Zacks Small-Cap Research

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Aethlon Medical (AEMD-NASDAQ)

AEMD: More Shots On Goal For Hemopurifier, ESI CTE Diagnostic

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/11/2014
Current Price (02/05/16)	$4.90
Target Price	**$18.00**

OUTLOOK

AEMD's novel blood filtration device could have utility in the treatment of Hepatitis-C, HIV, sepsis, cancer, pandemic diseases and bioterror applications.
AEMD recently got FDA and IRB approvals to run a human study in HCV which is a major milestone. Enrollment commenced.
DARPA contracts have provided revenue/cash while also providing credibility of the technology and potentially facilitating the quest towards regulatory approval and commercialization.
Mgmt has been very resilient and successful in pursuing high potential opportunities in other areas including Ebola, cancer, Alzheimer's and CTE. Pandemic viruses such as Zika could offer attractive commercializable opportunities for Hemopurifier.
AEMD making more dedicated effort towards virus and Category A threat applications. New Aethlon ADAPT initiative could also help broaden scope of utility for their technology to other diseases.
Maintaining Buy recommendation.

SUMMARY DATA

52-Week High	**$15.25**
52-Week Low	**$4.27**
One-Year Return (%)	**-50.00**
Beta	**2.72**
Average Daily Volume (sh)	**24,578**
Shares Outstanding (mil)	**8**
Market Capitalization ($mil)	**$37**
Short Interest Ratio (days)	**9.63**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**16**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-19.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Med-Hmo**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2014	0.2 A	0.6 A	0.1 A	0.7 A	1.6 A
2015	0.1 A	0.5 A	0.0 A	0.2 A	0.8 A
2016	0.2 A	0.2 A	0.3 A	0.3 E	1.0 E
2017					0.4 E

Earnings per Share

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2014	-$0.09 A	-$0.89 A	-$0.56 A	-$1.74 A	-$3.44 A
2015	-$0.80 A	-$0.16 A	-$0.26 A	-$0.13 A	-$1.22 A
2016	-$0.18 A	-$0.16 A	-$0.16 A	-$0.20 E	-$0.69 E
2017					-$0.70 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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Fiscal Q3 2016 Financials, Operational Update

Aethlon reported financial results for their third quarter 2016 and provided an operational update. Financial results were largely in-line with our numbers with revenue coming in very close to our forecast and operating expense somewhat lower than our estimate. Most of the beat on OpEx we attribute to anticipated versus actual timing of rate of enrollment in the two small U.S.-based clinical studies as well as rolling off of some costs in the ESI segment. We have made only minor changes to our model following Q3 results, with the majority of our near-term revenue coming from the remainder of the DARPA contract and operating expense estimates reflecting anticipation of accelerating activity in the U.S. HCV and cancer studies as well as some incremental spend on more recent endeavors in both the Hemopurifier-related and ESI segments.

Successes on the operational front over the last few months have included acceptance of the manuscript of the DETECT (Diagnosing and Evaluating Traumatic Encephalopathy Using Clinical Tests) study, finalizing training of investigators conducting the U.S. feasibility study, additional clinical experience with the TauSome CTE assay including use in a new NIH-funded study, approval to conduct an Indian-based study with Hemopurifier in Dengue virus and validation of Hemopurifier in the in vitro capture of Chikungunya virus.

Q3 revenue was $301k, compared to our $332k estimate, and consisted of $297k of DARPA grants ($297k estimate) and $4k ($35k estimate) from the Battelle subcontract. The DARPA revenue relates to the 27th milestone – see our Appendix for the description. In September 2015 AEMD announced that they were awarded year 5 of the DARPA contract which is the final year and will pay up to $581k if all the requisite milestones are met.

Q3 OpEx was $1.4M, about 9% lower than our $1.5M estimate – the difference which we attribute to longer than expected draw out of enrollment for the two U.S. clinical studies. Management indicated on the call that enrollment in the HCV study, with the principal and two sub-principal investigators now fully trained, should begin to accelerate. We continue to expect operating expenses to trend higher as a result of increased clinical trial activities related to the U.S. HCV and cancer studies. And with other new irons in the fire, including potentially broadening the targets that Hemopurifier may have utility for – particularly additional pandemic and bioterror threats and latent viral pathogens, we could see some other incremental spend. These are investments that could expand the scope of applications for Hemopurifier and, if fully validated, will almost certainly increase shareholder value of AEMD.

Net loss and EPS were $1.2M and ($0.16), compared to our $1.3M and ($0.17) estimates. AEMD exited the quarter with $3.3M in cash, down from $4.2M at the end of Q2. Management expects the cash balance to be sufficient to fund operations through the end of fiscal 2016 (ending 3/31/2016) and into the beginning fiscal 2017.

Operational Update:

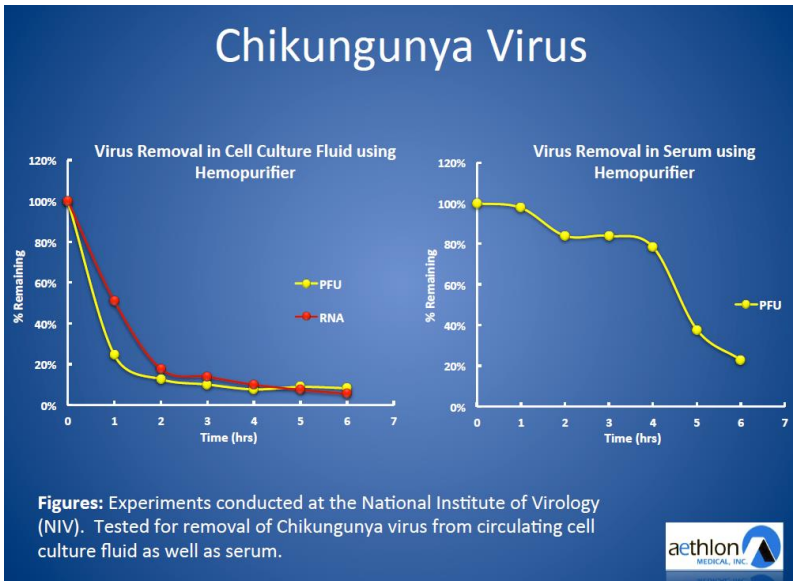
- **CTE:** As a reminder, Aethlon's majority-owned subsidiary Exosome Sciences (ESI) has collaborated with Boston University's CTE Center for the development of a blood-based diagnostic that would be able to identify CTE in living individuals. ESI has used what they learned in how to isolate certain brain-specific biomarkers to evaluate blood samples collected by participants (former NFL players and a control group) enrolled in BU's DETECT study. In April 2015 investigators presented initial findings of DETECT at the annual Traumatic Brain Injury Conference held in Washington, DC. Results were from 78 former NFL players and 16 controls and showed that the NFL players had significantly higher levels of tausome (tau) in their blood than those of the controls. Tau levels were also correlated to performance on memory tests, with higher tau levels corresponding to poorer test performance. The study is the first on CTE funded by the NIH. Aethlon submitted a manuscript of the study in 2015 and announced with Q3 earnings (2/4/16) that it had been accepted for publication. On the Q3 call management noted that there is extensive data related to their CTE diagnostic (TauSome) in the manuscript, particularly in two categories; the ability to monitor TauSome levels in former NFL players compared to control (i.e. known healthy subjects) and correlation of TauSome levels with cognitive decline.
- **Cancer:** A potential application in cancer received arguably additional support in an article titled, "Extracellular Vesicles: Emerging Target for Cancer Therapy" published in the April 2014 issue of the journal, Trends in Molecular Medicine. The article, written by researchers at Harvard Medical School, Massachusetts General Hospital and University of Oxford explores evidence that extracellular vesicles (i.e. - exosomes) play a key role in cancer development and progression and suppression of immune response. As such, extracellular vesicles (EVs) have increasingly become targets for anticancer therapy. This coincides with AEMD's cancer research and how Hemopurifier, via the removal of circulating cancer-secreted exosomes, could have utility in the treatment of cancer.

The authors also believe that EVs may also increase the body's resistance to cancer drugs and hinder their effectiveness. They further note that, while early evidence suggests that inhibition of EV biogenesis may have beneficial effects in the treatment of cancer, that a challenge has been to find therapies that can specifically target cancer related EVs without affecting normal cell function. The researchers specifically reference Hemopurifier as a potential therapy to overcome these challenges, noting that with the use of Hemopurifier "it might be possible to specifically capture tumour cell-derived EVs on an antibody-coated matrix during extracorporeal dialysis. For example, in human epidermal growth factor receptor-2 (HER-2) overexpressing breast cancer, where HER-2-expressing EVs have been shown to interfere with therapy and are associated with tumour aggressiveness, anti-HER-2 antibodies could be used to remove HER-2-expressing EVs from circulation with the aim of improving therapeutic outcome. In principal, this approach could be tailored for other tumour types, as long as the tumour cell-derived EVs are enriched for tumour-specific proteins. However, whether the level and duration of EV depletion after ADAPT (i.e. - Hemopurifier) therapy would be sufficient to achieve a clinically relevant outcome remains to be determined."

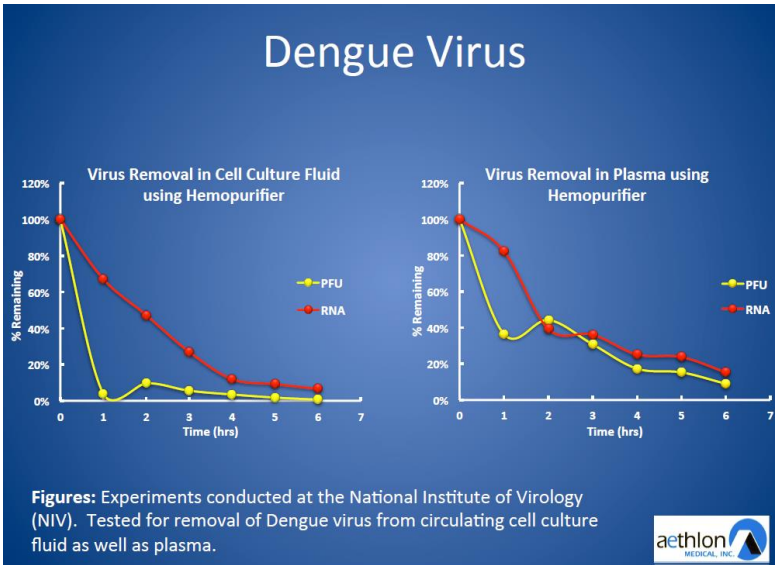
The authors note that their current understanding of EVs role in cancer development and progression is still in the relatively early stages and is based on data from in vitro experiments. Their acknowledgement of Hemopurifier as potentially having utility in the treatment of cancer is also largely based on the supposition that removal of circulating EVs may be beneficial in interrupting the development and spread of tumors - which is still just a theory at this point. Nonetheless, we think this research does add meaningful credibility to Hemopurifier's potential role in cancer suppression and adds additional support to AEMD's research which indicates the same.

Cancer Study Update: As a reminder, in April 2015 AMED announced that they entered an agreement with UC, Irvine to conduct an investigator-initiated study with various cancer types including breast, colorectal lung, head and neck and others. Targeted enrollment is five patients in each of nine cancer types (45 patients total) including breast adenocarcinoma, colorectal, gastric and gastroesophageal, pancreatic, cholangiocarcinoma, lung, head and neck, melanoma and ovarian adenocarcinoma. The proposed study protocol, *Plasma Exosome Concentration in Cancer Patients Undergoing Treatment"*, will monitor changes in circulating exosome levels and their association with cancer treatment and response to treatment. In May 2015 AEMD announced that UC, Irvine Medical Center approved an IRB to commence the study. AEMD noted on the Q2 call that this study has commenced and has now enrolled three patients so far. No specifics on enrollment were provided on the Q3 call but clearly enrollment has not been particularly fast moving.

- **Infectious Diseases:** AEMD has recently made a more dedicated efforts towards advancing additional collaborations for Hemopurifier in cancer and infectious diseases. As a reminder, Hemopurifier has shown potential utility in HCV, HIV, Ebola, other pandemic diseases, bioterror applications, cancer and other areas. AEMD is clearly focused on deepening and broadening the potential applications that their device may have utility for. In June 2015 the company announced an agreement with the India's National Institute of Virology to commence testing of Hemopurifier for treatment of Chikungunya. On the Q3 call (2/3/16) AEMD announced that NIV has validated the rapid capture (charts below) of Chikungunya virus in vitro with small scale versions of Hemopurifier.



- **Dengue:** AEMD received IRB approval from MAX Healthcare to conduct a clinical treatment study with Hemopurifier in individuals infected with Dengue virus at MAX Super Specialty Hospital in India. Hemopurifier, in in vitro studies conducted by NIV (India) has shown ability remove Dengue virus



- On the Q2 call AEMD announced that they initiated a research project with the National Center for Biodefense and Infectious Diseases to investigate the use of Hemopurifier in Venezuelan equine encephalitis. AEMD has had a relationship with the National Center for Biodefense and Infectious Diseases for over ten years and this latest announcement appears to be further progress towards working with the center for applications of AEMD's technology in addressing biological threats.
- **U.S. Feasibility Study:** In 2015 Dr. Ronal Ralph was brought on as the new principal investigator. AEMD since brought on two sub-principal investigators and announced on the Q3 call that all three have now been trained and indicated enrollment should now accelerate. Progression of the study has been drawn out longer than initially anticipated – but the hope is that now enrollment will proceed.

  As a reminder, this is a safety study being conducted at DaVita Medical Center Dialysis in Houston with target enrollment of 10 HCV-infected patients who are already undergoing dialysis. Patients will receive Hemopurifier treatment three times per week for two weeks. This is primarily a safety study but secondary outcomes including quantity of captured viral copies and change in viral load will also be measured. Results which were initially expected to be used solely for support of FDA approval to conduct larger pivotal studies in HCV as well as potentially other diseases such as HIV and cancer, are now expected to be used to move into clinical studies for other viruses and pandemic threats.

  Once this HCV feasibility study is completed, and assuming positive results, this is expected to form the basis to move into U.S.-based studies for potential end-use type indications in areas such as latent viral pathogens and pandemic type diseases. Zika virus has recently become a significant concern, not only in areas where it is traditionally found such as S. America and equatorial regions of Africa and Asia, but now also in parts of the U.S. The World Health Organization just declared the Zika virus outbreak an international public health emergency. Zika is one of the pandemic-type threats that could be on a short-list of targets for Hemopurifier. The device has already been validated in in clinical studies in a number of targets including Ebola, HIV and HCV and in vitro studies in Chikungunya, Dengue virus, multiple strengths of Ebola virus, H1N1 swine flu, H5N1 bird flu virus, the reconstructed Spanish flu of 1918 virus and West Nile virus. Zika could be next and clinical studies in the U.S. in some of these targets or others could be on the horizon in the near-term. And, given the severity of these viruses and lack of effective treatments, it is conceivable Hemopurifier could a fast-track candidate. This is something we expect to hear more about from AEMD in upcoming conference calls.

Data Summary – Virus Removal using Hemopurifier

Virus Family	Virus (medium)	Collaborator	% Removal at 1 hr	% Removal at 6 hrs*	Time for 50% Viral Removal (hrs)	Detection Means	
						Infectivity Assays	PCR
Retroviridae	HIV (plasma)	N/A	61	96 (4 h)	< 1		X
	HIV (blood)	N/A	44	63 (4h)	1.5		X
Flaviviridae	HCV (plasma)	N/A	90	93 (3 h)	< 1		X
	Dengue (culture)	NIV	33	93	1.75		X
			96	99	< 1	PFU	
	Dengue (plasma)	NIV	18	85	1.75		X
			63	91	< 1	PFU	
	West Nile (culture)	Battelle	11	79	3.25		X
Orthomyxoviridae	H1N1 (culture)	N/A	55	80 (4 h)	< 1		X
	H5N1 (culture)	Battelle	45	99	1.25	TCID50	
			54	85	< 1		X
	1918 Flu (culture)	Battelle	10	26	N/A	TCID50	
			63	93	< 1		X
Poxviridae	Monkeypox (culture)	Battelle	44	82	1.5	PFU	
			38	90	1.75		X
Filoviridae	EboVZ wt (culture)	CDC	44	78 (5 h)	1.5		X
	EboVZmut (culture)		42	79 (4 h)	1.5		X
	Ebola (culture)	USAMRIID	21	52	5.75		X
	Ebola (culture)		21	65	3.5	PFU	
Togaviridae	Chikingunya (culture)	NIV	76	92	< 1	PFU	
			49	94	1		X
	Chikingunya (serum)		2	77	4.75	PFU	

* Shorter experiment durations indicated in parentheses

aethlon MEDICAL, INC.

SOURCE: Aethlon Medical

Aethlon ADAPT

In early November 2015 the company announced a new initiative at the IN3 Medical Device 360 Summit Conference in San Francisco called Aethlon ADAPT. ADAPT, is an acronym for the company's technology and stands for Adaptive Dialysis-like Affinity Platform Technology. The Aethlon ADAPT initiative is focused on partnering with organizations in development of other affinity bio-filtration devices to address other diseases, which is a program that will run parallel to AEMD's individual efforts. We view this as a way to de-risk (at least from a financial standpoint) and, potentially accelerate, development of their technology in a broader spectrum of diseases and applications.

Operational Momentum Continues

Fiscal 2015 saw several highlights with progress of both the Hemopurifier program as well as with ESI. In addition, management made tremendous progress with shoring up the balance sheet, eliminating almost all debt. AEMD built on their operational momentum over the last few quarters including a Nasdaq uplisting, $6 million equity raise and further progress with expanding the potential indications for Hemopurifier. AEMD began trading on Nasdaq in mid-July 2015 which followed a 1 for 50 reverse split. This should provide for greater investor visibility and, with the stock trading over $5, provide greater access to institutional investors.

The $6 million ($5.6M net) raise was done at $6.30/share and came with 75% warrant coverage ($6.30 strike, five years). As we mentioned in our June 24 investor note, this raise continues to confirm the company's ability to bring on additional capital at reasonable terms and without compromising the balance sheet - which had been an issue in the past. .

AEMD has also been very aggressive in looking for potential new indications for Hemopurifier. As a reminder, HCV had been the only real main focus for the company just a couple of years ago. Since then they have ramped up activities in several other areas, most notably cancer and Ebola, and, most recently, endeavors to expand its utility in pandemic threats. The U.S. HCV study is finally starting to gain traction and the cancer study now has three patients enrolled. Studies in other indications could start in the near-term. And the new Aethlon ADAPT initiative, which is focused on partnering for development of other affinity bio-filtration devices to address other diseases could accelerate broadening the applications for the technology while at the same time de-risking cost of development through partnerships.

Maintaining Outperform Recommendation

The company continues to make substantive positive progress on several fronts including strengthening the balance sheet and ongoing ability to raise capital, diligence on cash burn and operating expenses, initiating the U.S.

feasibility study (in HCV) and U.S. cancer study, scoring additional government grants and broadening into what we believe are more commercializable and attractive markets for Hemopurifier.

We note our model still does not incorporate potential revenue contribution from indications outside of HCV, DARPA or Battelle - although with the recent substantive expansion into other indications such as Ebola, cancer and others (including via the Aethlon ADAPT program) as well as directly from ESI, our model is subject to updating based on successful further progress.

Current market discount rate, calculated by CAPM is approximately 9%. Based on our DCF model and a 9% discount rate, AEMD is valued at approximately $18/share. We are maintaining our Buy rating.

APPENDIX

Milestones Related to DARPA Year-1 Contract

Milestone 2.2.1.1 – Write requirements definition for the extracorporeal blood purification system and acquire necessary equipment with a milestone payment of $358,284. 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 worked on this concept for a number of months beginning with a presentation to DARPA in late 2010. We subsequently filed for IP protection on certain of the key concepts in March 2011 and our management visited selected potential vendors to work out many of the details in the summer of 2011 before we were awarded the contract on September 30, 2011. We ordered the breadboard device from one of our vendors before the milestone payment was made. We designed the breadboard prototype and then presented the design to DARPA in order to achieve the milestone.

Milestone 2.2.1.2 -- Fabricate breadboard prototypes for anticoagulation-free anti-sepsis extracorporeal system (ASEPSYS) device. Fabricate prototype blood tubing sets. Acquire anti-thrombogenic surface modified hollow fiber plasma separators with a milestone payment $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of having the breadboard prototype developed to our specifications, hiring an engineer to supervise the project, acquiring specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.2.2.1 – Begin to develop the ADAPT device to efficiently capture sepsis precursors and acquire important equipment and supplies with a milestone payment of $426,424. 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. It was critically important to obtain certain pieces of lab equipment as early as possible after winning the contract in order to measure the binding ability of sepsis precursors. We demonstrated that we were able to capture one of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead.

Milestone 2.2.2.2 - Perform initial screening of the different proposed capture agents by measuring binding affinity and kinetics using surface plasmon resonance (SPR) or biolayer surface interferometry (BLI) with a milestone payment amount of $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture several of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.1.3 - Assemble and test breadboard ASEPSYS devices. Evaluate the use of different techniques and approaches to eliminating anticoagulants. The milestone payment amount was $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of assembling and testing the breadboard prototype that we had developed to our specifications, hiring an engineer to supervise the project, testing specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

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

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

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

Milestones Related to DARPA Year-2 Contract

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

Milestone 2.3.2.1 – Demonstrate the effectiveness of the prototype device in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The milestone payment amount was $195,581. 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. The prototype device was successfully used in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M4 – Target capture > 50% in 24 hours for at least 5 targets in blood or blood components. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours for at least 5 of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.2 – Formulate initial design based on work from previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment amount was $195,581. 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 had begun to build and test selected instrument design and tubing sets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.2 – Write and test software and conduct ergonomic research. Begin discussions with the systems integrator. The milestone payment was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We obtained wrote and tested software and conducted ergonomic research and began discussions with the systems integrator. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.3.2 – Cartridge construction with optimized affinity matrix design for each potential target. Complete the capture agent screening. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We completed the cartridge construction with optimized affinity matrix design for each potential target and completed the capture agent screening. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M5 – Target capture > 90% in 24 hours for at least three targets in blood or blood components. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 90% in 24 hours for at least three of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M3 – Conduct a series of experiments aimed at characterizing the contribution of several alternate fluidic designs and methods of perfusing plasma filters and affinity columns in the performance of affinity plasmapheresis. The milestone payment was $195,576. 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 had conducted the relevant series of experiments. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestones Related to DARPA Year-3 Contract

Milestone 2.4.2.1 – Evaluate contribution of manufacturing process variables to binding capacity of affinity resin. 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 had evaluated the contribution of manufacturing process variables to binding capacity of affinity resin. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.4.1.1 – Design and fabricate optimized configuration(s) of hemopurification device(s) that contain(s) a combination of hemofilters, plasma filters and affinity columns. 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 had designed and fabricated optimized configuration of hemopurification devices. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.4.2.3 – Perform biocompatibility tests for the combination ADAPT device to confirm the combination cartridge does not present additional risk. The milestone payment was $78,641. 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 had performed biocompatibility tests for the combination ADAPT device to confirm the combination cartridge does not present additional risk. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

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 3f 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.

Milestones Related to DARPA Year-4 Contract

Milestone M11 - Develop a strategic plan for developing an alternate method of producing galanthus nivalis agglutinin by cloning the gene into an alternate vector and identify potential partners for such production. 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 developed a strategic plan for developing an alternate method of producing GNA by cloning the gene into an alternate vector and identified potential partners for such production. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

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.

PROJECTED INCOME STATMENT

Aethlon Medical, Inc.

	2013 A	2014 A	Q1 A	Q2 A	Q3 A	Q4 A	2015 A	Q1 A	Q2 A	Q3 A	Q4 E	2016 E	2017 E
Revenue	$1,230.0	$1,623.8	$51.3	$479.1	$33.4	$198.6	$762.4	$192.5	$188.4	$301.0	$273.0	$954.9	$433.0
YOY Growth	*-9.5%*	*32.0%*	*-73.8%*	*-25.7%*	*-56.2%*	*-71.9%*	*-53.0%*	*275.3%*	*-60.7%*	*800.4%*	*37.5%*	*25.2%*	*-54.7%*
Cost of Goods Sold	$0.0	$0.0					$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Gross Income	$1,230.0	$1,623.8	$51.3	$479.1	$33.4	$198.6	$762.4	$192.5	$188.4	$301.0	$273.0	$954.9	$433.0
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$3,365.4	$3,170.4	$876.3	$829.9	$906.2	$1,115.3	$3,727.7	$1,100.5	$1,105.1	$1,237.4	$1,272.0	$4,714.9	$4,688.0
%SG&A	*273.6%*	*195.2%*	*1708.3%*	*173.2%*	*2710.6%*	*561.5%*	*488.9%*	*571.7%*	*586.7%*	*411.0%*	*465.9%*	*493.8%*	*1082.7%*
R&D	$1,440.0	$1,509.0	$347.0	$250.4	$214.2	$216.0	$1,027.6	$182.0	$207.7	$147.8	$351.0	$888.5	$1,512.0
%R&D	*117.1%*	*92.9%*	*676.5%*	*52.3%*	*640.6%*	*108.8%*	*134.8%*	*94.5%*	*110.3%*	*49.1%*	*128.6%*	*93.0%*	*349.2%*
Impairment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($3,575.4)	($3,055.6)	($1,172.0)	($601.2)	($1,087.0)	($1,132.7)	($3,992.8)	($1,090.0)	($1,124.4)	($1,084.1)	($1,350.0)	($4,648.5)	($5,767.0)
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	*-486.8%*	*-1331.9%*
Loss on extinguishment of debt	$139.8	$40.3	$2,453.6	$208.9	$222.9	($131.4)	$2,754.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
(Gain)/loss on derivative liability	$44.7	$8,547.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Interest (income), net	$1,107.1	$1,287.2	$78.7	$78.1	$148.7	$146.8	$452.3	$126.7	$127.2	$148.9	$149.0	$551.8	$252.0
Other expense	$25.0	$508.6	$0.0	($143.4)	$143.4	($219.6)	($219.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($4,892.0)	($13,438.6)	($3,704.3)	($744.8)	($1,602.0)	($928.4)	($6,979.5)	($1,216.7)	($1,251.6)	($1,233.0)	($1,499.0)	($5,200.3)	($6,019.0)
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	($4,892.0)	($13,356.9)	($3,655.9)	($704.0)	($1,550.5)	($886.8)	($6,797.2)	($1,183.0)	($1,224.6)	($1,217.2)	($1,499.0)	($5,123.8)	($6,019.0)
Net Margin	-	-	-	-	-	-	*-891.5%*	-	-	-	-	*-536.6%*	*-1390.1%*
EPS	($1.64)	($3.44)	($0.80)	($0.14)	($0.26)	($0.13)	($1.22)	($0.18)	($0.16)	($0.16)	($0.20)	($0.69)	($0.70)
YOY Growth	*1956.5%*	*110.0%*	*834.7%*	*-84.8%*	*-54.3%*	*-92.3%*	*-64.7%*	*-78.1%*				*-42.9%*	*0.3%*
Diluted Shares O/S	2,984	3,881	4,542	5,187	6,032	6,616	5,594	6,720	7,610	7,617	7,620	7,392	8,655

Brian Marckx, CFA

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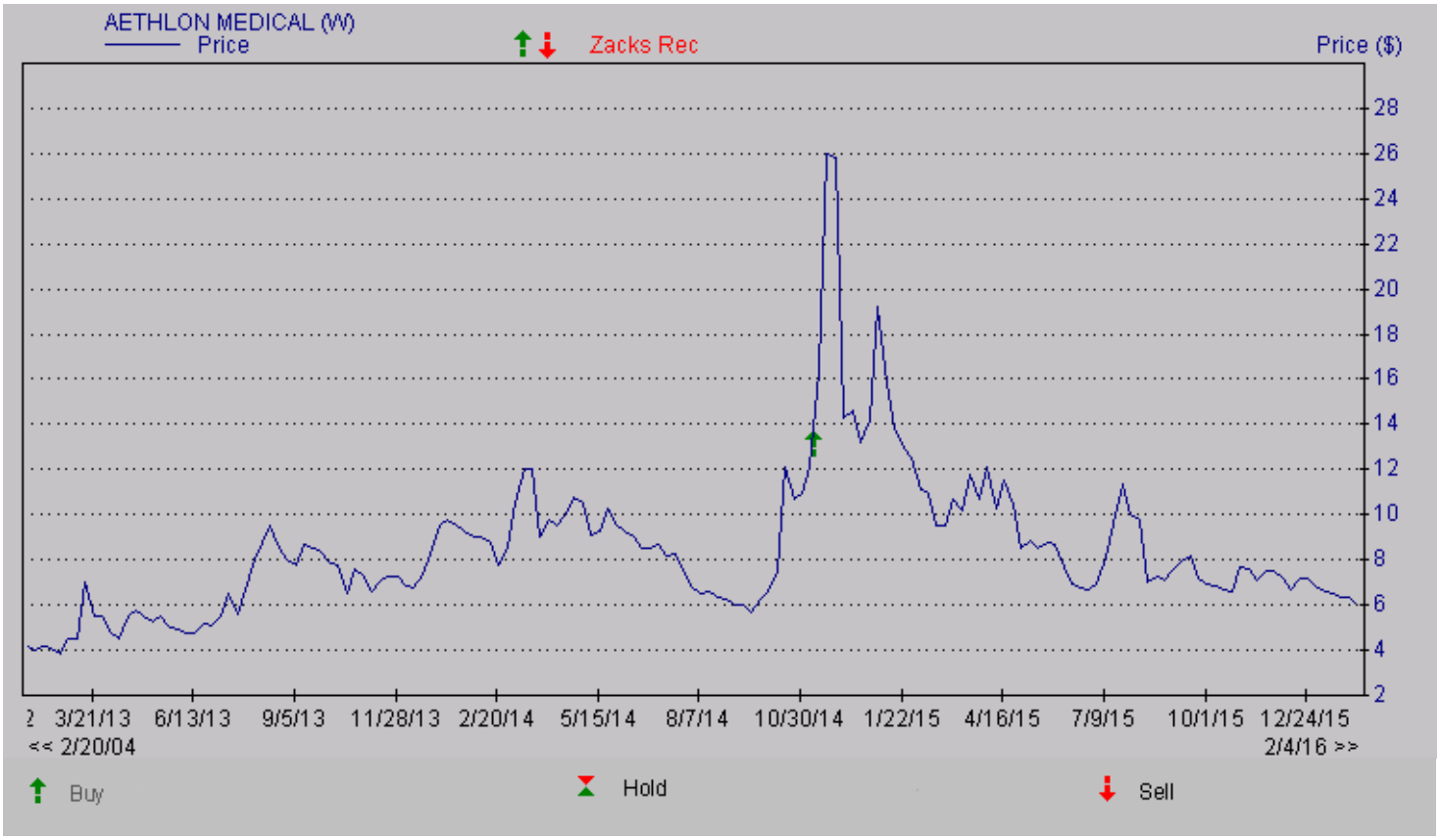

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