AETHLON MEDICAL INC
Form 424B3
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Registration No. 333-201334

PROSPECTUS

Aethlon Medical, Inc.

24,750,000 Shares of Common Stock

This prospectus relates to the following common stock that may be sold from time to time by the selling stockholders identified in this prospectus:

- 11,000,000 shares of common stock; and

- 13,750,000 shares of common stock underlying common stock purchase warrants at an exercise price of $0.30 per share.

All of the common stock covered by this prospectus is being sold by the selling stockholders for their own account. We will not receive any proceeds from the sale of these shares other than proceeds, if any, from the exercise of warrants to purchase shares of our common stock. If all of the warrants are exercised for cash, we will receive a total of $4,125,000 in gross proceeds, which we expect to use for general corporate purposes. We cannot assure you that any warrants will be exercised for cash. The selling stockholders may offer and sell the shares covered by this prospectus at prevailing prices quoted on the OTCQB Marketplace or at privately negotiated prices. The selling stockholders may sell the shares directly or through underwriters, brokers or dealers. The selling stockholders will bear any applicable sales commissions, transfer taxes and similar expenses. We will pay all other expenses incident to the registration of the shares. See “Plan of Distribution” on page 28 for more information on this topic.

Our common stock is quoted on the OTCQB Marketplace under the symbol “AEMD.” On January 28, 2015, the last quoted sale price of our common stock as reported on the OTCQB Marketplace was $0.26 per share.

Investing in our securities involves significant risks, including those set forth in the "Risk Factors" section of this prospectus beginning at page 4.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is January 28, 2015.

AETHLON MEDICAL, INC.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission for the selling stockholders referred to in this prospectus. Under the registration statement, once effective, the selling stockholders may offer and sell from time to time up to 24,750,000 shares of our common stock. This prospectus does not contain all of the information included in the registration statement. The registration statement filed with the Securities and Exchange Commission includes exhibits that provide more details about the matters discussed in this prospectus.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this document, regardless of the time of delivery of this prospectus or the time of issuance or sale of any securities. Our business, financial condition, results of operations and prospects may have changed since that date. You should read this prospectus in its entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the section of this prospectus entitled "Where You Can Find More Information."

For investors outside the United States, we have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights important information about our business and about this offering. This summary does not contain all of the information that you should consider before making an investment decision. You should carefully read the entire prospectus, including the information set forth in the section entitled "Risk Factors."

Summary of our Business

Our mission is to create innovative medical devices that address unmet medical needs in cancer, infectious disease, and other life-threatening conditions. Our Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system provides a platform to develop medical devices that target the selective removal of disease-promoting particles from the circulatory system. At present, the Aethlon ADAPT product pipeline includes the Aethlon Hemopurifier® to

address infectious disease and cancer, and a medical device being developed under a 5-year contract from the Defense Advanced Research Projects Agency to reduce the incidence of sepsis in combat-injured soldiers.

In June 2013, the U.S. Food and Drug Administration approved an investigational device exemption that allows us to initiate human feasibility studies of our first device, the Aethlon Hemopurifier, in the U.S. We have initiated patient recruitment for the study at the DaVita Dialysis Medical Center in Houston, Texas. In the treatment of infectious diseases, the Hemopurifier is designed for the single-use removal of viruses and shed glycoproteins from circulation. In cancer-related therapy situations, we are exploring the potential use of the Hemopurifier to remove tumor-secreted exosomes, which promote cancer progression. *In vitro* studies have demonstrated that our Hemopurifier can capture exosomes underlying a broad-spectrum of cancer indications. To support our endeavors, we applied for and have received patent protection for the capture of tumor-secreted exosomes.

Under our approved feasibility study protocol, we will enroll ten end-stage renal disease patients who are infected with the Hepatitis-C virus to demonstrate the safety of Hemopurifier therapy. Upon successful completion of this study, we will be able to initiate further stage studies required for market clearance to treat Hepatitis-C and other viral pathogens.

In May 2011, we introduced and began marketing the Aethlon ADAPT system. On September 30, 2011, we entered into a $6.8 million multi-year contract with the Defense Advanced Research Projects Agency. Under this contract, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

In addition, in 2009 we formed Exosome Sciences, Inc., which today is a majority-owned diagnostic subsidiary focused on identifying and monitoring neurological conditions and cancer. We commenced formal operations of Exosome Sciences, Inc. in 2013.

Since inception, we have primarily financed our operations through the private placement of our debt and equity securities. At September 30, 2014, we had current assets of approximately $892,189, including cash on hand, and current liabilities of approximately $3,387,956. Between October 1, 2014 and December 31, 2014, we raised aggregate proceeds of $4,083,579 through equity issuances and raised $415,000 through the issuance of convertible notes. In addition, between October 1, 2014 and December 31, 2014, we eliminated $988,361 of convertible note debt from our balance sheet. We believe we have sufficient cash to fund the safety phase of our planned clinical trials in the U.S.; however, we will need to raise additional capital to fully fund the U.S. trials and continue our other research and development activities in the U.S. and abroad.

Risks Associated with our Business

We have experienced substantial operating losses since inception. As of September 30, 2014, we had an accumulated deficit of $79,335,907, which included losses of approximately $4,503,350 and $3,653,168 for the six months ended September 30, 2014 and 2013, respectively. Historically, our losses have resulted principally from costs incurred in the research and development of our medical devices, and general and administrative expenses, which together were approximately $2,303,571 and $1,854,075 for the six months ended September 30, 2014 and 2013, respectively. We may continue to incur losses in the future. In part due to these losses, our 2014 audited consolidated financial statements have been prepared assuming we will continue as a going concern, and the auditors' report on those financial statements express substantial doubt about our ability to continue as a going concern.

Although we have made substantial progress in the development and testing of our devices, and have begun to generate revenue under our contract with the Defense Advanced Research Projects Agency as we meet billable milestones under such contract, we are not yet able to commercialize our devices and may never obtain the approvals necessary to commercialize our products or technologies in the U.S. or elsewhere. Our contract with the Defense

Advanced Research Projects Agency is time limited. The Defense Advanced Research Projects Agency may determine to terminate our contract, and we cannot assure you that we will enter into any new government contracts with the Department of Defense or otherwise. We compete with U.S. and foreign companies that have greater scientific and organizational resources, market presence and financial backing than we have. We may be unable to obtain U.S. Food and Drug Administration or international clearance of the Hemopurifier. Even if we do achieve such regulatory clearances, we may be unable to successfully manufacture, market and sell our devices in the U.S. or elsewhere. These risks and others are discussed more fully in the section of this prospectus entitled “Risk Factors” immediately following this prospectus summary. You should read these risks before you invest in our common stock.

Corporate History

On March 10, 1999, Aethlon, Inc., a California corporation, Hemex, Inc., a Delaware corporation and the accounting predecessor to Aethlon, Inc., and Bishop, Inc., a publicly traded company, completed an Agreement and Plan of Reorganization structured to result in Bishop, Inc.'s acquisition of all of the outstanding common shares of Aethlon, Inc. and Hemex, Inc. Under the plan's terms, Bishop, Inc. issued shares of its common stock to the stockholders of Aethlon, Inc. and Hemex, Inc. such that Bishop, Inc. then owned 100% of each company. Upon completion of the transaction, Bishop, Inc. was renamed Aethlon Medical, Inc. In 2009, we formed Exosome Sciences, Inc., which today is a majority-owned diagnostic subsidiary focused on identifying and monitoring neurological conditions and cancer. We commenced formal operations of Exosome Sciences, Inc. in 2013.

Our executive offices are located at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123. Our telephone number is (858) 459-7800. Exosome Sciences, Inc. maintains offices and laboratories at 11 Deer Park Drive, South Brunswick, New Jersey 08810. Our website address is www.aethlonmedical.com. Our website and the information contained on our website are not incorporated into this prospectus or the registration statement of which it forms a part.

Private Placement of Common Stock and Warrants

On December 2, 2014, we completed a private placement of units, each unit being comprised of one share of common stock, $0.001 par value per share, and a warrant to purchase 1.2 shares of our common stock at an exercise price per share of $0.30, with a term of five years from the date of issuance. We sold a total of 11,000,000 units, consisting of 11,000,000 shares of common stock and warrants to purchase 13,200,000 shares of common stock for gross proceeds of $3,300,000 and net proceeds of $3,034,000. We are using the proceeds from the private placement for general corporate purposes. At the closing of the private placement, we issued to Roth Capital Partners, LLC, the placement agent for the transaction, a five-year warrant to purchase up to 550,000 shares of our common stock at an exercise price of $0.30 per share.

As part of the private placement, we entered into a registration rights agreement with the purchasers pursuant to which we agreed to file a registration statement to register for resale the shares of common stock sold in the private placement, including the shares underlying the warrants sold in the private placement, within 20 calendar days following the closing of the private placement. We are required to use our best efforts to cause the registration statement to be declared effective under the Securities Act of 1933, as amended, as soon as practicable, but in no event later than the earlier of (i) January 21, 2015 (or, in the event of a full review by the Securities and Exchange Commission, by February 20, 2015) or (ii) the fifth business day after the date the Securities and Exchange Commission notifies us that the registration statement will not be reviewed or will not be subject to further review. We agreed to use our best efforts to keep the registration statement effective under the Securities Act of 1933, as amended, until the date that all shares covered by the registration statement (i) have been sold thereunder or pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended, or (ii) may be sold without volume or manner-of-sale restrictions pursuant to Rule 144 and without the requirement for us to be in compliance with the

current public information requirement under Rule 144.

The issuance of the shares of common stock and the warrants in connection with the private placement was exempt from registration under the Securities Act of 1933, as amended, pursuant to the exemption for transactions by an issuer not involving a public offering under Section 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

The Offering

Common stock offered by the selling stockholders	Up to 24,750,000 shares
Common stock outstanding	327,739,188 as of December 31, 2014
Terms of the offering	The selling stockholders will determine when and how they sell the common stock offered in this prospectus, as described in "Plan of Distribution."
Use of proceeds	We will not receive any of the proceeds from the sale of the shares of common stock being offered under this prospectus. To the extent that we receive proceeds upon the exercise of the warrants by the selling stockholders, we intend to use any such proceeds for general corporate purposes. If all of the warrants are exercised in full for cash, we would receive $4,125,000. See "Use of Proceeds."
OTCQB Marketplace symbol	AEMD
Risk factors	You should read the "Risk Factors" section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this prospectus, as well as all other information included in all of our other filings, when evaluating us and our business. If any of the following risks actually occurs, our business, financial condition, and results of operations could suffer. In that case, the price of our common stock could decline and you may lose all or part of their investment.

Investing in our common stock is very speculative and involves a high degree of risk. You should carefully consider all of the information in this prospectus before making an investment decision. The following are among the risks we face related to our business, assets and operations. They are not the only risks we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also arise. Any of these risks could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of our common stock. You should not purchase our shares unless you can afford to lose your entire investment.

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Risks Relating to Our Financial Position

We have incurred significant losses and expect to continue to incur losses for the foreseeable future.

We have never been profitable. While we have generated revenues during the fiscal years ended March 31, 2013 and March 31, 2014, in the amounts of $1,230,004, and $1,623,769, respectively, primarily from our contract with the Defense Advanced Research Projects Agency, our revenues continue to be insufficient to cover our cost of operations. Future profitability, if any, will require the successful commercialization of our Hemopurifier technology, other products that may emerge from our Aethlon ADAPT platform or from additional government contract or grant income. We cannot assure you when or if we will be able to successfully commercialize one or more of our products, or if commercialization is successful, whether we will ever be profitable.

We have received a qualification from our auditors regarding our ability to continue as a going concern.

In their report accompanying our financial statements for our fiscal year ended March 31, 2014, our independent registered public accounting firm noted, in an explanatory paragraph, that we have a significant accumulated deficit and a working capital deficit, and that a substantial amount of additional capital will be necessary to advance the development of our products to the point at which we may become commercially viable. Our independent registered public accounting firm stated that those conditions raised substantial doubt about our ability to continue as a going concern. If we are unable to continue as a going concern, we may have to liquidate our assets, and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. In addition, the inclusion of an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern and our lack of cash resources may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

We will require additional financing to sustain our operations, and without it, we will not be able to continue operations.

We will require additional financing to complete our planned 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. In addition, as we expand our activities, our overhead costs to support personnel, laboratory materials and infrastructure will increase. Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms, if at all, when we require it, we may be unable to support our research and U.S. Food and Drug Administration clearance activities including our planned clinical trials. The failure to implement our research and clearance activities would have a material adverse effect on our ability to commercialize our products. In addition, if we do not raise operating capital on terms acceptable to us, we may be forced to cease operations.

We will need to raise additional funds through debt or equity financings in the future to achieve our business objectives and to satisfy our cash obligations, which would dilute the ownership of our existing stockholders.

We will need to raise additional funds through debt or equity financings in order to complete our ultimate business objectives, including funding working capital to support development and regulatory clearance of our products. We also may choose to raise additional funds in debt or equity financings if they are available to us on reasonable terms to increase our working capital and to strengthen our financial position. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing stockholders, which could be substantial. Also, new investors may require that we and certain of our stockholders enter into voting arrangements that give them additional voting control or representation on our Board of Directors.

Risks Related to Our Business Operations

We face intense competition in the medical device industry.

We compete with numerous U.S. and foreign companies in the medical device industry, and many of our competitors have greater financial, personnel and research and development resources than we do. Our competitors are developing vaccine candidates, which could compete with the Hemopurifier medical device candidates we are developing. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases we target that:

- are more effective;
- have fewer or less severe adverse side effects;
- are better tolerated;
- are more adaptable to various modes of dosing;
- are easier to administer; or
- are less expensive than the products or product candidates we are developing.

Even if we are successful in developing the Hemopurifier and other Aethlon ADAPT based-products, and obtain U.S. Food and Drug Administration and other regulatory approvals necessary for commercializing them, our products may not compete effectively with other successful products. Researchers are continually learning more about diseases, which may lead to new technologies for treatment. Our competitors may succeed in developing and marketing products that are either more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed. Our competitors include fully integrated pharmaceutical companies and biotechnology companies as well as universities and public and private research institutions. Many of the organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, greater experience in product development and in obtaining regulatory approvals, and greater marketing capabilities than we do. If our competitors develop more effective pharmaceutical treatments for infectious disease or cancer, or bring those treatments to market before we can commercialize the Hemopurifier for such uses, we may be unable to obtain any market traction for our products, or the diseases we seek to treat may be substantially addressed by competing treatments. If we are unable to successfully compete against larger companies in the pharmaceutical industry, we may never generate significant revenue or be profitable.

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We have limited experience in identifying and working with large scale contracts with medical device manufacturers; manufacture of our devices must comply with good manufacturing practices in the U.S.

To achieve the levels of production necessary to commercialize our Hemopurifier and other future Aethlon ADAPT-based products, we will need to secure large scale manufacturing agreements with contract manufacturers which comply with good manufacturing practice standards and other standards prescribed by various federal, state and local regulatory agencies in the U.S. and any other country of use. We have limited experience coordinating and overseeing the manufacture of medical device products on a large scale. There can be no assurance that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. In addition, there can be no assurances that we will be able to adequately finance the manufacture and distribution of our products on terms acceptable to us, if at all. If we cannot successfully oversee and finance the manufacture of our products when they have obtained regulatory clearances, we may never generate revenue and we may never be profitable.

Our Aethlon ADAPT technology may become obsolete.

Our Aethlon ADAPT products may be made unmarketable by new scientific or technological developments where new treatment modalities are introduced that are more efficacious and/or more economical than our Aethlon ADAPT products. The homeland security industry is growing rapidly with many competitors that are trying to develop products or vaccines to protect against infectious disease. Any one of our competitors could develop a more effective product which would render our technology obsolete. Further, our ability to achieve significant and sustained penetration of our key target markets will depend upon our success in developing or acquiring technologies developed by other companies, either independently, through joint ventures or through acquisitions. If we fail to develop or acquire, and manufacture and sell, products that satisfy our customers' demands, or we fail to respond effectively to new product announcements by our competitors by quickly introducing competitive products, then market acceptance of our products could be reduced and our business could be adversely affected. We cannot assure you that our products will remain competitive with products based on new technologies.

Our use of hazardous materials, chemicals and viruses exposes us to potential liabilities for which we may not have adequate insurance.

Our research and development involves the controlled use of hazardous materials, chemicals and viruses. The primary hazardous materials include chemicals needed to construct the Hemopurifier cartridges and the infected plasma samples used in preclinical testing of the Hemopurifier. All other chemicals are fully inventoried and reported to the appropriate authorities, such as the fire department, who inspect the facility on a regular basis. We are subject to federal, state, local and foreign laws governing the use, manufacture, storage, handling and disposal of such materials. Although we believe that our safety procedures for the use, manufacture, storage, handling and disposal of such materials comply with the standards prescribed by federal, state, local and foreign regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have had no incidents or problems involving hazardous chemicals or biological samples. In the event of such an accident, we could be held liable for

significant damages or fines.

We currently carry a limited amount of insurance to protect us from damages arising from hazardous materials. Our product liability policy has a $3,000,000 limit of liability that would cover certain releases of hazardous substances away from our facilities. For our facilities, our property policy provides $25,000 in coverage for contaminant clean-up or removal and $50,000 in coverage for damages to the premises resulting from contamination. Should we violate any regulations concerning the handling or use of hazardous materials, or should any injuries or death result from our use or handling of hazardous materials, we could be the subject of substantial lawsuits by governmental agencies or individuals. We may not have adequate insurance to cover all or any of such claims, if any. If we were responsible to pay significant damages for violations or injuries, if any, we might be forced to cease operations since such payments could deplete our available resources.

Our success is dependent in part on a few key executive officers.

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce, our Chief Science Officer, Richard H. Tullis, and our President, Rodney S. Kenley. If one or more of these key executive officers were to leave us, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The unique knowledge and expertise of these individuals would be difficult to replace within the biotechnology field. We can give you no assurances that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to us. Although Mr. Joyce and Dr. Tullis have signed employment agreements providing for their continued service to us, these agreements will not preclude them from leaving us should we be unable to compete with offers for employment they may receive from other companies. We do not currently carry key man life insurance policies on any of our key executive officers which would assist us in recouping our costs in the event of the loss of those officers. If any of our key officers were to leave us, it could make it impossible, if not cause substantial delays and costs, to implement our long term business objectives and growth.

Our inability to attract and retain qualified personnel could impede our ability to achieve our business objectives.

We currently have an extremely small staff comprised of five full-time employees consisting of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, and an executive assistant. We utilize, whenever appropriate, contract and part-time professionals in order to conserve cash and resources. We currently employ two corporate communications groups on a part-time basis. We also use several consultants to assist us with certain portions of the work under our Defense Advanced Research Projects Agency contract. At Exosome Sciences, Inc., our majority-owned subsidiary, we have three full-time employees, comprised of Exosome Sciences, Inc.'s Chief Science Officer, Clinical Research Director, and a research scientist.

Although we believe that these employees and consultants will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer-term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified scientific, technical and managerial personnel. Competition for these individuals, especially in San Diego, California, where many biotechnology companies are located, is intense and we may not be able to attract, assimilate or retain additional highly qualified personnel in the future. We cannot assure you that we will be able to engage the services of such qualified personnel at competitive prices or at all, particularly given the risks of employment attributable to our limited financial resources and lack of an established track record. Also, if we are required to attract personnel from other parts of the U.S. or abroad, we may have significant difficulty doing so due to the high cost of living in the Southern California area and due to the costs incurred with transferring personnel to the area. If we cannot attract and retain qualified staff and executives, we will be unable to develop our products and achieve regulatory clearance, and our business could fail.

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We plan to grow rapidly which will strain our resources; our inability to manage our growth could delay or derail implementation of our business objectives.

We will need to significantly expand our operations to implement our longer-term business plan and growth strategies. We will also be required to manage multiple relationships with various strategic partners, technology licensors, customers, manufacturers and suppliers, consultants and other third parties. This expansion and these expanded relationships will require us to significantly improve or replace our existing managerial, operational and financial systems, procedures and controls; to improve the coordination between our various corporate functions; and to manage, train, motivate and maintain a growing employee base. The time and costs to effectuate these steps may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. We cannot assure you that we will institute, in a timely manner or at all, the improvements to our managerial, operational and financial systems, procedures and controls necessary to support our anticipated increased levels of operations and to coordinate our various corporate functions, or that we will be able to properly manage, train, motivate and retain our anticipated increased employee base. If we cannot manage our growth initiatives, we will be unable to commercialize our products on a large scale in a timely manner, if at all, and our business could fail.

As a public company with limited financial resources undertaking the launch of new medical technologies, we may have difficulty attracting and retaining executive management and directors.

The directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and stockholder claims, as well as governmental and creditor claims which may be made against them, particularly in view of recent changes in securities laws imposing additional duties, obligations and liabilities on management and directors. Due to these perceived risks, directors and management are also becoming increasingly concerned with the availability of directors' and officers' liability insurance to pay on a timely basis the costs incurred in defending such claims. We currently do carry limited directors' and officers' liability insurance. Directors' and officers' liability insurance is expensive and difficult to obtain. If we are unable to continue or provide directors' and officers' liability insurance at affordable rates or at all, it may become increasingly more difficult to attract and retain qualified outside directors to serve on our Board of Directors. We may lose potential independent board members and management candidates to other companies in the biotechnology field that have greater directors' and officers' liability insurance to insure them from liability or to biotechnology companies that have revenues or have received greater funding to date which can offer greater compensation packages. The fees of directors are also rising in response to their increased duties, obligations and liabilities. In addition, our products could potentially be harmful to users, and we are exposed to claims of product liability including for injury or death. We have limited insurance and may not be able to afford robust coverage even as our products are introduced into the market. As a company with limited resources and potential exposures to management, we will have a more difficult time attracting and retaining management and outside independent directors than a more established public or private company due to these enhanced duties, obligations and potential liabilities.

If we fail to comply with extensive regulations of U.S. and foreign regulatory agencies, the commercialization of our products could be delayed or prevented entirely.

Our Hemopurifier products are subject to extensive government regulations related to development, testing, manufacturing and commercialization in the U.S. and other countries. The determination of when and whether a product is ready for large-scale purchase and potential use will be made by the U.S. Government through consultation with a number of governmental agencies, including the U.S. Food and Drug Administration, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the U.S. Food and Drug Administration, or any foreign regulatory agencies, to be commercially marketed and sold. The process of obtaining and complying with U.S. Food and Drug Administration and other governmental regulatory approvals and regulations in the U.S. and in foreign countries is costly, time consuming, uncertain and subject to unanticipated delays. Obtaining such regulatory approvals, if any, can take several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others.

- The U.S. Food and Drug Administration may refuse to approve an application if they believe that applicable regulatory criteria are not satisfied.

- The U.S. Food and Drug Administration may require additional testing for safety and effectiveness.

- The U.S. Food and Drug Administration may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them.

- If regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution.

- The U.S. Food and Drug Administration may change their approval policies and/or adopt new regulations.

Failure to comply with these or other regulatory requirements of the U.S. Food and Drug Administration may subject us to administrative or judicially imposed sanctions, including:

- warning letters;

- civil penalties;

- criminal penalties;

- injunctions;

- product seizure or detention;

- product recalls; and

- total or partial suspension of productions.

Delays in successfully completing our planned clinical trials could jeopardize our ability to obtain regulatory approval.

Our business prospects will depend on our ability to complete clinical trials, obtain satisfactory results, obtain required regulatory approvals and successfully commercialize our Hemopurifier product candidates. Completion of our clinical trials, announcement of results of the trials and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- serious adverse events related to our medical device candidates;

- unsatisfactory results of any clinical trial;

- the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and/or

- different interpretations of our pre-clinical and clinical data, which could initially lead to inconclusive results.

Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our product candidates do not prove to be safe or effective or do not receive required regulatory approvals, our financial results and the commercial prospects for our product candidates will be harmed. Furthermore, our inability to complete our clinical trials in a timely manner could jeopardize our ability to obtain regulatory approval.

The independent clinical investigators upon whom we rely to conduct our clinical trials may not be diligent, careful or timely and may make mistakes in the conduct of our clinical trials all of which could delay our progress.

We depend upon independent clinical investigators to conduct our clinical trials. The investigators are not our employees, and we cannot control the amount or timing of resources that they devote to our product development programs. If independent investigators fail to devote sufficient time and resources to our product development programs, or if their performance is substandard, it may delay U.S. Food and Drug Administration approval of our medical device candidates. These independent investigators may also have relationships with other commercial entities, some of which may compete with us. If these independent investigators assist our competitors at our expense, it could harm our competitive position.

We are and will be exposed to product liability risks, and clinical and preclinical liability risks, which could place a substantial financial burden upon us should we be sued.

Our business exposes us to potential product liability and other liability risks that are inherent in the testing, manufacturing and marketing of medical devices. We cannot be sure that claims will not be asserted against us. A successful liability claim or series of claims brought against us could have a material adverse effect on our business, financial condition and results of operations.

We cannot give assurances that we will be able to continue to obtain or maintain adequate product liability insurance on acceptable terms, if at all, or that such insurance will provide adequate coverage against potential liabilities. Claims or losses in excess of any product liability insurance coverage that we may obtain could have a material adverse effect on our business, financial condition and results of operations.

Our Hemopurifier products may be used in connection with medical procedures in which it is important that those products function with precision and accuracy. If our products do not function as designed, or are designed improperly, we may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of our products to function as designed, or our products are designed inappropriately, we may be subject to lawsuits seeking significant compensatory and punitive damages. The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have recently obtained general clinical trial liability insurance coverage. We cannot give assurances that our insurance coverage will to be adequate or available.

We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any product recall or lawsuit seeking significant monetary damages may have a material effect on our business and financial condition. Any liability for mandatory damages could exceed the amount of our coverage. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

The approval requirements for medical products used to fight bioterrorism are still evolving, and we cannot be certain any products we develop for such uses would meet these requirements.

We are developing product candidates based upon current governmental policies regulating these medical countermeasure treatments. For instance, we intend to pursue U.S. Food and Drug Administration approval of our proprietary pathogen filtration devices to treat infectious agents under requirements published by the U.S. Food and Drug Administration that allow the U.S. Food and Drug Administration to approve certain medical devices used to reduce or prevent the toxicity of chemical, biological, radiological or nuclear substances based on human clinical data to demonstrate safety and immune response, and evidence of effectiveness derived from appropriate animal studies and any additional supporting data. These policies may change suddenly and unpredictably and in ways that could impair our ability to obtain regulatory approval of these products, and we cannot guarantee that the U.S. Food and Drug Administration will approve our proprietary pathogen filtration devices.

The Hemopurifier was used to treat one patient suffering from Ebola, and we have received a supplement to our investigational device exemption to establish protocols to treat Ebola patients in the U.S.; however you should not construe these events as demonstrating that the device is effective in treating Ebola.

In October 2014, physicians at the Frankfurt University Hospital in Frankfurt, Germany administered Hemopurifier therapy in a 6.5-hour treatment session to a patient infected with Ebola. This treatment was made on an emergency basis. The patient was administered Hemopurifier therapy through special approval from The Federal Institute for Drugs and Medical Devices (Bundesinstitut fur Arzneimittel und Medizinprodukte, BfArM), an independent federal higher authority within the portfolio of the Federal Ministry of Health of Germany. While we believe the results of the treatment of the Ebola patient in Germany to be positive with respect to the usage of the Hemopurifier to combat Ebola, no medical organization or regulatory organization, inside or outside the U.S., has cleared the use of the device for Ebola treatment.

In addition, although the U.S. Food and Drug Administration approved a supplement to our investigational device exemption to establish a protocol for the treatment of Ebola patients in the U.S., this approval is very limited and the results of such protocol and potential treatments, if any, cannot be predicted. The usefulness of the Hemopurifier in treating Ebola is still unproven in any clinical or regulatory process in the U.S. or elsewhere. Even if we enroll patients in the Ebola protocol, the results of such treatments may not demonstrate the safety and efficacy of the device, may be equivocal or may otherwise not be sufficient to obtain approval of the Hemopurifier for any uses associated with Ebola. In addition, the approval of the supplement to our investigational device exemption does not in any way ensure clearance or approval of the Hemopurifier device for any purpose. We cannot assure you that the Hemopurifier will be proven to be useful in the treatment of Ebola or that it will ever be approved by U.S. or foreign regulatory agencies for such use, or if approved, successfully commercialized by us for such use. We may never commercialize the Hemopurifier specifically for use in treating Ebola.

Risks Related to Our Intellectual Property and Related Litigation

We rely upon licenses and patent rights from third parties which are subject to termination or expiration.

We rely upon third party licenses for the development of specific uses for our Hemopurifier devices, including in the area of cancer treatment. Specifically, we are researching, developing and testing cancer-related applications for our devices under a license with the London Health Science Center Research, Inc. and Mr. Thomas Ichim. Should any of our licenses be prematurely terminated for any reason, or if the patents and intellectual property owned by such entities that we have licensed should be challenged or defeated by third parties, our research efforts could be materially and adversely affected. We cannot assure you that any of our licenses will continue in force for as long as we require for our research, development and testing of cancer treatments. We cannot assure you that, should our licenses terminate, or should the underlying patents and intellectual property be challenged or defeated, suitable replacements can be obtained or developed on terms acceptable to us, if at all. There is also the related risk that we may not be able to make the required payments under any patent license, in which case we may lose to ability to use one or more of the licensed patents.

We could become subject to intellectual property litigation that could be costly, result in the diversion of management's time and efforts, require us to pay damages, prevent us from selling our commercially available products and/or reduce the margins we may realize from our products .

The medical devices industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Whether a product infringes a patent involves complex legal and factual issues, and the determination is often uncertain. There may be existing patents of which we are unaware that our products under development may inadvertently infringe. The likelihood that patent infringement claims may be brought against us increases as the number of participants in the infectious market increases and as we achieve more visibility in the market place and introduce products to market.

Any infringement claim against us, even if without merit, may cause us to incur substantial costs, and would place a significant strain on our financial resources, divert the attention of management from our core business, and harm our reputation. In some cases, litigation may be threatened or brought by a patent holding company or other adverse patent owner who has no relevant product revenues and against whom our patents may provide little or no deterrence. If we were found to infringe any patents, we could be required to pay substantial damages, including triple damages if an infringement is found to be willful. We also could be required to pay royalties and could be prevented from selling our products unless we obtain a license or are able to redesign our products to avoid infringement. We may not be able to obtain a license enabling us to sell our products on reasonable terms, or at all, and we cannot assure you that we would be able to redesign our products in a way that would not infringe those patents. If we fail to obtain any required licenses or make any necessary changes to our technologies or the products that incorporate them, we may be unable to commercialize one or more of our products or may have to withdraw products from the market, all of which would have a material adverse effect on our business, financial condition and results of operations.

If the combination of patents, trade secrets and contractual provisions upon which we rely to protect our intellectual property is inadequate, our ability to commercialize our products successfully will be harmed.

Our success depends significantly on our ability to protect our proprietary rights to the technologies incorporated in our products. We currently have three issued U.S. patents and twelve pending U.S. patent applications. We also have nine issued international patents and have applied for nine additional international patents. Our issued patents begin to expire in 2019, with the last of these patents expiring in 2027. We rely on a combination of patent protection, trade secret laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these may not adequately protect our rights or permit us to gain or keep any competitive advantage.

The issuance of a patent is not conclusive as to its scope, validity or enforceability. The scope, validity or enforceability of our issued patents can be challenged in litigation or proceedings before the U.S. Patent and Trademark Office or foreign patent offices where our applications are pending. The U.S. Patent and Trademark Office or foreign offices may deny or require significant narrowing of claims in our pending patent applications. Patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. Proceedings before the U.S. Patent and Trademark Office or foreign

offices could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. The laws of some foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S., if at all. Some of our patents may expire before we receive U.S. Food and Drug Administration approval to market our products in the U.S. or we receive approval to market our products in a foreign country. Although we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier treatment technology, we cannot assure you that this protection will be sufficient to protect us during the development of that technology.

Our competitors may successfully challenge and invalidate or render unenforceable our issued patents, including any patents that may issue in the future, which could prevent or limit our ability to market our products and could limit our ability to stop competitors from marketing products that are substantially equivalent to ours. In addition, competitors may be able to design around our patents or develop products that provide outcomes that are comparable to our products but that are not covered by our patents.

We have also entered into confidentiality and assignment of intellectual property agreements with all of our employees, consultants and advisors directly involved in the development of our technology as one of the ways we seek to protect our intellectual property and other proprietary technology. However, these agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements.

In the event a competitor infringes upon any of our patents or other intellectual property rights, enforcing our rights may be difficult, time consuming and expensive, and would divert management's attention from managing our business. We cannot assure you that we will be successful on the merits in any enforcement effort. In addition, we may not have sufficient resources to litigate, enforce or defend our intellectual property rights.

We may rely on licenses for new technology, which may affect our continued operations with respect thereto.

As we develop our technology, we may need to license additional technologies to optimize the performance of our products. We may not be able to license these technologies on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our proposed products. Our inability to obtain any necessary licenses could delay our product development and testing until alternative technologies can be identified, licensed and integrated. The inability to obtain any necessary third-party licenses could cause us to abandon a particular development path, which could seriously harm our business, financial position and results of our operations.

New technology may lead to our competitors developing superior products which would reduce demand for our products.

Research into technologies similar to ours is proceeding at a rapid pace, and many private and public companies and research institutions are actively engaged in the development of products similar to ours. These new technologies may, if successfully developed, offer significant performance or price advantages when compared with our technologies. There is no assurance that our existing patents or our pending and proposed patent applications will offer meaningful protection if a competitor develops a novel product based on a new technology.

If we are unable to protect our proprietary technology and preserve our trade secrets, we will increase our vulnerability to competitors which could materially adversely impact our ability to remain in business.

Our ability to successfully commercialize our products will depend on our ability to protect those products and our technology with domestic and foreign patents. We will also need to continue to preserve our trade secrets. The issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. The patent positions of technology companies, including us, are uncertain and involve complex legal and factual issues. We cannot assure you that our patents will prevent other companies from developing similar products or products which produce benefits substantially the same as our products, or that other companies will not be issued patents that may prevent the sale of our products or require us to pay significant licensing fees in order to market our products.

From time to time, we may need to obtain licenses to patents and other proprietary rights held by third parties in order to develop, manufacture and market our products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially exploit such products may be inhibited or prevented. Additionally, we cannot assure investors that any of our products or technology will be patentable or that any future patents we obtain will give us an exclusive position in the subject matter claimed by those patents. Furthermore, we cannot assure investors that our pending patent applications will result in issued patents, that patent protection will be secured for any particular technology, or that our issued patents will be valid or enforceable or provide us with meaningful protection.

If we are required to engage in expensive and lengthy litigation to enforce our intellectual property rights, such litigation could be very costly and the results of such litigation may not be satisfactory.

Although we have entered into invention assignment agreements with our employees and with certain advisors, and we routinely enter into confidentiality agreements with our contract partners, if those employees, advisors or contract partners develop inventions or processes independently that may relate to products or technology under development by us, disputes may arise about the ownership of those inventions or processes. Time-consuming and costly litigation could be necessary to enforce and determine the scope of our rights under these agreements. In addition, we may be required to commence litigation to enforce such agreements if they are violated, and it is certainly possible that we will not have adequate remedies for breaches of our confidentiality agreements as monetary damages may not be sufficient to compensate us. In addition, we may be unable to fund the costs of such litigation to a satisfactory conclusion, which could leave us without recourse to enforce contracts that protect our intellectual property rights.

Other companies may claim that our technology infringes on their intellectual property or proprietary rights and commence legal proceedings against us which could be time-consuming and expensive and could result in our being prohibited from developing, marketing, selling or distributing our products.

Because of the complex and difficult legal and factual questions that relate to patent positions in our industry, we cannot assure you that our products or technology will not be found to infringe upon the intellectual property or proprietary rights of others. Third parties may claim that our products or technology infringe on their patents, copyrights, trademarks or other proprietary rights and demand that we cease development or marketing of those products or technology or pay license fees. We may not be able to avoid costly patent infringement litigation, which will divert the attention of management away from the development of new products and the operation of our business. We cannot assure investors that we would prevail in any such litigation. If we are found to have infringed on a third party's intellectual property rights, we may be liable for money damages, encounter significant delays in bringing products to market or be precluded from manufacturing particular products or using particular technology.

Other parties may challenge certain of our foreign patent applications. If such parties are successful in opposing our foreign patent applications, we may not gain the protection afforded by those patent applications in particular jurisdictions and may face additional proceedings with respect to similar patents in other jurisdictions, as well as related patents. The loss of patent protection in one jurisdiction may influence our ability to maintain patent protection for the same technology in other jurisdictions.

Risks Related to U.S. Government Contracts

Our revenues are almost entirely derived from one U.S. Government contract.

We have derived and expect for the near future to continue to derive substantially all of our revenue under our Defense Advanced Research Projects Agency contract. If the Defense Advanced Research Projects Agency chooses not to continue our contract in year five (commencing October 1, 2015 through September 30, 2016) of the contract, our revenues could be substantially reduced. In addition, if we are unable to meet any of the Defense Advanced Research Projects Agency contract milestones to the satisfaction of the Defense Advanced Research Projects Agency, if at all, we may not earn payments under the contract. Any reduction in our revenues, or the termination of the Defense Advanced Research Projects Agency contract for any reason, could have a material and adverse effect on our business and operations. In addition, the Defense Advanced Research Projects Agency has the right to unilaterally cancel the contract at any time.

We may not obtain additional U.S. Government contracts to further develop our technology.

The U.S. Government has undertaken commitments to help secure improved countermeasures against bioterrorism and improved medical treatments for U.S. armed forces, and we were successful in entering into one such contract with the Defense Advanced Research Projects Agency. However, we can give no assurances that we will be successful in obtaining additional government grants or contracts. The process of obtaining government contracts is lengthy with the uncertainty that we will be successful in obtaining announced grants or contracts for therapeutics as a medical device technology. Accordingly, we cannot be certain that we will be awarded any additional U.S. Government grants or contracts utilizing our Hemopurifier platform technology.

U.S. Government agencies have special contracting requirements including a right to audit us which create additional risks; ***a negative audit would be detrimental to us.***

Our business plan to utilize the Aethlon ADAPT system is likely to involve contracts with the U.S. Government. Such contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S.

Government to unilaterally:

- suspend or prevent us for a period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- audit and object to our contract-related costs and fees, including allocated indirect costs;
- control and potentially prohibit the export of our products; and
- change certain terms and conditions in our contracts.

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As a U.S. Government contractor, we are required to comply with applicable laws, regulations and standards relating to our accounting practices and would be subject to periodic audits and reviews. As part of any such audit or review, the U.S. Government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, estimating, compensation and management information systems. Based on the results of its audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, if an audit or review uncovers any improper or illegal activity, we would possibly be subject to civil and criminal penalties and administrative sanctions, including termination of our contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. We could also suffer serious harm to our reputation if allegations of impropriety were made against us. Although we have not had any government audits and reviews to date, future audits and reviews could cause adverse effects. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our research and development costs, and some marketing expenses, would possibly not be reimbursable or allowed under such contracts. Further, as a U.S. Government contractor, we would be subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not.

Our Defense Advanced Research Projects Agency Contract is a fixed price contract, which may not adequately cover our costs in performance should those costs increase.

Our contract with the Defense Advanced Research Projects Agency is on a firm fixed price basis, which means that we are required to deliver our products at a fixed price regardless of the actual costs we incur and to absorb any costs in excess of the fixed price. If we have not accurately estimated the costs of expenses to perform the contract, we may not have positive revenue and we may incur losses to cover our costs. We expect that our future contracts, if any, with the U.S. Government also may be fixed price contracts. Estimating costs that are related to performance in accordance with contract specifications is difficult, particularly where the period of performance is over several years. Our failure to anticipate technical problems, estimate costs accurately or control costs during performance of a fixed price contract could reduce the profitability of a fixed price contract or cause a loss, which could in turn harm our operating results.

As a U.S. Government contractor, we are subject to a number of procurement rules and regulations.

Government contractors must comply with specific procurement regulations and other requirements. These requirements, although customary in government contracts, impact our performance and compliance costs. In addition, current U.S. Government budgetary constraints could lead to changes in the procurement environment, including the Department of Defense's recent initiative focused on efficiencies, affordability and cost growth and other changes to its procurement practices. If and to the extent such changes occur, they could impact our results of operations and liquidity, and could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

In addition, failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition. Our failure to comply with these regulations and requirements could also lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs, and foreign corruption. The termination of our government contract as a result of any of these acts could have a negative impact on our results of operations and financial condition and could have a negative impact on our reputation and ability to procure other government contracts in the future.

In fulfilling our U.S. Government contract we depend on a predictable supply of raw materials and components.

We are dependent upon the delivery by suppliers of materials and the assembly by subcontractors of major components and subsystems used in our products in a timely and satisfactory manner and in full compliance with applicable terms and conditions. Some products require relatively scarce raw materials. We are generally subject to specific procurement requirements, which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, we are dependent on sole-source suppliers. If any of these suppliers or subcontractors fails to meet our needs, we may not have readily available alternatives. In addition, some of our suppliers or subcontractors may be impacted by the recent global financial crisis, which could impair their ability to meet their obligations to us. If we experience a material supplier or subcontractor problem, our ability to satisfactorily and timely complete our clinical trial or delivery obligations could be negatively impacted which could result in reduced sales, termination of contracts and damage to our reputation and relationships with clinical trial providers and if applicable, the U.S. Government. We could also incur additional costs in addressing such a problem. Any of these events could have a negative impact on our results of operations and financial condition.

Risks Relating to Our Common Stock, this Offering and Our Corporate Governance

Historically we have not paid dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have never paid cash dividends on our common stock. We intend to retain our future earnings, if any, to fund operational and capital expenditure needs of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Furthermore, future financing instruments may do the same. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for our common stockholders in the foreseeable future.

Our stock price is speculative and there is a risk of litigation.

The trading price of our common stock has in the past and may in the future be subject to wide fluctuations in response to factors such as the following:

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- reduced investor confidence in equity markets, due in part to corporate collapses in recent years;

- speculation in the press or analyst community;

- wide fluctuations in stock prices, particularly with respect to the stock prices for other technology companies;

- announcements of technological innovations by us or our competitors;

- new products or the acquisition of significant customers by us or our competitors;

- changes in interest rates;

- changes in investors' beliefs as to the appropriate price-earnings ratios for us and our competitors;

- changes in recommendations or financial estimates by securities analysts who track our common stock or the stock of other battery companies;

- changes in management;

- sales of common stock by directors and executive officers;

- rumors or dissemination of false or misleading information, particularly through Internet chat rooms, instant messaging, and other rapid-dissemination methods;

- conditions and trends in the battery industry generally;

- the announcement of acquisitions or other significant transactions by us or our competitors;

- adoption of new accounting standards affecting our industry;

- general market conditions;

- domestic or international terrorism and other factors; and

- the other factors described in this section.

Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, there is no assurance that we will not be sued based on fluctuations in the price of our common stock. Defending against such suits could result in substantial cost and divert management's attention and resources. In addition, any settlement or adverse determination of such lawsuits could subject us to significant liability.

Our common stock is subject to the penny stock rules, which could adversely affect your ability to sell our stock.

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the penny stock rules (Section 15(h) of the Securities Exchange Act of 1934, as amended, and Rules 3a51-1 and 15g-1 through 15g-100 promulgated under the Securities Exchange Act of 1934, as amended). The penny stock rules impose additional sales practice requirements on broker-dealers who sell securities to persons other

than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Stockholders should be aware that, according to Securities and Exchange Commission Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Our common stock has had an unpredictable trading volume which means you may not be able to sell our shares at or near asking prices or at all.

Trading in our common shares in the over-the-counter market historically has been volatile and often has been thin, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

The market price for our common stock is volatile; you may not be able to sell our common stock at or above the price you have paid for them, which may result in losses to you.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended December 26, 2014, the high and low closing sale prices of a share of our common stock were $0.57 and $0.10, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, trading in our common shares often has been thin. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a

speculative investment due to our limited operating history, limited amount of revenue, lack of profit to date, and the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as a viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

The Depository Trust Company imposed restrictions upon electronic trading of our common stock, which negatively affected liquidity of the stock and our ability to raise capital.

In September 2011, The Depository Trust Company placed a "chill" on the electronic clearing of trades in our shares which led to some brokerage firms being unwilling to accept certificates and/or electronic deposits of our stock. We have since been successful in lifting the restrictions and our shares now clear electronically making more brokers willing to trade in our common stock. There can be no assurances that that The Depository Trust Company will not again place a chill on our common stock. A chill, if placed on our common stock, would affect the liquidity of our shares which may make it difficult to purchase or sell shares in the open market. It may also have an adverse effect on our ability to raise capital since investors may be unable to resell shares into the market. Our inability to raise capital on terms acceptable to us, if at all, could have a material and adverse effect on our business and operations.

Our directors and officers own or control approximately 13% of our outstanding common shares which may limit your ability to propose new management or influence the overall direction of the business; this concentration of control may also discourage potential takeovers that could otherwise provide a premium to you.

As of December 31, 2014, our officers and directors beneficially own or control approximately 13% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). These persons will have the ability to substantially influence all matters submitted to our stockholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

A large number of our common shares are issuable upon exercise of outstanding convertible securities which, if exercise or converted, would be dilutive to your holdings.

As of December 31, 2014, there are outstanding purchase options and warrants entitling the holders to purchase 100,750,640 common shares at a weighted average exercise price of $0.17 per share. This includes 1,305,230 warrants that are conditional upon the exercise of other warrants or conversion of certain convertible debt instruments. There are 9,590,333 shares underlying promissory notes convertible into common stock at a weighted average exercise price of $0.08.

The exercise price for all of our outstanding options and warrants, or the conversion price of our convertible notes, may be less than your cost to acquire our common shares. In the event of the exercise or conversion of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in us as well as the book value of your common shares. In addition, the holders of the convertible notes, common share purchase options or warrants may sell common shares in tandem with their exercise or conversion of those securities to finance that exercise or conversion, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants or conversion of the notes.

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Our issuance of additional common shares, or convertible securities, would be dilutive to your holdings.

We are entitled under our Articles of Incorporation to issue up to 500,000,000 shares of common stock. We have reserved for issuance 110,416,475 shares of common stock for existing options, warrants and convertible notes. As of December 31, 2014, we have issued and outstanding 327,739,188 shares of common stock. As a result, as of December 31, 2014 we had 61,844,337 common shares available for issuance to new investors or for use to satisfy indebtedness or pay service providers.

Our Board of Directors may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our stockholders based upon such factors as our Board of Directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

Our issuance of additional shares of common stock in satisfaction of services, or to repay indebtedness, would be dilutive to your holdings.

Our Board of Directors may generally issue shares of common stock to pay for debt or services, without further approval by our stockholders based upon such factors that our Board of Directors may deem relevant at that time. For the past four fiscal years (ending March 31, 2014), we issued a total of 71,477,509 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period was 43% and 22.8% for the years ended March 31, 2014 and 2013, respectively. During the period March 31, 2014 to December 31, 2014, we issued a total of 42,502,024 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period was 74%.

For the past four fiscal years (ending March 31, 2014), we issued a total of 11,547,751 shares as payment for services. The average price discount of common stock issued for services during this period, weighted by the number of shares issued was 16.0% and 11.8% for the years ended March 31, 2014 and 2013, respectively. It is likely that we will issue additional securities to pay for services and reduce debt in the future. We cannot give you any assurance that we will not issue additional shares of common stock at various discounts under circumstances we may deem appropriate at the time.

Our officers and directors are entitled to indemnification from us for liabilities under our articles of incorporation, which could be costly to us and may discourage the exercise of stockholder rights.

Our Articles of Incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and stockholders. Our by-laws also require us to indemnify our officers and directors. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees that we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and stockholders.

Our by-laws and Nevada law may discourage, delay or prevent a change of control of our company or changes in our management, would have the result of depressing the trading price of our common stock.

Provisions of Nevada anti-takeover law (NRS 78.378 *et seq.*) could have the effect of delaying or preventing a third party from acquiring us, even if the acquisition arguably could benefit our stockholders. Various provisions of our by-laws may delay, defer or prevent a tender offer or takeover attempt of us that a stockholder might consider in his or her best interest. Our by-laws may be adopted, amended or repealed by the affirmative vote of the holders of at least a majority of our outstanding shares of capital stock entitled to vote for the election of directors, and except as provided by Nevada law, our Board of Directors shall have the power to adopt, amend or repeal the by-laws by a vote of not less than a majority of our directors. The interests of these stockholders and directors may not be consistent with your interests, and they may make changes to the by-laws that are not in line with your concerns.

Our authorized but unissued shares of common stock are available for our Board or Directors to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, however, faced with an attempt to obtain control of us by means of a proxy context, tender offer, merger or other transaction our Board of Directors acting alone and without approval of our stockholders can issue large amounts of capital stock as part of a defense to a take-over challenge.

The existence of the foregoing provisions and other potential anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

We incur substantial costs as a result of being a public company, and our management expects to devote substantial time to public company compliance programs.

As a public company, we incur significant legal, insurance, accounting and other expenses, including costs associated with public company reporting. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management’s time and attention from product development and commercialization activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us, and our business may be harmed. These laws and regulations could make it more difficult and costly for us to obtain director and officer liability insurance for our directors and officers, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and qualified members of our Board of Directors, particularly to serve on our audit and compensation committees. In addition, if we are unable to continue to meet the legal, regulatory and other requirements related to being a public company, we may not be able to maintain the quotation of our common stock OTCQB Marketplace or any senior market to which we may apply for listing, which would likely have a material adverse effect on the trading price of our common stock.

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Our internal control over financial reporting does not currently meet the standards required by Section 404 of the Sarbanes-Oxley Act of 2002, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could result in material misstatements of our annual or interim financial statements and have a material adverse effect on our business and share price.

We are not currently required to make a formal assessment of the effectiveness of our internal control over financial reporting for purposes of compliance with the Securities and Exchange Commission's rules that implement Section 404 of the Sarbanes-Oxley Act of 2002. We are, however, required to comply with certain of these rules, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report. This assessment needs to include the disclosure of any material weaknesses or significant deficiencies in our internal control over financial reporting identified by our management or our former independent registered public accounting firm. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting, including the audit committee of the Board of Directors.

In connection with our audits for the years ended March 31, 2014 and 2013, and their review of our subsequent interim financial statements, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such periods, due to the material weaknesses in our internal controls over financial reporting identified below, 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 Securities Exchange Act of 1934, as amended, and are not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, 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.

In assessing our internal controls and procedures for fiscal 2014, our management identified a material weakness relating to a lack of sufficient segregation of duties, particularly in cash disbursements. Specifically, this material weakness is such that the design of controls over the area of cash disbursements relies primarily on detective controls and could be strengthened by adding preventative controls to properly safeguard company assets.

Our management has also identified a material weakness relating to a lack of sufficient personnel in the accounting function due to our limited resources with appropriate skills, training and experience to perform the review processes to ensure the complete and proper application of generally accepted accounting principles. Specifically, this material weakness led to segregation of duties issues and resulted in audit adjustments to the annual consolidated financial statements and revisions to related disclosures.

We are in the process of developing and implementing remediation plans to address its material weaknesses. We cannot assure you that our plans will sufficiently address the identified deficiencies, nor can we assure you that there will not be material weaknesses or significant deficiencies in our internal controls in the future. Additionally, in the event that our internal control over financial reporting is perceived as inadequate, or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the trading price of our common stock could decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to us. The forward-looking statements are contained principally in, but not limited to, the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our ability to achieve sufficient market acceptance of any of our products or product candidates;
- our perception of the growth in the size of the potential market for our products and product candidates;
- our estimate of the advantages of our products;
- our ability to become a profitable company;
- our estimates regarding our needs for additional financing and our ability to obtain such additional financing on suitable terms;
- our ability to succeed in obtaining U.S. Food and Drug Administration clearance or approvals for our product candidates;
- the timing, costs and other limitations involved in obtaining regulatory clearance or approval for any of our product candidates and, thereafter, continued compliance with governmental regulation of our existing products and activities;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to obtain sufficient quantities and satisfactory quality of raw materials to meet our manufacturing needs;
- our ability to secure manufacturing capacity to meet future demand;

- the timing of and our ability to conduct clinical trials;

- our ability to perform under our government contracts and accurately estimate our fixed costs under such contracts; and

- our ability to attract and retain a qualified management team, research team, scientific advisors and other qualified personnel.

In some cases, you can identify forward-looking statements by terms such as “may,” “could,” “will,” “should,” “would,” “expe “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “project” or “continue” or the negative of these ter comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the heading “Risk Factors” and elsewhere in this prospectus. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements.

Any forward-looking statement in this prospectus reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, industry and future growth. Except as required by law, we assume no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise. The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, do not protect any forward-looking statements that we make in connection with this offering.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders identified in this prospectus. We will not receive any of the proceeds resulting from the sale of the shares held by the selling stockholders including shares obtained by the selling stockholders upon exercise of the warrants. If any of the selling stockholders were to exercise warrants to acquire the common stock to be sold pursuant to this prospectus, we would receive the cash exercise price, if any. As of the date of this prospectus, 13,750,000 shares of our common stock are issuable upon exercise of warrants owned by the selling stockholders and covered by this prospectus at an exercise price of $0.30 per share of common stock. Accordingly, we would receive up to $4,125,000 in gross proceeds if all of the warrants were exercised for cash. We expect to use the proceeds received from the cash exercise of warrants, if any, for general working capital purposes. However, the selling stockholders may not exercise the warrants at all, or for cash, or if the selling stockholders exercise the warrants on a cashless basis, we will not receive any proceeds from such exercise.

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling stockholders include those issued to the selling stockholders pursuant to the securities purchase agreement we entered into with certain of the selling stockholders and shares of common stock issuable upon exercise of the warrants purchased pursuant to the securities purchase agreement. The shares of common stock being offered by the selling stockholders also include common stock underlying warrants issued to the placement agent in connection with the securities purchase agreement. For additional information regarding the issuance of the common stock and warrants, see "Private Placement of Common Stock and Warrants" above. We are registering the shares of common stock in order to permit the selling stockholders to offer the shares for resale from time to time. Except for the ownership of the shares of common stock and the warrants issued pursuant to, or in connection with, the securities purchase agreement, and Roth Capital Partners, LLC having acted as placement agent in connection with the private placement of securities effected pursuant to the securities purchase agreement, the selling stockholders have not had any material relationship with us within the past three years.

The table below lists the selling stockholders and other information regarding the beneficial ownership of the shares of common stock by each of the selling stockholders. The second column lists the number of shares of common stock beneficially owned by each selling stockholder, based on its ownership of the common stock and warrants, as of December 31, 2014, assuming exercise of all warrants held by the selling stockholders on that date, without regard to any limitations on exercise.

The third column lists the shares of common stock being offered by this prospectus by the selling stockholders.

In accordance with the terms of a registration rights agreement with the selling stockholders, this prospectus generally covers the resale of at least the sum of (i) the number of shares of common stock issued pursuant to the securities

purchase agreement as of the trading day immediately preceding the date the registration statement is initially filed with the Securities and Exchange Commission, and (ii) the maximum number of shares of common stock issued and issuable upon exercise of the warrants as of the trading day immediately preceding the date the registration statement is initially filed with the Securities and Exchange Commission.

Under the terms of the warrants, a selling stockholder may not exercise the warrants to the extent such exercise would cause such selling stockholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 4.99% of the then-outstanding shares of our common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. The number of shares in the second column does not reflect this limitation. The selling stockholders may sell all, some or none of their shares in this offering. See "Plan of Distribution."

Name of Selling Stockholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus	Number of Shares of Common Stock Owned After Offering (1)
Empery Asset Master, Ltd. (2)	7,717,395	7,717,395	0
Empery Tax Efficient, LP (3)	1,989,280	1,989,280	0
Empery Tax Efficient II, LP (4)	14,493,325	14,493,325	0
Roth Capital Partners, LLC (5)	550,000	550,000	0

(1) Represents the number of shares of common stock that will be beneficially owned by the selling stockholder after completion of this offering based on the assumptions that (i) all of the shares of common stock registered for resale by the registration statement of which this prospectus is a part will be sold and (ii) no other shares of common stock will be acquired or sold by the selling stockholder before completion of this offering. However, the selling stockholder may sell all, part or none of its shares of common stock offered pursuant to this prospectus and may sell all, part or none of its common stock pursuant to one or more exemptions from the registration provisions of the Securities Act of 1933, as amended.

(2) Includes 4,209,488 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of $0.30 per share, subject to customary adjustments, which expires on December 2, 2019. Empery Asset Management LP, the authorized agent of Empery Asset Master Ltd., has discretionary authority to vote and dispose of the shares held by Empery Asset Master Ltd. and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Asset Master Ltd. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.

(3) Includes 1,085,062 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of $0.30 per share, subject to customary adjustments, which expires on December 2, 2019. Empery Asset Management LP, the authorized agent of Empery Tax Efficient, LP, has discretionary authority to vote and dispose of the shares held by Empery Tax Efficient, LP and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Tax Efficient, LP. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.

(4) Includes 7,905,450 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of $0.30 per share, subject to customary adjustments, which expires on December 2, 2019. Empery Asset Management LP, the authorized agent of Empery Tax Efficient II, LP, has discretionary authority

to vote and dispose of the shares held by Empery Tax Efficient II, LP and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Tax Efficient II, LP. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.

(5) Represents 550,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of $0.30 per share, subject to customary adjustments, which expires on December 2, 2019. Roth Capital Partners, LLC is a Financial Industry Regulatory Authority-registered broker-dealer and received the warrant as compensation for investment banking services in connection with the private placement of securities referenced herein. The individual persons who share the power to vote and/or dispose of these securities are Byron Roth and Gordon Roth.

PLAN OF DISTRIBUTION

We are registering the shares of common stock issued pursuant to the terms of the securities purchase agreement and upon exercise of the warrants to permit the resale of these shares of common stock by the holders of such shares and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling stockholders may sell all or a portion of the shares of common stock beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;

- short sales;

- sales pursuant to Rule 144;

- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;

- a combination of any such methods of sale; and

- any other method permitted pursuant to applicable law.

If the selling stockholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the shares of common stock or warrants owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Securities Exchange Act of 1934, as amended, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be approximately $132,568 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or blue sky laws; provided, however, that a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act of 1933, as amended, in accordance with the registration rights agreement, or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act of 1933, as amended, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreement, or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

DESCRIPTION OF BUSINESS

Overview and Corporate History

We create medical devices to address unmet therapeutic needs in infectious disease, cancer and other life-threatening conditions. Our lead product is the Aethlon Hemopurifier, a device that selectively targets the rapid elimination of circulating viruses and tumor-secreted exosomes that promote cancer progression. We also maintain majority ownership of our subsidiary, Exosome Sciences, Inc., a diagnostic organization developing exosome-based products to diagnose and monitor neurological disorders and cancer. In addition, we operate under a Department of Defense contract through the Defense Advanced Research Projects Agency related to the development of a sepsis treatment device. We also operate under a second Department of Defense contract as a subcontractor.

On March 10, 1999, Aethlon, Inc., a California corporation, Hemex, Inc., a Delaware corporation and the accounting predecessor to Aethlon, Inc., and Bishop, Inc., a publicly traded company, completed an Agreement and Plan of Reorganization structured to result in Bishop, Inc.'s acquisition of all of the outstanding common shares of Aethlon, Inc. and Hemex, Inc. Under the plan's terms, Bishop, Inc. issued shares of its common stock to the stockholders of

Aethlon, Inc. and Hemex, Inc. such that Bishop, Inc. then owned 100% of each company. Upon completion of the transaction, Bishop, Inc. was renamed Aethlon Medical, Inc. Our executive offices are located at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123. Our telephone number is (858) 459-7800. All references to “us” or “we” are references to Aethlon Medical, Inc., combined with its subsidiary.

Target Market and Strategy

Our business is divided into three areas. First, we are advancing our lead product, the Aethlon Hemopurifier, which targets the removal of circulating viruses and shed glycoproteins to treat infectious viral pathogens. In oncology indications, the Hemopurifier targets the removal of circulating exosomes, which are secreted by tumors to aid in cancer progression.

The second focus is government contracting. We operate under two Department of Defense contracts related to a program entitled “Dialysis-Like Therapeutics.” One is a contract with the Defense Advanced Research Projects Agency, and the other is a subcontract with Battelle Memorial Institute. Under these contracts, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

The third facet is conducted through our majority-owned diagnostic subsidiary, Exosome Sciences, Inc., which is leveraging lectin affinity techniques pioneered by our research team to identify exosome-based biomarkers from bodily fluids.

We have primarily positioned the Hemopurifier as adjunct therapy to improve the benefit of infectious disease and cancer therapies marketed by pharmaceutical organizations. For example, a clinical trial protocol administered at the Medanta Medicity Institute in India was designed to treat Hepatitis-C patients as they began their standard of care drug regimen as a means to reduce the time it normally takes for the virus to become undetectable in the patient’s blood. However, we also propose Hemopurifier therapy to be a first-line therapeutic solution against viral pathogens that are not treatable with antiviral drugs as well as viral pathogens that have evolved to become drug resistant.

Our Lead Device: The Aethlon Hemopurifier

The Aethlon Hemopurifier is a device that selectively targets the rapid elimination of circulating viruses and tumor-secreted exosomes that promote cancer progression. More specifically, the Hemopurifier addresses antiviral drug-resistance in Hepatitis-C virus and Human Immunodeficiency Virus-infected individuals; serves as a countermeasure against viral pathogens not addressed by drug or vaccine therapies; and represents the first therapeutic strategy to address cancer promoting exosomes. In clinical studies conducted in India, safety and efficacy observations of Hemopurifier therapy have been observed in both Hepatitis-C virus and Human Immunodeficiency Virus-infected individuals. We have recently initiated patient recruitment for the first U.S. Food and Drug Administration approved studies of Hemopurifier therapy in the United States.

The Scientific Mechanism of the Hemopurifier

In design, our Hemopurifier consists of the affinity lectin galanthus nivalis agglutinin immobilized in the outer-capillary space of advanced plasma membrane technology. The design allows for extracorporeal therapeutic delivery to occur on standard continuous renal replacement therapy and dialysis instruments already located in hospitals and clinics worldwide. The mechanism of the Hemopurifier to rapidly eliminate a broad-spectrum disease target is based on the galanthus nivalis agglutinin's ability to selectively bind unique high mannose signatures that are abundant on the surface of cancer-secreted exosomes and glycoproteins that reside on the outer membrane of infectious viral pathogens. In practice, the Hemopurifier is utilized in a manner similar to dialysis, supported by machinery that circulates blood from the patient through the Hemopurifier and back into the patient. The blood is circulated continuously, and a full treatment, based on current protocols, would take approximately six hours.

The Hemopurifier - Antiviral Drug-Resistance; Planned U.S. Clinical Trials

The Hemopurifier provides a novel methodology to target mutant viral strains that trigger antiviral drug resistance in both Human Immunodeficiency Virus and Hepatitis-C virus infections. In Hepatitis-C virus care, the Hemopurifier is positioned to address drug resistance associated with emerging all-antiviral therapies and also to accelerate Hepatitis-C virus depletion at the outset of peginterferon+ribavirin therapy.

Based on previous studies we conducted in India, safety and efficacy observations of Hemopurifier therapy have been observed in both disease conditions. As a result of these outcomes, we have received an opportunity to initiate the first U.S. Food and Drug Administration-approved feasibility study of Hemopurifier therapy in the United States. The feasibility study is now enrolling Hepatitis-C virus-infected patients to be treated at DaVita MedCenter Dialysis in Houston, Texas. The principal investigator for the study will be Dr. Stephen Z. Fadem, who is co-medical director of DaVita MedCenter Dialysis.

Successful completion of this study will permit us to initiate further stage studies that are required for market clearance to treat Hepatitis-C virus and other viral pathogens in the U.S. Our feasibility study protocol calls for the enrollment of ten Hepatitis-C virus-infected end stage renal disease patients who have not received any pharmaceutical therapy for their Hepatitis-C virus infection for at least 30 days. The protocol will consist of a control phase of three consecutive standard dialysis treatments during week one followed by the inclusion of our Hemopurifier during a total of six dialysis sessions conducted during weeks two and three. The rate of adverse events observed during the Hemopurifier therapy phase will be compared to the rate experienced during the control phase. Per-treatment changes of viral load will be observed through quantitative polymerase chain reaction analysis. Additionally, we plan to measure the number of viral copies of Hepatitis-C virus captured within the Hemopurifier during each treatment session.

On May 19, 2014, we entered into an agreement with Total Renal Research, Inc. (dba DaVita Clinical Research). Pursuant to the agreement, Da Vita Clinical Research is conducting site management administrative services for a study. The agreement with DaVita Clinical Research requires us to pay certain expenses related to the study protocol projected to be less than $200,000, including certain start-up and close-out costs, patient compensation and project management fees. Additional activities and completion of the clinical trials will require us to pay additional costs estimated to be $650,000. We will also be responsible for the fees for any third-party consulting physicians, including Dr. Fadem, utilized in connection with the study and other pass-through expenses if incurred. The agreement was effective as of May 16, 2014 and will continue in effect until completion of the services being provided by DaVita Clinical Research.

The Hemopurifier - Antiviral Studies in India

Previously, we conducted Hepatitis-C virus treatment studies at the Apollo Hospital, Fortis Hospital, and most recently the Medanta Medicity Institute in India.

In the Medanta Medicity Institute study, twelve Hepatitis-C virus-infected individuals were enrolled to receive three six-hour Hemopurifier treatments during the first three days of a 48-week peginterferon+ribavirin treatment regimen. The study was conducted under the leadership of Dr. Vijay Kher at the Medanta Medicity Institute, a multi-specialty medical institute established to be a premier center for medical tourism in India. Dr. Kher's staff reported that Hemopurifier therapy was well tolerated and without device-related adverse events in the twelve treated patients.

Of these twelve patients, ten completed the Hemopurifier-peginterferon+ribavirin treatment protocol, including eight genotype-1 patients and two genotype-3 patients. Eight of the ten patients achieved a sustained virologic response, which is the clinical definition of treatment cure and is defined as undetectable Hepatitis-C virus in the blood 24 weeks after the completion of the 48-week peginterferon+ribavirin drug regimen. Both genotype-3 patients achieved a sustained virologic response, while six of the eight genotype-1 patients achieved a sustained virologic response.

Of the ten patients who completed the full treatment protocol, five also achieved a rapid virologic response, defined as undetectable Hepatitis-C virus in the blood at day 30 of therapy. Rapid virologic response represents the clinical endpoint that best predicts sustained virologic response cure rates resulting from peginterferon+ribavirin therapy. As a point of reference, the landmark Individualized Dosing Efficacy vs Flat Dosing to Assess Optimal Pegylated Interferon Therapy study of 3,070 Hepatitis-C virus genotype-1 patients documented that 10.35% (n=318/3070) of peginterferon+ribavirin-treated patients achieved a rapid virologic response. Patients who achieved a rapid virologic response had sustained virologic response rates of 86.2% (n=274/318) versus sustained virologic response rates of 32.5% (n=897/2752) in non- rapid virologic response patients. Two of the genotype-1 patients who achieved a rapid virologic response also achieved an immediate virologic response, defined as undetectable Hepatitis-C virus in the blood seven days after initiation of Hemopurifier-peginterferon+ribavirin treatment protocol. The earliest measured report of undetectable Hepatitis-C virus in blood in the Individualized Dosing Efficacy vs Flat Dosing to Assess Optimal Pegylated Interferon Therapy study was on day 14 of the study.

Data from two patients was not included in the reported Hemopurifier-peginterferon+ribavirin dataset. One of these patients was a genotype-5 patient who discontinued peginterferon+ribavirin therapy at day 180, yet still achieved a sustained virologic response. The second patient was a genotype-3 patient who also achieved a sustained virologic response, yet was unable to tolerate peginterferon+ribavirin therapy and discontinued therapy at day-90. Overall, ten of the twelve patients who enrolled in the study achieved a sustained virologic response and seven of the twelve patients achieved a rapid virologic response.

Hemopurifier - Human Immunodeficiency Virus; Single Proof Study

In addition to treating Hepatitis-C virus-infected individuals, we have conducted a single proof-of-principle treatment study related to the treatment of Human Immunodeficiency Virus. In the study, Hemopurifier therapy reduced viral load by 93% in a Human Immunodeficiency Virus-Acquired Immunodeficiency Syndrome-infected individual without the administration of antiviral drug therapy. The study protocol provided for 12 Hemopurifier treatments, each four hours in duration, which were administered over the course of one month.

Researchers at the Morehouse School of Medicine have since discovered that the Hemopurifier is able to capture exosomes that transport negative regulatory factor protein, which is reported to suppress the immune response in Human Immunodeficiency Virus-infected individuals.

The Hemopurifier - Viral Pathogens Not Addressed by Drug Therapies

The protocol design of our forthcoming U.S. Food and Drug Administration-approved study was originally designed as a human safety challenge and model for addressing drug and vaccine resistant bioterror and emerging pandemic threats. *In vitro* studies conducted by leading government and non-government researchers have demonstrated that the Hemopurifier is able to capture a broad-spectrum of some of world's deadliest viral pathogens. These include: Dengue

hemorrhagic fever, Ebola hemorrhagic fever, Lassa hemorrhagic fever, H5N1 avian influenza, H1N1 swine flu virus, the reconstructed 1918 influenza virus, West Nile virus and Vaccinia and Monkeypox, which serve as models for human smallpox infection. Human efficacy studies are not permissible against high-threat bioterror and pandemic threats.

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The following table lists some of the key viral pathogens captured during *in vitro* studies and the name of the research institute that ran the study.

Virus Type	Collaborator
Ebola Virus	United States Army Medical Research Institute of Infectious Diseases/Center for Disease Control
Dengue Fever	National Institute of Virology/World Health Organization
Lassa Hemorrhagic Fever	Southwest Foundation for Biomedical Research
West Nile Virus	Battelle Memorial Institute
H5N1 Avian Flu	Battelle Memorial Institute
1918-r Spanish Flu	Battelle Memorial Institute
2009 H1N1 Swine Flu	Battelle Memorial Institute

The Hemopurifier - Cancer Treatment and Detection

In “Extracurricular Vesicles: Emerging Targets for Cancer Therapy,” a review article sponsored by the National Cancer Institute and published in the July 2014 issue of *Trends in Molecular Medicine*, we were the sole organization referenced to have a therapeutic candidate to address tumor-secreted exosomes, which have been discovered to suppress the immune system of cancer patients, seed the creation and spread of metastasis, promote angiogenesis, trigger resistance to chemotherapy, and transport primary cancer therapeutic targets of the biopharmaceutical industry. To date, we have demonstrated that our Hemopurifier can capture exosomes underlying a broad-spectrum of cancer indications and as a result of our discoveries, we have already received issued patent protection for our cancer treatment endeavors.

We believe Hemopurifier therapy can play a central role in the emerging immuno-oncology industry as an adjunct strategy to eliminate circulating exosomes without adding drug toxicity to established and emerging cancer therapies. The ability to inhibit exosome immune suppression in combination with drugs designed to stimulate the immune response is an especially compelling premise.

Exosome Sciences, Inc., our Subsidiary, is Focused on Cancer Treatment and Detection

In October 2009, we established a wholly owned subsidiary, Exosome Sciences, Inc., a Nevada corporation, as a corporate vehicle for our exosome-related diagnostic activities. In October 2013, Exosome Sciences, Inc. commenced operations with a focus on advancing exosome-based strategies to diagnose and monitor neurological conditions and cancer. Exosomes represent an optimal diagnostic target as diseased cells release them into bodily fluids such as urine and blood where they can be accessed. Exosome Sciences, Inc. is developing non-invasive liquid biopsies based on the knowledge that these exosomes transport disease-origin markers underlying a wide range of disease conditions.

In 2013, Exosome Sciences, Inc. entered into stock purchase agreements with various accredited investors pursuant to which it sold the investors an aggregate of 300,000 shares of its common stock. As a result of these transactions, our percentage ownership of the outstanding capital stock of our subsidiary was reduced from 100% to 80%.

Since it began operations in 2013, Exosome Sciences, Inc. researchers have successfully isolated brain-specific biomarkers associated with a variety of neurodegenerative disorders. The discoveries may have implications in the diagnosis, monitoring and treatment of Alzheimer's Disease, Chronic Traumatic Encephalopathy and Traumatic Brain Injury. The research studies provided evidence that exosomes can serve as a liquid biopsy to diagnose neurologic conditions. While exosomes from the central nervous system have previously been identified in the cerebrospinal fluid, Exosome Sciences, Inc. researchers were able to identify exosomes carrying brain-specific markers tau, beta-amyloid, glycoprotein A2B5 and S100B protein in the peripheral circulation of affected individuals. These discoveries provide a basis for an exosome-based platform that could enable the simultaneous identification of multiple brain specific markers that are transported across the blood-brain barrier and into the circulatory system. Such a platform could allow physicians to monitor the progression of neurologic conditions in their patients.

The Exosome Sciences, Inc. research team also disclosed that it has been able to identify, quantify, and characterize circulating Glioblastoma multiforme exosomes, which hold promise as a disease biomarker to identify the early detection of this aggressive form of cancer and monitor response to therapy. Glioblastoma multiforme exosomes represents the most common, per capita costly and uniformly lethal primary brain tumor. Glioblastoma multiforme exosomes comprise 23% of primary brain tumors in the U.S. and is the most commonly diagnosed brain tumor in adults aged 45-74 with men being more frequently diagnosed than women. The prognosis remains poor despite aggressive treatment modalities. Over the past decade, a median survival time of 12 months has only been marginally improved to 14.6 months as a result of advances in chemo/radiation and the use of molecularly targeted agents. The discovery of circulating glioblastoma multiforme exosomes offers a potential new paradigm in glioblastoma multiforme exosomes clinical management through a platform technology to predict tumor regression or progression.

To lead our scientific endeavors at Exosome Sciences, Inc., we retained two well-known thought leaders in the field of exosome biology: Dr. Douglas Taylor as Exosome Sciences, Inc.’s Chief Scientific Officer and Dr. Cicek Gercel-Taylor as Exosome Sciences, Inc.’s Clinical Research Director.

About Dr. Douglas Taylor

Dr. Taylor discovered and pioneered the field of exosome biology and its role in intercellular communication and immune regulation. He has been in the Department of Obstetrics, Gynecology and Women's Health at the University of Louisville School of Medicine since 1992. Dr. Taylor published the initial article describing circulating tumor exosomes/microvesicles in 1979 (Anal. Biochem. 98:53-59, 1979). The research in his laboratory has primarily focused on the release and consequences of exosomes from gynecologic cancer and lung tumors. Over more than the past 30 years, Dr. Taylor has pioneered the isolation and characterization of circulating tumor-derived exosomes. His work has focused on characterization of circulating exosomes released by tumor cells for their role in immune regulation and induction of a pro-inflammatory tumor microenvironment. His work has demonstrated that the presence of specific circulating exosomal components have potential use as biomarkers for cancer patients.

About Dr. Cicek Gercel-Taylor

Dr. Cicek Gercel-Taylor has been a pioneer in the field of exosome biology and in defining its nucleic acid and protein cargoes. She has worked at the Department of Obstetrics, Gynecology and Women's Health at the University of Louisville School of Medicine since 1992, and also is the Resident Research Coordinator. Her main research interest is in gynecological cancers, where she investigates the consequences of exosomes on genetic and epigenetic alterations induced in normal host target cells. She has explored the role of endogenous and exogenous hormones in modulating exosomal cargoes and the resulting effects on pathologic processes. A significant part of these investigations includes the identification and characterization of clinically relevant biomarkers, specifically proteomic and miRNA content of pathology-derived exosomes.

U.S. Government Contract with the Defense Advanced Research Projects Agency

On September 30, 2011, we entered into a $6.8 million multi-year contract with the Defense Advanced Research Projects Agency, part of the Department of Defense, resulting from our response to a program entitled “Dialysis-Like Therapeutics.” Under this contract, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

The initial 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. As noted below, such contract was subsequently reduced by $858,491. 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 are required to 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 the option on the second, third and fourth years of the contract. The Defense Advanced Research Projects Agency has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the remaining contract term. We cannot assure you that the Defense Advanced Research Projects Agency will exercise its option to continue the contract for year five. 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 will reduce the possible payments under the contract by $858,491 over years three through five.

Contract Milestones and Revenues: Fiscal Year Ending March 31, 2014 to Date

As a result of achieving three milestones to date during the fiscal year ending March 31, 2015, we have reported $444,723 in contract revenue related to our contract with the Defense Advanced Research Projects Agency to date for the current fiscal year. The details of the three milestones achieved during the current fiscal year are as follows:

Milestone Event	Achievement Criteria	Revenue

Determine capacity requirements of affinity resin to multiple simultaneous targets. .	We demonstrated that we were able to determine the capacity requirements of affinity resin to multiple simultaneous targets.	$197,362
Finish construction and delivery of 25 experimental cartridges for testing by systems integrator.	We demonstrated that we delivered the 25 cartridges to the systems integrator.	$50,000
Target capture > 90% in 24 hours for at least 3 targets ex vivo in blood or blood components using the optimized cartridge.	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.	$197,361
Total Milestones		$444,723

Contract Milestones and Revenue: Fiscal Year Ended March 31, 2014

As a result of achieving eight milestones in the fiscal year ended March 31, 2014, we reported $1,466,467 in contract revenue for that fiscal year. The details of the eight milestones achieved during the fiscal year ended March 31, 2014 were as follows:

Milestone Event	Achievement Criteria	Revenue
Formulate initial design work based on work from previous phase.	We demonstrated that we were able to formulate the initial design work and to build and test selected instrument design and tubing sets as part of our submission for approval.	$195,581
Write and test software and conduct ergonomic research. Begin discussions with the systems integrator.	We obtained wrote and tested software and conducted ergonomic research and began discussions with the systems integrator.	$195,581
Cartridge construction with optimized affinity matrix design for each potential target. Complete the capture agent screening.	We completed the cartridge construction with optimized affinity matrix design for each potential target and completed the capture agent screening.	$208,781
Target capture > 90% in 24 hours for at least three targets in blood or blood components.	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.	$208,781
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.	We demonstrated that we had conducted the relevant series of experiments.	$195,576
Evaluate contribution of manufacturing process variables to binding capacity of affinity resin.	We demonstrated that we had evaluated the contribution of manufacturing process variables to binding capacity of affinity resin.	$197,362
Design and fabricate optimized configuration(s) of hemopurification device(s) that contain(s) a combination of hemofilters, plasma filters and affinity columns.	We demonstrated that we had designed and fabricated optimized configuration of hemopurification devices.	$186,164
Perform biocompatibility tests for the combination ADAPT device to confirm the combination cartridge does not present *additional* risk.	We demonstrated that we had performed biocompatibility tests for the combination ADAPT device to confirm the combination cartridge does not present additional risk.	$78,641
Total Milestones		$1,466,467

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Contract Milestones and Revenue: Fiscal Year Ended March 31, 2013

As a result of achieving six milestones in the fiscal year ended March 31, 2013, we reported $1,230,004 in contract revenue for that fiscal year. The details of the six milestones achieved during the fiscal year ended March 31, 2013 were as follows:

Milestone Event	Achievement Criteria	Revenue
Perform preliminary quantitative real time polymerase chain reaction to measure viral load, and specific DNA or ribonucleic acid targets.	We demonstrated that we were able to measure viral load of one or more targets as part of our submission for approval.	$216,747
Obtain all necessary institutional review board documentation and obtain both institutional and Government approval in accordance with institutional review board documentation submission guidance prior to conducting human or animal testing.	We obtained all of the required documentation from both institutional and Government authorities.	$183,367
Target capture > 50% in 24 hours for at least one target in blood or blood components.	We demonstrated that we were able to capture > 50% in 24 hours of one of the agreed targets in blood or blood components.	$216,747
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.	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.	$208,781
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 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.	$195,581
Target capture > 50% in 24 hours for at least 5 targets in blood or blood components.	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.	$208,781
Total Milestones		$1,230,004

Subcontract with Battelle Memorial Institute

We entered into a subcontract agreement with Battelle Memorial Institute in March 2013. Battelle Memorial Institute was chosen by the Defense Advanced Research Projects Agency to be the prime contractor on the systems integration portion of the original Defense Advanced Research Projects Agency contract, and we are one of several subcontractors on that systems integration project. We began generating revenues under the subcontract in the three months ended September 30, 2013. Through December 31, 2014, we have billed $322,879 and collected $307,653. Our expected future revenue from the subcontract will be at the discretion of Battelle Memorial Institute. The Battelle Memorial Institute subcontract is our first cost-reimbursable contract.

Our revenue under this contract is a function of cost reimbursement plus an overhead mark-up for hours devoted to the project by specific employees (with specific hourly rates for those employees), for travel expenses related to the project, for any equipment purchased for the project and for the cost of any consultants hired by us to perform work on the project. Each payment will require approval by the program manager at Battelle Memorial Institute.

Research and Development Costs

A substantial portion of our operating budget is used for research and development activities. The cost of research and development, all of which has been charged to operations, amounted to approximately $1,509,000 and $1,440,000 in the fiscal years ended March 31, 2014 and 2013, respectively. Exosome Science Inc.’s research and development activities represented approximately $193,000 of our consolidated research and development expenses in the fiscal year ended March 31, 2014.

Intellectual Property

We currently own or have license rights to a number of U.S. and foreign patents and patent applications and endeavor to continually improve our intellectual property position. We consider the protection of our technology, whether owned or licensed, to the exclusion of use by others, to be vital to our business. While we intend to focus primarily on patented or patentable technology, we may also rely on trade secrets, unpatented property, know-how, regulatory exclusivity, patent extensions and continuing technological innovation to develop our competitive position. We also own certain trademarks.

Patents

We have been exclusively assigned all rights and title to and interest in an invention and related worldwide patent rights for a method to treat cancer under an assignment agreement with the London Health Science Center Research, Inc. The invention provides for the "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" (including exosomes) for which the U.S. Patent and Trademark Office allowed a patent in 2012 (patent #8,288,172) and for which we have filed additional patent applications domestically and abroad (patent applications #13/623662, #14/180093, #14/185033, #7,752,778.6, #9,104,740.6, #8139/DELNP/2008 and #2644855). Please see the tables below for more information regarding these patents and patent applications.

The agreement provides that we are responsible for paying certain patent application and filing costs as well as a 2% royalty on any future net sales. Under the license agreement, the London Health Science Center Research, Inc. sold and assigned all of its rights, title and interest in the worldwide patents to us.

The following table lists all of our issued patents and patent applications, including their ownership status:

Patents Issued in the United States

PATENT #	PATENT NAME	ISSUANCE DATE	OWNED OR LICENSED	EXPIRATION DATE
8,288,172	Extracorporeal removal of microvesicular particles (exosomes) (method patent)	10/16/12	Owned	3/9/27
7,226,429	Method for removal of viruses from blood by lectin affinity hemodialysis	6/05/07	Owned	1/20/24
6,528,057	Method for removal of Human Immunodeficiency Virus and other viruses from blood	3/04/03	Licensed	8/30/19

Patent Applications in the United States

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
11/756543	Method for removal of viruses from blood by lectin affinity hemodialysis	5/31/07	Owned
12/600236	Device and method for purifying virally infected blood	5/12/11	Owned
13/351166	Affinity capture of circulating cancer biomarkers	1/16/12	Owned
12/810295		9/07/10	Owned

	Method and apparatus for increasing contaminant clearance rates during extracorporeal fluid treatment		
13/623662	Extracorporeal removal of microvesicular particles (medical device and system-based claims)	9/20/12	Owned
13/808561	Methods and compositions for quantifying exosomes	1/04/13	Owned
14/180093	Extracorporeal removal of microvesicular particles	2/13/14	Owned
14/185033	Extracorporeal removal of microvesicular particles	2/20/14	Owned
13/808561	Methods and compositions for quantifying exosomes	8/14/13	Owned
61/946606	Brain specific exosome based diagnostics	2/28/14	Owned
61/947276	Brain specific exosome based diagnostics and extracorporeal therapies	3/3/14	Owned
61/982190	Methods for delivering regional citrate anticoagulation during extracorporeal blood treatments	4/21/14	Owned

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International Patents

PATENT #	PATENT NAME	ISSUANCE DATE	OWNED OR LICENSED	EXPIRATION DATE
2,353,399	Method for removal of viruses from blood by lectin affinity hemodialysis	1/20/04	Owned	1/20/24
770,344	Method for removal of Human Immunodeficiency Virus and other viruses from blood	6/03/04	Licensed	8/30/19
69929986.1-08	Method for removal of Human Immunodeficiency Virus and other viruses from blood	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of Human Immunodeficiency Virus and other viruses from blood	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of Human Immunodeficiency Virus and other viruses from blood	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of Human Immunodeficiency Virus and other viruses from blood	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of Human Immunodeficiency Virus and other viruses from blood	2/22/06	Licensed	8/30/19
2342203	Method for removal of Human Immunodeficiency Virus and other viruses from blood	3/01/11	Licensed	8/30/19
EP 1624785	Method for removal of viruses from blood by lectin affinity hemodialysis	7/17/13	Owned	1/20/24
2,516,403	Method for removal of viruses from blood by lectin affinity hemodialysis	8/12/14	Owned	1/20/24

International Patent Applications

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
7,752,778.6	Extracorporeal removal of microvesicular particles(exosomes)	3/09/07	Owned
9,104,740.6	Extracorporeal removal of microvesicular particles(exosomes)	3/09/07	Owned
8139/DELNP/2008	Extracorporeal removal of microvesicular particles(exosomes)	3/09/07	Owned
08866242.4	Method and apparatus for increasing contaminant clearance rates during extra corporeal fluid treatment	12/19/08	Owned
2644855	Extracorporeal removal of microvesicular particles	3/09/07	Owned
09815068.3	Methods for reducing viral load of hepatitus c virus in hemodialysis patients	9/15/09	Owned
12100471.4	Methods for reducing viral load of hepatitus c virus in hemodialysis patients	9/15/09	Owned
11804372.8	Methods and compositions for quantifying exosomes	2/06/13	Owned

In certain countries, medical devices are not patentable or only recently have become patentable, and enforcement of intellectual property rights in some countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries can be expected to be problematic or unpredictable. We cannot guarantee that any patents issued or licensed to us, including within the U.S., will provide us with competitive advantages or will not be challenged by others, or will not expire prior to our successful commercialization of our products. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

Trademarks

We have obtained registered trademarks in the U.S. for the marks Exosome Sciences®, Hemopurifier, and Aethlon Medical, Inc. and have applied for Aethlon ADAPT and ELLSA™ trademarks in the U.S., which applications are currently pending. We have applied for trademark protection on Hemopurifier in India and that application is currently pending.

Licensing Agreements

Effective January 1, 2000, we entered into an agreement with a related party under which an invention and related patent rights for a method of removing Human Immunodeficiency and other viruses from the blood using the Hemopurifier were assigned to us by the inventors in exchange for a royalty to be paid on future sales of the patented product or process and shares of our common stock. On March 4, 2003, the related patent (patent #6,528,057) was issued and we issued 196,078 shares of restricted common stock to that related party. The license runs for the life of the patent, which expires in August 2019.

On February 9, 2006, we entered into an option agreement with the Trustees of Boston University which provides for the right to negotiate an exclusive license for a Boston University patent BU05-41, "Method to Prevent Proliferation and Growth of Metastases." On February 8, 2007, we entered into an amendment to this agreement to extend its term until August 9, 2007. On April 22, 2008, we entered into the actual license agreement for this patent and as the initial payment under this license we issued shares of our common stock equivalent to 115% of $5,000. We terminated this patent license during the fiscal year ended March 31, 2014 as we determined this license was no longer pertinent to our core business objectives.

On November 7, 2006, we entered into an exclusive assignment agreement with the London Health Science Center Research, Inc. and Thomas Ichim under which an invention and related patent rights for a method to treat cancer were assigned to us. The invention provides for the "Extracorporeal removal of microvesicular particles" for which the U.S. Patent and Trademark Office allowed a patent (patent #8,288,172) in the U.S. as of June 2012. The agreement provides that we will pay certain patent application and filing costs as well as a 2% royalty on any future net sales. Under the license agreement, we own the patents outright and the license runs for the life of the patent, which expires in March 2027.

Industry

The industry for treating infectious disease and cancer is extremely competitive, and companies developing new treatment procedures face significant capital and regulatory challenges. Additionally, as the Hemopurifier is a new

device, we have the additional challenge of establishing medical industry support, which will be driven by treatment data resulting from clinical studies of each disease condition that we pursue. The industry includes pharmaceutical companies and medical device companies competing to treat illnesses on a worldwide basis.

Competition

We are advancing our Hemopurifier as a treatment strategy to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. We are also advancing the Hemopurifier as a tool for cancer treatment in conjunction with existing, and to be developed, cancer therapies. The Hemopurifier also may prolong life for infected patients who have become drug resistant or have been infected with a viral pathogen for which there is no drug or vaccine therapy. We believe our Hemopurifier augments the benefit of drug therapies and should not be considered a competitor to such treatments. However, if the industry considered the Hemopurifier to be a potential replacement for drug therapy, or a device that limited the need or volume of existing drug therapies, then the marketplace for the Hemopurifier would be extremely competitive. We believe our Hemopurifier is the sole therapeutic device able to selectively remove viruses and immunosuppressive proteins from circulation. However, we are aware that Asahi Kasei Kurary Medical based in Japan has created a double filtration plasmapheresis system that indiscriminately removes particles from blood in a certain molecule range that includes Hepatitis-C virus. Asahi Kasei Kurary Medical is now marketing this device in Japan as an adjunct therapy for Hepatitis-C virus. We may also face competition from producers of antiviral drugs and vaccines.

Government Regulation of Medical Devices

The Hemopurifier is subject to regulation by numerous regulatory bodies, primarily the U.S. Food and Drug Administration, and comparable international regulatory agencies. These agencies require manufacturers of medical devices to comply with applicable laws and regulations governing the development, testing, manufacturing, labeling, marketing and distribution of medical devices. Devices are generally subject to varying levels of regulatory control, the most comprehensive of which requires that a clinical evaluation program be conducted before a device receives approval for commercial distribution. Failure to obtain approval or clearance to market our product and products under development and to meet the ongoing requirements of these regulatory authorities could prevent us from commercializing the Hemopurifier and future products in the U.S. and elsewhere.

Hemopurifier Investigational Device Exemption and Supplement

In 2013, the U.S. Food and Drug Administration approved our investigational device exemption to initiate human clinical studies in the U.S. as a feasibility study. We must reach agreement with the internal review board of DaVita MedCenter Dialysis prior to beginning our U.S. clinical trial. We are also required to obtain patients' informed consent that complies with both U.S. Food and Drug Administration requirements and state and federal privacy regulations. We, the U.S. Food and Drug Administration or the internal review board at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may be equivocal or may otherwise not be sufficient to obtain approval of the product. The investigational device exemption is part of the U.S. Food and Drug Administration’s clearance process. This process is discussed in detail in the “Pre-Marketing Regulations in the U.S.” section below.

In December 2014, the U.S. Food and Drug Administration approved our request for a supplement to our investigational device exemption to establish a protocol to clinically investigate the use of the Hemopurifier for the treatment of Ebola-infected patients in the U.S. Under the supplement, we may treat up to 20 Ebola-infected persons, at no more than 10 institutions in the U.S., using the supplement protocol; however, this is not a clinical trial. We must clearly distinguish data collected in the supplement protocol from data collected in our chronic Hepatitis-C virus clinical trial (discussed above). Prior to treating Ebola-infected patients, we must comply with specified patient protection procedures established by the applicable institution including its institutional review board. Also, we must report any unanticipated adverse events resulting from the supplement protocol to the U.S. Food and Drug Administration within 10 working days. Even if the protocol is established, and patients are treated, the results of such treatments may not demonstrate the safety and efficacy of the device. In addition, we cannot assure you that any Ebola-infected individuals will be treated under this protocol.

Pre-Marketing Regulations in the U.S.

In the U.S., medical devices are regulated by the U.S. Food and Drug Administration. Unless an exemption applies, a new medical device will require either prior clearance under Section 510(k) of the Federal Food, Drug, and Cosmetic Act, 21 U.S.C. § 360(k), or approval of a premarket approval application before it can be marketed in the U.S. The premarket approval application process is more complex, costly and time consuming than the clearance procedure under Section 510(k) of the Federal Food, Drug, and Cosmetic Act.

A pre-market approval application must be supported by extensive data including, but not limited to, technical, preclinical, clinical, manufacturing, control and labeling information to demonstrate to the U.S. Food and Drug Administration satisfaction the safety and effectiveness of the device for its intended use. After a premarket approval application is submitted, the U.S. Food and Drug Administration has 45 days to determine whether it is sufficiently complete to permit a substantive review. If the premarket approval application is complete, the U.S. Food and Drug Administration will file the premarket approval application. The U.S. Food and Drug Administration is subject to performance goal review times for premarket approval applications and may issue a decision letter as a first action on a premarket approval application within 180 days of filing, but if it has questions, it will likely issue a first major deficiency letter within 150 days of filing. It may also refer the premarket approval application to a U.S. Food and Drug Administration advisory panel for additional review, and will conduct a preapproval inspection of the manufacturing facility to ensure compliance with the Quality System Regulations of the U.S. Food and Drug Administration, either of which could extend the 180-day response target. While the U.S. Food and Drug Administration's ability to meet its performance goals has generally improved during the past few years, it may not meet these goals in the future. A premarket approval application can take several years to complete and there is no assurance that any submitted premarket approval application will ever be approved. Even when approved, the U.S. Food and Drug Administration may limit the indication for which the medical device may be marketed or to whom it may be sold. In addition, the U.S. Food and Drug Administration may request additional information or request the performance of additional clinical trials before it will reconsider the approval of the premarket approval application or as a condition of approval, in which case the trials must be completed after the is approved. Changes to the device, including changes to its manufacturing process, may require the approval of a supplemental premarket approval application.

If a medical device is determined to present a significant risk, the manufacturer may not begin a clinical trial until it submits an investigational device exemption to the U.S. Food and Drug Administration and obtains approval of the investigational device exemption from the U.S. Food and Drug Administration. The investigational device exemption must be supported by appropriate data, such as animal and laboratory testing results and include a proposed clinical protocol. These clinical trials are also subject to the review, approval and oversight of an institutional review board which is an independent and multi-disciplinary committee of volunteers who review and approve research proposals, and the reporting of adverse events and experiences, at each institution at which the clinical trial will be performed. The clinical trials must be conducted in accordance with applicable regulations, including but not limited to the U.S. Food and Drug Administration's investigational device exemption regulations and current good clinical practices. A clinical trial may be suspended by the U.S. Food and Drug Administration, the internal review board or the sponsor at any time for various reasons, including a belief that the risks to the study participants outweigh the benefits of participation in the trial. Even if a clinical trial is completed, the results may not demonstrate the safety and efficacy of a device, or may be equivocal or otherwise not be sufficient to obtain approval.

Post-Marketing Regulations in the U.S.

Should our Hemopurifier device be cleared for market use in the United States by the U.S. Food and Drug Administration, numerous regulatory requirements continue to apply. These include:

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the U.S. Food and Drug Administration's Quality System Regulation which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;

- labeling regulations and U.S. Food and Drug Administration prohibitions against the promotion of products for un-cleared, unapproved or off-label uses;

- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;

- medical device reporting regulations, which require that manufacturers report to the U.S. Food and Drug Administration if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and

- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

After a device receives a premarket approval from the U.S. Food and Drug Administration, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. The U.S. Food and Drug Administration requires each manufacturer to make this determination initially, but the U.S. Food and Drug Administration can review any such decision and can disagree with a manufacturer's determination.

The regulations also require that we report to the U.S. Food and Drug Administration any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.

Compliance with U.S. Health Care Laws

We must comply with various U.S. federal and state laws, rules and regulations pertaining to healthcare fraud and abuse, including anti-kickback regulations, as well as other healthcare laws in connection with the commercialization of our products. Fraud and abuse laws are interpreted broadly and enforced aggressively by various state and federal agencies, including the U.S. Department of Justice, the U.S. Office of Inspector General for the Department of Health and Human Services and various state agencies.

The U.S. federal Anti-Kickback Statute, 42 U.S.C. § 1320a-7b, prohibits persons, including a medical device manufacturer (or a party acting on its behalf), from knowingly or willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for a service or product or the purchasing, ordering, arranging for, or recommending the ordering of, any service or product for which payment may be made by Medicare, Medicaid or any other federal healthcare program. This statute has been interpreted to apply to arrangements between medical device manufacturers on one hand and healthcare providers on the other. The term “remuneration” is not defined in the federal Anti-Kickback Statute and has been broadly interpreted to include anything of value, such as cash payments, gifts or gift certificates, discounts, waiver of payments, credit arrangements, ownership interests, the furnishing of services, supplies or equipment, and the provision of anything at less than its fair market value. Courts have broadly interpreted the scope of the law, holding that it may be violated if merely one purpose of an arrangement is to induce referrals, irrespective of the existence of other legitimate purposes. The Anti-Kickback Statute prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain business arrangements from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Our practices may not in all cases meet all of the criteria for safe harbor protection from federal Anti-Kickback Statute liability. The reach of the Anti-Kickback Statute was broadened by the recently enacted Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Affordability Reconciliation Act of 2010, collectively, the Affordable Care Act or ACA, which, among other things, amends the intent requirement of the federal Anti-Kickback Statute such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the ACA provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act

(discussed below) or the civil monetary penalties statute, which imposes fines against any person who is determined to have presented or caused to be presented claims to a federal healthcare program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. In addition to the federal Anti-Kickback Statute, many states have their own anti-kickback laws. Often, these laws closely follow the language of the federal law, although they do not always have the same scope, exceptions, safe harbors or sanctions. In some states, these anti-kickback laws apply not only to payments made by government healthcare programs but also to payments made by other third-party payors, including commercial insurance companies.

International Regulation

International development and sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for U.S. Food and Drug Administration approval, and the requirements may differ. For example, the primary regulatory authority with respect to medical devices in Europe is that of the European Union. The unification of these countries into a common market has resulted in the unification of laws, standards and procedures across these countries, which may expedite the introduction of medical devices like those we are offering and developing.

The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of relevant directives will be entitled to bear CE Conformity Marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the European Union. Actual implementation of these directives, however, may vary on a country-by-country basis. The CE Mark is a mandatory conformity mark on medical devices distributed and sold in the European Union and certifies that a medical device has met applicable requirements.

The CE Mark is mandatory for medical devices sold not only within the countries of the European Union but more generally within most of Europe. As many of the European standards are converging with international standards, the CE Mark is often used on medical devices manufactured and sold outside of Europe (notably in Asia that exports many manufactured products to Europe). CE Marking gives companies easier access into not only the European market but also to Asian and Latin American markets, most of which recognize the CE Mark on a medical device as a mark of quality and adhering to international standards of consumer safety, health or environmental requirements. In September 2012, the European Commission adopted a proposal for a regulation that, if adopted, will change the way that most medical devices are regulated in the European Union, and may subject our products to additional requirements.

To date, we have not begun any process to obtain the CE Mark and have no immediate plans to test or commercialize the Hemopurifier in any European Union countries.

Manufacturing

Manufacturing of our Hemopurifier occurs in collaboration with a contract manufacturer based in San Diego, California that is compliant with the Good Manufacturing Practice regulations promulgated by the U.S. Food and Drug Administration. We have registered our contract manufacturing arrangement with the U.S. Food and Drug Administration and we have since received an export license from the U.S. Food and Drug Administration that allows the export our Hemopurifier for commercial purposes to India. To date, our manufacture of the Hemopurifier has been

limited to quantities necessary to support our clinical studies.

Sources and Suppliers

We are not dependent on any specific vendors for the materials used in our Hemopurifier. The key raw materials in the Hemopurifier include the affinity lectin galanthus nivalis agglutinin, pharmaceutical grade diatomaceous earth, plasmapheresis cartridges and certain chemical binding agents. The affinity lectin is available from several life science supply companies in the U.S. Diatomaceous earth is available from several life science supply companies in the U.S. To date, we have purchased plasmapheresis cartridges from one vendor in Europe however similar cartridges are commercially available from vendors on a worldwide basis should that European vendor cease to be available for any reason, including prohibitive pricing. The chemical binding agents are available from a number of life science supply companies on a worldwide basis. We typically purchase our raw materials on purchase order basis. Therefore, we remain subject to risks of supply shortages and price increases that potentially could materially adversely affect our financial condition and operating results if and when we begin large scale manufacture of the Hemopurifier.

The key raw materials used by Exosome Sciences, Inc. in its research are blood samples supplied by research partners and a number of chemical and lab products commercially available from vendors on a worldwide basis. Exosome Sciences, Inc. is not dependent on any specific vendors for the materials used in its research activities.

Product Liability

The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have limited clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

Employees

At December 31, 2014, we had five full-time employees, comprised of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, and an executive assistant. We utilize, whenever appropriate, contract and part-time professionals in order to conserve cash and resources. We currently utilize three corporate communications groups on a part-time basis. We also use several consultants to assist us with certain portions of the work under our Defense Advanced Research Projects Agency-related contracts.

At December 31, 2014, Exosome Sciences, Inc. had three full-time employees, comprised of its Chief Science Officer, its Clinical Research Director, a research scientist, and a part-time operations manager.

We believe our employee relations are good. None of our employees are represented by a labor union or are subject to collective-bargaining agreements.

DESCRIPTION OF PROPERTIES

We currently lease approximately 2,576 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 under a 39-month gross plus utilities lease with an initial rental rate of $6,054 per month. We believe this new leased facility will be satisfactory for our office needs over the term of the lease.

We also lease approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of $3,917 per month on a one-year gross plus utilities lease that previously was scheduled to expire in October 2014 and was recently extended to expire in October 2015. We believe this new leased facility will be satisfactory for our laboratory needs over the term of the lease

Our Exosome Sciences, Inc. subsidiary leases approximately 2,055 square feet of office and laboratory space at 11 Deer Park Drive, South Brunswick, NJ at the rate of $3,596 per month on a one-year gross plus utilities lease that previously was scheduled to expire in October 2014 and was recently extended to in October 2015. We believe this new leased facility will be satisfactory for Exosome Science, Inc.’s operational needs over the term of the lease.

LEGAL PROCEEDINGS

We may be involved from time to time in various claims, lawsuits, and/or disputes with third parties or breach of contract actions incidental to the normal course of our business operations. We are currently not involved in any litigation or any pending legal proceedings.

MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTCQB Marketplace under the trading symbol "AEMD." Trading in our common stock historically has been volatile and often has been thin.

The following table sets forth for the calendar period indicated the quarterly high and low bid prices for our common stock as reported by the OTCQB Marketplace. The prices represent quotations between dealers, without adjustment for retail markup, mark down or commission, and do not necessarily represent actual transactions.

BID PRICE

PERIOD	HIGH	LOW
Calendar 2014:		
Third Quarter	$0.19	$0.10
Second Quarter	0.23	0.14
First Quarter	0.27	0.16
Calendar 2013:		
Fourth Quarter	0.18	0.13
Third Quarter	0.29	0.10
Second Quarter	0.14	0.08
First Quarter	0.15	0.06
Calendar 2012:		
Fourth Quarter	0.11	0.06
Third Quarter	0.11	0.06
Second Quarter	0.13	0.07
First Quarter	0.18	0.05

There were approximately 194 record holders of our common stock at December 31, 2014. The number of registered stockholders includes any beneficial owners of common shares held in street name.

We have not declared any cash dividends on our common stock since inception and do not anticipate any in the future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors our Board of Directors may deem relevant at that time.

The transfer agent and registrar for our common stock is Computershare Investor Services, located at 350 Indiana Street, Suite 800, Golden, Colorado 80401.

Equity Compensation Plans

Summary equity compensation plan data

The following table sets forth information, as of March 31, 2014, about our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	–	$ –	490,000
Equity compensation plans not approved by security holders (1)(3)(4)	26,133,407	$ 0.25	2,445,626

Totals	26,133,407	$	0.25	2,935,626

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Note 6 to the accompanying consolidated financial statements.

(2) Net of equity instruments forfeited, exercised or expired.

(3) On June 8, 2009, our Board of Directors approved the grant to Mr. James A. Joyce, our Chief Executive Officer, of 4,000,000 shares of restricted common stock. The market price of our stock on the grant date was $0.24 per share and the shares vested in equal installments over a thirty-six-month period that commenced on June 30, 2010.

(4) On March 31, 2014 we had 2,445,626 shares available under our 2010 Stock Incentive Plan.

2000 Stock Option Plan

Our 2000 Stock Option Plan provides for the grant of incentive stock options to our full-time employees (who may also be directors) and nonstatutory stock options to non-employee directors, consultants, customers, vendors or providers of significant services. The exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant or, in the case of an optionee who owns more than 10% of the total combined voting power of all classes of our outstanding stock, not be less than 110% of the fair market value on the date of grant. The exercise price, in the case of any nonstatutory stock option, must not be less than 75% of the fair market value of the common stock on the date of grant. The amount reserved under the 2000 Stock Option Plan is 500,000 options.

At March 31, 2014, all of the grants previously made under the 200 Stock Option Plan had expired and 10,000 restricted shares had been issued under the plan, with 490,000 available for future issuance.

2003 Consultant Stock Plan

Our 2003 Consultant Stock Plan advances our interests by helping us obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Consultants or advisors are eligible to receive grants under the plan program only if they are natural persons providing bona fide consulting services to us, with the exception of any services they may render in connection with the offer and sale of our securities in a capital-raising transaction, or which may directly or indirectly promote or maintain a market for our securities. The plan provides for the grant of common stock. No awards may be issued after the ten-year anniversary of the date we adopted the plan, the termination date for the plan. We have periodically amended the plan to increase the number of shares available for issuance under the plan with the approval of our Board of Directors.

We filed registration statements on Form S-8 with the Securities and Exchange Commission to register under the Securities Act of 1933, as amended, the common shares issuable under this plan as follows:

Date of Filing	Number of Shares Registered
March 29, 2004	1,000,000
August 29, 2005	2,000,000
August 9, 2007	2,000,000
July 10, 2009	1,000,000
February 17, 2010	1,500,000

We discontinued using this plan in October 2012.

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2010 Stock Incentive Plan

In August 2010, we adopted the 2010 Stock Incentive Plan, which provides incentives to attract, retain and motivate employees and directors whose present and potential contributions are important to our success by offering them an opportunity to participate in our future performance through awards of options, the right to purchase common stock, stock bonuses and stock appreciation rights and other awards. A total of 3,500,000 common shares were initially reserved for issuance under the 2010 Stock Incentive Plan.

In August 2010, we filed a registration statement on Form S-8 for the purpose of registering 3,500,000 common shares issuable under this plan under the Securities Act of 1933, as amended, and in July 2012, we filed a registration statement on Form S-8 for the purpose of registering 5,000,000 common shares issuable under this plan under the Securities Act of 1933, as amended.

At March 31, 2014, we had 2,445,626 shares available under this plan.

2012 Directors Compensation Program

In July 2012, our Board of Directors approved a board compensation program that modifies and supersedes the 2005 Directors Compensation Program, which was previously in effect. Under the 2012 program, in which only non-employee directors may participate, an eligible director will receive a grant of $35,000 worth of ten year options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. In addition, under this new program, eligible directors will receive cash compensation equal to $500 for each committee meeting attended and $1,000 for each formal board meeting attended.

In the fiscal year ended March 31, 2013, our Board of Directors granted ten-year options to acquire an aggregate of 1,667,105 shares of our common stock, all with an exercise price of $0.076 per share, to our four outside directors under the new 2012 program.

In the fiscal year ended March 31, 2014, our Board of Directors granted ten-year options to acquire an aggregate of 1,595,536 shares of our common stock, all with an exercise price of $0.082 per share, to our five outside directors under the new 2012 program.

At March 31, 2014 we had issued 1,337,825 options under the old 2005 program to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors' options had been forfeited, 250,000 outside directors' options had been exercised and 3,671,550 options remained outstanding.

On June 6, 2014, our Board of Directors approved certain changes to the 2012 program. Under this new program, a new eligible director will receive an initial grant of $50,000 worth of options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. These options will have a term of ten years and will vest 1/3 upon grant and 1/3 upon each of the first two anniversaries of the date of grant. In addition, at the beginning of each fiscal year, each existing director eligible to participate in the modified new 2012 program also will receive a grant of $35,000 worth of options valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. Such options will vest on the first anniversary of the date of grant. In lieu of per meeting fees, eligible directors will receive an annual board retainer fee of $30,000. The modified new 2012 program also provides for the following annual retainer fees: Audit Committee Chair - $5,000, Compensation Committee chair - $5,000, Audit Committee member - $4,000, Compensation Committee member - $4,000 and lead independent director - $15,000.

Stand-alone grants

From time to time our Board of Directors grants restricted stock or common share purchase options or warrants to selected directors, officers, employees and consultants as equity compensation to such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

On June 8, 2009, our Board of Directors approved the grant to Mr. Joyce of 4,000,000 shares of restricted common stock at a price per share of $0.24, the vesting and issuance of which occurred in equal installments over a thirty-six-month period that commenced on June 30, 2010.

As of March 31, 2014, we had issued 22,568,158 options (of which 3,368,942 have been exercised or cancelled) and authorized the issuance of 4,000,000 shares of restricted stock outside of the 2005 Directors Compensation Plan, the 2012 Directors Compensation Plan, the 2000 Stock Option Plan, the 2003 Consultant Stock Plan and the 2010 Incentive Stock Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated Financial Statements and Notes thereto appearing elsewhere in this prospectus.

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 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 U.S. Food and Drug Administration approved our investigational device exemption application to initiate a ten-patient human clinical trial in one location in the United States 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 U.S. Food and Drug Administration 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 U.S. Food and Drug Administration approval to market our products in the United States 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 October 2013, our majority-owned subsidiary, Exosome Sciences, Inc., 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.

Fiscal Years Ended March 31, 2014 and 2013

Results of Operations

Revenues

We recorded government contract revenue in the fiscal years ended March 31, 2014 and 2013. This revenue arose from work performed under our government contract with the Defense Advanced Research Projects Agency and our subcontract with Battelle Memorial Institute as follows:

	Fiscal Year Ended 3/31/14	Fiscal year Ended 3/31/13	Change in Dollars
Defense Advanced Research Projects Agency contract	$1,466,482	$1,230,004	$236,478
Battelle Memorial Institute subcontract	157,287	–	157,287
Total government contract revenue	$1,623,769	$1,230,004	$393,765

Defense Advanced Research Projects Agency Contract

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 the option on the second, third and fourth years of the contract. The Defense Advanced Research Projects Agency has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

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 will reduce the possible payments under the contract by $858,491 over years three through five.

As a result of achieving eight milestones in the fiscal year ended March 31, 2014, we reported $1,466,482 in contract revenue for that fiscal year and as a result of achieving six milestones in the fiscal year ended March 31, 2013, we reported $1,230,004 in contract revenue for that fiscal year.

As of March 31, 2014, we have invoiced for twenty milestone payments under the Defense Advanced Research Projects Agency contract totaling $4,054,675.

Battelle Memorial Institute Subcontract

We entered into a subcontract agreement with Battelle Memorial Institute in March 2013. Battelle Memorial Institute was chosen by the Defense Advanced Research Projects Agency to be the prime contractor on the systems integration

portion of the original Defense Advanced Research Projects Agency contract and we are one of several subcontractors on that systems integration project. The Battelle Memorial Institute subcontract is under a time and materials basis and we began generating revenues under the subcontract in the three months ended September 30, 2013. Our expected future revenue from the subcontract will be at the discretion of Battelle Memorial Institute. The Battelle Memorial Institute subcontract is our first cost-reimbursable contract.

Our revenue under this contract is a function of cost reimbursement plus an overhead mark-up for hours devoted to the project by specific employees (with specific hourly rates for those employees), for travel expenses related to the project, for any equipment purchased for the project and for the cost of any consultants hired by us to perform work on the project. Each payment will require approval by the program manager at Battelle Memorial Institute.

Operating Expenses

Consolidated operating expenses were $4,679,697 for the fiscal year ended March 31, 2014 compared to $4,805,358 in the fiscal year ended March 31, 2013, a decrease of $125,661. The net decrease of $125,661 was due to a decrease in professional fees of $370,873, which was partially offset by an increase in general and administrative expense of $185,007 and an increase in payroll and related expenses of $60,205.

The $370,873 decrease in our professional fees primarily arose from a decrease in Defense Advanced Research Projects Agency-related professional fees of $223,930 due to decreased use of consultants on subtask 1 of the project and a decrease in non-Defense Advanced Research Projects Agency-related professional fees of $187,922. Those decreases were partially offset by $40,979 in professional fees at our Exosome Sciences, Inc. subsidiary. The decrease in non-Defense Advanced Research Projects Agency-related professional fees was primarily due to decreased activity in our Hepatitis-C trial in India.

The $185,007 increase in general and administrative expenses primarily arose from $130,367 in general and administrative expenses from the recently launched operations at our majority-owned Exosome Sciences, Inc. subsidiary. We also had a $65,862 increase in general and administrative expenses related to our government contracts, which was partially offset by a $11,222 decrease in our non- Exosome Sciences, Inc., non-Defense Advanced Research Projects Agency-related general and administrative expenses.

The $60,205 increase in payroll and related expenses was principally driven by $232,719 in payroll and related expenses from the recently launched operations at our majority-owned Exosome Sciences, Inc. subsidiary. That increase was partially offset by a $157,327 reduction in our stock-based compensation.

Other Expense

In the fiscal year ended March 31, 2014, we recognized other expenses of $10,383,034 compared to $1,316,686 of other expense in the fiscal year ended March 31, 2013. The following table breaks out the various components of our other expense over the fiscal years ended March 31, 2014 and 2013:

	Components of Other Expense in Fiscal Year Ended		
	March 31, 2014	March 31, 2013	Change
Loss on debt conversion and on settlement of accrued interest and damages	$40,257	$139,839	$(99,582)

Change in fair value of derivative liability	8,547,015	44,705	8,502,310
Interest and other debt expenses	1,287,221	1,132,314	154,907
Loss on litigation settlement	583,601	–	583,601
Other	(75,060)	(172)	(74,888)
Total other expense	$10,383,034	$1,316,686	$9,066,348

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We recorded a loss on debt conversion and on settlement of accrued interest and damages of $40,257 and $139,839 in the fiscal years ended March 31, 2014 and 2013, respectively. In the both fiscal years, those losses arose from the conversion to equity of principal and accrued interest on certain notes payable.

Both periods include changes in the fair value of derivative liability. For the fiscal year ended March 31, 2014, the change in the estimated fair value of derivative liability was a loss of $8,547,015 and for the fiscal year ended March 31, 2013, the change in the estimated fair value of derivative liability was a loss of $44,705.

We also recorded litigation settlement expense of $583,601 in the fiscal year ended March 31, 2014.

Other income included a gain of $75,000 related to the extinguishment of accrued damages as a result of the litigation settlement in the fiscal year ended March 31, 2014 as well as interest income in both fiscal years.

Our interest and other debt expense increased by $154,907 from the fiscal year ended March 31, 2013 to the fiscal year ended March 31, 2014. The following table breaks out the various components of our interest expense over the fiscal years ended March 31, 2014 and 2013:

	Components of Interest Expense and Other Debt Expenses in Fiscal Year Ended		
	March 31, 2014	March 31, 2013	Change
Interest expense	$425,725	$526,110	$(100,385)
Amortization of deferred financing costs	863	127,200	(126,337)
Amortization of note discounts	4,284	467,158	(462,874)
Note restructuring expense	856,349	–	856,349
Non-cash interest expense	–	11,846	(11,846)
Total interest expense	$1,287,221	$1,132,314	$154,907

As a result of the above factors, our net loss before noncontrolling interests increased from $(4,892,040) for the fiscal year ended March 31, 2013 to $(13,438,962) for the fiscal year ended March 31, 2014.

Liquidity and Capital Resources

At March 31, 2014, we had a cash balance of $1,250,279 and a working capital deficit of $14,169,471. This compares to a cash balance of $125,274 and a working capital deficit of $9,276,618 at March 31, 2013. Between April 1, 2014 and July 9, 2014, we raised aggregate proceeds of $320,800 through private equity transactions and collected $135,376 under our Defense Advanced Research Projects Agency contract and Battelle Memorial Institute subcontract. Significant additional financing must be obtained in order to provide a sufficient source of operating capital and to allow the Company to continue to operate as a going concern. In addition, we will need to raise capital to complete the recently approved human clinical trial in the U.S. During the period after March 31, 2014, we raised capital to support our operations. See the discussions in the sections below entitled “Three and Six-Month Periods Ended September 30, 2014 and 2013” and “Material Changes During the Period September 30, 2014 to December 31, 2014.”

We do not expect revenue from operations will be sufficient to satisfy our funding requirements in the near term, and accordingly, our ability to continue operations and meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Cash Flows

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

	(In thousands) For the year ended March 31, 2014	March 31, 2013
Cash (used in) provided by:		
Operating activities	$(2,139)	$(2,099)
Investing activities	(96)	–
Financing activities	3,360	2,080
Net increase (decrease) in cash	$1,125	$(19)

Net Cash from Operating Activities.

We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $2,139,000 in fiscal 2014 compared to net cash used in operating activities of approximately $2,099,000 in fiscal 2013, an increase of $40,000. The $40,000 increase was primarily due to changes in our operating assets and liabilities.

Net Cash from Investing Activities.

During the fiscal year ended March 31, 2014, we used approximately $96,000 in cash for purchases of equipment. During the fiscal year ended March 31, 2013, we did not purchase any equipment or have any other investing activities.

Net Cash from Financing Activities.

Net cash generated from financing activities increased from approximately $2,080,000 in the fiscal year ended March 31, 2013 to approximately $3,360,000 in the fiscal year ended March 31, 2014. Included in net cash provided by financing activities in fiscal 2014 were approximately $3,177,000 from the issuance of common stock and $400,000 from the issuance of notes payable, which was partially offset by approximately $217,000 in repayments of notes payable in cash. In fiscal 2013, we received approximately $2,110,000 from the issuance of common stock, which was partially offset by approximately $30,000 in repayments of notes payable and related accrued interest in cash.

Convertible Notes Payable and Warrants

Amended and Restated 12% Series A Convertible Notes

In June 2010, we entered into Amended and Restated 12% Series A Convertible Promissory Notes, in the principal amount of $900,000, with the holders of certain promissory notes previously issued by us. These notes matured on December 31, 2010. In connection with the amendments we paid $54,001 of accrued and default interest through the date of the restructuring, liquidated damages of $205,000 and $54,003 of prepaid interest through the expiration date in the aggregate amount of $313,004 through the issuance of units at a fixed rate of $0.20 per unit. Each unit consists of one share of our common stock and one common stock purchase warrant to purchase one share of our common stock at a fixed exercise price of $0.20 per share exercisable until February 2016. We also increased the annual interest rate from ten percent to twelve percent. We also agreed to change the exercise prices on all of the warrants held by the noteholders to $0.20 per share, to change certain formerly contingent warrants to non-contingent warrants and to extend the expiration date of their warrants to February 2016. As of December 31, 2013 the notes were in default. We accrued interest at the revised default rate of 20% following December 31, 2010.

On June 24, 2014, we entered into an agreement with the Ellen R. Weiner Family Revocable Trust, a holder of one of the notes to convert past due combined principal and interest balance of $1,003,200 into an aggregate of 23,318,254 restricted shares of our common stock and five-year warrants to acquire up to 6,809,524 shares of our common stock at an exercise price of $.042 per share and 397,222 shares of our common stock at an exercise price of $.108 per share. In connection with these changes, the trust agreed to waive the anti-dilution price protection in the warrants.

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, we also issued to the trust 75,000 restricted shares of common stock as a service fee, changed the exercise price of all of the previously issued warrants to $.042 per share and extended the expiration date of all of the previously issued warrants to July 1, 2018.

On July 8, 2014, we entered into an agreement with the Estate of Allan Bird, a holder of a one of the notes that was in default. In the agreement, the estate agreed to extend the expiration date of the note to April 1, 2016, and to convert approximately $116,970 of accrued interest into an aggregate of 2,591,846 restricted shares of our common stock. The estate received five-year warrants to acquire 2,321,429 shares of our common stock at an exercise price of $.042 per share and 135,417 shares of our common stock at an exercise price of $.108.

We also issued to the estate 25,000 restricted shares of common stock as a service fee, changed the exercise price of all of the previously issued warrants to $.042 per share and extended the expiration date of all of the previously issued warrants to July 1, 2018.

December 2006 10% Convertible Notes

In January 2014, we paid off the remaining December 2006 10% Note and the related accrued interest balance with a cash payment of $35,055. That payment represented the sum of the $17,000 principal balance and $18,055 of accrued interest.

2008 10% Convertible Notes

One 2008 10% Convertible Note in the amount of $25,000, which matured in January 2010 remained outstanding at March 31, 2014. On September 17, 2014, we issued the holder 478,188 shares of restricted common stock and warrants to acquire up to 239,094 shares of common stock at an exercise price of $0.14 per share upon conversion of the entire outstanding principal amount of $25,000 and accrued interest of $20,906.

October and November 2009 10% Convertible Notes

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes. The notes matured at various dates between April 2011 and May 2011 and are convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investors also received matching three year warrants to purchase unregistered shares of our common stock at a price of $0.25 per share. We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We are amortizing this discount using the effective interest method over the term of the notes.

Deferred financing costs of $20,250 incurred in connection with this financing were issued in the form of a convertible note with warrants on the same terms as those received by the investors. We capitalized the $20,250 of deferred financing costs and amortized them over the term of the notes using the effective interest method.

In July 2012, we issued 461,409 shares of common stock to the holder of the one of the notes in the principal amount of $25,000 in exchange for the value of the principal and related accrued interest of $8,000 under the same terms that we used to sell units consisting of one share of common stock and one-half of a stock purchase warrant on June 29, 2012. The 461,409 share issuance was priced based on 80% of the trailing five day average before issuance to be consistent with the equity unit structure. As part of that structure, the noteholder also received seven year warrants to purchase 230,705 share of common stock at a price of $0.107 per share. The $16,149 value of the warrant was calculated using the binomial lattice valuation methodology. We recorded a loss on conversion of $45,796 on the conversions in the quarter ended September 30, 2012.

The following table shows the conversions into principal of the October and November 2009 Convertible Notes by fiscal year:

Activity in October and November 2009 Convertible Notes	
Initial principal balance, including $250,000 of deferred financing costs	$450,250
Conversions during the fiscal year ended March 31, 2010	(70,000)
Conversions during the fiscal year ended March 31, 2011	(175,000)

Conversions during the fiscal year ended March 31, 2012	(130,250)
Conversions during the fiscal year ended March 31, 2013	(25,000)
Conversions during the fiscal year ended March 31, 2014	–
Balance as of March 31, 2014	$50,000

In September 2013, we agreed to extend the expiration date of certain warrants of one of the note holders by two years in exchange for the extension to April 22, 2015 of the maturity date of a $50,000 note previously issued to the holder. Management assessed the change in the value of the note and related warrants before and after that extension and determined that the change in value related to the change in terms was not significant.

April 2010 10% Convertible Note

In April 2010, we raised $75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note matured in October 2011 and is convertible into our common stock at a fixed conversion price of $0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 unregistered shares of our common stock at a price of $0.25 per share.

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a 100% discount against the principal of the notes. We amortized this discount using the effective interest method over the term of the note. As of March 31, 2014, there have not been any conversions of the note.

In September 2013, we agreed to extend the expiration date of certain warrants of the note holder by two years in exchange for the extension of the maturity date of the $75,000 note to October 21, 2015. Management assessed the change in the value of the notes and related warrants before and after that extension and determined that the change in value related to the change in terms was not significant.

September 2010 10% Convertible Notes

On September 3, 2010, we entered into a subscription agreement with three accredited investors providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The closing resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $743,600, (ii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.31125 per share, and (iii) five-year warrants to purchase an aggregate of 3,718,000 shares of our common stock at an exercise price of $0.43575 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and matured on September 3, 2011. The aggregate gross cash proceeds were $650,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than $0.30 nor less than $0.20.

On March 31, 2014, we amended these notes to extend the maturity date to April 1, 2016, which permits us to classify them as long-term liabilities. The non-default interest rate for all of the notes was set at twelve percent per annum. We also agreed to increase the outstanding principal amount of the notes by 12% from a total of $693,260 to a total of $776,451.

During the period from October 2011 to February 2014, the investors converted, at conversion prices between $.0546 and $.07 per share, portions of principal and interest outstanding under these notes and certain other convertible promissory notes previously issued to them by us. Certain anti-dilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of $.042 per share. Accordingly, we issued to the investors an additional 4,507,105 shares of our common stock, which represents the additional shares of common stock that would have been issued to the investors had such conversions been effected at $.042 per share.

The amendments also set the conversion price of the notes, as well as the exercise price at which shares of our common stock can be purchased under the warrants, at $.042 per share. By virtue of the amendments, the expiration dates of the warrants also were extended from dates between September 3, 2015 and September 23, 2016 to January 1, 2017.

The following table shows the activity in these notes by fiscal year:

Activity in September 2010 10% Convertible Notes	
Initial principal balance	$743,600
Conversions during the fiscal year ended March 31, 2012	(405,500)
Conversions during the fiscal year ended March 31, 2013	(30,000)
Conversions during the fiscal year ended March 31, 2014	(25,000)
Increase in principal balance due to 12% extension fee	33,972
Balance as of March 31, 2014	$317,072

April 2011 10% Convertible Notes

In April 2011, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of convertible promissory notes and corresponding warrants which resulted in the issuance and sale by us of (i) convertible promissory notes in the aggregate principal amount of $385,000, (ii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of $0.125 per share, and (iii) five-year warrants to purchase an aggregate of 4,004,000 shares of our common stock at an exercise price of $0.175 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent and matured on April 1, 2012. The aggregate gross cash proceeds to us were $350,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes were convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than $0.20 nor less than $0.10. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

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

On March 31, 2014, we entered into amendments with three accredited investors with respect to notes and warrants previously issued by us on various dates between December 5, 2007 and September 23, 2011, including these notes.

Prior to the amendments, the notes were past maturity and were in default, resulting in the accrual of interest at the applicable default interest rate. The amendments extended the maturity date of each of the notes to April 1, 2016 and provided for a non-default interest rate for all of the notes at twelve percent per annum, which represents a reduction from the default interest rates of fifteen percent at which interest had been accruing. By entering into the amendments, we also agreed to increase the outstanding principal amount of the notes by 12% from a total of $693,260 to a total of $776,451.

During the period from October 2011 to February 2014, the investors had converted, at conversion prices between $.0546 and $.07 per share, portions of principal and interest outstanding under the Notes and certain other convertible promissory notes previously issued to them by us. Certain anti-dilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of $.042 per share. Thus, we issued to the investors an aggregate of 4,507,105 shares of our common stock, which represents the additional shares of common stock that would have been issued to the Investors had such conversions been effected at $.042 per share.

The amendments also set the conversion price of the notes, as well as the exercise price at which shares of our common stock can be purchased under the warrants, at $.042 per share. In addition, the warrants also were extended from dates between September 3, 2015 and September 23, 2016 to January 1, 2017.

As of March 31, 2014, there have not been any conversions of these notes and the 12% extension fee noted above increased the principal balance by $48,048 to a principal balance of $ 448,448.

July and August 2011 10% Convertible Notes

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

We measured the fair value of the warrants and the beneficial conversion feature of the notes and recorded a $257,926 discount against the principal of the notes. We amortized this discount using the effective interest method over the term of the note. As of September 30, 2013, there were no conversions of the notes, which were extended to July 16, 2014.

Effective July 14, 2012, holders of three notes totaling $100,000 agreed to extend the expiration date of their notes to July 13, 2013. Subsequent to June 30, 2013, the holders of the three notes agreed to extend their notes to July 16, 2014. As part of the extension, we agreed to capitalize accrued interest of $20,027 into the principal balance. Effective March 31, 2014, the holders of the three notes converted all of their principal and accrued interest into 1,438,700 shares of our common stock at the contractual conversion price of $0.09 per share.

At March 31, 2014, the outstanding principal balance was $257,655, all of which was in default. We recorded interest at the default interest rate of 15%.

September 2011 Convertible Notes

On September 23, 2011, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $253,760. The warrants carried a five-year term to purchase an aggregate of 3,625,143 shares of our common stock at an exercise price of $0.10 per share. The convertible promissory notes do not bear an interest rate and matured on September 23, 2012. The aggregate net cash proceeds to us were $175,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to $0.07. Subject to adjustments as described in the notes, the conversion price may not be more than $0.07.

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

On March 31, 2014, we entered into separate amendments with three accredited investors who own certain convertible promissory notes and warrants previously issued by us on various dates between December 5, 2007 and September 23, 2011, including these notes.

The amendments extended the maturity date of each of the notes to April 1, 2016, and the non-default interest rate for all of the notes was set at 12% per annum, which represents a reduction from the default interest rates of 15% at which interest had been accruing. By entering into the amendments, we also agreed to increase the outstanding principal amount of the notes by 12% from a total of $693,260 to a total of $776,451.

During the period from October 2011 to February 2014, the investors had converted, at conversion prices between $.0546 and $.07 per share, portions of principal and interest outstanding under the notes and certain other convertible promissory notes previously issued to them by us. Certain anti-dilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of $.042 per share. Accordingly, pursuant to the amendments, we issued to the investors an aggregate of 4,507,105 shares of our common stock, which represents the additional shares of common stock that would have been issued to the Investors had such conversions been effected at $.042 per share.

The amendments also set the conversion price of the notes, as well as the exercise price at which shares of our common stock can be purchased under the warrants, at $.042 per share. Additionally, under the amendments, the expiration dates of the warrants also were extended from dates between September 3, 2015 and September 23, 2016 to January 1, 2017.

The following table shows the conversions into principal of these notes by fiscal year:

Activity in September 2011 Convertible Notes	
Initial principal balance	$253,760
Conversions during the fiscal year ended March 31, 2012	(15,000)
Conversions during the fiscal year ended March 31, 2013	(60,000)
Conversions during the fiscal year ended March 31, 2014	(169,000)
Increase in principal balance due to extension fee	1,171
Balance as of March 31, 2014	$10,931

Law Firm Note Number 1

On March 22, 2012, we entered into a promissory note with our corporate law firm for the amount of $75,000, which represented the majority of the amount we then owed to that firm. The promissory note originally had a maturity date of December 31, 2012 and bears interest at five percent per annum. The note is convertible at the option of the holder into shares of our common stock at a 10% discount to the market price of the common stock on the date prior to conversion with a floor price on such conversions of $0.08 per share. During the quarter ended June 30, 2013, the parties agreed to extend the maturity date of the note to October 1, 2013 and subsequent to September 30, 2013, the expiration date of this note was again extended to October 1, 2014. On November 7, 2014, we paid in full the outstanding principal balance and related accrued interest with a cash payment of $50,000 and an issuance of 170,020 shares of common stock upon conversion at a conversion price of $0.21 per share.

Law Firm Note Number 2

On June 4, 2013, we entered into a promissory note with our corporate law firm for the amount of $47,000, which represented approximately 50% of the amount we owed to that firm for services in 2012. The promissory note had a maturity date of October 1, 2014 and bears interest at five percent per annum. The note was convertible at the option of the holder into shares of our common stock at a 10% discount to the market price of the common stock on the date prior to conversion with a floor price on such conversions of $0.07 per share. Effective March 31, 2014, the holder converted this note and all related accrued interest into 302,043 shares of our common stock at a conversion price of $0.16 per share.

Securities Issued for Services

We have issued securities in payment of services to reduce our obligations and to avoid using our cash resources. In the fiscal year ended March 31, 2014 we issued 3,071,150 common shares for services of which 1,568,124 were restricted and were for investor relations services and corporate communications services. Included in the 3,071,150 common shares issued for services are 1,503,026 shares, registered under Form S-8 registration statements, which were issued as follows: 71,140 for financial consulting, 419,069 for scientific consulting and 1,012,817 for legal services. The average price discount of common shares issued for these services, weighted by the number of shares issued for services in this period, was approximately 16.0%.

Securities Issued for Debt

We have also issued securities for debt to reduce our obligations to avoid using our cash resources. In the fiscal year ended March 31, 2014 we issued 10,574,024 restricted common shares for repayment in full of notes, including accrued interest, in the aggregate amount of $726,776. The price discount of the common stock issued for debt was approximately 43.2%.

Prospects for Debt Conversion

We seek, where possible, to convert our debt and accounts payable to stock and/or warrants in order to reduce our cash liabilities. Our success at accomplishing this depends on several factors including market conditions, investor acceptance and other factors, including our business prospects. All conversions are done under an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

Going Concern

Our independent registered public accounting firm has stated in their audit report on our March 31, 2014 consolidated financial statements that our working capital deficiency and our accumulated deficit are conditions that, among others, raise substantial doubt about our ability to continue as a going concern.

Three and Six-Month Periods Ended September 30, 2014 and 2013

Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Revenues

We recorded government contract revenue in the three months ended September 30, 2014 and 2013. This revenue arose from work performed under our government contract with the Defense Advanced Research Projects Agency and our subcontract with Battelle Memorial Institute as follows:

	Three Months Ended 9/30/14	Three Months Ended 9/30/13	Change in Dollars
Defense Advanced Research Projects Agency contract	$444,723	$613,143	$(168,420)
Battelle Memorial Institute subcontract	34,352	31,744	2,608
Total government contract revenue	$479,075	$644,887	$(165,812)

Defense Advanced Research Projects Agency Contract

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 the option on the second, third and fourth years of the contract. The Defense Advanced Research Projects Agency has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the

participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

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 will reduce the possible payments under the contract by $858,491 over years three through five.

During the three months ended September 30, 2014 we invoiced the Defense Advanced Research Projects Agency for three milestones totaling $444,723 while in the three months ended September 30, 2013, we invoiced the Defense Advanced Research Projects Agency for three milestones totaling $613,143.

Operating Expenses

Consolidated operating expenses for the three months ended September 30, 2014 were $1,080,267 in comparison with $874,683 for the comparable quarter a year ago. This increase of $205,584 was due to increases in payroll and related expenses of $139,505 and increases in general and administrative expenses of $84,769, which were partially offset by a decrease in professional fees of $18,690.

The $139,505 increase in payroll and related expenses was primarily due to the Exosome Sciences, Inc. payroll of $137,257. Other factors were an increase in stock-based compensation of $14,980 and a decrease in cash-based compensation at Aethlon of $12,732.

The $84,769 increase in general and administrative expenses was due to general and administrative expenses at Exosome Sciences, Inc. of $45,986. We also had an increase of $56,617 in our non-Defense Advanced Research Projects Agency-related general and administrative expenses. Those increases were partially offset by a decrease in our Defense Advanced Research Projects Agency-related general and administrative expenses of $17,834.

The $18,690 decrease in our professional fees was due to a decrease in our Defense Advanced Research Projects Agency-related professional fees of $48,188, which was partially offset by increases of $20,675 in Exosome Sciences, Inc. professional fees and of $8,823 of our non- Defense Advanced Research Projects Agency-related professional fees.

Other Expense

Other expense consists primarily of losses on extinguishment of debt, the change in the fair value of our derivative liability, other expense and interest expense. Other expense for the three months ended September 30, 2014 was other expense of $287,001 in comparison with other expense of $3,119,874 for the comparable quarter a year ago.

Loss on Extinguishment of Debt and Other

We recorded a loss on extinguishment of debt of $65,493 for the three months ended September 30, 2014 that related to the conversion to equity of $45,906 in principal and accrued interest related to a note payable. The three months ended September 30, 2013 contained $17,467 in losses on debt conversion.

The three months ended September 30, 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.

Change in Fair Value of Derivative Liability

We did not record a change in the fair value of derivative liabilities in the three months ended September 30, 2014. For the three months ended September 30, 2013, the change in the estimated fair value of derivative liability was a loss of $2,992,002.

Interest Expense

Interest expense was $78,145 for the three months ended September 30, 2014 compared to $110,405 in the corresponding prior period, a decrease of $32,260. The various components of our interest expense are shown in the following table:

	Quarter Ended 9/30/14	Quarter Ended 9/30/13	Change
Interest expense	$66,585	$108,723	$(42,138)
Amortization of deferred financing costs	11,560	–	11,560
Amortization of note discounts	–	1,682	(1,682)
Total interest expense	$78,145	$110,405	$(32,260)

As noted in the above table, the most significant factor in the $32,260 decrease in interest expense was the $42,138 decrease in the interest expense that was primarily due to lower levels of notes outstanding in the 2014 period. Other smaller factors in the change in our total interest were an increase in the amortization of deferred financing costs of $11,560 and a $1,682 reduction in the amortization of note discounts.

Net Loss

As a result of the increased expenses noted above, our net loss before noncontrolling interests was approximately $888,000 for the quarter ended September 30, 2014 compared to the net loss before noncontrolling interests of approximately $3,350,000 in the quarter ended September 30, 2013.

Basic and diluted loss attributable to common stockholders were ($0.00) for the three month period ended September 30, 2014 compared to ($0.02) for the three month period ended September 30, 2013.

Six Months Ended September 30, 2014 Compared to the Six Months Ended September 30, 2013

Revenues

We recorded government contract revenue in the six months ended September 30, 2014 and 2013. This revenue arose from work performed under our government contract with the Defense Advanced Research Projects Agency and our subcontract with Battelle Memorial Institute as follows:

	Six Months Ended 9/30/14	Six Months Ended 9/30/13	Change in Dollars
Defense Advanced Research Projects Agency contract	$444,723	$808,739	$(364,016)
Battelle Memorial Institute subcontract	85,648	31,744	53,904
Total government contract revenue	$530,371	$840,483	$(310,112)

Defense Advanced Research Projects Agency Contract

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 the option on the second, third and fourth years of the contract. The Defense Advanced Research Projects Agency has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. There can be no assurance that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

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 will reduce the possible payments under the contract by $858,491 over years three through five.

During the six months ended September 30, 2014 we invoiced the Defense Advanced Research Projects Agency for three milestones totaling $444,723 while in the six months ended September 30, 2013, we invoiced the Defense Advanced Research Projects Agency for four milestones totaling $808,739.

Operating Expenses

Consolidated operating expenses for the six months ended September 30, 2014 were $2,303,571 in comparison with $1,854,075 for the comparable period a year ago. This increase of $449,496 was due to increases in payroll and related expenses of $301,560, increases in professional fees of $58,853 and increases in general and administrative expenses of $89,083.

The $301,560 increase in payroll and related expenses was primarily due to the Exosome Sciences, Inc. payroll of $260,968. Other factors were an increase in stock-based compensation of $70,079 due to vesting of stock option grants while cash-based compensation at Aethlon decreased by $29,487 from the 2013 period.

The $58,853 increase in our professional fees was partially due to Exosome Sciences, Inc. professional fees of $87,719 and an increase of $69,269 for non-Defense Advanced Research Projects Agency-related professional fees at Aethlon. Those increases at Aethlon were primarily due to a $71,432 increase in legal fees, largely due to increased patent-related activity. Those increases were offset by a decrease in Defense Advanced Research Projects Agency-related professional fees of $98,135.

The $89,083 increase in general and administrative expenses was primarily due to general and administrative expenses at Exosome Sciences, Inc. of $96,987.

Other Expense

Other expense consists primarily of losses on extinguishment of debt, the change in the fair value of our derivative liability, other expense and interest expense. Other (income) expense for the six months ended September 30, 2014 was other expense of $2,819,285 in comparison with other expense of $2,639,576 for the comparable period a year ago.

Loss on Extinguishment of Debt and Other

We recorded a loss on extinguishment of debt of $2,531,123 for the six months ended September 30, 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 $45,906 in principal and accrued interest related to a note payable. The three months ended September 30, 2013 contained $40,256 in losses on debt conversion.

The three months ended September 30, 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.

Change in Fair Value of Derivative Liability

We did not record a change in the fair value of derivative liabilities in the six months ended September 30, 2014 and all derivative liabilities were extinguished as of June 30, 2014. For the six months ended September 30, 2013, the change in the estimated fair value of derivative liability was a loss of $2,382,877.

Interest Expense

Interest expense was $144,799 for the six months ended September 30, 2014 compared to $216,443 in the corresponding prior period, a decrease of $71,644. The various components of our interest expense are shown in the following table:

	Six Months Ended 9/30/14	Six Months Ended 9/30/13	Change
Interest expense	$123,297	$211,865	$(88,568)
Amortization of deferred financing costs	21,502	863	20,639
Amortization of note discounts	–	3,715	(3,715)
Total interest expense	$144,799	$216,443	$(71,644)

As noted in the above table, the most significant factor in the $71,644 decrease in interest expense was the $88,568 decrease in the interest expense that was primarily due to lower levels of notes outstanding in the 2014 period. Other smaller factors in the change in our total interest were an increase in the amortization of deferred financing costs of

$20,639, which was partially offset by a reduction in the amortization of note discounts.

Net Loss

As a result of the increased expenses noted above, our net loss before noncontrolling interests for the six months ended September 30, 2014 was approximately $4,592,000 compared to approximately $3,653,000 for the six month period ended September 30 2013.

Basic and diluted loss attributable to common stockholders were ($0.02) for the six month period ended September 30, 2014 compared to ($0.02) for the period ended September 30, 2013.

Liquidity and Capital Resources

At September 30, 2014, we had a cash balance of $526,187 and a working capital deficit of $2,495,767. This compares to a cash balance of $1,250,279 and a working capital deficit of $14,169,471 at March 31, 2014. Between October 1, 2014 and December 31, 2014, we raised aggregate proceeds of $4,083,579 through equity issuances and raised $415,000 through the issuance of convertible notes. Over that same period, we collected $247,361 under our Defense Advanced Research Projects Agency contract and under the Battelle Memorial Institute subcontract we billed $33,434 and collected $29,519. At December 31, 2014, we had a cash balance of approximately $2,800,000, which we believe may be sufficient to fund the initial phase of our recently approved human clinical trial in the U.S. but will not be sufficient to fund future phases of our human trial or potential additional human trials nor to meet our funding requirements during the next twelve months. We must obtain significant additional financing to provide a sufficient source of operating capital in future periods and to allow us to continue to operate as a going concern.

Cash Flows

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

	(In thousands)	
	For the six months ended	
	September 30, 2014	September 30, 2013
Cash (used in) provided by:		
Operating activities	$(1,394)	$ (745)
Investing activities	–	–
Financing activities	670	628
Net (decrease) in cash	$(724)	$ (117)

Net Cash from Operating Activities.

We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $1,394,000 in the six months ended September 30, 2014 compared to $745,000 in the six months ended September 30, 2013, an increase of $649,000. The $649,000 increase was primarily due to our increased operating loss.

Net Cash from Investing Activities.

We did not have any investing activities during either period.

Net Cash from Financing Activities.

Net cash generated from financing activities increased from approximately $628,000 in the six months ended September 30, 2013 to $670,000 in the six months ended September 30, 2014. The only financing activity in the 2014 periods was the issuance of common stock, while in the 2013 period, financing activities included $400,000 in proceeds from the issuance of notes payable.

An increase in working capital during the six months ended September 30, 2014 in the amount of approximately $11,684,000 changed our negative working capital position to approximately ($2,496,000) at September 30, 2014 from a negative working capital of approximately ($14,169,000) at March 31, 2014. The most significant factors in the increase in working capital noted above were a decrease in derivative liability of approximately $10,679,000 and a reduction in the current portion of our convertible notes payable and notes payable of approximately $1,096,000.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions. We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting estimates relate to revenue recognition, stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, deferred tax asset valuation allowance, and contingencies.

Fair Value Measurements

We measure the fair value of applicable financial and non-financial instruments based on the following fair value hierarchy:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

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

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

Revenue Recognition

With respect to revenue recognition, we entered into a government contract with the Defense Advanced Research Projects Agency and have recognized revenue during the fiscal years ended March 31, 2014 and 2013 of $1,466,482 and $1,230,004, respectively, under such contract. We adopted the Milestone method of revenue recognition for the Defense Advanced Research Projects Agency contract under ASC 605-28 “Revenue Recognition – Milestone Method” and we believe we meet the requirements under ASC 605-28 for reporting contract revenue under the Milestone Method for the fiscal years ended March 31, 2014 and 2013.

We also recognize revenue under for a secondary smaller contract under a time and materials non-fixed price basis where we recognize revenue as the services are performed.

Stock Purchase Warrants

We grant warrants in connection with the issuance of certain notes payable and other financing transactions. When such warrants are classified as equity, we measure the relative estimated fair value of such warrants which represents a discount from the face amount of the notes payable. Such discounts are amortized to interest expense over the term of the notes. We analyze such warrants for classification as either equity or derivative liabilities, and value them based on binomial lattice models.

Beneficial Conversion Feature of Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature of which we measure the estimated fair value in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

Share-based Compensation

We account for share-based compensation awards using the fair-value method and record such expense based on the grant date fair value in the consolidated financial statements over the requisite service period.

Derivative Instruments

We evaluate free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. Our policy is to settle instruments indexed to our common shares on a first-in-first-out basis.

The classification of a derivative instrument is reassessed at each reporting date. If the classification changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other expense (income).

Deferred Tax Asset Valuation Allowance

Deferred tax assets are recognized for the future tax consequences attributable to the difference between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. We record a valuation allowance for deferred tax assets when, based on our best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Material Changes During the Period September 30, 2014 to December 31, 2014

In addition to the billings and collections on our government contracts noted above, the following discussion details specific transactions we entered into after September 30, 2014 that effect our liquidity and capital resources:

Debt Reduction

Subsequent to September 30, 2014, we paid off the remaining principal and interest balances on the two remaining July and August 2011 10% Convertible Notes, which had been classified as being in default, with cash payments totaling $382,748.

Subsequent to September 30, 2014, we paid off in full the outstanding principal balance and interest balance on Law Firm Note 1 with a cash payment of $50,000 and an issuance of 170,020 common shares.

Subsequent to September 30, 2014, we paid an aggregate of $503,313 in principal and accrued interest on eight other outstanding notes. As a result, seven of the eight notes were paid in full. We owe an additional $37,813 under the eighth note, which we expect to pay in full in January 2015.

Note Conversions

Subsequent to September 30, 2014, we issued an aggregate of 14,237,261 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 $0.042

Subsequent to September 30, 2014, we issued an aggregate of 5,625,000 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 5,625,000 shares of common stock. The conversion price per share was $0.042.

Issuance of Convertible Notes

Subsequent to September 30, 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 2,356,160 shares of common stock at a fixed exercise price of $0.168 per share. The convertible promissory 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. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a fixed price of $0.112 per share, for up to an aggregate of 4,712,321 shares of common stock.

The following table provides a comparison of our convertible notes payable at December 31, 2014 and at September 30, 2014:

	Convertible Notes Payable as of December 31, 2014		Convertible Notes Payable as of September 30, 2014	
	Principal	**Accrued Interest**	**Principal**	**Accrued Interest**
Convertible Notes Payable - Current Portion:				
October & November 2009 10% Convertible Notes	$–	$–	$50,000	$28,598
April 2010 10% Convertible Note	–	–	75,000	35,188
July and August 2011 10% Convertible Notes, past due	–	–	283,421	96,728
Law Firm Note	–	–	75,000	9,479
Total - Convertible Notes Payable - Current Portion	–	–	483,422	169,993
Convertible Notes Payable - Non-Current Portion:				
November 2014 10% Convertible Notes	527,780	8,063	–	–
Amended and Restated Series A 12% Convertible notes	–	–	225,000	9,000
September 2010 12% Convertible Notes	–	–	317,072	9,513
April 2011 12% Convertible Notes	202,159	2,680	448,448	13,454
Total - Convertible Notes Payable - Non-Current Portion	729,939	10,743	990,520	31,967
Total Convertible Notes Payable	$729,939	$10,743	$1,473,941	$201,860

Common Stock Issuances

Subsequent to September 30, 2014, we issued 374,295 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $0.146 per share in payment for legal and scientific consulting services valued at $54,800 based on the value of the services provided.

Equity Unit Investments

Subsequent to September 30, 2014, we issued and sold to eight accredited investors units consisting of (a) 100,000 restricted shares of our common stock at prices per share ranging from $0.105 to $0.114 and (b) a five-year warrant to purchase 50,000 shares of common stock at exercise prices ranging from $0.154 to $0.167 per share. In total, the investors purchased for cash an aggregate of $501,700 of units. The investors acquired an aggregate of 4,506,250 shares of common stock and warrants to acquire up to an aggregate of 2,253,125 shares of common stock.

Subsequent to September 30, 2014, we issued to an accredited investor units consisting of an aggregate of 1,835,798 shares of common stock and warrants to acquire up to an aggregate of 1,837,798 shares of common stock at an exercise price of $0.103 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.

Subsequent to September 30, 2014, we sold $3,300,000 of units, comprised of common stock and warrants, to three affiliated institutional investors at a price of $0.30 per unit. 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 $0.30. We sold a total of 11,000,000 shares of common stock and warrants to purchase 13,200,000 shares of common stock in the financing.

Roth Capital Partners, LLC served as sole placement agent for our recent financing and received a cash fee of $231,000, expense reimbursement of $25,000, and a five-year warrant to purchase 550,000 shares of common stock at an exercise price of $0.30 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 $3,001,429.

Warrant Exercises and Issuance of New Warrants upon Exercise

Subsequent to September 30, 2014, we issued an aggregate of 5,671,119 shares of common stock and seven-year warrants to issue up to an aggregate of 5,671,119 shares of common stock at exercise prices ranging from $0.093 to $0.116 per share to eight accredited investors. One of the investors is 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 $0.093 to $0.115 per share.

Warrant Exercises

Subsequent to September 30, 2014, we issued an aggregate of 21,516,640 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 30,265,208 shares of common stock.

Stock Option Exercises

Subsequent to September 30, 2014, two former employees exercised stock options to purchase 50,000 common shares through a cash payment of $9,500 with an exercise price of $0.19 per share.

We do not expect revenue from operations will be sufficient to satisfy our funding requirements in the near term, and accordingly, our ability to continue operations and meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Should the U.S. Government elect not to exercise the option for year five of our Defense Advanced Research Projects Agency contract, the effect may be material to us. The loss of revenues from the Defense Advanced Research Projects Agency contract would have a material impact on our revenues, operating cash flows and liquidity.

DIRECTORS AND EXECUTIVE OFFICERS

The names, ages and positions of our directors and executive officers as of December 31, 2014 are listed below:

NAMES	TITLE OR POSITION	AGE
James A. Joyce (1)	Chairman, Chief Executive Officer and Secretary	53
Richard H. Tullis, PhD (2)	Vice President, Chief Science Officer and Director	69
Rodney S. Kenley (3)	President and Director	64
James B. Frakes (4)	Chief Financial Officer and Senior Vice President - Finance	57
Franklyn S. Barry, Jr.	Director	75
Edward G. Broenniman	Director	78
Chetan S. Shah, MD	Director	46

(1) Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer, replacing Mr. Barry, who continues as a member of the Board of Directors. Mr. Joyce resigned from the position of President upon the appointment of Mr. Kenley to such position on October 27, 2010.

(2) Effective June 1, 2001, Dr. Tullis was appointed as our Chief Science Officer.

(3) Effective October 27, 2010, Mr. Kenley was appointed as our President.

(4) Effective September 27, 2010, Mr. Frakes was appointed as our Chief Financial Officer.

Certain additional information concerning the individuals named above is set forth below. This information is based on information furnished us by each individual noted.

Resumes of Management

James A. Joyce, Chairman, CEO and Secretary.

Mr. Joyce is the founder of Aethlon Medical, Inc. and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce with the additional role of CEO. Mr. Joyce also serves as the Executive Chairman of Exosome Sciences, Inc. In 1992, Mr. Joyce founded and was the sole stockholder of James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate of the University of Maryland.

Richard H. Tullis, Ph.D., Vice President, Chief Science Officer

Dr. Tullis has been Vice President and a director of our company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen Research, formerly a wholly owned subsidiary of Aethlon Medical, Inc. Previously, Dr. Tullis co-founded Molecular Biosystems, Inc., a former NYSE company. At Molecular Biosystems, Dr. Tullis was Director of Oligonucleotide Hybridization, Senior Research Scientist and Member of the Board of Directors. In research, Dr. Tullis developed and patented the first application of oligonucleotides to antisense antibiotics and developed new methods for the chemical synthesis of DNA via methoxy-hosphorochloridites. Dr. Tullis also co-developed the first applications of covalently coupled DNA-enzyme conjugates using synthetic oligonucleotides during his tenure at Molecular Biosystems. In 1985, Dr. Tullis founded, and served as President and CEO of Synthetic Genetics, Inc., a pioneer in custom DNA synthesis, which was sold to Molecular Biology Resources in 1991. Dr. Tullis also served as interim-CEO of Genetic Vectors, Inc., which completed its IPO under his management, and was co-founder of DNA Sciences, Inc., a company that was eventually acquired by Genetic Vectors. Dr. Tullis received his Ph.D. in Biochemistry and Cell Biology from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and the University of Hawaii.

Rodney S. Kenley, President and Director

Mr. Kenley has been President and a Director since October 2010. He has 34 years of experience in healthcare, most of which have been spent in the extracorporeal blood purification arena. Mr. Kenley held several positions at Baxter Healthcare (Travenol) from 1977 through 1990 including International Marketing Manager, Business Unit Manager for Peritoneal and Hemodialysis products, Manager of New Business Development, Director of Worldwide Product Planning, Director of Advanced Product Development, and VP of Electronic Drug Infusion. During this tenure he conceived of and managed the launch of several new products that have been highly commercially successful including the HomeChoice peritoneal dialysis cycler.

Mr. Kenley founded Aksys Ltd. in January 1991 to develop and commercialize his concept of a daily home hemodialysis system which was commercially launched in 2002 as the PHD system. In 2004, Mr. Kenley initiated the development of a second-generation home hemodialysis system in partnership with DEKA Research & Development Corporation in Manchester, New Hampshire. In 2007, the assets of Aksys Ltd. were acquired by DEKA, where Mr. Kenley was employed prior to joining Aethlon Medical, Inc.

Mr. Kenley is the recipient of over 30 patents.

Mr. Kenley received his Bachelor of Arts degree in Biology and Chemistry from Wabash College, a Masters of Science degree in Molecular Biology from Northwestern University and a Masters of Management from the Kellogg School of Management, also at Northwestern University.

James B. Frakes, Chief Financial Officer and Senior Vice President – Finance

Mr. Frakes joined Aethlon Medical, Inc. in January 2008 and brought 16 consecutive years of financial responsibility for publicly traded companies, as well as specific knowledge and experience in equity and debt transactions, acquisitions, public reporting and Sarbanes-Oxley Section 404 internal control requirements. Mr. Frakes also serves as the Chief Financial Officer of Exosome Sciences, Inc.

He previously served as the CFO for Left Behind Games Inc., a start-up video game company. Prior to 2006, he served as CFO of NTN Buzztime, Inc., an interactive entertainment company with $40 million in sales, where he played a key role in acquisitions that doubled the company's revenue. Mr. Frakes received an MBA from the University of Southern California and completed his BA with Honors at Stanford University.

Franklyn S. Barry, Jr.

Mr. Barry has over 30 years of experience in managing and building companies. He was President and Chief Executive Officer of Hemex from April 1997 through May 31, 2001 and our President and CEO from March 10, 1999 to May 31, 2001, when he returned to consulting until he retired in 2013. He became a director of Aethlon Medical, Inc. on March 10, 1999. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro-D, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of Merchants Mutual Insurance Company.

Edward G. Broenniman

Mr. Broenniman became a director of Aethlon Medical, Inc. in March 1999. Mr. Broenniman has 30 years of management and executive experience with high-tech, privately held growth companies where he has served as a CEO, COO, or corporate advisor, using his expertise to focus management on increasing profitability and stockholder value. He has been the Managing Director of The Piedmont Group, LLC, a venture advisory firm, since 1978. Mr. Broenniman recently served on the Board of Directors of publicly traded QuesTech (acquired by CACI International), and currently serves on the Boards of two privately held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter.

Chetan S. Shah, MD

Dr. Shah became a director of Aethlon Medical, Inc. in June 2013. Dr. Shah is a board certified Otolaryngologist. He is an Advisory Board Member at The Bank of Princeton, and a partner and Board member of the Surgery Center at Hamilton as well as Physician Management Systems and Princeton Eye & Ear, which he founded in 2009. Dr. Shah serves on the board of two other private companies. He holds teaching positions and serves on multiple hospital committees in the area and is on the Audiology and Speech Language Pathology Committee for the State of New Jersey. He also is a member of the Board of Medical Examiners for the State of New Jersey. Dr. Shah received his Bachelor’s degree and Medical Degree from Rutgers University and Robert Wood Johnson Medical School.

Board of Directors

Our Board of Directors has the responsibility for establishing broad corporate policies and for overseeing our overall performance. Members of the Board are kept informed of our business activities through discussions with the CEO, President and other officers, by reviewing analyses and reports sent to them, and by participating in Board and

committee meetings. Our bylaws provide that each of the directors serves for a term that extends to our next annual meeting of stockholders. Our Board of Directors presently has an Audit Committee and a Compensation Committee, on each of which Messrs. Barry and Broenniman and Dr. Shah serve. Mr. Barry is Chairman of the Audit Committee, and Dr. Shah is Chairman of the Compensation Committee.

In July 2012, our Board of Directors approved a board compensation program that modifies and supersedes the 2005 Directors Compensation Program, which was previously in effect. Under the 2012 program, in which only non-employee directors may participate, an eligible director will receive a grant of $35,000 worth of ten year options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. In addition, under this new program, eligible directors will receive cash compensation equal to $500 for each committee meeting attended and $1,000 for each formal board meeting attended.

In the fiscal year ended March 31, 2013, our Board of Directors granted ten-year options to acquire an aggregate of 1,667,105 shares of our common stock, all with an exercise price of $0.076 per share, to our four outside directors under the new 2012 program.

In the fiscal year ended March 31, 2014, our Board of Directors granted ten-year options to acquire an aggregate of 1,595,536 shares of our common stock, all with an exercise price of $0.082 per share, to our five outside directors under the new 2012 program.

At March 31, 2014 we had issued 1,337,825 options under the old 2005 program to outside directors and 3,965,450 options to employee-directors, 514,550 outside directors' options had been forfeited, 250,000 outside directors' options had been exercised and 3,671,550 options remained outstanding.

On June 6, 2014, our Board of Directors approved certain changes to the 2012 program. Under this new program, a new eligible director will receive an initial grant of $50,000 worth of options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. These options will have a term of ten years and will vest 1/3 upon grant and 1/3 upon each of the first two anniversaries of the date of grant. In addition, at the beginning of each fiscal year, each existing director eligible to participate in the modified new 2012 program also will receive a grant of $35,000 worth of options valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. Such options will vest on the first anniversary of the date of grant. In lieu of per meeting fees, eligible directors will receive an annual board retainer fee of $30,000. The modified new 2012 program also provides for the following annual retainer fees: Audit Committee Chair - $5,000, Compensation Committee chair - $5,000, Audit Committee member - $4,000, Compensation Committee member - $4,000 and lead independent director - $15,000.

Family Relationships

There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

There are no arrangements or understandings between any two or more of our directors or executive officers or between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current Board of Directors. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

Science Advisory Board

Our Science Advisory Board is organized in three groups: the Extracorporeal Therapy Advisory Board, the Sepsis and Inflammation Advisory Board and the Cancer Advisory Board. The role of the Science Advisory Board is to provide scientific guidance related to the development of our Aethlon ADAPT technology. Unlike the members of our Board of Directors, the Science Advisory Board members are not involved in the management or operations of our company. Members of the Science Advisory Board are paid stipends for attending meetings.

Extracorporeal Therapy Advisory Board	**Sepsis and Inflammation Advisory Board**	**Cancer Advisory Board**
Gregory T. A. Kovacs, M.D., Ph.D.	Irshad H. Chaudry, Ph.D.	Laszlo Radvanyi, Ph.D.
John A. Kellum, M.D	Larry D. Cowgill, D.V.M., Ph.D.	
Nathan W. Levin, M.D.	Charles J. Fisher, Jr., M.D.	
Claudio Ronco, M.D.	Geert Schmid-Sch nbein, Ph.D.	
David M. Ward, M.D.		

Extracorporeal Therapy Advisory Board

Gregory T.A. Kovacs, M.D., Ph.D.

Dr. Kovacs is a Professor of Electrical Engineering at Stanford University with a courtesy appointment in the Department of Medicine. He received a BASc degree in Electrical Engineering from the University of British Columbia, an MS degree in Bioengineering from the University of California, Berkeley, and a PhD and an MD degree from Stanford University. Dr. Kovacs is the Director of Medical Device Technologies for the Astrobionics Program at the NASA Ames Research Center, and Principal Investigator for the NASA/Stanford National Center for Space Biological Technologies. This Center is charged with developing advanced medical devices to enable extended human spaceflight and instrumentation/payloads for biological experiments. Dr. Kovacs also has extensive industry experience including co-founding and providing technical guidance for several companies, including Cepheid in Sunnyvale, CA, supplier of advanced instrumentation for clinical and research nucleic acid diagnostics. Through Northrup Grumman, Cepheid supplies the automated biothreat detection systems in use by the United States Postal Service. He is a long-standing member of the Defense Sciences Research Council (Defense Advanced Research Projects Agency), and has served as Associate Chair and Chairman. In this capacity, he has led or co-led studies on a variety of topics from chemical and biological agent detection and decontamination, miniaturized biological instrumentation, jungle warfare technologies, and many others. Between 2008 and 2011, Dr. Kovacs was on leave from Stanford University to serve as director of the Microsystems Technology Office at the Defense Advanced Research Projects Agency.

John A. Kellum, M.D.

Dr. Kellum is a tenured professor of Critical Care Medicine at the University of Pittsburgh. He is a clinician scientist whose research interests span various aspects of Critical Care Medicine, but center in critical care nephrology (including acid-base, and renal replacement therapy), sepsis and multi-organ failure (including blood purification), and clinical epidemiology. His research has received continuous funding from the National Institutes of Health since 2001 and he has active funding from multiple different NIH Institutes. Dr. Kellum has authored more than 300 publications and has also edited several major textbooks including Critical Care Nephrology 2nd Edition (WB Saunders), and Stewart's Textbook of Acid-Base, 2nd Edition (www.acidbase.org). He has won several teaching awards, lectures widely, and has given more than 300 seminars and invited lectures related to his research. Dr. Kellum has been involved in the development of several clinical practice guidelines. He is a founding member and

past president of the Acute Dialysis Quality Initiative (www.ADQI.net) and is co-chair of the Kidney Diseases Improving Global Outcomes (KDIGO) clinical practice guideline on acute kidney injury (www.kdigo.org). Finally Dr. Kellum is a leader in electronic research especially in critical illness and is the Director of CARe (Center for Assistance in Research using the eRecord) also at the University of Pittsburgh.

Nathan W. Levin, M.D.

Dr. Levin is the Chairman, Research Board of the Renal Research Institute and Professor of Clinical Medicine, Albert Einstein College of Medicine. Past Medical and Research Director, Renal Research Institute (1997-2010). Dr. Levin is the Chair of the Selection Committee for the Lillian Jean Kaplan International Prize for Advancement in the Understanding of Polycystic Kidney Disease (PKD). He is the Co-Founder of Sustainable Kidney Care Foundation. Dr. Levin is an advisor to the Board of KidneyTel. He has lectured nationally and internationally on topics relating to chronic kidney disease (CKD) and hemodialysis. He is the Principal Investigator of the NIH sponsored study of Frequent Dialysis. Dr. Levin is currently an adjunct Professor of Medicine at the School of Medicine, The University of North Carolina at Chapel Hill. He is the Honorary Chair, Peking University, in Beijing, China. Dr. Levin contributes to the global CKD community in a variety of functions.

Claudio Ronco, M.D.

Dr. Ronco is Director of the Department of Nephrology at St. Bortolo Hospital in Vicenza. He is a member of the council of several scientific societies and is Editor in Chief of the International Journal of Artificial Organs. He has received numerous awards and honors, including the International Medal of Excellence from the National Kidney Foundation (NKF) and honorary membership of the Spanish Society of Nephrology (SSN). Dr. Ronco has organized several congresses and meetings in the area of nephrology and intensive care and is a member of several advisory groups for clinical trials and dialysis research. He has co-authored over 650 papers, 36 book chapters, 45 books and seven monographic journal issues, and has delivered more than 450 lectures at international meetings and universities. In 1989, Dr. Ronco was awarded his diploma in pediatric nephrology at the University of Naples, having achieved a specialized diploma in medical nephrology at the Post-graduate School of Internal Medicine at the University of Padua in 1979. He graduated in medicine from the University of Padua, having been an intern at the Institute of Clinical Internal Medicine at the same institution.

David M. Ward, M.D.

Dr. Ward trained in nephrology in Scotland and did a second fellowship in renal immunopathology at Scripps Research Foundation. Since 1977 he has been a member of the Division of Nephrology at UCSD. He directed the dialysis unit and clinical nephrology program at UCSD for 19 years, and has directed the therapeutic apheresis program for the last 22 years. At different times he has served the UCSD Medical School as Assistant Dean for Clinical Affairs, Chief of Staff of the Hospital, and Chairman of the UCSD Medical Group. Special interests include immunological diseases, glomerular diseases, transplantation medicine, apheresis medicine, hemodialysis technology, innovative extracorporeal blood circuits, and general clinical nephrology. He practices, publishes and teaches in these areas, including authoring chapters in standard textbooks such as "Rheumatology" and "Clinical Dialysis".

Sepsis and Inflammation Advisory Board

Irshad H. Chaudry, Ph.D.

Dr. Chaudry is the Editor-in-Chief of the journal SHOCK®, a leading research publication that reviews novel therapeutic advances to address shock, trauma, sepsis, inflammation, ischemia, and related pathobiological states, with particular emphasis on the biologic mechanisms that determine the response to such injury. Dr. Chaudry received a B.S. as well as a M.S. with honors from Sind University, and a Ph.D. from Monash University, Australia. After his postdoctoral training at Toronto University, Canada, he was appointed Instructor and subsequently an Assistant Professor at the Jewish Hospital and Washington University School of Medicine. He then moved to Yale University as an Associate Professor and subsequently became a Professor. He moved to Michigan State University in 1986 as Professor and Director of Research and in 1996 became the Director of the Center for Surgical Research at Brown University. In 2000, he became the Director of the Center for Surgical Research at the University of Alabama at Birmingham, and the Vice Chairman of the Department of Surgery. He has over 500 publications to his credit and is a recipient of the NIH MERIT award.

Larry D. Cowgill, D.V.M., Ph.D.

Dr. Cowgill received his DVM degree from the University of California at Davis and completed his internship and residency training at the University of Pennsylvania. He was a National Institutes of Health Special Research Fellow at the Renal and Electrolyte Section of the University of Pennsylvania School of Medicine and earned a PhD in Comparative Medical Sciences. He is Board Certified in Small Animal Internal Medicine and is Associate Dean for Southern California Clinical Programs, Co-Director of the UC Veterinary Medical Center-San Diego (UCVMC-SD), and Professor in the Department of Medicine and Epidemiology. He oversees the Clinical Nephrology programs and the Companion Animal Hemodialysis Units at the Veterinary Medical Teaching Hospital at Davis and the UCVMC-SD. Dr. Cowgill has more than 35 years of experience in veterinary internal medicine, nephrology, and teaching and has trained many of the leading veterinary nephrologists throughout the world. He is a pioneer in the application of hemodialysis in companion and remains a leading authority in the development of blood purification therapies for renal diseases in animals and people.

Charles J. Fisher, Jr., M.D.

Dr. Fisher, founder and CEO of Margaux Biologics, Inc., is a physician scientist with a distinguished career in both academia and industry spanning over 30 years. Prior to joining industry, Dr. Fisher served as Professor and Head of Critical Care Medicine at The Cleveland Clinic Foundation, and has held professor, division chief and director positions at the University of California at Davis Medical Center, Case Western Reserve University and The Cleveland Clinic Foundation. His research in sepsis, host defense and endothelial dysfunction led to his assisting in the founding of Incyte, and his later recruitment to Eli Lilly & Co, where he led the Xigris (activated Protein C) Global Product Team and successfully registered the first drug approved for the treatment of sepsis. He was recruited to Abbott Laboratories as Vice President for Global Pharmaceutical Development and, among other accomplishments, led the registration of Humira (first fully humanized anti-TNF mab). Other medical firsts include his contributions to the development of, and later approval of, sTNF:fc (Enbrel, 1st soluble anti-TNF tx) and IL-1ra (Kinneret, 1st anti-IL-1 tx). Dr. Fisher has numerous patents and publications to his credit. Prior to founding Margaux Biologics, he was Chief Medical Officer and Executive Vice President of Cardiome Pharma Corp. where he led the team that invented, developed, registered and sold to Merck ($800M) vernakalant, a novel, first in class, multi-ion channel drug for atrial fibrillation (Brinavess).

Additionally, Dr. Fisher is a decorated, multi tour combat veteran, with extensive military experience in special operations. He is a Life Member of the Special Operations Medical Association, has served as a member of the Defense Science Research Council and on Defense Advanced Research Projects Agency panels, including one focused on universal host defense. His unique background of direct patient care, basic and clinical research, on the ground combat experience, and leadership at all levels, has led to an exemplary track record of building teams, delivering results, medical firsts and saving lives.

Geert Schmid-Sch nbein, Ph.D.

Dr. Schmid-Schonbein is Distinguished Professor of Bioengineering, Adjunct Professor in Medicine at the University of California, San Diego (UCSD) and director of the UCSD Microcirculation Laboratory where he and his team are studying organ injury mechanisms, apoptosis in hypertension, and triggers for inflammation in the blood circulation. Dr. Schmid-Schonbein earned his Ph.D. in bioengineering from UCSD in 1976. After a three-year post-doctoral fellowship at Columbia University, he returned to UCSD in 1979 as an assistant professor. Some of Dr. Schmid-Schonbein's early research discoveries involved the behavior of infection-fighting white blood cells. Using engineering techniques, he made the first determination of the force with which white blood cells adhere to the walls of blood vessels as part of the initial process of inflammation. Later, Dr. Schmid-Schonbein concluded that the survival of an acutely ill patient can hinge on the degree to which white blood cells are activated. Recently his group discovered a mechanism that leads to activation of white blood cells, which is due to digestive enzymes and may cause cardiovascular disease. Among his many distinctions, Dr. Schmid-Schonbein is a member of the National Academy of Engineering and a fellow of the American Heart Association. He is a founding fellow of the American Institute for Medical and Biological Engineering, and winner of the Melville Medal from the American Society of Mechanical Engineering.

Cancer Advisory Board

Dr. Radvanyi received his Ph.D. in clinical biochemistry from the University of Toronto. His main research area is tumor immunology studying immune regulation in cancer and identifying new antigens as targets for anti-cancer T-cell therapy. After completing postdoctoral work in Toronto and at Harvard University in Boston at the Joslin Diabetes Center, Dr. Radvanyi joined the Immunology Group at Sanofi-Pasteur in Toronto in 2000 as a Senior Scientist where he helped lead an antigen discovery program that led to the discovery of a group of over-expressed breast cancer-specific genes that are candidates for antigen-specific vaccines against breast cancer. In 2005, Dr. Radvanyi joined the faculty of the University of Texas, MD Anderson Cancer Center, where he also holds the additional appointment as Associate Professor, Department of Breast Medical Oncology, Division of Cancer Medicine.

Involvement in Legal Proceedings

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director or executive officer of our company: (1) any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or

banking activities; (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; and (5) being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, law or regulation respecting financial institutions or insurance companies or law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Securities Exchange Act of 1934, as amended), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or associated persons.

EXECUTIVE COMPENSATION

The following executive compensation disclosure reflects all compensation awarded to, earned by or paid to the executive officers below for the fiscal years ended March 31, 2014 and March 31, 2013. The following table summarizes all compensation for fiscal years 2014 and 2013 received by our Chief Executive Officer, and our three most highly compensated executive officers who earned more than $100,000 in fiscal year 2014.

SUMMARY COMPENSATION TABLE FOR 2014 AND 2013 FISCAL YEARS

NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	STOCK AWARDS ($)(5)	OPTION AWARDS ($)(5)	NON-EQUITY INCENTIVE PLAN COMPEN-SATION ($)	NON-QUALIFIED DEFERRED COMPEN-SATION EARNINGS ($)	ALL OTHER COMP. ($)	TOTAL ($)
James A. Joyce (1)	2014	$330,000	$70,000	$ –	$180,000	$ –	$ –	$ –	$580,000
CHIEF EXECUTIVE OFFICER	2013	$325,000	$12,500	$ –	$–	$ –	$ –	$ –	$337,500
Richard H. Tullis, PhD (2)	2014	$195,000	$--	$ –	$45,000	$ –	$ –	$ –	$240,000
VICE PRESIDENT AND CHIEF SCIENCE OFFICER	2013	$195,000	$10,000	$ –	$–	$ –	$ –	$ –	$205,000
James B. Frakes (3)	2014	$180,000	$						