Zacks Small-Cap Research

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Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com

10 S. Riverside Plaza, Ste 1600, Chicago, IL 60606

Aethlon Medical (AEMD-OTCQB)

AEMD: Upgrading to Buy on Operational, Financial Progress

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/11/2014
Current Price (11/11/14)	$0.27
Target Price	**$0.45**

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 just got FDA and IRB approvals to run a human study in HCV which is a major milestone. Study to commence in near term.
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. First Ebola patient treated with Hemopurifier has recovered.
While we have had significant concerns about risks such as a previously shaky balance sheet and reliance on a single target market, AEMD's substantive progress in allaying these concerns prompted our upgrade in recommendation from Neutral to Outperform.

SUMMARY DATA

52-Week High	**$0.31**
52-Week Low	**$0.10**
One-Year Return (%)	**96.43**
Beta	**1.38**
Average Daily Volume (sh)	**2,561,664**
Shares Outstanding (mil)	**295**
Market Capitalization ($mil)	**$81**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**16**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med-Hmo**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2013	0.2 A	0.4 A	0.2 A	0.4 A	1.2 A
2014	0.2 A	0.6 A	0.1 A	0.7 A	1.6 A
2015	0.1 A	0.5 A	0.2 E	0.4 E	1.1 E
2016					1.3 E

Earnings per Share

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2013	-$0.01 A	-$0.01 A	$0.00 A	-$0.02 A	-$0.03 A
2014	-$0.00 A	-$0.02 A	-$0.01 A	-$0.03 A	-$0.07 A
2015	-$0.02 A	-$0.00 A	-$0.00 E	-$0.00 E	-$0.03 E
2016					-$0.02 E

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

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WHAT'S NEW….

Q2 10-Q Filed (ending 9/30/2014)
Aethlon filed their 10-Q for the fiscal second quarter ending 9/30/2014. Revenue was $479k, well ahead of our $254k estimate as a result of AEMD recognizing more revenue from the year-3 contract during the quarter then we had anticipated. In total, AEMD booked $445k in DARPA related revenue in Q2 (reflecting three year-3 milestones) and $34k from the Battelle subcontract, compared to our $197k (we forecast only one milestone payment in Q2) and $57k respective estimates.

Through the end of fiscal Q2 2015 AEMD had billed approximately $4.5M under the DARPA awards which represents $1.97 million under the initial year-1 contract, $1.6 million under the year-2 contract and $905k under the year-3 contract, the latter which was awarded to the company in September 2013 and initially was to pay up to $1.53 million if all eight milestones are met. Through Q2 AEMD has billed six of the eight year-3 milestones. AEMD began work on the Battelle subcontract in early April 2013 and through Q2 has booked a total of $243k in revenue related to this.

In September 2014 AEMD announced that they were awarded the year-4 DARPA contract which will pay the company $669k if all three milestones are met. DARPA has the option of entering into the remainder of the proposed contract, that is, for year five. AEMD recently noted that due to budget restrictions, DARPA has reduced the scope of AEMD's contract for years three through five. The three through five year contracts were initially worth ~$3.2M. Due to the budget change, this amount is now ~$2.4M (the breakdown per contract-year was not disclosed). We had already adjusted our model to account for this change. We currently model approximately $950k in DARPA related revenue in the current fiscal year.

We also continue to look for additional, although relatively minimal revenue from the Battelle contract throughout fiscal 2015. As a reminder, AEMD's subcontract is a time and materials contract so the total that AEMD will eventually bill will not be known until their work is completed. We do, however, think it's likely that there will be additional revenue contribution from this contract.

Q2 operating expenses were $1.1M, slightly better than our $1.2M estimate. Aethlon has done a good job with controlling expenses and done so in concert with DARPA's announcement of the ~$800k reduction in aggregate contract amounts. Operating loss was $601k compared to our $942k estimate - the difference mostly related to earlier than modeled recognition of the DARPA milestones. Net income and EPS, excluding $210k in non-cash debt extinguishment and warrant expenses, was ($680)k and ($0.00), compared to our ($1.0)M and ($0.00) estimates.

Balance Sheet / Cash Balance
A significant highlight over the last few quarters has been the accelerated pace that AEMD has cleaned up their balance sheet. This included converting a significant amount of debt to equity, extending the maturity on other debt and a resultant reclassification of a large derivative liability balance to equity.

Since just early February of this year, AEMD has reduced the aggregate amount of debt that is past due from approximately $2.1M (plus ~$1.1M in accrued interest) to just $473k (plus ~$471k in accrued interest) through the end of September. This resulted from the conversion of debt to equity as well as extending the maturity of some debt which had previously been classified as past due. Subsequent to Q2 quarter-end, the company paid off an additional $383k in past due debt with cash, leaving the past due debt balance at just ~$90k. Pro forma for debt repayments subsequent to Q2 quarter-end, total debt balance (including that owed to related parties) was approximately $2.1M, down from $3.4M at the end of fiscal Q3 (12/31/2013).

As we have noted in our ongoing coverage of AEMD, their historical significant past due debt balance had kept their risk profile elevated. And while the debt conversions and related amendments will significantly increase the share outstanding count, this recent de-leveraging has provided meaningful de-risking in our opinion. This, along with positive and substantive operational progress that the company has made over the recent past, figured into our upgraded recommendation on AEMD.

Pro forma for the post-Q2 cash debt repayment and cash collections from the DARPA and Battelle contracts, AEMD had approximately $400k in cash and equivalence at Q2 quarter-end. Cash used in operating activities was $631k in Q2. AEMD raised $350k during Q2 through the issuance of common stock. We continue to expect cash

generated from government and other contracts along with additional funds raised through the sale of securities to fund the company over the near-to-mid term.

Operational Update:
Aside from AEMD's continued focus and success with cleaning up their balance sheet and reducing the amount of non-performing debt, the company continues to make other progress on the operational front as well. At the forefront, in our opinion, is expansion of the potential applications for Hemopurifier and positive developments at ESI. While only recently AEMD's almost sole focus for application of the device was in HCV, the company has rapidly broadened their scope of potential indications and made what we believe is substantive progress in that regard. AEMD has also made recent progress in moving its HCV program forward including nearing commencement of the U.S.-based feasibility clinical study.

Ebola Could Offer A New Opportunity
AEMD has moved very quickly with the recent Ebola outbreak in West Africa in terms of seizing an opportunity to assess Hemopurifier in treatment of the virus. While AEMD had already demonstrated Hemopurifier can capture a significant amount of the Ebola virus, this was accomplished only in in-vitro studies. Human application, until this recent outbreak, was difficult given the issue of finding patients.

In mid-October AEMD announced that Hemopurifier was being used on an Ebola patient for the first time. Introduction of Hemopurifier was made possible by a special approval from the German Federal Institute for Drugs and Medical Devices. The patient, a Ugandan doctor who contracted the virus in Sierra Leone, was treated at Frankfurt Hospital in Germany. About three weeks later the company announced that the hospital reported that the patient has undetectable levels of Ebola and is expected to make a full recover.

AEMD will present the treatment findings at the American Society of Nephrology (ASN) Annual Meeting on November 14th during a special session on Ebola. The data presentation, which will conducted by the Chief of Nephrology at the hospital where the patient was treated, will include pre- and post-treatment patient viral load and quantity of Ebola virus captured in the Hemopurifier during treatment. This data may provide some early insight into the utility and effectiveness of Hemopurifier in treatment of Ebola. If indicated to be efficacious, application for Hemopurifier in treatment of Ebola could offer a significant and potentially very near-term opportunity for Aethlon.

Aethlon is also looking to introduce Hemopurifier treatment for Ebola in the U.S. and announced in late October that they will offer the treatment under FDA compassionate use access to physicians in the U.S. that request it. AEMD will submit to the FDA the data from the ASN presentation to further support the potential use of the device in the U.S. for Ebola.

In a similar vein as Ebola, AEMD is also now looking at treatment of Dengue Fever and in September announced that they entered an agreement with Qualtran, LLC, a CRO that AEMD worked with on their HCV studies in India. Dengue Fever effects approximately 100 million people/year but less than 4,000 in the U.S. The virus, similar to Ebola, is very difficult to treat and can be lethal.

HCV Study Nearing Commencement
While kick-off of the U.S. HCV study has been drawn out longer than expected, we think this may soon happen. AEMD had been awaiting IRB approval to initiate the study at DaVita MedCenter Dialysis in Houston - which they finally received in early September. If all goes well in the study, the follow-on game plan is expected to include a larger pivotal studies in HCV as well as potentially other diseases such as HIV and cancer.

Potential Application in Cancer Gaining More Traction
Aethlon has in the past alluded to the possibility of pursuing development of Hemopurifier for certain cancers. Cancer, which until recently was considered somewhat of a backburner application, has since evolved into an area that Aethlon expects to pursue more aggressively. The company now hopes to file an IDE for treatment of cancer. AEMD has not disclosed what or which cancer types it expects to initially pursue in clinical studies, although as we note below, Hemopurifier could potentially have utility in various cancers.

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-related studies could potentially be on the near-to-mid term calendar. And the relationship with DaVita Clinical Research and Dr. Fadem could potentially expand beyond just HCV. The DaVita MedCenter is in close proximity to MD Anderson Cancer Center which could provide convenient logistics for developing cancer-related studies with Hemopurifier.

AEMD has presented data from preclinical studies at industry conferences that have shown Hemopurifier can capture exosomes of various cancers including breast, melanoma, ovarian and colorectal. Specific to melanoma, a study led by Cornell University found that exosomes released by melanoma cancer cells facilitated the spread of the disease throughout the body and to other organs and bones. There was also a predictive relationship between exosome levels and severity of cancer with late-stage (IV) patients presenting with much greater exosomes levels compared to earlier stage patients. This indicates that removal of exosomes from circulation could reduce progression of the deleterious effects of melanoma to other parts of the body and potentially improve patient outcomes.

ESI Investigating Brain-Specific Biomarkers

In September 2013 AEMD announced the launch of Exosome Sciences (ESI), a subsidiary that the company had previously formed to pursue other exosome-related applications for their technology. ESI was revived and charged with investigating exosomes' role in the progression of cancer and infectious and other diseases.

In March AEMD announced that ESI has been investigating certain brain-specific biomarkers and whether they can be identified in circulating exosomes. ESI has isolated the brain-specific biomarkers tau, beta-amyloid, glycoprotein A2B5 and S100B in the circulatory system - previously only identified in cerebrospinal fluid. These biomarkers have been shown to be associated with Alzheimer's Disease (beta-amyloid), Chronic Traumatic Encephalopathy (tau) and traumatic brain injury. There is currently no cure for these disorders and identifying their presence is often not possibly until either well into their progression or, in the case of Chronic Traumatic Encephalopathy (CTE), until an autopsy is done. CTE has received significant mainstream media attention of late as it been associated with head injuries of NFL players and been implicated as a cause for severe depression and some resultant suicides.

Then in late September AEMD announced that they and ESI entered into a collaboration with Boston University's CTE Center in development of a blood-based diagnostic that would be able to identify CTE in living individuals. Development of an accurate test for CTE in living individuals would be a breakthrough for diagnosing the condition and could lead to improvement in care.

ESI will use 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 (Diagnosing and Evaluating Traumatic Encephalopathy Using Clinical Tests) study. The study is the first on CTE funded by the NIH.

Upgrading Recommendation to Outperform
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. study, scoring additional government grants and broadening into what we believe are more commercializable and attractive markets for Hemopurifier. The totality of which has culminated in a degree of de-risking that we believe warranted another reduction in our valuation discount rate, which resulted in a target price for AEMD that has prompted us to upgrade our recommendation from Neutral (Hold) to Outperform (Buy).

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 as well as directly from ESI, our model is subject to updating based on successful further progress. Ebola, in particular, could present a near-term additional revenue opportunity.

We now use a market discount rate instead of the premium rate we had used in the past to compensate for what we believed was higher than average risk. 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 $0.45/share. The stock currently trades in the mid-$0.20's, which we think undervalues the company. We are moving our per share price target to $0.45 and our recommendation from Neutral to Outperform.

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.

PROJECTED INCOME STATMENT

Aethlon Medical, Inc.

	2012 A	2013 A	Q1 A	Q2 A	Q3 A	Q4 A	2014 A	Q1 A	Q2 A	Q3 E	Q4 E	2015 E	2016 E
Revenue	$1,359.6	$1,230.0	$195.6	$644.9	$76.3	$707.0	$1,623.8	$51.3	$479.1	$183.0	$419.0	$1,132.4	$1,304.0
YOY Growth	-	*-9.5%*	*-9.8%*	*61.2%*	*-63.4%*	*74.8%*	*32.0%*	*-73.8%*	*-25.7%*	*139.8%*	*-40.7%*	*-30.3%*	*15.2%*
Cost of Goods Sold	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0					$0.0	$0.0
Gross Income	$1,359.6	$1,230.0	$195.6	$644.9	$76.3	$707.0	$1,623.8	$51.3	$479.1	$183.0	$419.0	$1,132.4	$1,304.0
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	$3,385.0	$3,365.4	$641.5	$581.1	$766.3	$1,181.6	$3,170.4	$876.3	$829.9	$866.0	$709.0	$3,281.2	$3,600.0
% SG&A	*249.0%*	*273.6%*	*328.0%*	*90.1%*	*1004.1%*	*167.1%*	*195.2%*	*1708.3%*	*173.2%*	*473.2%*	*169.2%*	*289.8%*	*276.1%*
R&D	$1,089.0	$1,440.0	$337.9	$293.6	$542.4	$335.1	$1,509.0	$347.0	$250.4	$487.0	$524.0	$1,608.4	$2,500.0
% R&D	*80.1%*	*117.1%*	*172.8%*	*45.5%*	*710.7%*	*47.4%*	*92.9%*	*676.5%*	*52.3%*	*266.1%*	*125.1%*	*142.0%*	*191.7%*
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	($3,114.3)	($3,575.4)	($783.8)	($229.8)	($1,232.3)	($809.7)	($3,055.6)	($1,172.0)	($601.2)	($1,170.0)	($814.0)	($3,757.2)	($4,796.0)
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-367.8%*
Loss on extinguishment of debt	$77.3	$139.8	$22.8	$17.5	$0.0	$0.0	$40.3	$2,453.6	$208.9	$0.0	$0.0	$2,662.5	$0.0
(Gain)/ loss on derivative liability	$766.9	$44.7	($609.1)	$2,992.0	($78.2)	$6,242.3	$8,547.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Interest (income), net	$3,792.7	$1,107.1	$106.0	$110.4	$113.4	$957.3	$1,287.2	$78.7	$78.1	$88.0	$85.0	$329.8	$255.0
Other expense	$360.2	$25.0	$0.0	$0.0	$1,000.0	($491.4)	$508.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($8,111.4)	($4,892.0)	($303.5)	($3,349.7)	($2,267.6)	($7,517.9)	($13,438.6)	($3,704.3)	($888.2)	($1,258.0)	($899.0)	($6,749.5)	($5,051.0)
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	($8,111.4)	($4,892.0)	($303.5)	($3,349.7)	($2,230.6)	($7,473.2)	($13,356.9)	($3,655.9)	($847.4)	($1,258.0)	($899.0)	($6,660.4)	($5,051.0)
Net Margin	-	-	-	-	-	-	-	-	-	-	-	*-588.2%*	*-387.3%*
EPS	($0.08)	($0.03)	($0.00)	($0.02)	($0.01)	($0.03)	($0.07)	($0.02)	($0.00)	($0.00)	($0.00)	($0.03)	($0.02)
YOY Growth	-	*-58.9%*	*-78.6%*	*81.7%*	*-669.2%*	*110.6%*	*110.0%*	*834.7%*	*-81.7%*	*-59.9%*	*-91.0%*	*-63.2%*	*-34.1%*
Diluted Shares O/S	101,766	149,224	176,222	187,644	198,153	214,217	194,059	227,113	259,370	279,000	285,000	262,621	302,000

Brian Marckx, CFA

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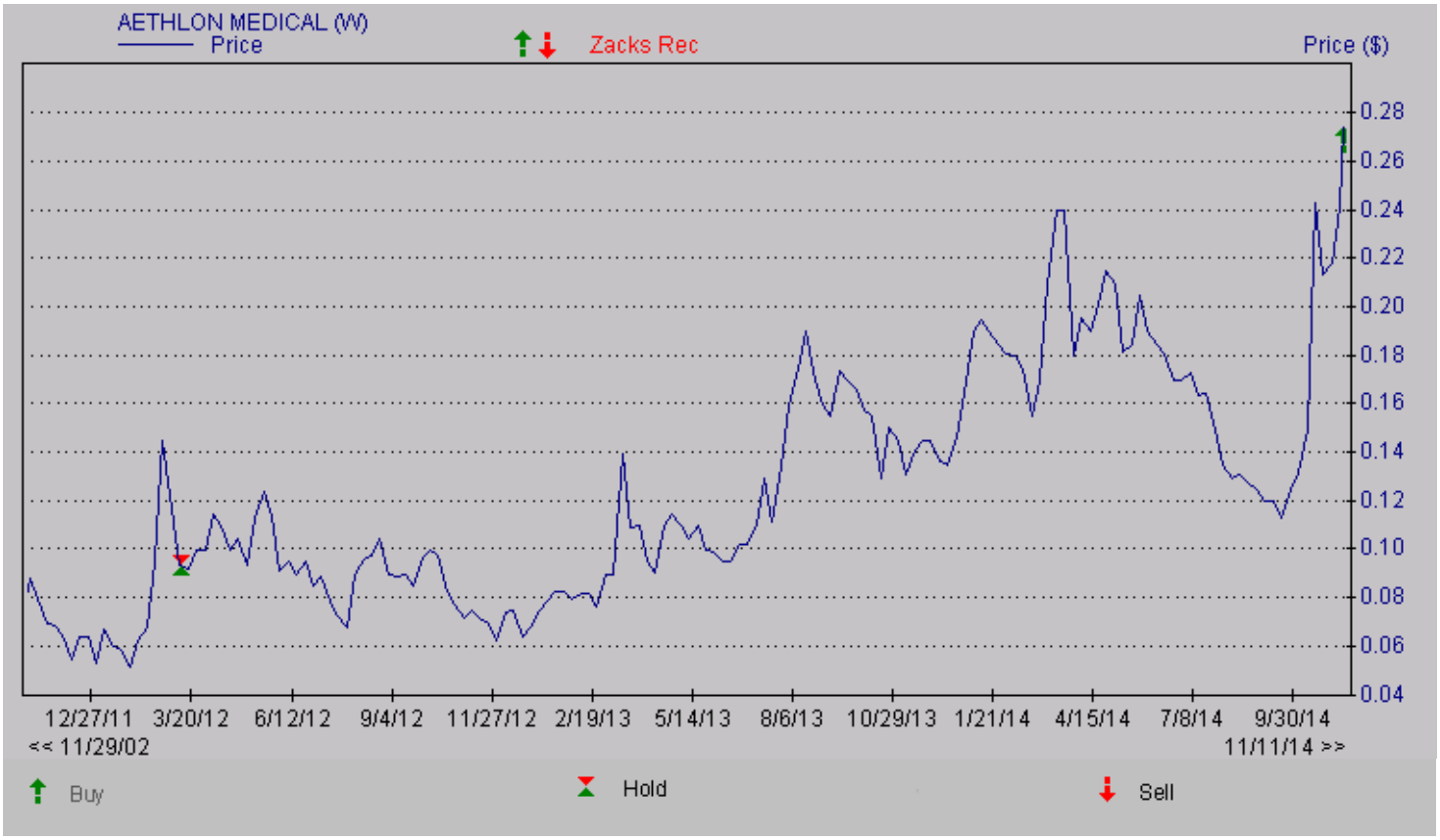

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