UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to_____

COMMISSION FILE NUMBER 000-21846

AETHLON MEDICAL, INC.

(Exact name of registrant as specified in its charter)

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

8910 UNIVERSITY CENTER LANE, SUITE 660, SAN DIEGO, CA 92122
(Address of principal executive offices) (Zip Code)

(858) 459-7800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of February 7, 2014, the registrant had outstanding 209,509,599 shares of common stock, $.001 par value.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2013 (Unaudited)	March 31, 2013
ASSETS		
Current assets		
Cash	$ 1,854,941	$ 125,274
Accounts receivable	45,009	208,781
Deferred financing costs	–	863
Prepaid expenses and other current assets	18,700	29,602
Total current assets	1,918,650	364,520
Property and equipment, net	54,352	145
Patents and patents pending, net	114,780	121,653
Deposits	17,226	10,376
Total assets	$ 2,105,008	$ 496,694
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 790,272	$ 822,832
Due to related parties	784,570	736,070
Notes payable	390,000	321,381
Convertible notes payable, net of discounts	2,244,942	2,367,631
Derivative liabilities	5,576,065	3,588,239
Accrued liquidated damages	437,800	437,800
Other current liabilities	2,426,263	1,367,185
Total current liabilities	12,649,912	9,641,138
Commitments and Contingencies (Note 12)		
Stockholders' Deficit		
Aethlon Medical, Inc. stockholders' deficit Common stock, par value $0.001 per share; 500,000,000 shares authorized as of December 31, 2013 and March 31, 2013; 209,168,197 and 173,674,201 shares issued and outstanding as of December 31, 2013 and March 31, 2013, respectively	209,170	173,685
Additional paid-in capital	56,193,786	52,157,196
Accumulated deficit	(67,210,799)	(61,475,325)
Total Aethlon Medical, Inc. stockholders' deficit	(10,807,843)	(9,144,444)
Noncontrolling interests	262,939	–
Total stockholders' deficit	(10,544,904)	(9,144,444)
Total liabilities and stockholders' deficit	$ 2,105,008	$ 496,694

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended December 31, 2013 and 2012
(Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
REVENUES				
Government contract revenue	$ 76,313	$ 208,781	$ 916,796	$ 825,642
OPERATING EXPENSES				
Professional fees	553,231	441,965	1,204,812	1,370,085
Payroll and related expenses	425,293	507,377	1,288,773	1,620,943
General and administrative	330,131	196,278	669,145	563,036
Total operating expenses	1,308,655	1,145,620	3,162,730	3,554,064
OPERATING LOSS	(1,232,342)	(936,839)	(2,245,934)	(2,728,422)
OTHER EXPENSE (INCOME)				
Loss on debt conversion	–	26,716	40,256	122,775
(Gain)/loss on change in fair value of derivative liability	(78,175)	(1,384,256)	2,304,702	(1,745,718)
Interest and other debt expenses	113,445	106,795	329,947	1,019,857
Interest income	(1)	(38)	(60)	(145)
Other expense	1,000,000	–	1,000,000	–
Total other expense	1,035,269	(1,250,783)	3,674,845	(603,231)
NET (LOSS) PROFIT BEFORE NONCONTROLLING INTERESTS	(2,267,611)	313,944	(5,920,779)	(2,125,191)
Loss attributable to noncontrolling interests	(37,061)	–	(37,061)	–
NET (LOSS) PROFIT ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (2,230,550)	$ 313,944	$ (5,883,718)	$ (2,125,191)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.01)	$ 0.00	$ (0.03)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	198,153,316	158,759,162	187,505,561	142,812,062

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Month Periods Ended December 31, 2013 and 2012
(Unaudited)

	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Cash flows from operating activities:		
Net loss attributable to common stockholders	$ (5,883,718)	$ (2,125,191)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss attributable to noncontrolling interest	(37,061)	–
Depreciation and amortization	14,159	7,977
Stock based compensation	223,351	570,540
Loss on debt conversion	40,256	122,775
Non cash interest expense	–	11,846
Fair market value of common stock, warrants and options issued for services	264,343	185,851
Change in fair value of derivative liabilities	2,304,702	(1,745,718)
Amortization of debt discount and deferred financing costs	5,147	585,871
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	4,052	(31,368)
Accounts receivable	163,772	400,114
Accounts payable and other current liabilities	1,268,625	435,976
Due to related parties	48,500	4,000
Net cash used in operating activities	(1,583,872)	(1,577,327)
Cash flows from investing activities:		
Purchases of property and equipment	(61,493)	–
Net cash used in investing activities	(61,493)	–
Cash flows from financing activities:		
Principal repayments of notes payable	(200,000)	(29,610)
Net proceeds from the issuance of notes payable	400,000	–
Proceeds from the issuance of common stock	3,175,032	1,571,000
Net cash provided by financing activities	3,375,032	1,541,390
Net increase (decrease) in cash	1,729,667	(35,937)
Cash at beginning of period	125,274	143,907
Cash at end of period	$ 1,854,941	$ 107,970

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Nine Month Periods Ended December 31, 2013 and 2012
(Unaudited)

	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 13,950	$ 2,821
Income taxes	$ –	$ –
Supplemental disclosures of non-cash investing and financing activities:		
Convertible notes payable converted to common stock	$ 194,000	$ 1,150,000
Notes payable converted to common stock	$ 131,380	$ 182,660
Accrued interest converted to common stock	$ 175,080	$ 272,402
Deferred financing costs recorded in connection with debt amendment	$ --	$ 2,500
Reclassification of accounts payable to convertible notes payable	$ 47,000	$ –
Reclassification of note payable to convertible notes payable	$ --	$ 75,000
Reclassification of warrant derivative liability into equity	$ 316,876	$ 32,759
Reclassification of accrued interest to convertible notes payable	$ 20,027	$ –

See accompanying notes.

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Aethlon Medical, Inc. ("Aethlon", the "Company", "we" or "us") is a medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components. On June 25, 2013, the United States Food and Drug Administration (FDA) approved an Investigational Device Exemption (IDE) that allows us to initiate human feasibility studies of the Aethlon Hemopurifier® in the United States. Under the feasibility study protocol, we will enroll ten end-stage renal disease patients who are infected with the Hepatitis C virus (HCV) to demonstrate the safety of Hemopurifier therapy. Successful completion of this study will allow us the opportunity to initiate pivotal studies that are required for market clearance to treat HCV and other disease conditions in the United States.

Successful outcomes of human trials will also be required by the regulatory agencies of certain foreign countries where we intend to sell this device. Some of our patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(R) treatment technology.

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

Our common stock is quoted on the OTCQB marketplace administered by the OTC Markets Group under the symbol "AEMD."

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and applicable sections of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary to make the financial statements not misleading have been included. The condensed consolidated balance sheet as of March 31, 2013 was derived from our audited financial statements. Operating results for the nine months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending March 31, 2014. For further information, refer to our Annual Report on Form 10-K for the year ended March 31, 2013, which includes audited financial statements and footnotes as of March 31, 2013 and for the years ended March 31, 2013 and 2012.

NOTE 2. LIQUIDITY

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. We have experienced continuing losses from operations, are in default on certain debt, have negative working capital of approximately $10,731,000, recurring losses from operations and an accumulated deficit of approximately $67,211,000 at December 31, 2013, which among other matters, raises significant doubt about our ability to continue as a going concern. We have not generated significant revenue or any profit from operations since inception. A significant amount of additional capital will be necessary to advance the development of our products to the point at which they may become commercially viable. Our current financial resources may be insufficient to fund our capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the next twelve months. Therefore we will be required to seek additional funds through debt and/or equity financing arrangements to finance our current and long-term operations.

We are currently addressing our liquidity needs by exploring investment capital opportunities through the private placement of common stock or issuance of additional debt. We believe that our access to additional capital, together with existing cash resources and anticipated receipts under the Defense Advanced Research Projects Agency (DARPA) contract, as discussed in Note 11, will be sufficient to meet our liquidity needs for fiscal 2014. However, no assurance can be given that we will receive any funds in connection with our capital raising efforts.

The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets that might be necessary should we be unable to continue as a going concern.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of our significant accounting policies presented below is designed to assist the reader in understanding our condensed consolidated financial statements. Such financial statements and related notes are the representations of our management, who are responsible for their integrity and objectivity. These accounting policies conform to GAAP in all material respects, and have been consistently applied in preparing the accompanying condensed consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its majority-owned subsidiary, Exosome Sciences, Inc. (“ESI”), collectively hereinafter referred to as the "Company" or "Aethlon". All significant intercompany balances and transactions have been eliminated in consolidation. The Company classifies the noncontrolling interests in ESI as part of consolidated net loss in the three and nine months ended December 31, 2013 and includes the accumulated amount of noncontrolling interests as part of stockholders’ equity. If a change in ownership of ESI results in loss of control and deconsolidation, any retained ownership interest will be remeasured with the gain or loss reported in the statement of operations.

LOSS PER COMMON SHARE

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

The potentially dilutive common shares outstanding at December 31, 2013 and 2012, which include common shares underlying outstanding stock options, warrants and convertible notes, were 145,105,572 and 135,505,936, respectively.

REVENUE RECOGNITION

DARPA Contract - With respect to revenue recognition, we entered into a government contract with DARPA and have recognized revenue under such contract. We adopted the Milestone method of revenue recognition for the DARPA 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 (see Note 11).

In order to account for this contract, we identify the deliverables included within the contract and evaluates which deliverables represent separate units of accounting based on if certain criteria are met, including whether the delivered element has standalone value to the collaborator. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

A milestone is an event having all of the following characteristics:

(1) There is substantive uncertainty at the date the arrangement is entered into that the event will be achieved. A vendor’s assessment that it expects to achieve a milestone does not necessarily mean that there is not substantive uncertainty associated with achieving the milestone.

(2) The event can only be achieved based in whole or in part on either: (a) the vendor’s performance; or (b) a specific outcome resulting from the vendor’s performance.

(3) If achieved, the event would result in additional payments being due to the vendor.

A milestone does not include events for which the occurrence is either: (a) contingent solely upon the passage of time; or (b) the result of a counterparty’s performance.

The policy for recognizing deliverable consideration contingent upon achievement of a milestone must be applied consistently to similar deliverables.

The assessment of whether a milestone is substantive is performed at the inception of the arrangement. The consideration earned from the achievement of a milestone must meet all of the following for the milestone to be considered substantive:

(1) The consideration is commensurate with either: (a) the vendor's performance to achieve the milestone; or (b) the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the vendor's performance to achieve the milestone;

(2) The consideration relates solely to past performance; and

(3) The consideration is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

A milestone is not considered substantive if any portion of the associated milestone consideration relates to the remaining deliverables in the unit of accounting (i.e., it does not relate solely to past performance). To recognize the milestone consideration in its entirety as revenue in the period in which the milestone is achieved, the milestone must be substantive in its entirety. Milestone consideration cannot be bifurcated into substantive and nonsubstantive components. In addition, if a portion of the consideration earned from achieving a milestone may be refunded or adjusted based on future performance, the related milestone is not considered substantive.

Battelle Subcontract – With respect to revenue recognition, we entered into a subcontract agreement with Battelle Memorial Institute ("Battelle") in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the original DARPA contract and we are one of several subcontractors on that systems integration project. The Battelle 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 revenue from the subcontract will be at the discretion of Battelle. The Battelle subcontract is our first cost-reimbursable contract.

Our revenue under this contract will be 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.

CASH AND CASH EQUIVALENTS

Accounting standards define "cash and cash equivalents" as any short-term, highly liquid investment that is both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. For the purpose of financial statement presentation, we consider all highly liquid investment instruments with original maturities of three months or less when purchased, or any investment redeemable without penalty or loss of interest to be cash equivalents. As of December 31, 2013 and March 31, 2013, we had no assets that were classified as cash equivalents.

At December 31, 2013, our cash balances were as follows:

Aethlon Medical, Inc.	$	588,066
Exosome Sciences, Inc.		1,266,875
Consolidated Cash Balance	$	1,854,941

CONCENTRATIONS OF CREDIT RISKS

Cash is maintained at two financial institutions in checking accounts and related cash management accounts. In October 2008, the Federal Deposit Insurance Corporation ("FDIC") increased the maximum level of deposit insurance at financial institutions from $100,000 to $250,000. Our cash balances were above such insured amount at December 31, 2013 and below the insured amount at March 31, 2013.

All of our accounts receivable at March 31, 2013 and 2012 and all of our revenue in the fiscal year ended March 31, 2013 were from the U.S. Department of Defense.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to five years. Repairs and maintenance are charged to expense as incurred while improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation with any gain or loss included in the consolidated statements of operations.

SEGMENTS

Historically, we operated in one segment that was based on our development of therapeutic devices. However in the December 2013 quarter, we initiated the operations of ESI to develop diagnostic tests. While the activities of ESI in the December 2013 quarter were of a start-up nature and were considered immaterial for segment related disclosures, we anticipate that we will treat ESI's operations as a separate segment in future periods.

PATENTS

We capitalize the cost of patents, some of which were acquired, and amortize such costs over the estimated useful life, upon issuance of the patent.

RESEARCH AND DEVELOPMENT EXPENSES

We incurred research and development expenses during the three and nine month periods ended December 31, 2013 and 2012, which are included in various operating expense line items in the accompanying condensed consolidated statements of operations. Our research and development expenses in those periods were as follows:

	December 31, 2013	December 31, 2012
Three months ended	$ 542,383	$ 371,253
Nine months ended	$ 1,178,488	$ 1,034,335

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of certain convertible notes and related warrants at December 31, 2013 and March 31, 2013 were $5,576,065 and $3,588,239, respectively, based upon a third party valuation report that we commissioned. Warrants classified as derivative liabilities are reported at their estimated fair value, with changes in fair value being reported in current period results of operations.

EQUITY INSTRUMENTS FOR SERVICES PROVIDED BY PARTIES OTHER THAN EMPLOYEES

We account for transactions involving goods and services provided by third parties where we issue equity instruments as part of the total consideration using the fair value of the consideration received (i.e., the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable.

In transactions, when the value of the goods and/or services is not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, we use the following methodology:

(a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).

(b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.

(c) For any transactions not meeting the criteria in (a) or (b) above, we re-measure the consideration at each reporting date based on its then current stock value.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. We believe that no impairment occurred at or during the three and nine months ended December 31, 2013 and 2012.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below the market value of our common stock. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We record the estimated fair value of the BCF, when applicable, in the condensed consolidated financial statements as a discount from the face amount of the notes. Such discounts are accreted to interest expense over the term of the notes using the effective interest method.

DERIVATIVE LIABILITIES AND CLASSIFICATION

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 balance sheet 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.

On April 1, 2009 we adopted new guidance, as codified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815-40,*Derivatives and Hedging*, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*(previously EITF 07-5), that requires us to apply a two-step model in determining whether a financial instrument or an embedded feature is indexed to our own stock and thus enables it to qualify for equity classification. We have identified several convertible debt or warrant agreements in which the embedded conversion feature or exercise price contains certain provisions that may result in an adjustment of the conversion or exercise price, which results in the failure of the these instruments to be considered to be indexed to our stock. Accordingly, under this guidance, we are required to record the estimated fair value of these instruments as derivative liabilities (see Note 8).

We re-measure the estimated fair value of derivative liabilities at each reporting period and record changes in fair value in other expense (income) in the current statement of operations.

REGISTRATION RIGHTS ARRANGEMENTS

We account for contingent obligations to make future payments or otherwise transfer consideration under a registration rights arrangement separately from any related financing transaction agreements, and any such contingent obligations are recognized only when it is determined that it is probable that the Company will become obligated for future payments and the amount, or range of amounts, of such future payments can be reasonably estimated.

STOCK-BASED COMPENSATION

Employee stock options and rights to purchase shares under stock participation plans are accounted for under the fair value method. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the OTCBB) on the date of grant. Compensation cost recognized by the Company includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of the then current accounting standards, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of subsequent accounting standards. We use a Binomial Lattice option pricing model for estimating fair value of options granted (see Note 8).

INCOME TAXES

Deferred tax assets and liabilities 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.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

There were no recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, or the Securities and Exchange Commission during the nine months ended December 31, 2013 or that were issued in prior periods but do not become effective until future periods that in the opinion of management had, or are expected to have a material impact on our present or future consolidated financial statements.

NOTE 4. NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2013		March 31, 2013	
	Principal Balance	Accrued Interest	Principal Balance	Accrued Interest
12% Notes payable, past due	$ 185,000	$ 346,875	$ 185,000	$ 326,062
10% Note payable, past due	5,000	6,250	5,000	5,875
Tonaquint Note	–	–	131,381	1,629
Directors' Notes	200,000	9,516	–	–
Total	$ 390,000	$ 362,641	$ 321,381	$ 333,566

During the nine month periods ended December 31, 2013 and 2012, we recorded interest expense of $47,838 and $47,447, respectively, related to the contractual interest rates of our notes payable.

12% NOTES

From August 1999 through May 2005, we entered into various borrowing arrangements for the issuance of notes payable from private placement offerings (the "12% Notes"). On April 21, 2010, a holder of $100,000 of the 12% Notes converted his principal balance and $71,758 of accrued interest into 687,033 shares of common stock at an agreed conversion price of $0.25 per share. We incurred a loss upon this conversion of $68,703 since the closing price of our common stock was $0.35 at the date of conversion. At December 31, 2013, the 12% Notes were past due, in default, and bearing interest at the default rate of 15%.

10% NOTES

At December 31, 2013, one 10% Note in the amount of $5,000, which is past due and in default, remained outstanding and it bears interest at the default rate of 15%.

Management's plans to satisfy the remaining outstanding balance on these 12% and 10% Notes include converting the notes to common stock at market value or repayment with available funds.

TONAQUINT NOTE

On June 28, 2011, in conjunction with our satisfying all balances owed under a convertible note, we entered into a Termination Agreement with Tonaquint, Inc. under which both parties agreed that in consideration of the termination of a warrant, the waiving of all fees, penalties, the creation of the selling program and other factors, we agreed to issue an unsecured non-convertible promissory note (the "New Note") in the principal amount of $360,186, which provides for annual interest at a rate of 6%, payable monthly in either cash or our stock, at our option. The New Note originally had a maturity date of April 30, 2012. We subsequently extended the note initially to July 31, 2012 and then to July 31, 2013 and subsequently to August 31, 2013. We also recorded into principal $12,500 of the lender's legal fees related to documentation of the extension agreement.

During the nine months ended December 31, 2013, we issued 1,540,426 shares of common stock to convert $136,060 of principal and accrued interest (see Note 6). As a result of those conversions, the Tonaquint Note was paid off in full during the September 2013 quarter. We recorded a loss on conversion of $40,256 on those conversions over the nine months ended December 31, 2013.

The following table shows the conversions into principal of the Tonaquint Note by fiscal year:

Activity in Tonaquint Note	
Initial principal balance	$ 360,186
Lender's legal fees	12,500
Conversions during the fiscal year ended March 31, 2013	(241,307)
Conversions during the nine months ended December 31, 2013	(131,379)
Balance as of December 31, 2013	$ –

Directors' Notes

In July 2013, we borrowed $400,000 from two of our directors under two 90 day notes for $200,000 each bearing 10% interest (the "Notes"). The Notes allow at the discretion of the holders if we did not pay back those loans by October 9, 2013 (i) to convert their principal and accrued interest into shares of common stock at $0.088 per share (the "Conversion Price") and (ii) receive warrants to purchase common stock equal to 50% of the principal converted under the Notes, with an exercise price of $0.132 per share. Additionally, there was a provision for a penalty interest rate of 12%.

That potential conversion price and warrant exercise price were based on the same pricing mechanism that we have used in prior equity unit financings since March 2012 (see Note 6) which are based on 80% of the then current market price of our common stock and with the warrant exercise price based on 120% of the same then current market price. We initially reserved 6,931,818 shares of common stock to support the conversion in full of the Notes and accrued interest as well as the exercise in full of the warrants (should such conversion and/or issuance occur).

We subsequently paid back one of those loans in December 2013 along with all accrued interest in the amount of $9,367. That repayment extinguished all potential common stock and warrant issuance provisions of that Note.

The holder of the second Note agreed to extend the expiration date of his Note to July 31, 2014.

NOTE 5. CONVERTIBLE NOTES PAYABLE

Convertible notes payable consist of the following at December 31, 2013:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Amended and Restated Series A 12% Convertible Notes, past due	$ 885,000	$ –	$ 885,000	$ 531,000
December 2006 10% Convertible Notes, past due	17,000	–	17,000	17,800
2008 10% Convertible Notes, past due	25,000	–	25,000	18,229
October & November 2009 10% Convertible Notes	50,000	–	50,000	24,847
April 2010 10% Convertible Note	75,000	–	75,000	29,563
September 2010 10% Convertible Notes, past due	283,100	–	283,100	14,195
April 2011 10% Convertible Notes, past due	400,400	–	400,400	46,102
July and August 2011 10% Convertible Notes, $257,656 past due	377,683	–	377,683	86,079
September 2011 Convertible Notes, past due	9,760	–	9,760	–
Law Firm Note Number 1	75,000	–	75,000	6,667
Law Firm Note Number 2	47,000	–	47,000	1,345
Total – Convertible Notes	$ 2,244,943	$ –	$ 2,244,943	$ 775,827

All of the convertible notes payable in the above table are presently past due or will be due within one year of the December 31, 2013 balance sheet date.

During the nine months ended December 31, 2013, we recorded interest expense of $267,557 related to the contractual interest rates of our convertible notes and interest expense of $4,284 related to the amortization of debt discounts on the convertible notes for a total of $271,841.

Convertible notes payable consisted of the following at March 31, 2013:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Amended and Restated Series A 12% Convertible Notes, past due	$ 885,000	$ –	$ 885,000	$ 398,250
2008 10% Convertible Notes, past due	25,000	–	25,000	15,417
December 2006 10% Convertible Notes, past due	17,000	–	17,000	15,888
October & November 2009 10% Convertible Notes	50,000	(389)	49,611	20,000
April 2010 10% Convertible Note	75,000	(3,895)	71,105	23,938
September 2010 10% Convertible Notes, past due	308,100	–	308,100	52,393
April 2011 10% Convertible Notes, past due	400,400	–	400,400	100,100
July and August 2011 10% Convertible Notes, $257,656 past due	357,655	–	357,655	68,704
September 2011 Convertible Notes, past due	178,760	–	178,760	–
Law Firm Note	75,000	–	75,000	3,854
Total – Convertible Notes	$ 2,371,915	$ (4,284)	$ 2,367,631	$ 698,544

AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated 12% Series A Convertible Promissory Notes (the "Amended and Restated Notes") with the holders of certain promissory notes previously issued by the Company (“Amended Series A 10% Convertible Notes” or the "Prior Notes"), and all amendments to the Prior Notes.

The Amended and Restated Notes, in the principal amount of $900,000 matured on December 31, 2010. In connection with the restructuring 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 ("Units") at a fixed rate of $0.20 per Unit, each Unit consisting 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 as prescribed in the Amended and Restated Note Agreement. The noteholders have antidilution price protection on the Amended and Restated Notes.

In addition to the extension of the expiration date of the Amended and Restated Notes to December 31, 2010, we agreed to increase 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, 2010, the Amended and Restated Notes matured and as of December 31, 2013 remain in default. We are accruing interest at the revised default rate of 20% following the expiration date of December 31, 2010.

During the fiscal year ended March 31, 2013, the holders of $15,000 of the Amended and Restated Notes converted their principal and related accrued interest into common stock per the conversion formula.

We have begun discussions with the noteholders regarding an extension to the notes but there can be no assurance that we will be able to do so on terms that we deem acceptable or at all. We are recording interest at the default rate of 20%.

DECEMBER 2006 10% CONVERTIBLE NOTES

At December 31, 2013, one note representing $17,000 of the December 2006 10% Notes remained outstanding and in default. This note is convertible into our common stock at $0.17 per share. We are recording interest at the default rate of 15%. Subsequent to December 31, 2013, we paid off this note and all related accrued interest (see Note 14).

2008 10% CONVERTIBLE NOTES

One 2008 10% Convertible Note in the amount of $25,000 which matured in January 2010 remained outstanding at December 31, 2013. This note is convertible into our common stock at $0.50 per share. We are recording interest at the default rate of 15%.

OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised $430,000 from the sale to accredited investors of 10% convertible notes ("October & November 2009 10% Convertible Notes"). The October & November 2009 10% Convertible 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 $25,000 note 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 (see Note 6). 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 Note 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)
Balance as of December 31, 2013	$	50,000

On March 31, 2012, we agreed to extend the expiration date and to change the exercise price of certain warrants of one of the note holders by two years in exchange for the extension of $50,000 of the October & November 2009 10% Convertible Notes and the $75,000 April 2010 10% Convertible Note (see below) by that same two year period. We recorded a charge of $77,265 relating to this modification.

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 of $50,000 of the October & November 2009 10% Convertible Notes and the $75,000 April 2010 10% Convertible Note (see below) by that same two year period. 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.

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 September 30, 2013, there have not been any conversions of the April 2010 10% Convertible Note.

On March 31, 2012, we agreed to extend the expiration date and to change the exercise price of certain warrants of the note holder by two years in exchange for his extension of $50,000 of the October & November 2009 10% Convertible Notes and the $75,000 April 2010 10% Convertible Note by that same two year period. We recorded a charge of $77,265 relating to this modification in the quarter ended March 31, 2012.

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 of $50,000 of the October & November 2009 10% Convertible Notes and the $75,000 April 2010 10% Convertible Note (see below) by that same two year period. 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 (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $1,430,000. The initial closing under the Subscription Agreement 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. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

The following table shows the conversions into principal of the September 2010 10% Convertible 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 nine months ended December 31, 2013		(25,000)
Balance as of December 31, 2013	$	283,100

$25,000 of the September 2010 10% Convertible Notes converted to common stock during the nine months ended December 31, 2013. Ware recording interest at the default rate of 15%.

APRIL 2011 10% CONVERTIBLE NOTES

In April 2011, we entered into a Subscription Agreement with two accredited investors (the "Purchasers") providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of $385,000. The closing under the Subscription Agreement 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 (10%) 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 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 $0.20 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 antidilution adjustment under certain common stock purchase warrants held by the Purchasers that were acquired from us in September 2010.

As of December 31, 2013, there have not been any conversions of the April 2011 10% Convertible Notes. We are recording interest at the default rate of 15%.

JULY & 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 have not been any conversions of the July & August 2011 10% Convertible Notes.

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.

At December 31, 2013, the outstanding principal balance was $377,683, of which $257,655 was in default. Following the expiration of the maturity dates on the $257,655 of notes that are now in default, we began to accrue 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 (the "Purchasers") 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 mature 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. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

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.

The following table shows the conversions into principal of the September 2011 Convertible 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 nine months ended December 31, 2013		(169,000)
Balance as of December 31, 2013	$	9,760

At December 31, 2013, the outstanding principal balance was in default and there was no accrued interest as these notes do not bear interest.

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 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. This ability of the holder to convert became exercisable upon the amendment of the Articles of Incorporation increasing the authorized shares of our common stock to a number greater than 250,000,000. As that increase in the authorized number of shares of our common stock was approved by our stockholders at a Special Stockholders Meeting on June 4, 2012, this note was reclassified to a convertible note as of June 30, 2012. 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. As of December 31, 2013, there have not been any conversions of the Law Firm Note Number 1.

At December 31, 2013, the outstanding principal balance was $75,000.

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 has a maturity date of October 1, 2014 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 $0.07 per share. As of December 31, 2013, there have not been any conversions of the Law Firm Note Number 2.

At December 31, 2013, the outstanding principal balance was $47,000.

NOTE 6. EQUITY TRANSACTIONS

Aethlon Medical, Inc. Equity Transactions

In May 2013, we issued to a scientific advisory board member and a scientific consultant a three year option to purchase 125,000 shares of our common stock at a price of $0.11 per share.

In June 2013, we completed a unit subscription agreement with three accredited investors(the “Purchasers”) pursuant to which the Purchasers purchased $128,000 of units (the "Units" and each a "Unit"), with each Unit consisting of (i) one share of Common Stock at a price per share of $0.081 and (ii) a warrant to purchase such number of shares of Common Stock as shall equal (a) fifty percent of the Subscription Amount divided by (b) $0.081 (the "Warrant Shares") at an exercise price of $0.121 per Warrant Share. This resulted in the issuance of 1,580,248 shares of Common Stock and 790,124 Warrant Shares.

In June 2013, we issued to our CEO the remaining 3,400,000 shares under his restricted share grant, all of which were vested.

During the three months ended June 30, 2013, we issued 3,448,337shares of restricted common stock to the holders of three notes issued by the Company in exchange for the partial conversion of principal and interest in an aggregate amount of $246,500 at an average conversion price of $0.07 per share.

During the three months ended June 30, 2013, we issued 222,734 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $0.10 per share in payment for legal services valued at $21,750 based on the value of the services provided.

In July 2013, our compensation committee and Board of Directors approved the issuance of four stock option grants to four of our executives. The options carried an exercise price of $0.10 per share, have a ten year life and vest over the following schedule: 25% on July 1, 2014, 25% on July 1, 2015, 25% on July 1, 2016 and 25% on July 1, 2017. The numbers of shares underlying each of the stock option grants were as follows: 2,000,000 shares to our chief executive officer and 500,000 shares each to our president, chief science officer and chief financial officer (see Note 9).

In August 2013, we completed a unit subscription agreement with four accredited investors(the “Purchasers”) pursuant to which the Purchasers purchased $100,000 of units (the "Units" and each a "Unit"), with each Unit consisting of (i) one share of Common Stock at a price per share of $0.111 and (ii) a warrant to purchase such number of shares of Common Stock as shall equal (a) fifty percent of the Subscription Amount divided by (b) $0.111 (the "Warrant Shares") at an exercise price of $0.167 per Warrant Share. This resulted in the issuance of 900,901 shares of Common Stock and 450,451 Warrant Shares.

During the three months ended September 30, 2013, we issued 933,522 shares of common stock pursuant to our S-8 registration statement covering our Amended 2010 Stock Plan at an average price of $0.14 per share in payment for legal and scientific consulting services valued at $127,593 based on the value of the services provided.

During the three months ended September 30, 2013, we issued 1,168,343 shares of restricted common stock at an average price of $0.10 per share in payment for investor relations and public relations services valued at $115,000 based on the value of the services provided.

During the three months ended September 30, 2013, 18 warrant holders exercised 6,581,259 warrants to receive 3,407,468 restricted shares of common stock in cashless exercise transactions.

During the three months ended September 30 2013, we issued 2,795,367shares of restricted common stock to the holders of four notes issued by the Company in exchange for the partial or full conversion of principal and interest in an aggregate amount of $173,960 at an average conversion price of $0.06 per share.

During the three months ended December 31, 2013, a warrant holder exercised 2,805,000 warrants in exchange for 1,577,736 shares in a cashless exercise transaction.

During the three months ended December 31 2013, we issued 1,465,200shares of restricted common stock to the holders of two notes issued by us in exchange for the partial or full conversion of accrued interest in an aggregate amount of $80,000 at an average conversion price of $0.05 per share.

During the three months ended December 31, 2013, we entered into a unit purchase agreement (the "Unit Purchase Agreement") and subscription agreements (the "Subscription Agreements") with 32 accredited investors (collectively, the "Purchasers"), pursuant to which the Purchasers purchased an aggregate of 143.67 units (collectively, the "Units") from us, with each Unit consisting of (a) one hundred thousand (100,000) shares of our common stock, at a purchase price of $0.125 per share and (b) a warrant to purchase fifty thousand (50,000) shares of common stock (collectively, the "Warrants"). The Purchasers acquired an aggregate of 14,367,200 shares of common stock and Warrants to acquire up to an aggregate of 7,183,600 shares of common stock for an aggregate purchase price of $1,795,900. The net proceeds that we received totaled $1,447,032. In accordance with the terms of the Unit Purchase Agreement, the offering of securities thereunder terminated on December 31, 2013.

A FINRA registered broker-dealer was engaged as placement agent in connection with the above Unit Purchase Agreement. We paid the placement agent an aggregate cash fee in the amount of $270,508 and have issued or will issue the placement agent or its designees Warrants to purchase an aggregate of 2,155,080 shares of Common Stock.

The Warrants issued to the Purchasers and the placement agent (each, a "Holder") are exercisable for a period of five years from the date of issuance at an exercise price of $0.22, subject to adjustment. A Holder may exercise a Warrant by paying the exercise price in cash or by exercising the Warrant on a cashless basis. In the event a Holder exercises a Warrant on a cashless basis, we will not receive any proceeds. The exercise price of the Warrants is subject to customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. Each Holder has contractually agreed to restrict its ability to exercise its Warrant such that the number of shares of the common stock held by the Holder and its affiliates after such exercise does not exceed 4.99% of the our then issued and outstanding shares of common stock.

Exosome Sciences, Inc. Equity Transactions

In October 2013, ESI, at that time a wholly owned subsidiary of ours, issued a total of 3 promissory notes (collectively, the "Shah Notes") in the aggregate principal amount of $250,000 to Dr. Chetan Shah, a director of the Company, in exchange for Dr. Shah's loan of funds in the same aggregate amount to ESI. Each Shah Note bore interest at the rate of 10% per annum and was due and payable in full, including all accrued interest thereon, one year from the date of issuance. The Shah Notes were unsecured and did not provide for conversion of the debt into any other security. The Notes were not guaranteed by us.

On November 21, 2013, ESI, prior to the transaction described herein, a wholly owned diagnostic subsidiary of ours, entered into a stock purchase agreement (the "Stock Purchase Agreement") with twelve accredited investors (collectively, the "Purchasers"), pursuant to which the Purchasers purchased an aggregate of 220,000 shares of ESI's common stock, par value $.001 per share (the "Common Stock"), at a purchase price of $5.00 per share, for an aggregate purchase price of $1,100,000, or a post money valuation of $7,100,000 for ESI. As a result of the transaction, our percentage ownership of the outstanding capital stock of ESI was reduced from 100% to approximately 84.5%.

On December 13, 2013, ESI entered into a stock purchase agreement (the "Stock Purchase Agreement") with three accredited investors (collectively, the "Purchasers"), pursuant to which the Purchasers purchased an aggregate of 80,000 shares of ESI's common stock, par value $.001 per share (the "Common Stock"), at a purchase price of $5.00 per share, for an aggregate purchase price of $400,000, or a post money valuation of $7,500,000 for ESI. The aggregate gross proceeds received by ESI under the Stock Purchase Agreement were $1,500,000, including the $1,100,000 of sales on November 21, 2013 noted above (the "Prior Sales"). As a result of the transaction, including the Prior Sales, the Company's percentage ownership of the outstanding capital stock of ESI was reduced from 100% to 80%.

One of the Purchasers, Dr. Chetan Shah, is a director of the Company. Dr. Shah purchased 70,000 ESI shares for an aggregate purchase price of $350,000, $100,000 of which was paid in cash and $250,000 of which was paid by conversion of the total principal outstanding of $250,000 under the Shah Notes previously issued to Dr. Shah by ESI. Dr. Shah did not participate in the negotiation of the purchase and sale terms, including price per share. His participation in the offering was on the same terms and conditions as offered to the other Purchasers. The accrued interest of $4,583 on the Shah Notes was paid in cash to Dr. Shah by ESI following the conversion of the Shah Notes into ESI shares as noted above.

The securities sold in the private placement were not registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering. Each Purchaser is an "accredited investor" as such term is defined in Regulation D promulgated under the Securities Act. This current report shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall such securities be offered or sold in the United States absent registration or an applicable exemption from the registration requirements and certificates evidencing such shares contain a legend stating the same.

NOTE 7. OTHER CURRENT LIABILITIES

At December 31, 2013 and March 31, 2013, our other current liabilities were comprised of the following items:

	December 31, 2013	March 31, 2013
Accrued interest	$ 1,143,225	$ 1,032,110
Litigation related accrual	1,000,000	–
Accrued legal fees	179,465	179,465
Other	103,573	155,610
Total other current liabilities	$ 2,426,263	$ 1,367,185

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of $2,067,916 (as identified in Notes 4 and 5 above) have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. At December 31, 2013, we had accrued interest in the amount of $1,061,046 associated with these defaulted notes in accrued liabilities payable (see Notes 4 and 5).

NOTE 8. FAIR VALUE MEASUREMENTS

We follow FASB ASC 820, "*fair value measurements and disclosures*" ("ASC 820") in connection with assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The guidance applies to our derivative liabilities. We had no assets or liabilities measured at fair value on a non-recurring basis for any period reported.

ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories: We measure the fair value of applicable financial and non-financial assets 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 our recorded 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.

Our fair value measurements at the December 31, 2013 reporting date are classified based on the valuation technique level noted in the table below (there were no transfers in or out of level 3 for all periods presented):

Description	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities	$ 5,576,065	$ –	$ –	$ 5,576,065
Total Assets	$ 5,576,065	$ –	$ –	$ 5,576,065

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, in connection with our warrant and embedded conversion option derivative instruments utilizing the Binomial Lattice option pricing model:

	Nine Months Ended December 31, 2013
Risk free interest rate	0.02% - 2.04%
Average expected life	0.25 – 3 years
Expected volatility	58.0% - 103.1%
Expected dividends	None

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the nine months ended December 31, 2013:

	April 1, 2013	Recorded New Derivative Liabilities	Change in estimated fair value recognized in results of operations	Reclassification of Derivative Liability to Paid in capital	December 31, 2013
Derivative liabilities	$ 3,588,239	$ –	$ 2,304,702	($ 316,876)	$ 5,576,065

The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the nine months ended December 31, 2012:

	April 1, 2012	Recorded New Derivative Liabilities	Change in estimated fair value recognized in results of operations	Reclassification of Derivative Liability to Paid in capital	December 31, 2012
Derivative liabilities	$ 3,588,615	$ –	($ 1,745,718)	($ 32,759)	$ 1,810,138

The fair value of derivative liabilities that we recorded for the nine months ended December 31, 2012 was related to our April 2011 convertible note, July & August 2011 10% convertible notes and the September 2011 convertible note offerings (see Note 5) and was based upon an independent valuation report.

NOTE 9. STOCK COMPENSATION

The following table summarizes share-based compensation expenses relating to shares and options granted and the effect on basic and diluted loss per common share during the three and nine months ended December 31, 2013 and 2012:

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Total share-based compensation expense	$ 32,750	$ 175,045	$ 223,351	$ 570,540
Total share-based compensation expense included in net loss	$ 32,750	$ 175,045	$ 223,351	$ 570,540
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

The following table breaks out the components of our share-based compensation expenses relating to shares and options granted and the effect on basic and diluted loss per common share during the three and nine months ended December 31, 2013 and 2012.

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Vesting of stock options	32,750	77,421	156,993	258,468
Incremental fair value of option modifications	--	957	1,914	22,071
Vesting expense associated with CEO restricted stock grant	--	96,667	64,444	290,001
Total share-based compensation expense	$ 32,750	$ 175,045	$ 223,351	$ 570,540
Total share-based compensation expense included in net loss	$ 32,750	$ 175,045	$ 223,351	$ 570,540
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

All of the stock-based compensation expense recorded during the nine months ended December 31, 2013 and 2012, which totaled $223,351 and $570,540, respectively, is included in payroll and related expense in the accompanying condensed consolidated statements of operations. Stock-based compensation expense recorded during the three and nine months ended December 31, 2013 and 2012 had no impact on basic and diluted loss per common share.

In the nine months ended December 31, 2013,we granted to a scientific advisory board member and a scientific consultant a three year option to purchase 125,000 shares of our common stock at a price of $0.11 per share.

The following outlines the significant weighted average assumptions used to estimate the fair value information, which is based on historical data, with respect to stock option grants utilizing the Binomial Lattice option pricing models at, and during the nine months ended December 31, 2013:

Risk free interest rate	0.38% - 2.50%
Average expected life	3 years - 10 years
Expected volatility	94.6% - 102.7%
Expected dividends	None

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The cumulative effect of adjusting the forfeiture rate for all expense amortization is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the nine months ended December 31, 2013 was insignificant.

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" as described in the SEC's guidance due to changes in the vesting terms and contractual life of current option grants compared to our historical grants.

Options outstanding that have vested and are expected to vest as of December 31, 2013 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Vested	21,012,455	$ 0.28	3.63
Expected to vest	3,708,343	$ 0.11	9.45
Total	24,720,798	$ 0.26	4.50

A summary of stock option activity during the nine months ended December 31, 2013 is presented below:

	Number of Options	**Range of Exercise Price**	**Weighted Average Exercise Price**
Stock options outstanding at March 31, 2013	21,095,798	$0.76 - $0.41	$0.28
Exercised	–	$--	
Granted	3,625,000	$0.10 - 0.11	$0.10
Cancelled/Expired	–	--	
Stock options outstanding at December 31, 2013	24,720,798	$0.076 - $0.41	$0.28
Stock options exercisable at December 31, 2013	21,012,455	$0.076 - $0.41	$0.26

At December 31, 2013, there was approximately $304,529 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 2.32 years.

On December 31, 2013, our stock options had a negative intrinsic value since the closing price on that date of $0.17 per share was below the weighted average exercise price of our stock options

NOTE 10. WARRANTS

A summary of warrant activity during the nine months ended December 31, 2013 is presented below:

	Number of Warrants	**Range of Exercise Price**	**Weighted Average Exercise Price**
Warrants outstanding at March 31, 2013	75,647,294	$0.076 - $0.25	$0.11
Exercised	(4,985,204)	$0.07 - $0.11	$0.10
Issued	12,851,982	$0.121- $0.22	$0.20
Cancelled/Expired	(6,037,419)	$0.07 - $0.132	$0.11
Warrants outstanding at December 31, 2013	77,476,653	$0.076 - $0.25	$0.13
Warrants exercisable at December 31, 2013	77,476,653	$0.076 - $0.25	$0.13

The following outlines the significant weighted average assumptions used to estimate the fair value information, which is based on historical data, with respect to warrants utilizing the Binomial Lattice option pricing models at, and during the nine months ended December 31, 2013:

Risk free interest rate	0.86% - 2.04%
Average expected life	7 years
Expected volatility	90.3 – 98.5%
Expected dividends	None

NOTE 11. DARPA CONTRACT AND RELATED REVENUE RECOGNITION

As discussed in Note 3, we entered into a contract with the DARPA on September 30, 2011. Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA is a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years, including payments of up to $1,975,047 in the first year. 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, DARPA subsequently exercised the option on the second and third years of the contract. DARPA has the option to enter into the contract for years four and 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.

DARPA recently informed us that due to budget restrictions within the Department of Defense, that they planned to reduce the scope of our contract in years three through five of the contract. The reduction in scope will focus 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. While this contract change is not yet in place, we expect it to occur in the near future. We recently completed a rebudgeting of the expected costs on the remaining years of the DARPA contract based on the reduced milestones and have concluded that the reductions in our costs due to the scaled back level of work will almost entirely offset the anticipated revenue levels based on current assumptions. On February 10, 2014, DARPA finalized this contract modification.

The details of the four milestones achieved during the nine month period ended December 31, 2013 were as follows:

Milestone 2.3.2.2 – Formulate initial design work based on work from the previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We 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. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

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

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

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

NOTE 12. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

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

The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. Other than as mentioned here, we are not presently a party to any pending or threatened legal proceedings.

On July 5, 2012, Gemini Master Fund, Ltd., a Cayman Islands company ("Gemini"), filed a complaint against us in the Supreme Court of the State of New York, County of New York, entitled Gemini Master Fund Ltd. v. Aethlon Medical, Inc., Index No. 652358/2012 (the "Complaint"). In the Complaint, Gemini is seeking relief both in the form of money damages and delivery of shares of our common stock. The Complaint alleges, among other things, that we are in default of a certain promissory note originally issued to Gemini on February 12, 2010 by failing to pay the note in full and by failing to honor certain requests by Gemini to convert principal and interest under the note into shares of the Company's common stock. The Complaint also alleges that we failed to issue shares upon the presentation of an exercise notice under a warrant originally issued to Gemini on November 22, 2010. The lawsuit also alleges that we should have issued shares pursuant to the exercise of a warrant issued in 2009. We believe that we have defenses to the claims asserted and we continue to vigorously defend the lawsuit. The parties in the lawsuit have filed cross motions for summary judgment on some of the claims. No trial date has yet been set. There can be no assurances, however, that the litigation will be decided in our favor as to all, or any part, of Gemini's Complaint. An adverse decision in the litigation could have an adverse effect on our operations and could be dilutive to our shareholders.

In relation to this matter, we accrued $1,000,000 at December 31, 2013 for possible settlement. Although the parties to the lawsuit are in on-going settlement discussions at the time this Form 10-Q is filed and no assurance exists that a settlement will be reached, the accrual was made based on the possibility that a settlement might be reached that would result in the issuance of equity instruments to satisfy the exercise of various warrants. The accrual is included in other expense and other current liabilities on the accompanying condensed consolidated financial statements.

LEASES

We currently rent approximately 2,300 square feet of executive office space at 8910 University Center Lane, Suite 660, San Diego, CA 92122 at the rate of $7,299 per month on a lease that expires in September 2014 based on a one year extension signed in August 2013.

We also rent approximately 1,700 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of $2,917 per month on a two year lease that expires in October 2014.

In October 2013, our Exosome Sciences, Inc. (ESI) subsidiary entered into a one year lease for approximately 2,055 square feet of laboratory space at 11 Deer Park Drive, Suite 103, Monmouth Junction, New Jersey 08852 at the rate of $3,425 per month.

NOTE 13. PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

	December 31, 2013	March 31, 2013
Furniture and office equipment at cost:		
Aethlon Medical, Inc.	$ 291,781	$ 289,031
Exosome Sciences, Inc.	58,743	–
Consolidated furniture and office equipment at cost	350,524	289,031
Accumulated depreciation	(296,172)	(288,886)
	$ 54,352	$ 145

Depreciation expense for the nine months ended December 31, 2013 approximated $7,000.

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated events subsequent to December 31, 2013 through the date that the accompanying condensed consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

In January 2014, we repaid the $17,000 principal balance of the December 2006 10% Notes and all related accrued interest.

In January 2014, we billed DARPA $352,938 and Battelle $10,560 for work under those contracts.We subsequently received a payment of $195,796 from DARPA.

In January 2014, 2 warrant holders exercised 211,736 warrants to receive 95,222 restricted shares of common stock in cashless exercise transactions.

On February 10, 2014, DARPA reduced the scope of our contract (See Note 11).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and notes thereto included in Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-Q are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("the Securities Act"), and Section 21E of the Exchange Act. Such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Aethlon Medical, Inc. ("we", "us" or "the Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Form 10-Q. Such potential risks and uncertainties include, without limitation, completion of our capital-raising activities, FDA approval of our products, other regulations, patent protection of our proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of our filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-Q, and we assume no obligation to update the forward-looking statements, or to update the reasons actual results could differ from those projected in such forward-looking statements.

THE COMPANY

Aethlon Medical, Inc. ("Aethlon", the "Company", "we" or "us") is a medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT™ (Adaptive Dialysis-Like Affinity Platform Technology) system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components.

In June 2013, the U.S. Food and Drug Administration ("FDA") approved our Investigational Device Exemption ("IDE") application to initiate a ten patient human clinical trial in one location in the United States. Successful outcomes of that human trial as well as at least one follow-on human trial will be required by the FDA in order to commercialize our products in the US. The regulatory agencies of certain foreign countries where we intend to sell this device will also require one or more human clinical trials.

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

Some of our patents may expire before we receive FDA 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(R) treatment technology.

In prior periods, Aethlon was classified as a development stage enterprise under accounting principles generally accepted in the United States of America ("GAAP") as it had not generated revenues from its planned principal operations. In the fiscal year ended March 31, 2012, we began to generate revenues from a government contract and emerged from the development stage.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act and must file reports, proxy statements and other information with the SEC. The reports, information statements and other information we file with the Commission can be inspected and copied at the Commission Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The Commission also maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, like us, which file electronically with the Commission. Our headquarters are located at 8910 University Center Lane, Suite 660, San Diego, CA 92122. Our phone number at that address is (858) 459-7800. Our Web site is http://www.aethlonmedical.com.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2013 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2012

Revenues

We recorded government contract revenue of $76,313 and $208,781 in the three months ended December 31, 2013 and 2012, respectively. This revenue arose from work performed under our government contract with DARPA and our subcontract with Battelle as follows:

	Three Months Ended 12/31/13	Three Months Ended 12/31/12	Change in Dollars
DARPA Contract	$ –	$ 208,781	$ (208,781)
Battelle Subcontract	76,313	–	76,313
Total Government Contract Revenue	$ 76,313	$ 208,781	$ (132,468)

DARPA - On September 30, 2011, we entered into a contract with the United States of America, issued by SPAWAR Systems Center Pacific, pursuant to a contract award from the Defense Advanced Research Projects Agency (“DARPA”). Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA is a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years, including payments of up to $1,975,047 in the first year. 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, DARPA subsequently exercised the option on the second and third years of the contract. DARPA has the option to enter into the contract for years four and 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.

DARPA recently informed us that due to budget restrictions within the Department of Defense, that they planned to reduce the scope of our contract in years three through five of the contract. The reduction in scope will focus 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. While this contract change is not yet in place, we expect it to occur in the near future. We recently completed a rebudgeting of the expected costs on the remaining years of the DARPA contract based on the reduced milestones and have concluded that the reductions in our costs due to the scaled back level of work will almost entirely offset the anticipated revenue levels based on current assumptions. On February 10, 2014, DARPA finalized this contract modification.

As of December 31, 2013, we have invoiced for fifteen milestone payments under the DARPA contract totaling $3,396,912.

Battelle -- We entered into a subcontract agreement with Battelle Memorial Institute (“Battelle”) in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the original DARPA contract and we are one of several subcontractors on that systems integration project. The Battelle 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 revenue from the subcontract will be at the discretion of Battelle. The Battelle subcontract is our first cost-reimbursable contract.

Our revenue under this contract will be 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.

Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2013 were $1,308,655 in comparison with $1,145,620 for the comparable quarter a year ago. This increase of $163,035, or 14.2%, was due to an increase in general and administrative expenses of $133,853 and in professional fees of $111,266, which were partially offset by a decrease in payroll and related expense of $82,084.

The $133,853 increase in general and administrative expenses was due to an increase in our non-DARPA related general and administrative expenses of $142,240, which was partially offset by a reduction of DARPA and Battelle related general and administrative expenses of $8,387. The non-DARPA-related general and administrative expenses included $82,499 from ESI, which was not present in the 2012 period.

The $111,266 increase in our professional fees was due to an increase in our non-DARPA related professional fees of $154,018, which included $13,170 from ESI, which was partially offset by a reduction of DARPA and Battelle related professional fees of $42,752. The primary factors in the increase in our non-DARPA-related professional fees were $118,095 of costs relating to a production run of cartridges by our contract manufacturer for our upcoming US clinical trial and a $35,252 increase in our investor relations expenses over the 2012 period.

The $82,084 decrease in payroll and related expenses was primarily due to a decrease in stock based compensation of $142,295, which in turn was due to the completion of the vesting of our CEO's restricted stock grant and of the vesting of a number of existing stock option grants. Payroll and related expenses in the 2013 period included $85,083 from ESI.

Other Expense (Income)

Other expense (income) consists primarily of the change in the fair value of our derivative liability, other expense and interest expense. Other expense (income) for the three months ended December 31, 2013 were other expense of $1,035,269 in comparison with other income of $1,250,783 for the comparable quarter a year ago.

Change in Fair Value of Derivative Liability

Both periods include changes in the fair value of derivative liability. For the three months ended December 31, 2013, the change in the estimated fair value of derivative liability was a gain of $78,175 and for the three months ended December 31, 2012, the change in estimated fair value was a gain of $1,384,256. These swings in the estimated fair value of our derivative liabilities in both periods were driven to a large extent by changes in our stock price.

Interest Expense

Interest expense was $113,445 for the three months ended December 31, 2013 compared to $106,795 in the corresponding prior period, an increase of $6,650. The various components of our interest expense are shown in the following table:

	Quarter Ended 12/31/13	Quarter Ended 12/31/12	Change
Interest Expense	$ 112,876	$ 103,421	$ 9,455
Amortization of Deferred Financing Costs	–	680	(680)
Amortization of Note Discounts	569	2,694	(2,125)
Total Interest Expense	$ 113,445	$ 106,795	$ 6,650

As noted in the above table, the most significant factor in the $6,650 increase in interest expense was the increase in our contractual interest and finance charges. We had minor decreases in the amortization of deferred financing costs and note discounts as the amortization was completed on those costs.

Other

The three months ended December 31, 2013 included a $1,000,000 provision related to our Gemini litigation. There were no comparable charges in the three months ended December 31, 2012.

The three months ended December 31, 2012 contained $26,716 in losses on debt conversion. There were no comparable charges in the three months ended December 31, 2013.

Loss Attributable to Noncontrolling Interests

Since ESI recorded a loss of $185,305 for the three months ended December 31, 2013 and since outside shareholders purchased a 20% ownership interest in ESI in exchange for a $1.5 million investment, 20% of ESI's loss, or $37,061, was recorded as a loss attributable to noncontrolling interests

Net Loss/Profit Attributable to Common Stockholders

As a result of the increased expenses noted above, we recorded a net loss attributable to common stockholders of approximately $2,231,000 and a net profit of $313,000 for the quarters ended December 31, 2013 and 2012, respectively.

Basic and diluted loss profit per common share were ($0.01) for the three month period ended December 31, 2013 compared to $0.00 for the three month period ended December 31, 2012.

NINE MONTHS ENDED DECEMBER 31, 2013 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2012

Revenues

We recorded government contract revenue of $916,796 and $825,642 in the nine months ended December 31, 2013 and 2012, respectively. This revenue arose from work performed under our government contract with DARPA and our subcontract with Battelle as follows:

	Nine Months Ended 12/31/13	Nine Months Ended 12/31/12	Change in Dollars
DARPA Contract	$ 808,739	$ 825,642	$ (16,903)
Battelle Subcontract	108,057	–	108,057
Total Government Contract Revenue	$ 916,796	$ 825,642	$ 91,154

DARPA - On September 30, 2011, we entered into a contract with the United States of America, issued by SPAWAR Systems Center Pacific, pursuant to a contract award from the Defense Advanced Research Projects Agency (“DARPA”). Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA is a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years, including payments of up to $1,975,047 in the first year. 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, DARPA subsequently exercised the option on the second and third years of the contract. DARPA has the option to enter into the contract for years four and 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.

DARPA recently informed us that due to budget restrictions within the Department of Defense, that they planned to reduce the scope of our contract in years three through five of the contract. The reduction in scope will focus 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. While this contract change is not yet in place, we expect it to occur in the near future. We recently completed a rebudgeting of the expected costs on the remaining years of the DARPA contract based on the reduced milestones and have concluded that the reductions in our costs due to the scaled back level of work will almost entirely offset the anticipated revenue levels based on current assumptions. On February 10, 2014, DARPA finalized this contract modification.

As of December 31, 2013, we have invoiced for fifteen milestone payments under the DARPA contract totaling $3,396,912.

Battelle -- We entered into a subcontract agreement with Battelle Memorial Institute (“Battelle”) in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the original DARPA contract and we are one of several subcontractors on that systems integration project. The Battelle 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 revenue from the subcontract will be at the discretion of Battelle. The Battelle subcontract is our first cost-reimbursable contract.

Our revenue under this contract will be 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.

Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2013 were $3,162,730 in comparison with $3,554,064 for he comparable period a year ago. This decrease of $391,334, or 11.0%, was due to decreases in payroll and related expenses of $332,170 and in professional fees of $165,273, which was partially offset by an increase in general and administrative expenses of $106,109.

The $332,170 decrease in payroll and related expenses was primarily due to a decrease in stock based compensation of $347,189, which in turn was due to the completion of the vesting of our CEO's restricted stock grant and of the vesting of a number of existing stock option grants. Payroll and related expenses in the 2013 period included $85,083 from ESI.

The $165,273 decrease in our professional fees was primarily due to a reduction of non-DARPA related professional fees of $107,631 and a reduction in DARPA and Battelle related professional fees of $70,812. The primary drivers in the decrease in non-DARPA related professional fees were the lack of legal fees related to the Gemini litigation and to the DTC suspension as our insurance carrier has covered the litigation costs in the 2013 period and we successfully resolved the DTC suspension in the fiscal year ended March 31, 2013. As a result, our legal fees decreased by $232,971 from the 20112 period. That decrease in legal fees was partially offset by $158,587 of costs relating to a production run of cartridges by our contract manufacturer for our upcoming US clinical trial. Other significant factors were decreases in our scientific consulting fees of $48,520 and in our business development fees of $45,806. Our non-DARPA-related professional fees in the 2013 period also included $13,170 from ESI

The $106,109 increase in our general and administrative expenses was driven by a $103,042 increase in our non-DARPA related general and administrative expenses and a $3,067 increase in our DARPA and Battelle related general and administrative expenses. The non-DARPA-related general and administrative expenses included $82,499 from ESI, which was not present in the 2012 period.

Other Expense (Income)

Other expense (income) consists primarily of the change in the fair value of our derivative liability, other expense and interest expense. Other expense (income) for the nine months ended December 31, 2013 were other expense of $3,674,845 in comparison with other income of $603,231 for the comparable period a year ago.

Change in Fair Value of Derivative Liability

Both periods include changes in the fair value of derivative liability. For the nine months ended December 31, 2013, the change in the estimated fair value of derivative liability was a charge of $2,304,702 and for the nine months ended December 31, 2012, the change in estimated fair value was a gain of $1,745,718. These swings in the estimated fair value of our derivative liabilities in both periods were driven to a large extent by changes in our stock price.

Interest Expense

Interest expense was $329,947 for the nine months ended December 31, 2013 compared to $1,019,857 in the corresponding prior period, a decrease of $689,910. The various components of our interest expense are shown in the following table:

	9 Months Ended 12/31/13	9 Months Ended 12/31/12	Change
Interest Expense	$ 324,800	$ 422,140	$ (97,340)
Amortization of Deferred Financing Costs	863	121,470	(120,607)
Non-Cash Interest Expense	–	11,846	(11,846)
Amortization of Note Discounts	4,284	464,401	(460,117)
Total Interest Expense	$ 329,947	$ 1,019,857	$ (689,910)

As noted in the above table, the three most significant factors in the $689,910 decrease in interest expense were (a) the $460,117 reduction in the amortization of debt discounts that was largely the result of the completion of the discount amortization on the majority of our convertible notes prior, (b) a $120,607 reduction in the amortization of deferred offering costs that also was largely the result of the completion of the amortization on those costs and (c) the $97,340 reduction in interest expense due to ongoing conversions of our convertible notes into equity.

Other

The nine months ended December 31, 2013 included a $1,000,000 provision related to our Gemini litigation. There were no comparable charges in the nine months ended December 31, 2012. The nine months ended December 31, 2013 also contained $40,256 in losses on debt conversion compared to $122,775 in losses on debt conversion in the nine months ended December 31, 2012

Loss Attributable to Noncontrolling Interests

Since ESI recorded a loss of $185,305 for the nine months ended December 31, 2013 and since outside shareholders purchased a 20% ownership interest in ESI in exchange for a $1.5 million investment, 20% of ESI's loss, or $37,061, was recorded as a loss attributable to noncontrolling interests

Net Loss/Profit Attributable to Common Stockholders

As a result of the increased expenses noted above, we recorded a net loss attributable to common stockholders of approximately $5,884,000 and $2,125,000 for the nine month periods ended December 31, 2013 and 2012, respectively.

Basic and diluted loss per common share were ($0.03) for the nine month period ended December 31, 2013 compared to ($0.01) for the nine month period ended December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, we had a cash balance of $1,854,941 and a working capital deficit of $10,731,262. This compares to a cash balance of $125,274 and a working capital deficit of $9,276,618 at March 31, 2013. Between January 1, 2014 and February 7, 2014, we billed for $403,498 under our government contracts and received a total of $195,796 under our DARPA and Battelle contracts. Our cash at December 31, 2013 plus additional funds raised to date subsequent to December 31, 2013 may not be sufficient to meet our funding requirements during the next twelve months. Significant additional financing must be obtained in order to provide a sufficient source of operating capital and to allow us to continue to operate as a going concern.

In August 2013, we signed an agreement with a broker-dealer to raise operating capital. As a result of fund raising activities by that broker-dealer, we received $1,795,900 in gross proceeds ($1,447,032 in net proceeds) from the sales of our common stock with warrants in the December 2013 quarter, to cover near term operating requirements and the expected costs of our US safety trial. The agreement also calls for the broker-dealer to then raise a larger financing (see note 2) to meet future growth initiatives. Any securities offered will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The engagement agreement is on a best efforts basis and there can be no assurance that the broker-dealer can raise additional working capital for us on acceptable terms or at all.

During the December 2013 quarter, our subsidiary, Exosome Sciences, Inc. (ESI), commenced operations with a focus on advancing exosome-based strategies to diagnose and monitor the progression of cancer, infectious disease and other life-threatening conditions. We raised $1.5 million in cash by selling ESI common stock and we believe that capital will fund the operations of ESI for the next 12 months.

At the parent company level, 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.

Also, should the U.S. Government elect not to exercise the options for years four and five of our DARPA contract, the effects would be material to us. The loss of revenues from the DARPA contract would have a material impact on our revenues, operating cash flows and liquidity.

DARPA recently awarded a related contract to Battelle Memorial Institute ("Battelle") to be the systems integrator for the various components being developed under the original contract, including our two components of the project. We agreed to become a subcontractor to Battelle under that systems integrator contract. That subcontract will be under a cost plus basis and we expect to begin generating revenues under the subcontract during the fiscal year ending March 31, 2014. Any revenues we derive under the subcontract will be at the direction of Battelle.

Beyond the immediate future, we currently believe that the following four areas may generate revenue for us:

(1) Developing future products using the Aethlon ADAPTTM system with drug industry collaborators. Revenues in this area could come from product development fees, fees from research, regulatory and manufacturing support or from downstream royalties;

(2) Applying for and winning additional U.S. Government grant or contract income; and

(3) Licensing or selling our ELLSA research diagnostic tools that identify and quantify exosomes through our recently launched ESI subsidiary.

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 nine months ended	
	December 31, 2013	December 31, 2012
Cash (used in) provided by:		
Operating activities	$ (1,584)	$ (1,577)
Investing activities	(61)	–
Financing activities	3,375	1,541
Net increase (decrease) in cash	$ 1,730	$ (36)

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 $1,584,000 in the nine months ended December 31, 2013 compared to net cash used in operating activities of approximately $1,577,000 in the nine months ended December 31, 2012. The following table notes significant factors in our operating activities in each period:

($ In Thousands)	9 Months Ended 12/31/13	9 Months Ended 12/31/12
Net Loss	$ (5,920)	$ (2,125)
Adjust for change in derivative liability	2,305	(1,746)
Sub-total	(3,615)	(3,871)
Adjust for:		
Amortization of debt discount	5	586
Litigation accrual	1,000	–
Stock based compensation	223	571
Collection of accounts receivable	164	400
Other factors	639	737
Net cash used in operating activities	$ (1,584)	$ (1,577)

NET CASH FROM INVESTING ACTIVITIES. During the nine months ended December 31, 2013, we purchased approximately $61,000 of equipment. During the months ended December 31, 2012, we did not have any investing activities.

NET CASH FROM FINANCING ACTIVITIES. Net cash generated from financing activities increased from approximately $1,541,000 in the nine months ended December 31, 2012 to approximately $3,375,000 in the nine months ended December 31, 2013.
Included in net cash provided by financing activities in the 2013 period was $400,000 in notes payable from two directors, of which we repaid $200,000, and $3,175,000 in proceeds from the issuance of common stock. Approximately $1,675,000 of that equity was raised by the parent company and $1,500,000 was raised by our ESI subsidiary.

In the 2012 period, we received $1,571,000 in proceeds 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.

A decrease in working capital during the nine months ended December 31, 2013 in the amount of approximately $1,454,000 changed our negative working capital position to approximately ($10,731,000) at December 31, 2013 from a negative working capital of approximately ($9,277,000) at March 31, 2013. The most significant factor in the decrease in working capital noted above was an increase of approximately $1,988,000 in the fair value of derivative liabilities. That increase was largely driven by the increase in our share price from March 31, 2013 to December 31, 2013.

At the date of this filing, we plan to invest significantly into purchases of our raw materials and into our contract manufacturing arrangement as well as other costs of our safety trial in the US subject to successfully raising additional capital.

CRITICAL ACCOUNTING POLICIES

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company 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 policies relate to revenue recognition, measurement of stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, and the classification of warrant obligations, and evaluation of contingencies. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial condition or results of operations.

There have been no changes to our critical accounting policies as disclosed in our Form 10-K for the year ended March 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

We have no obligations required to be disclosed herein as off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of a date as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our CEO and CFO concluded that, as of the end of such period, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on our results of operations for that period or future periods. Other than as set forth here, we are not presently a party to any pending or threatened legal proceedings.

On July 5, 2012, Gemini Master Fund, Ltd., a Cayman Islands company ("Gemini"), filed a complaint against us in the Supreme Court of the State of New York, County of New York, entitled Gemini Master Fund Ltd. v. Aethlon Medical, Inc., Index No. 652358/2012 (the "Complaint"). In the Complaint, Gemini is seeking relief both in the form of money damages and delivery of shares of our common stock. The Complaint alleges, among other things, that we are in default of a certain promissory note originally issued to Gemini on February 12, 2010 by failing to pay the note in full and by failing to honor certain requests by Gemini to convert principal and interest under the note into shares of the Company's common stock. The Complaint also alleges that we failed to issue shares upon the presentation of an exercise notice under a warrant originally issued to Gemini on November 22, 2010. The lawsuit also alleges that we should have issued shares pursuant to the exercise of a warrant issued in 2009. We believe that we have defenses to the claims asserted and we continue to vigorously defend the lawsuit. The parties in the lawsuit have filed cross motions for summary judgment on some of the claims. No trial date has yet been set. There can be no assurances, however, that the litigation will be decided in our favor as to all, or any part, of Gemini's Complaint. An adverse decision in the litigation could have an adverse effect on our operations and could be dilutive to our shareholders.

In relation to this matter, we accrued $1,000,000 at December 31, 2013 for possible settlement. Although the parties to the lawsuit are in on-going settlement discussions at the time this Form 10-Q is filed and no assurance exists that a settlement will be reached, the accrual was made based on the possibility that a settlement might be reached that would result in the issuance of equity instruments to satisfy the exercise of various warrants. The accrual is included in other expense and other current liabilities on the accompanying condensed consolidated financial statements.

ITEM 1A. RISK FACTORS.

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

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

During the three months ended December 31, 2013, we issued the following securities which were not registered under the Securities Act of 1933, as amended, and have not been included previously in a Current Report on Form 8-K. We did not employ any form of general solicitation or advertising in connection with the offer and sale of the securities described below. In addition, we believe the purchasers of the securities are "accredited investors" for the purpose of Rule 501 of the Securities Act. For these reasons, among others, the offer and sale of the following securities were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act or Regulation D promulgated by the SEC under the Securities Act:

In July 2013, we borrowed $400,000 from two of our directors under two 90 day notes for $200,000 each bearing 10% interest (the “Notes”). The Notes allow at the discretion of the holders if we did not pay back those loans by October 9, 2013 (i) to convert their principal and accrued interest into shares of common stock at $0.088 per share (the “Conversion Price”) and (ii) receive warrants to purchase common stock equal to 50% of the principal converted under the Notes, with an exercise price of $0.132 per share. Additionally, there was a provision for a penalty interest rate of 12%.

That potential conversion price and warrant exercise price were based on the same pricing mechanism that we have used in prior equity unit financings since March 2012 (see Note 6) which are based on 80% of the then current market price of our common stock and with the warrant exercise price based on 120% of the same then current market price. We initially reserved 6,931,818 shares of common stock to support the conversion in full of the Notes and accrued interest as well as the exercise in full of the warrants (should such conversion and/or issuance occur).

We subsequently paid back one of those loans in December 2013 along with all accrued interest in the amount of $9,367. That repayment extinguished all potential common stock and warrant issuance provisions of the Note.

The holder of the second Note agreed to extend the expiration date of his Note to July 31, 2014.

During the three months ended December 31, 2013, a warrant holder exercised 2,805,000 warrants to receive 1,577,736 shares in cashless exercise transactions.

During the three months ended December 31, 2013, we issued 1,465,200shares of restricted common stock to the holders of two notes issued by us in exchange for the partial or full conversion of accrued interest in an aggregate amount of $80,000 at an average conversion price of $0.05 per share.

During the three months ended December 31, 2013, we entered into a unit purchase agreement (the “Unit Purchase Agreement”) and subscription agreements (the “Subscription Agreements”) with 22 accredited investors (collectively, the “Purchasers”), pursuant to which the Purchasers purchased an aggregate of 143.67 units (collectively, the “Units”) from us, with each Unit consisting of (a) one hundred thousand (100,000) shares of our common stock, at a purchase price of $0.125 per share and (b) a warrant to purchase fifty thousand (50,000) shares of common stock (collectively, the “Warrants”). The Purchasers acquired an aggregate of 14,367,200 shares of common stock and Warrants to acquire up to an aggregate of 7,183,600 shares of common stock for an aggregate purchase price of $1,795,900. The net proceeds that we received totaled $1,447,032. In accordance with the terms of the Unit Purchase Agreement, the offering of securities thereunder terminated on December 31, 2013.

A FINRA registered broker-dealer was engaged as placement agent in connection with the above Unit Purchase Agreement. We paid the placement agent an aggregate cash fee in the amount of $270,508 and have issued or will issue the placement agent or its designees Warrants to purchase an aggregate of 2,155,080 shares of Common Stock.

The Warrants issued to the Purchasers and the placement agent (each, a “Holder”) are exercisable for a period of five years from the date of issuance at an exercise price of $0.22, subject to adjustment. A Holder may exercise a Warrant by paying the exercise price in cash or by exercising the Warrant on a cashless basis. In the event a Holder exercises a Warrant on a cashless basis, we will not receive any proceeds. The exercise price of the Warrants is subject to customary adjustments provisions for stock splits, stock dividends, recapitalizations and the like. Each Holder has contractually agreed to restrict its ability to exercise its Warrant such that the number of shares of the common stock held by the Holder and its affiliates after such exercise does not exceed 4.99% of the our then issued and outstanding shares of common stock.

Exosome Sciences, Inc. Unregistered Sales of Equity Securities

In October 2013, ESI, at that time a wholly owned subsidiary of ours, issued a total of 3 promissory notes (collectively, the "Shah Notes") in the aggregate principal amount of $250,000 to Dr. Chetan Shah, a director of the Company, in exchange for Dr. Shah's loan of funds in the same aggregate amount to ESI. Each Shah Note bore interest at the rate of 10% per annum and was due and payable in full, including all accrued interest thereon, one year from the date of issuance. The Shah Notes were unsecured and did not provide for conversion of the debt into any other security. The Notes were not guaranteed by us.

On November 21, 2013, ESI, prior to the transaction described herein, a wholly owned diagnostic subsidiary of ours, entered into a stock purchase agreement (the "Stock Purchase Agreement") with twelve accredited investors (collectively, the "Purchasers"), pursuant to which the Purchasers purchased an aggregate of 220,000 shares of ESI's common stock, par value $.001 per share (the "Common Stock"), at a purchase price of $5.00 per share, for an aggregate purchase price of $1,100,000, or a post money valuation of $7,100,000 for ESI. As a result of the transaction, our percentage ownership of the outstanding capital stock of ESI was reduced from 100% to approximately 84.5%.

On December 13, 2013, ESI entered into a stock purchase agreement (the "Stock Purchase Agreement") with three accredited investors (collectively, the "Purchasers"), pursuant to which the Purchasers purchased an aggregate of 80,000 shares of ESI's common stock, par value $.001 per share (the "Common Stock"), at a purchase price of $5.00 per share, for an aggregate purchase price of $400,000, or a post money valuation of $7,500,000 for ESI. The aggregate gross proceeds received by ESI under the Stock Purchase Agreement were $1,500,000, including the $1,100,000 of sales on November 21, 2013 noted above (the "Prior Sales"). As a result of the transaction, including the Prior Sales, the Company's percentage ownership of the outstanding capital stock of ESI was reduced from 100% to 80%.

One of the Purchasers, Dr. Chetan Shah, is a director of the Company. Dr. Shah purchased 70,000 ESI shares for an aggregate purchase price of $350,000, $100,000 of which was paid in cash and $250,000 of which was paid by conversion of the total principal outstanding of $250,000 under the Shah Notes previously issued to Dr. Shah by ESI. Dr. Shah did not participate in the negotiation of the purchase and sale terms, including price per share. His participation in the offering was on the same terms and conditions as offered to the other Purchasers. The accrued interest of $4,583 on the Shah Notes was paid in cash to Dr. Shah by ESI following the conversion of the Shah Notes into ESI shares as noted above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

As of the date of this report, various promissory and convertible notes payable in the aggregate principal amount of $2,067,916 have reached maturity and are past due. We are continually reviewing other financing arrangements to retire all past due notes. At December 31, 2013, we had accrued interest in the amount of $1,061,046 associated with these notes and accrued liabilities payable.

ITEM 4. MINE SAFETY DISCLOSURES.

We have no disclosure applicable to this item.

ITEM 5. OTHER INFORMATION.

In January 2014, Franklyn Barry, Jr. was named the chair of our Board's audit committee.

ITEM 6. EXHIBITS.

(a) Exhibits. The following documents are filed as part of this report:

3.1	Articles of Incorporation of Aethlon Medical, Inc., as amended (1)
3.2	Bylaws of Aethlon Medical, Inc. (2)
4.1	Form of Common Stock Purchase Warrant (October 30, November 12, December 10, and December 30, 2013 sales) (3)
10.1	Form of Unit Purchase Agreement (October 30, November 12, December 10, and December 30, 2013 sales) (3)
10.2	Form of Subscription Agreement (October 30, November 12, December 10, and December 30, 2013 sales) (3)
10.3	Form of Exosome Sciences, Inc. 10% Promissory Note (3)
10.4	Form of Exosome Sciences Stock Purchase Agreement (November 21 and December 13, 2013 sales) (4)
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act rules 13a- 14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act rules 13a- 14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
101	Interactive Data Files

* Filed herewith.

(1) Incorporated by reference to the filing of such exhibit with the Company's Annual Report on Form 10-K for the year ended March 31, 2012.

(2) Incorporated by reference to the filing of such exhibit with the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2012.

(3) Incorporated by reference to the filing of such exhibit with the Company’s Current Report on Form 8-K filed on November 6, 2013.

(4) Incorporated by reference to the filing of such exhibit with the Company’s Current Report on Form 8-K filed on November 21, 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AETHLON MEDICAL, INC.

Date: February 11, 2014

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

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James Joyce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aethlon Medical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2014

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

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James Frakes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aethlon Medical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2014

/s/ JAMES B. FRAKES
JAMES B. FRAKES
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aethlon Medical, Inc. (the "Registrant") on Form 10-Q for the three month period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof, I, James A. Joyce, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. Based on my knowledge, the Quarterly Report on Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Dated: February 11, 2014

/s/ JAMES A. JOYCE
James A. Joyce
Chief Executive Officer
Aethlon Medical, Inc.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Aethlon Medical, Inc. and will be retained by Aethlon Medical, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aethlon Medical, Inc. (the "Registrant") on Form 10-Q for the three month period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof, I, James B. Frakes, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. Based on my knowledge, the Quarterly Report on Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Aethlon Medical, Inc.

Dated: February 11, 2014

/s/ JAMES B. FRAKES
James B. Frakes
Chief Financial Officer
Aethlon Medical, Inc.