ESI and a $71,871 decrease in our DARPA-related general and administrative expenses. The primary factors in the $277,862 increase in our non-DARPA-related general and administrative expenses were a $172,056 increase in the expenses related to our U.S. clinical trial, a $24,230 increase in our license and permit expenses, which was largely related to the amortization of our Nasdaq listing fee, a $48,408 increase in our conference expense and a related $18,756 increase in our travel expense largely related to increased participation in investor and industry conferences.

The $65,170 decrease in payroll and related expenses was primarily due to a $186,447 decrease in stock-based compensation due to vesting of stock option grants issued in July 2013 and June 2014 and to a $161,384 reduction in cash-based compensation at ESI due to headcount reductions from the 2014 period, which were partially offset by a $282,661 increase in cash-based compensation at Aethlon.

Other Expense

Other expense consists primarily of losses on extinguishment of debt and interest expense. Other expense for the nine months ended December 31, 2015 was other expense of $402,837 in comparison with other expense of $3,190,947 for the comparable period a year ago.

Loss on Extinguishment of Debt and Other

We recorded a loss on extinguishment of debt of $2,754,062 for the nine months ended December 31, 2014. That loss arose from the payments of accrued interest on our 12% Series A convertible notes that were in the form of units (common stock plus warrants) combined with a loss that related to the conversion to equity of $268,845 in principal and accrued interest related to three notes payable. We did not recognize any losses on extinguishment of debt in the nine months ended December 31, 2015.

The nine months ended December 31, 2014 also included a charge of $143,363 for the change in fair value related to the extension of the warrants of a note holder in exchange for a postponement in the agreed payment date of his notes.

Interest Expense

Interest expense was $402,837 for the nine months ended December 31, 2015 compared to $293,522 in the corresponding prior period, an increase of $109,315. The various components of our interest expense are shown in the following table:

	Nine Months Ended 12/31/15	Nine Months Ended 12/31/14	Change
Interest Expense	$ 42,201	$ 162,448	$ (120,247)
Amortization of Deferred Financing Costs	81,222	68,982	12,240
Amortization of Note Discounts	279,414	62,092	217,322
Total Interest Expense	$ 402,837	$ 293,522	$ 109,315

As noted in the above table, the most significant factor in the $109,315 increase in interest expense was the $217,322 increase in the amortization of note discounts, which related to the amortization against the discount on the convertible notes that we issued in November 2014, which were only outstanding for a portion of the 2014 period and all of the 2015 period. Other smaller factors in the change in our total interest were a $120,247 decrease in contractual interest expense that was primarily due to lower levels of notes outstanding in the 2015 period and a $12,240 increase in the amortization of deferred financing costs.

Net Loss

As a result of the changes in revenues and expenses noted above, our net loss before noncontrolling interests decreased from approximately $6,051,000 in the nine month period ended December 31, 2014 to approximately $3,701,000 for the nine month period ended December 31, 2015.

Basic and diluted loss attributable to common stockholders were $0.50 for the nine month period ended December 31, 2015 compared to $1.12 for the period ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2015, we had a cash balance of $3,250,897 and working capital of $2,551,395. This compares to a cash balance of $855,596 and working capital of $630,420 at March 31, 2015. In June 2015, we raised $5,591,988 in net proceeds from a financing, which, coupled with previously existing funds on hand and expected revenues from our government contracts, should finance our operations for the fiscal year ending March 31, 2016 including the cost of our current clinical trials.

However, we will require significant additional financing to complete additional future clinical trials in the U.S., as well as fund all of our continued research and development activities for the Hemopurifier and products on our Aethlon ADAPT platform beyond the fiscal year ending March 31, 2016.

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, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

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) For the nine months ended	
	December 31, 2015	December 31, 2014
Cash (used in) provided by:		
Operating activities	$ (3,202)	$ (3,152)
Investing activities	(9)	–
Financing activities	5,606	4,677
Net increase (decrease) in cash	$ 2,395	$ 1,525

NET CASH USED IN OPERATING ACTIVITIES. We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $3,202,000 in the nine months ended December 31, 2015 compared to $3,152,000 in the nine months ended December 31, 2014, an increase of $50,000.

NET CASH USED IN INVESTING ACTIVITIES. We used approximately $9,000 of cash in our investing activities due to purchases of office equipment in the nine months ended December 31, 2015. There were no investing activities in the nine months ended December 31, 2014.

NET CASH FROM FINANCING ACTIVITIES. Net cash generated from financing activities increased from approximately $4,677,000 in the nine months ended December 31, 2014 to $5,606,000 in the nine months ended December 31, 2015. The only financing activity in the nine months ended December 31, 2015, was the issuance of common stock. In the nine months ended December 31, 2014, we issued common stock for proceeds of approximately $4,763,000, raised approximately $415,000 through the issuance of convertible notes and repaid approximately $501,000 of notes payable.

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 AND ESTIMATES

In preparing our condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income and net income, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2015 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates during the first three quarters of the fiscal year ending March 31, 2016.

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 and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are 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 Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities.

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. We are not presently a party to any pending or threatened legal proceedings.

ITEM 1A. RISK FACTORS.

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

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

During the quarter ended December 31, 2015 and subsequent thereto through the date of filing this report, we issued the following securities which were not registered under the Securities Act of 1933, as amended. 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 are “accredited investors” for the purpose of Rule 501 promulgated under 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(a)(2) of the Securities Act or Regulation D promulgated by the Commission under the Securities Act.

During the three months ended December 31, 2015, we issued an aggregate of 6,757 restricted shares of common stock to two investors upon the exercise of previously issued warrants. The warrants were exercised for cash and we received cash proceeds of $14,766 for an average purchase price of $2.19 per share per the terms of the warrants.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES.

We have no disclosure applicable to this item.

ITEM 5. OTHER INFORMATION.

Not applicable

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., as amended (2)
10.1	Amendment No. 1 to Joyce Employment Agreement dated October 16, 2015 (3)
10.2	Amendment No, 1 to Kenley Offer Letter dated October 16, 2015 (3)
10.3	Frakes Retention Bonus Agreement dated October 16, 2015 (3)
10.4	Third Amendment to Standard Industrial Net Lease by and between Sorrento Business Complex and Aethlon Medical, Inc. dated October 21, 2015 (4)
10.5	Amendment of Terms dated November 12, 2015 (4)
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*
	101.INS XBRL Instance Document
	101.SCH XBRL Schema Document
	101.CAL XBRL Calculation Linkbase Document
	101.DEF XBRL Definition Linkbase Document
	101.LAB XBRL Label Linkbase Document
	101.PRE XBRL Presentation Linkbase Document

* Filed herewith.

(1) Filed with the Company's Registration Statement on Form S-1 (File No. 333-203487) filed on April 17, 2015 and incorporated by reference.

(2) Filed with the Company's Annual Report on Form 10-K filed on June 26, 2015 for the year ended March 31, 2015 and incorporated by reference.

(3) Filed with the Company's Current Report on Form 8-K filed on October 22, 2015 and incorporated by reference.

(4) Filed with the Company's Quarterly Report on Form 10-Q filed on November 16, 2015 and incorporated by reference.

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 4, 2016

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

EXHIBIT 31.1

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 4, 2016

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

EXHIBIT 31.2

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 4, 2016

/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 nine-month period ended December 31, 2015 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 4, 2016

/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.

EXHIBIT 32.2

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 nine-month period ended December 31, 2015 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 4, 2016

/s/ JAMES B. FRAKES
James B. Frakes
Chief Financial 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.