AETHLON MEDICAL INC
Form 424B3
November 14, 2016

Filed pursuant to Rule 424(b)(3)

Registration No. 333-205832

PROSPECTUS SUPPLEMENT NO. 2

(to prospectus dated August 4, 2016)

Aethlon Medical, Inc.

1,048,075 Shares of Common Stock

This prospectus supplement relates to the prospectus dated August 4, 2016 relating to the following common stock that may be sold from time to time by the selling stockholders identified in the prospectus:

· 301,418 shares of common stock; and
· 746,657 shares of common stock underlying common stock purchase warrants at an exercise price of $6.30 per share.

This prospectus supplement relates to an existing registration of securities under Registration Statement File No. 333-205832, originally filed on July 24, 2015, and does not cover securities beyond those covered by the existing Registration Statement. There are no additional securities being offered under this prospectus supplement – this is merely a document required under the securities laws to update information previously filed in the original prospectus and prior prospectus supplements thereto.

All of the common stock covered by the prospectus is being sold by the selling stockholders for their own account. We will not receive any proceeds from the sale of these shares other than proceeds, if any, from the exercise of warrants to purchase shares of our common stock. If all of the warrants are exercised for cash, we will receive a total of $4,703,939 in gross proceeds, which we expect to use for general corporate purposes. We cannot assure you that any warrants will be exercised for cash. The selling stockholders may offer and sell the shares covered by the prospectus at prevailing prices quoted on the Nasdaq Capital Market or at privately negotiated prices. The selling stockholders may sell the shares directly or through underwriters, brokers or dealers. The selling stockholders will bear any applicable sales commissions, transfer taxes and similar expenses. We will pay all other expenses incident to the registration of the shares. See “Plan of Distribution” on page 28 of the prospectus for more information on this topic.

We are filing this prospectus supplement to supplement and amend the information previously included in the prospectus, as amended by Prospectus Supplement No. 1 with the information contained in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 10, 2016. Accordingly, we have attached our Quarterly Report on Form 10-Q to this prospectus supplement. You should read this prospectus supplement together with the prospectus and any prior prospectus supplements thereto, which is to be delivered with this prospectus supplement.

Our common stock is traded on the Nasdaq Capital Market under the symbol “AEMD.” On November 10, 2016, the last reported sale price of our common stock on the Nasdaq Capital Market was $4.91 per share.

Investing in our securities involves significant risks, including those set forth in the “Risk Factors” section of the prospectus beginning at page 5.

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

The date of this prospectus supplement is November 11, 2016.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____to_____

COMMISSION FILE NUMBER 001-37487

AETHLON MEDICAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA	13-3632859

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

9635 GRANITE RIDGE DRIVE, SUITE 100, SAN DIEGO, CA 92123

(Address of principal executive offices) (Zip Code)

(858) 459-7800

(Registrant's telephone number, including area code)

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

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

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

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

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

As of November 8, 2016, the registrant had outstanding 7,725,072 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

	September 30, 2016 (Unaudited)	March 31, 2016
ASSETS		
Current assets		
Cash	$556,352	$2,123,737
Accounts receivable	193,719	199,471
Prepaid expenses and other current assets	66,469	53,294
Total current assets	816,540	2,376,502
Property and equipment, net	22,969	36,038
Patents and patents pending, net	89,579	94,161
Deposits	21,747	22,415
Total assets	$950,835	$2,529,116
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$384,728	$244,804
Due to related parties	58,362	145,112
Convertible notes payable, net - current portion	605,815	–
Other current liabilities	35,316	136,695
Total current liabilities	1,084,221	526,611
Convertible notes payable, net - less current portion	–	500,139
Total liabilities	1,084,221	1,026,750
Commitments and Contingencies (Note 13)		
Equity		
Aethlon Medical, Inc. Stockholders' (Deficit) Equity		

Common stock, par value $0.001 per share; 30,000,000 shares authorized as of September 30, 2016 and March 31, 2016; 7,711,811 and 7,622,393 shares issued and outstanding as of September 30, 2016 and March 31, 2016, respectively	7,711	7,621
Additional paid-in capital	90,811,302	88,047,142
Accumulated deficit	(90,886,645)	(86,502,043)
Total Aethlon Medical, Inc. stockholders' (deficit) equity before noncontrolling interests	(67,632)	1,552,720
Noncontrolling interests	(65,754)	(50,354)
Total (deficit) equity	(133,386)	1,502,366
Total liabilities and equity	$950,835	$2,529,116

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Month Periods Ended September 30, 2016 and 2015

(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
REVENUES				
Government contract revenue	$387,438	$188,366	$392,073	$380,874
OPERATING EXPENSES				
Professional fees	510,982	389,207	1,078,731	927,433
Payroll and related expenses	1,813,003	597,850	2,158,190	1,056,078
General and administrative	290,131	325,670	513,681	611,695
Total operating expenses	2,614,116	1,312,727	3,750,602	2,595,206
OPERATING LOSS	(2,226,678)	(1,124,361)	(3,358,529)	(2,214,332)
OTHER EXPENSE				
Interest and other debt expenses	36,576	127,245	78,743	253,933
Loss on debt extinguishment	–	–	616,889	–
Warrant repricing expense	–	–	345,841	–
Total other expense	36,576	127,245	1,041,473	253,933
NET LOSS BEFORE NONCONTROLLING INTERESTS	(2,263,254)	(1,251,606)	(4,400,002)	(2,468,265)
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,668)	(27,000)	(15,400)	(60,623)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(2,255,586)	$(1,224,606)	$(4,384,602)	$(2,407,642)
BASIC AND DILUTED LOSS PER COMMON SHARE	$(0.29)	$(0.16)	$(0.57)	$(0.34)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	7,756,883	7,610,459	7,690,369	7,167,903

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended September 30, 2016 and 2015

(Unaudited)

	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
Cash flows from operating activities:		
Net loss	$(4,400,002)	$(2,468,265)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,612	18,676
Stock based compensation	1,573,991	101,421
Warrant repricing expense	345,841	–
Loss on debt extinguishment	616,889	–
Amortization of debt discount and deferred financing costs	46,639	225,717
Changes in operating assets and liabilities:		
Accounts receivable	5,752	6,533
Prepaid expenses and other current assets	(12,507)	(35,777)
Accounts payable and other current liabilities	125,842	(144,533)
Due to related parties	(86,750)	58,000
Net cash used in operating activities	(1,763,693)	(2,238,228)
Cash flows from investing activities:		
Purchases of property and equipment	(2,961)	–
Net cash used in investing activities	(2,961)	–
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net	266,612	5,591,988
Cash paid for tax withholding on vested restricted stock units	(67,343)	–
Net cash provided by financing activities	199,269	5,591,988
Net (decrease) increase in cash	(1,567,385)	3,353,760
Cash at beginning of period	2,123,737	855,596
Cash at end of period	$556,352	$4,209,356

Supplemental disclosures of non-cash investing and financing activities:

Convertible note payable and accrued interest converted to common stock	$32,321	$–
Debt discount on convertible notes payable	$75,994	$–
Issuance of shares under vested restricted stock units	$30	$–
Reclassification of accrued interest to convertible notes payable	$85,031	$–
Cashless exercise of warrants	$3	$5

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2016

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

ORGANIZATION

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

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

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

ESI is accounted for as a non-controlling interest as the Company has an 80% ownership interest in the subsidiary. Earnings or losses attributable to other stockholders of a consolidated affiliated company are classified separately as "noncontrolling interest" in the Company's consolidated statements of operations. Net loss attributable to noncontrolling interest reflects only its share of the after-tax earnings or losses of an affiliated company. Income taxes

attributable to noncontrolling interest are determined using the applicable statutory tax rates in the jurisdictions where such operations are conducted. The Company's consolidated balance sheets reflect noncontrolling interests within the equity section of the consolidated balance sheets.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

During the six months ended September 30, 2016, there have been no changes to our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of the Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto for the year ended March 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on June 29, 2016. The accompanying unaudited condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its majority-owned subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the condensed consolidated balance sheet of the Company at September 30, 2016, the condensed consolidated statements of operations for the three and six months ended September 30, 2016, and the condensed consolidated statement of cash flows for the six months ended September 30, 2016. Estimates were made relating to useful lives of fixed assets, valuation allowances, the fair value of warrants, impairment of assets, share-based compensation expense and accruals for clinical trial and research and development expenses. Actual results could differ materially from those estimates. Certain amounts previously reported in the financial statements have been reclassified to conform to the current presentation. Such reclassifications did not affect net loss, equity or cash flows. The accompanying condensed consolidated balance sheet at March 31, 2016 has been derived from the audited consolidated balance sheet at March 31, 2016, contained in the above referenced 10-K. The results of operations for the three and six months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

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

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On March 31, 2016, we filed a Certificate of Amendment to our Articles of Incorporation to increase our authorized common stock from 10,000,000 to 30,000,000 shares. Our stockholders approved the amendment at our annual meeting of stockholders held on March 29, 2016.

LIQUIDITY AND GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the ordinary course of business. We have incurred continuing losses from operations and at September 30, 2016 had limited working capital and an accumulated deficit of approximately $90,887,000. These factors, among other matters, raise substantial doubt about our ability to continue as a going concern. 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. We intend to fund operations, working capital and other cash requirements for the twelve month period subsequent to September 30, 2016 through debt and/or equity financing arrangements as well as through revenues and related cash receipts under our government contracts (see Note 11).

We are currently addressing our liquidity issue by seeking additional investment capital through issuances of common stock under our existing S-3 registration statement and by applying for grants issued by government agencies in the United States. We believe that our cash on hand and funds expected to be received from additional debt and equity financing arrangements will be sufficient to meet our liquidity needs for the twelve month period through September 30, 2017. However, no assurance can be given that we will receive any funds in addition to the funds we have received to date (see Note 14).

The successful outcome of future activities cannot be determined at this time and there is no assurance that, if achieved, we will have sufficient funds to execute our intended business plan or generate positive operating results.

The consolidated financial statements do not include any adjustments related to this uncertainty and as to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

2. LOSS PER COMMON SHARE

Basic loss per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period of computation. The weighted average number of common shares outstanding for the three and six months ended September 30, 2016 includes 184,500 vested restricted stock units that have not yet been issued. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if potential common shares had been issued, if such additional common shares were dilutive. Since we had net losses for all periods presented, basic and diluted loss per share are the same, and additional potential common shares have been excluded as their effect would be antidilutive.

As of September 30, 2016 and 2015, a total of 3,289,606 and 2,773,483 potential common shares, consisting of shares underlying outstanding stock options, warrants, unvested restricted stock units and convertible notes payable were excluded as their inclusion would be antidilutive.

3. RESEARCH AND DEVELOPMENT EXPENSES

Our research and development costs are expensed as incurred. We incurred research and development expenses during the three and six month periods ended September 30, 2016 and 2015, 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:

	September 30, 2016	September 30, 2015
Three months ended	$ 280,860	$ 207,676
Six months ended	$ 377,843	$ 424,267

4. SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

During the six months ended September 30, 2016, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-03, the new accounting standard on imputation of interest, simplifying the presentation of debt issuance costs. As a result of the adoption of that pronouncement, our deferred financing costs at March 31, 2016 were reclassified from current assets to an offset against our convertible notes.

Management is evaluating significant recent accounting pronouncements that are not yet effective for us, including the new accounting standard on improvements to employee share based payment accounting, ASU 2016-09 (Topic 718), the new accounting standard related to leases, ASU 2016-02 (Topic 842), the new accounting standard for recognition and measurement of financial assets and financial liabilities, ASU 2016-01, the new accounting standard on extraordinary and unusual items on income statements, ASU 2015-01, the new accounting standard related to presentation of financial statements - going concern qualifications, ASU 2014-15, and the new accounting standard on revenue recognition, ASU 2014-09 (Topic 606), and have not yet concluded whether any such pronouncements will have a significant effect on our future consolidated financial statements.

5. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable consisted of the following at September 30, 2016:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable – Current Portion:				
November 2014 10% Convertible Notes	$662,811	$ (56,996)	$605,815	$17,486
Total Convertible Notes Payable	$662,811	$ (56,996)	$605,815	$17,486

During the six months ended September 30, 2016, we recorded interest expense of $30,794 related to the contractual interest rates of our convertible notes, interest expense of $27,641 related to the amortization of deferred financing costs and interest expense of $18,998 related to the amortization of the note discount for a total interest expense of $77,433 related to our convertible notes in the six months ended September 30, 2016. All of the unamortized discount at September 30, 2016 related to the note discount established upon the second amendment to the notes (see below).

Convertible Notes Payable consisted of the following at March 31, 2016 (our most recent fiscal year end):

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable – Non-Current Portion:				
November 2014 10% Convertible Notes	$527,780	$ (27,641)	$500,139	$74,036
Total Convertible Notes Payable	$527,780	$ (27,641)	$500,139	$74,036

The above table shows the retroactive application of $27,641 in note discounts representing the deferred financing costs of that same amount on March 31, 2016 due to the application of related to the application of the new accounting

standard ASU 2015-03. All of the unamortized discount at March 31, 2016 related to the deferred financing costs noted above.

During the six m