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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 June 30, 2018

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 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one)

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. ☐

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 August 8, 2018, the registrant had outstanding 17,798,248 shares of common stock, $0.001 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2018 (Unaudited) | March 31, 2018 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash | $ 6,122,902 | $ 6,974,070 |
| Accounts receivable | 74,813 | 74,813 |
| Prepaid expenses and other current assets | 143,620 | 181,367 |
| Total current assets | 6,341,335 | 7,230,250 |
| | | |
| Property and equipment, net | 21,734 | 27,552 |
| Patents, net | 73,541 | 75,832 |
| Deposits | 17,131 | 18,270 |
| Total assets | $ 6,453,741 | $ 7,351,904 |
| | | |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | |
| | | |
| Current liabilities | | |
| Accounts payable | $ 143,102 | $ 124,450 |
| Due to related parties | 90,366 | 90,366 |
| Other current liabilities | 237,990 | 263,141 |
| Total current liabilities | 471,458 | 477,957 |
| | | |
| Convertible notes payable, net | 871,440 | 841,153 |
| | | |
| Total liabilities | 1,342,898 | 1,319,110 |
| | | |
| Commitments and Contingencies (Note 13) | | |
| | | |
| Stockholders' Equity | | |
| Common stock, par value $0.001 per share; 30,000,000 shares authorized as of June 30, 2018 and March 31, 2018; 17,761,206 and 17,739,511 shares issued and outstanding as of June 30, 2018 and March 31, 2018, respectively | 17,762 | 17,740 |
| Additional paid-in capital | 105,804,417 | 105,574,014 |
| Accumulated deficit | (100,603,942) | (99,457,714) |
| Total Aethlon Medical, Inc. stockholders' equity before noncontrolling interests | 5,218,237 | 6,134,040 |
| | | |
| Noncontrolling interests | (107,394) | (101,246) |
| | | |
| Total stockholders' equity | 5,110,843 | 6,032,794 |
| | | |
| Total liabilities and stockholders' equity | $ 6,453,741 | $ 7,351,904 |

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Month Periods Ended June 30, 2018 and 2017
(Unaudited)

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 |
|---|---|---|
| REVENUES | | |
| Government contract revenue | $ 149,625 | $ – |
| Total revenues | 149,625 | – |
| OPERATING EXPENSES | | |
| Professional fees | 449,435 | 343,023 |
| Payroll and related expenses | 602,565 | 630,227 |
| General and administrative | 194,897 | 186,999 |
| Total operating expenses | 1,246,897 | 1,160,249 |
| OPERATING LOSS | (1,097,272) | (1,160,249) |
| OTHER EXPENSE | | |
| Interest and other debt expenses | 55,104 | 188,604 |
| Loss on debt extinguishment | – | 376,909 |
| Loss on share for warrant exchanges | – | 119,789 |
| Total other expense | 55,104 | 685,302 |
| NET LOSS BEFORE NONCONTROLLING INTERESTS | (1,152,376) | (1,845,551) |
| LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS | (6,148) | (3,769) |
| NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | $ (1,146,228) | $ (1,841,782) |
| BASIC AND DILUTED LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS | $ (0.06) | $ (0.21) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED | 17,754,728 | 8,805,522 |

See accompanying notes.

AETHLON MEDICAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended June 30, 2018 and 2017
(Unaudited)

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,152,376) | $ (1,845,551) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 8,109 | 9,326 |
| Stock based compensation | 263,162 | 280,911 |
| Common stock issued for services | – | 33,600 |
| Loss on share for warrant exchanges | – | 119,789 |
| Loss on debt extinguishment | – | 376,909 |
| Amortization of debt discount | 30,287 | 154,802 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | 38,886 | (899) |
| Accounts payable and other current liabilities | (6,499) | (193,951) |
| Due to related parties | – | (9,500) |
| Net cash used in operating activities | (818,431) | (1,074,564) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | – | (23,705) |
| Net cash used in investing activities | – | (23,705) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of common stock, net | – | 1,903 |
| Cash paid for repurchase of restricted stock units | (32,737) | (136,129) |
| Net cash used in financing activities | (32,737) | (134,226 |
| | | |
| Net decrease in cash | (851,168) | (1,232,495) |
| | | |
| Cash at beginning of period | 6,974,070 | 1,559,701 |
| | | |
| Cash at end of period | $ 6,122,902 | $ 327,206 |
| | | |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| | | |
| Debt discount on convertible notes payable | $ – | $ 242,299 |
| | | |
| Issuance of shares under vested restricted stock units | $ 22 | $ 22 |

See accompanying notes.

## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

### ORGANIZATION

Aethlon Medical, Inc. and subsidiary (collectively, "Aethlon", the "Company", "we" or "us") is a medical technology company focused on addressing unmet needs in global health and biodefense. The Aethlon Hemopurifier® is an early clinical-stage therapeutic device designed for the single-use removal of life-threatening viruses from the circulatory system of infected individuals. We believe the Hemopurifier can be a part of the broad-spectrum treatment of life-threatening highly glycosylated viruses that are not addressed with an already approved treatment countermeasure objectives set forth by the U.S. Government to protect citizens from bioterror and pandemic threats. In small-scale or early feasibility human studies, the Hemopurifier has been administered to individuals infected with HIV, Hepatitis-C, and Ebola. Additionally, the Hemopurifier has been validated to capture Zika virus, Lassa virus, MERS-CoV, Cytomegalovirus, Epstein-Barr virus, Herpes Simplex virus, Chikungunya virus, Dengue virus, West Nile virus, Smallpox-related viruses, H1N1 Swine Flu virus, H5N1 Bird Flu virus, and the reconstructed Spanish flu virus of 1918. In several cases, these validations were conducted in collaboration with leading government or non-government research institutes. Domestically, we are focused on the clinical advancement of the Hemopurifier through investigational device exemptions (IDEs) approved by FDA. We recently concluded a feasibility study to demonstrate the safety of our device in health-compromised individuals infected with a viral pathogen.

We are also the majority owner of Exosome Sciences, Inc. (ESI), a company focused on the discovery of exosomal biomarkers to diagnose and monitor life-threatening diseases. Included among ESI's endeavors is the advancement of a TauSome™ biomarker candidate to diagnose Chronic Traumatic Encephalopathy (CTE) in the living. ESI previously documented that TauSome levels in former NFL players to be nine times higher than same age-group control subjects.

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 treatment technology.

Our executive offices are located at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123. Our telephone number is (858) 459-7800. Our website address is www.aethlonmedical.com.

Our common stock is quoted on the Nasdaq Capital Market under the symbol "AEMD."

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

During the three months ended June 30, 2018, 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, 2018.

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 8 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, 2018, included in the Company's Annual Report on Form 10-K filed with the SEC on June 8, 2018. 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 financial statements as of and for the three months ended June 30, 2018, and the condensed consolidated statement of cash flows for the three months ended June 30, 2018. Estimates were made relating to useful lives of fixed assets, 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, 2018 has been derived from the audited consolidated balance sheet at March 31, 2018, contained in the above referenced 10-K. The results of operations for the three months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

LIQUIDITY AND GOING CONCERN

Management expects existing cash as of June 30, 2018 to be sufficient to fund the Company’s operations for at least twelve months from the issuance date of these condensed consolidated financial statements.

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 months ended June 30, 2018 includes 46,125 vested restricted stock units. 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 June 30, 2018 and 2017, a total of 7,145,647 and 3,893,303 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 month periods ended June 30, 2018 and 2017, 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:

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Three months ended | $ 194,784 | $ 157,463 |

4. FUTURE ACCOUNTING PRONOUNCEMENTS

ASU 2016-02, Leases (Topic 842) changes the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU 2016-02 as of its issuance is permitted. We do not expect the adoption of ASU No. 2016-02 to have a significant impact on our consolidated financial statements.

5. CONVERTIBLE NOTES PAYABLE, NET

Convertible Notes Payable, Net consisted of the following at June 30, 2018:

| | Principal | Unamortized Discount | Net Amount | Accrued Interest |
|---|---|---|---|---|
| Convertible Notes Payable, Net – Non-Current Portion: | | | | |
| November 2014 10% Convertible Notes (due July 1, 2019) | $ 612,811 | $ (74,797) | $ 538,014 | $ 49,706 |
| December 2016 10% Convertible Notes (due July 1, 2019) | 379,780 | (46,354) | 333,426 | 30,808 |
| Total Convertible Notes Payable, Net | $ 992,591 | $ (121,151) | $ 871,440 | $ 80,514 |

During the three months ended June 30, 2018, we recorded interest expense of $24,817 related to the contractual interest rates of our convertible notes and interest expense of $30,287 related to the amortization of the note discount for a total interest expense of $55,104 related to our convertible notes in the three months ended June 30, 2018. All of the unamortized discount at June 30, 2018 related to the note discount established upon the June 2017 amendment to the November 2014 10% Convertible Notes and to the December 2016 10% Convertible Notes (see below).

Convertible Notes Payable, Net consisted of the following at March 31, 2018:

| | Principal | Unamortized Discount | Net Amount | Accrued Interest |
|---|---|---|---|---|
| Convertible Notes Payable, Net – Non-Current Portion: | | | | |
| November 2014 10% Convertible Notes (due July 1, 2019) | $ 612,811 | $ (93,590) | $ 519,221 | $ 34,386 |
| December 2016 10% Convertible Notes (due July 1, 2019) | 379,780 | (57,848) | 321,932 | 21,315 |
| Total Convertible Notes Payable, Net | $ 992,591 | $ (151,438) | $ 841,153 | $ 55,701 |

During the three months ended June 30, 2017, we recorded interest expense of $33,802 related to the contractual interest rates of our convertible notes and interest expense of $154,802 related to the amortization of the note discount for a total interest expense of $188,604 related to our convertible notes in the three months ended June 30, 2017. All of the unamortized discount at June 30, 2017 related to the note discount established upon the June 2017 amendment to the November 2014 10% Convertible Notes and to the December 2016 10% Convertible Notes (see below).

NOVEMBER 2014 10% CONVERTIBLE NOTES

In November 2014, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of $527,780 (the “Notes”) and (ii) five year warrants to purchase up to 47,125 shares of common stock at a fixed exercise price of $8.40 per share (the “Warrants”). These Notes bear interest at the annual rate of 10% and originally matured on April 1, 2016.

The aggregate gross cash proceeds to us were $415,000 after subtracting legal fees of $35,000, a $27,780 due diligence fee and an original issuance discount of $50,000. We recorded deferred financing costs of $112,780 to reflect the legal fees, due diligence fee and original issuance discount and will amortize those costs over the life of the Notes using the effective interest method.

These Notes are convertible at the option of the holders into shares of our common stock at a fixed price of $5.60 per share, for up to an aggregate of 94,246 shares of common stock. There are no registration requirements with respect to the shares of common stock underlying the Notes or the Warrants.

The estimated relative fair value of Warrants issued in connection with the Notes was recorded as a debt discount and is amortized as additional interest expense over the term of the underlying debt. We recorded debt discount of $240,133 based on the relative fair value of these Warrants. In addition, as the effective conversion price of the Notes was less than market price of the underlying common stock on the date of issuance, we recorded an additional debt discount of $287,647 related to the beneficial conversion feature.

**Initial Amendment of the November 2014 10% Convertible Note Terms**

On November 12, 2015, we entered into an amendment of terms ("Amendment of Terms") with the two investors that participated in the November 2014 10% Convertible Notes. The Amendment of Terms modified the terms of the subscription agreement, Notes and Warrants held by those investors to, among other things, extended the maturity date of the Notes from April 1, 2016 to June 1, 2016, temporarily reduced the number of shares that we must reserve with respect to conversion of the Notes, and temporarily suspended the time period during which one of the investors may exercise its Warrants. In exchange for the investors' agreements in the Amendment of Terms, we paid one of the investors a cash fee of $90,000, which we recorded as deferred financing costs and amortized over the remaining term of the notes.

**Second Amendment and Extension of the November 2014 10% Convertible Notes**

On June 27, 2016, we and certain investors entered into further Amendments (the "Amendments") to the Notes and the Warrants. The Amendments provide that the Maturity Date (as defined in the Notes) was extended from June 1, 2016 to July 1, 2017 and that the conversion price per share of the Notes was reduced from $5.60 per share of common stock to $5.00 per share of common stock. In addition, we reduced the purchase price (as defined in the Warrants) from $8.40 per share to $5.00 per share of common stock. In connection with these modifications, each of the investors signed a Consent and Waiver providing its consent under certain restrictive provisions, and waiving certain rights, including a right to participate in certain offerings made by us, under a Securities Purchase Agreement dated June 23, 2015, (the "2015 SPA") to which we, the investors and certain other investors are parties, in order to facilitate an at-the-market equity program (see Note 6).

The Amendments also increase the principal amount of the Notes to $692,811 (in the aggregate) to (i) include accrued and unpaid interest through June 15, 2016, and (ii) increase the principal amount by $80,000 (in the aggregate) as an extension fee for the extended maturity date of the Notes. With respect to each Note, we entered into an Allonge to Convertible Promissory Note (each, an "Allonge") reflecting the changes in the principal amount, Maturity Date and conversion price of the Note.

We also issued to the investors new warrants (the "New Warrants") to purchase an aggregate of 30,000 shares of common stock with a Purchase Price (as defined in the New Warrants) of $5.00 per share of common stock. We issued the New Warrants in substantially the same form as the prior Warrants, and the New Warrants will expire on November 6, 2019, the same date on which the prior Warrants will expire.

The modification of the Notes was evaluated under FASB Accounting Standards Codification ("ASC") Topic No. 470-50-40, "Debt Modification and Extinguishments" ("ASC 470-50-40"). Therefore, according to the guidance, the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting. As a result, we recorded a loss on debt extinguishment of $536,889 and recognized an extension fee expense of $80,000, which are included in other (income) expenses in the accompanying condensed consolidated statements of operations. The debt extinguishment is comprised from the fair value of prior warrants issued in connection with the Notes of $287,676, as well as $325,206 related to beneficial conversion feature and offset by debt discount of $75,993. The beneficial conversion feature is a result of the effective conversion price of the new Notes being less than the market price of the underlying common stock on the date of modification.

**Third Amendment and Extension of the November 2014 10% Convertible Notes**

In connection with the issuance of the December 2016 10% Convertible Notes, the conversion price of the November 2014 10% Convertible Notes was reduced from $5.00 to $4.00 per share and the expiration date of the November 2014 10% Convertible Notes was extended from July 1, 2017 to July 1, 2018.

The modification of the Notes was evaluated under ASC 470-50-40 and the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting. As a result, we recorded a gain on debt extinguishment of $58,691, which is included in other (income) expenses in the accompanying condensed consolidated statements of operations. The recording of the modified Notes resulted in a beneficial conversion of $233,748 which is the result of the effective conversion price of the new Notes being less than the market price of the underlying common stock on the date of modification.

**June 2017 Amendment to the November 2014 10% Convertible Notes**

In June 2017, we agreed with the holders of the November 2014 10% Convertible Notes to an extension of the expiration dates of the notes from July 1, 2018 to July 1, 2019 in exchange for the reduction of the conversion price of those notes from $4.00 per share to $3.00 per share. The modification of the Notes was evaluated under ASC 470-50-40 and the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting. Under the extinguishment accounting we recorded a loss on debt extinguishment of $178,655 and recalculated a revised debt discount on the notes.

The following table shows the changes to the principal balance of the November 2014 10% Convertible Notes:

| Activity in the November 2014 10% Convertible Notes | | |
|---|---|---|
| Initial principal balance | $ | 527,780 |
| Increase in principal balance under the second amendment (see above) | | 165,031 |
| Conversions during the fiscal year ended March 31, 2017 | | (80,000) |
| Balance as of June 30, 2018 and March 31, 2018 | $ | 612,811 |

DECEMBER 2016 10% CONVERTIBLE NOTES

In December 2016, we entered into a securities purchase agreement (the "Securities Purchase Agreement") with two accredited investors (collectively, the "Holders"), pursuant to which the Holders purchased an aggregate of $680,400 principal amount of Notes (inclusive of due diligence fee of $30,000 deemed paid as a subscription amount in the form of a Note in the principal amount of $32,400) for an aggregate cash subscription amount of $600,000 and (b) warrants to purchase 127,575 shares of Common Stock (collectively, the "Warrants").

The Notes bear interest at the rate of 10% per annum, and the principal amount and all accrued and unpaid interest thereon is convertible into shares of our common stock at a $4.00 per share conversion price, which is subject to customary adjustment provisions for stock splits, dividends, recapitalizations and the like. The Notes mature on July 1, 2018 and are subject to customary and usual terms for events of default and the like. Each Holder has contractually agreed to restrict its ability to convert its Note 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 our then issued and outstanding shares of Common Stock.

The Warrants issued to the Holders are exercisable for a period of five years from the date of issuance at an exercise price of $4.50, 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 provision 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 our then issued and outstanding shares of Common Stock.

The estimated relative fair value of Warrants issued in connection with the Notes was recorded as a debt discount and is being amortized as additional interest expense over the term of the underlying debt. We recorded debt discount of $232,718 based on the relative fair value of these Warrants. In addition, as the effective conversion price of the Notes was less than market price of the underlying common stock on the date of issuance, we recorded an additional debt discount of $262,718 related to the beneficial conversion feature. We also recorded deferred financing costs of $102,940, which was composed of an 8% original issue discount of $50,400, a $30,000 due diligence fee (which was paid in the form of a note), $22,500 in legal fees, and a $40 bank charge. The combination of the above items led to a combined discount against the convertible notes of $598,376.

**June 2017 Amendment to the December 2016 10% Convertible Notes**

In June 2017, we agreed with the holders of the December 2016 10% Convertible Notes to an extension of the expiration dates of the notes from July 1, 2018 to July 1, 2019 in exchange for the reduction of the conversion price of those notes from $4.00 per share to $3.00 per share. The modification of the notes was evaluated under ASC 470-50-40 and the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting. Under the extinguishment accounting we recorded a loss on debt extinguishment of $198,254 and recalculated a revised debt discount on the notes.

The following table shows the changes to the principal balance of the December 2016 10% Convertible Notes:

| Activity in the December 2016 10% Convertible Notes | | |
|---|---|---|
| Initial principal balance | $ | 680,400 |
| Conversions during the fiscal year ended March 31, 2018 | | (300,620) |
| Balance as of June 30, 2018 and March 31, 2018 | $ | 379,780 |

6. EQUITY TRANSACTIONS IN THE THREE MONTHS ENDED JUNE 30, 2018

**Restricted Stock Unit Grants to Executive Officers and Directors**

During the three months ended June 30, 2018, 46,125 RSUs held by our executives were exchanged into the same number of shares of our common stock. As our executives elected to net settle a portion of their RSU's in exchange for the Company paying the related withholding taxes on the share issuance, 24,430 of the RSUs were cancelled and we issued a net 21,695 shares to our executives (see Note 9).

On June 14, 2018, our Board of Directors approved the issuances of additional RSUs to certain officers and directors (see Note 9).

7. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

During the three months June 30, 2018 we accrued unpaid Board fees of $60,750 owed to our outside directors as of June 30, 2018.

8. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

| | | June 30, 2018 | | March 31, 2018 |
|---|---|---|---|---|
| Accrued interest | $ | 80,516 | $ | 55,701 |
| Accrued professional fees | | 157,474 | | 207,440 |
| Total other current liabilities | $ | 237,990 | $ | 263,141 |

9. STOCK COMPENSATION

The following tables summarize share-based compensation expenses relating to Restricted Stock Units ("RSUs") and options granted and the effect on basic and diluted loss per common share during the three month periods ended June 30, 2018 and 2017:

| | | Three Months Ended June 30, 2018 | | Three Months Ended June 30, 2017 |
|---|---|---|---|---|
| Vesting of stock options and restricted stock units | $ | 263,162 | $ | 280,911 |
| Total stock-based compensation expense | $ | 263,162 | $ | 280,911 |
| | | | | |
| Weighted average number of common shares outstanding – basic and diluted | | 17,754,728 | | 8,805,522 |
| | | | | |
| Basic and diluted loss per common share attributable to stock-based compensation expense | $ | (0.01) | $ | (0.03) |

All of the stock-based compensation expense recorded during the three months ended June 30, 2018 and 2017, which totaled $263,162 and $280,911, respectively, is included in payroll and related expense in the accompanying condensed consolidated statements of operations.

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 three months ended June 30, 2018 was insignificant.

**Restricted Stock Unit Grants to Directors and Executive Officers**

On August 9, 2016, our Board of Directors (the "Board") granted RSUs to certain of our officers and directors. The RSUs represent the right to be issued on a future date shares of our common stock for vested RSUs. Our Compensation Committee recommended the grants based on a compensation assessment provided by a third-party compensation consulting firm engaged by us that developed a peer group of companies for market assessment and analyzed compensation at such companies.

The RSUs were granted under our Amended 2010 Stock Incentive Plan and we recorded expense of $260,699 in the three months ended June 30, 2018 related to the RSU grants.

On June 14, 2018, our Board approved the issuances of additional RSUs of $35,000 in value to each of our independent directors per the 2012 Non-Employee Directors Compensation Program (the "2012 Program") as the stock-based compensation element of their overall directors' compensation for the fiscal year ending March 31, 2019. The Board also approved the issuance of $50,000 of RSUs to a prospective director, if he chose to join our Board again per the 2012 Program. Finally, the Board approved the issuance of $30,000 of RSU's to our Chief Financial Officer. The Board approval called for all of those RSUs to be priced based on the five day trailing averages of our closing stock price leading up to the acceptance of the Board seat by the prospective director, which occurred on June 19, 2018. That average price was $1.31 per share for the RSU calculations. Therefore, a total of 107,196 RSUs were issued to our existing independent directors, 38,285 RSUs were issued to Mr. Cipriani and 22,971 RSUs were issued to our Chief Financial Officer. All of those RSUs will vest ratably on September 30, 2018, December 31, 2018 and March 31, 2019.

RSUs outstanding that have vested and are expected to vest as of June 30, 2018 are as follows:

| | Number of RSUs |
|---|---|
| Vested | 46,125 |
| Expected to vest | 445,202 |
| Total | 491,327 |

During the three months ended June 30, 2018, 46,125 RSUs held by our executives were exchanged into the same number of shares of our common stock. As our executives elected to net settle a portion of their RSU's in exchange for the Company paying the related withholding taxes on the share issuance, 24,430 of the RSUs were cancelled and we issued a net 21,695 shares to our executives.

**Stock Option Activity**

There were no stock option grants during the three months ended June 30, 2018. During the three months ended June 30, 2017, we issued options to four of our employees to purchase 34,500 shares of common stock at a price of $1.68 per share, the closing price on the date of the approval of the option grants by our compensation committee.

Options outstanding that have vested and are expected to vest as of June 30, 2018 are as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term in Years |
|---|---|---|---|
| Vested | 356,047 | $ 8.83 | 4.09 |
| Expected to vest | 18,000 | $ 1.68 | 8.96 |
| Total | 374,047 | | |

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to stock option grants utilizing the Binomial Lattice option pricing models at, and during the three months ended June 30, 2017:

| | |
|---|---|
| Risk free interest rate | 2.21% |
| Average expected life | 10 years |
| Expected volatility | 92.14% |
| Expected dividends | None |

The expected volatility was based on the historic volatility. The expected life of options granted was 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.

A summary of stock option activity during the three months ended June 30, 2018 is presented below:

| | Amount | Range of Exercise Price | Weighted Average Exercise Price |
|---|---|---|---|
| Stock options outstanding at March 31, 2018 | 409,047 | $1.68-$20.50 | $ 9.51 |
| Exercised | – | – | $ – |
| Granted | – | – | $ – |
| Cancelled/Expired | 35,000 | $20.50 | $ 20.50 |
| Stock options outstanding at June 30, 2018 | 374,047 | $1.68-$12.50 | $ 8.48 |
| Stock options exercisable at June 30, 2018 | 356,047 | $1.68-$12.50 | $ 8.83 |

On June 30, 2018, our stock options had no intrinsic value since the closing price on that date of $1.28 per share was below the weighted average exercise price of our stock options.

At June 30, 2018, there was approximately $1,857,821 of unrecognized compensation cost related to share-based payments, which is expected to be recognized over a weighted average period of 1.76 years.

10. WARRANTS

During the three months ended June 30, 2018, we did not issue any warrants nor did any warrants expire or were any warrants exercised. At June 30, 2018, we had 5,922,571 warrants outstanding.

11. GOVERNMENT CONTRACTS AND RELATED REVENUE RECOGNITION

We entered into a contract with the NIH on September 15, 2017. This award is under the NIH’s Small Business Innovation Research (SBIR) program which is designed to fund early stage small businesses that are seeking to commercialize innovative biomedical technologies. The title of the award is SBIR Topic 359 Phase 1 Device Strategy for Selective Isolation of Oncosomes and Non-Malignant Exosomes.

The award from NIH is a firm, fixed-price contract with potential total payments to us of $299,250 over the course of nine months.

Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each period of the contract. The NIH also has the unilateral right to require us to perform additional work under an option period for an additional fixed amount of $49,800.

Under the terms of the contract, we must perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

In the three months ended June 30, 2018, we performed work under the contract covering the remainder of the technical objectives of the contract (Aim 1: To validate the Hemopurifier as a device for capture and recovery of melanoma exosomes from plasma and Aim 2: To validate a method of melanoma exosome isolation consisting of the Hemopurifier followed by mab-based immunocapture to select out the tumor-derived exosomes from non-malignant exosomes and Aim 3: To evaluate the functional integrity of melanoma exosomes purified by the Hemopurifier and immunocapture isolation steps). As a result we invoiced NIH for $149,625 during the three months ended June 30, 2018.

12. SEGMENTS

We operate our businesses principally through two reportable segments: Aethlon, which represents our therapeutic business activities, and ESI, which represents our diagnostic business activities. Our reportable segments have been determined based on the nature of the potential products being developed. We record discrete financial information for ESI and our chief operating decision maker reviews ESI's operating results in order to make decisions about resources to be allocated to the ESI segment and to assess its performance.

Aethlon's revenue is generated primarily from government contracts to date and ESI does not yet have any revenues. We have not included any allocation of corporate overhead to the ESI segment.

The following tables set forth certain information regarding our segments:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Revenues: | | |
| Aethlon | $ 149,625 | $ – |
| ESI | – | – |
| Total Revenues | $ 149,624 | $ – |
| | | |
| Operating Losses: | | |
| Aethlon | $ (1,066,530) | $ (1,141,406) |
| ESI | (30,742) | (18,843) |
| Total Operating Loss | $ (1,097,272) | $ (1,160,249) |
| | | |
| Net Losses: | | |
| Aethlon | $ (1,121,634) | $ (1,826,708) |
| ESI | (30,742) | (18,843) |
| Net Loss Before Non-Controlling Interests | $ (1,152,376) | $ (1,845,551) |
| | | |
| Cash: | | |
| Aethlon | $ 6,120,796 | $ 326,464 |
| ESI | 2,106 | 742 |
| Total Cash | $ 6,122,902 | $ 327,206 |
| | | |
| Total Assets: | | |
| Aethlon | $ 6,451,635 | $ 492,324 |
| ESI | 2,106 | 16,827 |
| Total Assets | $ 6,453,741 | $ 509,151 |
| | | |
| Capital Expenditures: | | |
| Aethlon | $ – | $ 23,705 |
| ESI | – | – |
| Capital Expenditures | $ – | $ 23,705 |
| | | |
| Depreciation and Amortization: | | |
| Aethlon | $ 8,109 | $ 9,326 |
| ESI | – | – |
| Total Depreciation and Amortization | $ 8,109 | $ 9,326 |
| | | |
| Interest Expense: | | |
| Aethlon | $ (55,104) | $ (188,604) |
| ESI | – | – |
| Total Interest Expense | $ (55,104) | $ (188,604) |

13. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

We currently lease approximately 2,600 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123 under a 39-month gross plus utilities lease that commenced on December 1, 2014 and expires in August 31, 2021. The current rental rate under the lease extension is $7,986 per month. We believe this leased facility will be satisfactory for our office needs over the term of the lease.

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 $4,548 per month on a one-year lease that expires on November 30, 2018. Our current plans are to renew the lease prior to expiration or to secure alternative lab space in the San Diego area.

Rent expense, which is included in general and administrative expenses, approximated $50,000 and $35,000 for the three month periods ended June 30, 2018 and 2017, respectively.

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. We are not presently a party to any pending or threatened legal proceedings.

14. SUBSEQUENT EVENTS

Management has evaluated events subsequent to June 30, 2018 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 July 2018, 46,125 RSUs held by our executives were exchanged into the same number of shares of our common stock. As our executives elected to net settle a portion of their RSU’s in exchange for the Company paying the related withholding taxes on the share issuance, 24,083 of the RSUs were cancelled and we issued a net 22,042 shares to our executives.

In July 2018, we issued 15,000 restricted shares of our common stock to an investor relations service provider for services rendered.

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" or "us") 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, U.S. Food and Drug Administration, or 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 “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.

Overview

Aethlon Medical, Inc. and subsidiary (“Aethlon”, the “Company”, “we” or “us”) are a medical device company focused on creating innovative devices that address unmet medical needs in global health and biodefense. The Aethlon Hemopurifier® is a clinical-stage therapeutic device that eliminates life-threatening viruses from the circulatory system of infected individuals.

In June 2013, the U.S. Food and Drug Administration, or FDA, approved our investigational device exemption application to initiate a ten-patient human clinical trial in one location in the U.S. to treat dialysis patients who are infected with the Hepatitis C virus. 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 U.S. The regulatory agencies of certain foreign countries where we intend to sell this device will also require one or more human clinical trials.

Some of our patents may expire before we receive FDA approval to market our products in the U.S. or we receive approval to market our products in a foreign country. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier treatment technology.

Through our majority-owned subsidiary, Exosome Sciences, Inc., or Exosome, we are also studying potential diagnostic techniques for identifying and monitoring neurological conditions and cancer. We consolidate Exosome’s activities in our consolidated financial statements.

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

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 Commission. 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 Commission 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 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123. Our phone number at that address is (858) 459-7800. Our Web site is http://www.aethlonmedical.com.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2017

Revenues

We recorded $149,625 in government contract revenue in the three months ended June 30, 2018 and we did not record any government contract revenue in the three months ended June 30, 2017. This revenue arose from work performed under our government subcontract with National Cancer Institute ("NCI") part of the National Institutes of Health ("NIH") as follows:

| | Three Months Ended 6/30/18 | Three Months Ended 6/30/17 | Change in Dollars |
|---|---|---|---|
| NCI Contract | $ 149,625 | $ – | $ 149,625 |
| Total Government Contract Revenue | $ 149,625 | $ – | $ 149,625 |

*NCI Contract*

We entered into a contract with the NCI on September 15, 2017. This award is under the NIH's Small Business Innovation Research (SBIR) program which is designed to fund early stage small businesses that are seeking to commercialize innovative biomedical technologies. The title of the award is SBIR Topic 359 Phase 1 Device Strategy for Selective Isolation of Oncosomes and Non-Malignant Exosomes.

The award from NIH is a firm, fixed-price contract with potential total payments to us of $299,250 over the course of nine months.

Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each period of the contract. The NIH also has the unilateral right to require us to perform additional work under an option period for an additional fixed amount of $49,800.

Under the terms of the contract, we must perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

In the three months ended June 30, 2018, we performed work under the contract covering the remainder of the technical objectives of the contract (Aim 1: To validate the Hemopurifier as a device for capture and recovery of melanoma exosomes from plasma and Aim 2: To validate a method of melanoma exosome isolation consisting of the Hemopurifier followed by mab-based immunocapture to select out the tumor-derived exosomes from non-malignant exosomes and Aim 3: To evaluate the functional integrity of melanoma exosomes purified by the Hemopurifier and immunocapture isolation steps). As a result we invoiced NIH for $149,625 during the three months ended June 30, 2018.

Operating Expenses

Consolidated operating expenses for the three months ended June 30, 2018 were $1,246,897 in comparison with $1,160,249 for the comparable period a year ago. This increase of $86,648, or 7.5%, was due to increases in professional fees of $106,412 and in general and administrative expenses of $7,898, which was partially offset by a $27,662 decrease in payroll and related expenses.

The $106,412 increase in our professional fees was due to increases in our professional fees of $94,514 and in our professional fees at ESI of $11,898. The $94,514 increase in our professional fees was due to a $66,256 increase in scientific consulting fees, which includes our payments to subcontractors under our NCI contract, a $41,500 increase in our Board fees, and a $38,541 increase in our marketing and investor relations fees. Those increases were partially offset by a $34,645 decrease in our legal fees, a $10,782 decrease in website development fees and a $6,356 decrease in our accounting fees.

The $7,898 increase in general and administrative expenses was primarily due to an increase in our rent expense of $15,161, which was partially offset by reductions in a number of additional expenses.

The $27,662 decrease in payroll and related expenses was primarily due to the combination of a $17,749 decrease in stock-based compensation and a $10,004 decrease in cash-based payroll and related expenses due to a headcount reduction.

Other Expense

Other expense during the three months ended June 30, 2018 and 2017 consisted of losses on debt extinguishment, losses on share for warrant exchanges and interest expense. Other expense for the three months ended June 30, 2018 was other expense of $55,104 in comparison with other expense of $685,302 for the three months ended June 30, 2017.

The following table breaks out the various components of our other expense for both periods:

| | Three Months Ended 6/30/18 | Three Months Ended 6/30/17 | Change |
|---|---|---|---|
| Loss on Debt Extinguishment | $ – | $ 376,909 | $ (376,909) |
| Loss on Share for Warrant Exchanges | – | 119,789 | (119,789) |
| Interest Expense | 55,104 | 188,604 | (133,500) |
| Total Other Expense | $ 55,104 | $ 685,302 | $ (630,198) |

Loss on Debt Extinguishment

Our loss on debt extinguishment for the three months ended June 30, 2017 arose from a $376,909 loss associated with the June 2017 amendments to our convertible notes. There was no loss on debt extinguishment for the three months ended June 30, 2018 - see below for additional information.

June 2017 Amendments – The $376,909 loss on debt extinguishment in the three months ended June 30, 2017 arose from an Exchange Agreement with two institutional investors under which we issued 57,844 restricted shares in exchange for the cancellation of 77,125 warrants held by those investors (see Loss on Share for Warrant Exchanges below). Additionally, we agreed with those investors that they would extend the expiration dates of the convertible notes held by those investors from July 1, 2018 to July 1, 2019 in exchange for the reduction of the conversion price of those notes from $4.00 per share to $3.00 per share. The modification of the notes was evaluated under FASB Accounting Standards Codification (“ASC”) Topic No. 470-50-40, “Debt Modification and Extinguishments”. Therefore, according to the guidance, the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting.

This modification of the notes was also evaluated under ASC Topic No. 470-50-40, “Debt Modification and Extinguishments”. Therefore, according to the guidance, the instruments were determined to be substantially different, and the transaction qualified for extinguishment accounting.

Loss on Share for Warrant Exchanges

During the three months ended June 30, 2017, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants. Additionally, during the period, we entered into an Exchange Agreement with two institutional investors under which we issued 57,844 restricted shares in exchange for the cancellation of 77,125 warrants held by those investors. We measured the fair value of the shares issued and the fair value of the warrants exchanged for those shares and recorded losses for each of those exchanges based on the changes in fair value between the instruments exchanged. There was no loss on share for warrant exchanges for the three months ended June 30, 2018.

Interest Expense

Interest expense was $55,104 for the three months ended June 30, 2018 and was $188,604 for the three months ended June 30, 2017, a decrease of $133,500. The various components of our interest expense are shown in the following table:

| | Three Months Ended 6/30/18 | Three Months Ended 6/30/17 | Change |
|---|---|---|---|
| Interest Expense | $ 24,817 | $ 33,802 | $ (8,985) |
| Amortization of Note Discounts | 30,287 | 154,802 | (124,515) |
| Total Interest Expense | $ 55,104 | $ 188,604 | $ (133,500) |

As noted in the above table, the most significant factor in the $133,500 decrease in our interest expense was the $124,515 decrease in the amortization of note discounts, which related to the amortization against the discount on our convertible notes. An additional factor in the change in our total interest was an $8,985 decrease in our contractual interest expense.

Net Loss

As a result of the changes in revenues and expenses noted above, our net loss before noncontrolling interests decreased from approximately $1,846,000 in the three month period ended June 30, 2017 to $1,152,000 in the three month period ended June 30, 2018.

Basic and diluted loss attributable to common stockholders were ($0.06) for the three month period ended June 30, 2018 compared to ($0.21) for the period ended June 30, 2017.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2018, we had a cash balance of $6,122,902 and working capital of $5,869,877. This compares to a cash balance of $6,974,070 and working capital of $6,752,293 at March 31, 2018. While we expect our current cash levels to support our operations for the ensuing twelve months, beyond that timeframe 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 addition, we will need to raise capital to complete anticipated future human clinical trials in the U.S. We anticipate the primary sources of this additional financing will be from proceeds of our at-the-market offering program, debt financing and other forms of equity placements.

Our primary sources of capital during the fiscal year ended March 31, 2018 (in which we raised $9,628,505 in net proceeds from the issuance of common stock and warrants) were $2,104,968 from the Common Stock Sales Agreement with H.C. Wainwright, net proceeds of $5,289,735 from our October 2017 Public Offering and exercises of certain of the warrants from the October 2017 Public Offering for $2,233,802 in cash.

Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

Cash Flows

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

| | (In thousands) For the three months ended | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Cash used in: | | |
| Operating activities | $ (818) | $ (1,075) |
| Investing activities | – | (24) |
| Financing activities | (33) | (134) |
| Net decrease in cash | $ (851) | $ (1,233) |

NET CASH USED IN OPERATING ACTIVITIES. We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately $818,000 in the three months ended June 30, 2018 compared to $1,075,000 in the three months ended June 30, 2017, a decrease of approximately $257,000.

NET CASH USED IN INVESTING ACTIVITIES. We used approximately $24,000 of cash to purchase laboratory and office equipment in the three months ended June 30, 2017. We had no investing activities in the three months ended June 30, 2018.

NET CASH USED IN FINANCING ACTIVITIES. In the three months ended June 30, 2018 we used approximately $33,000 for tax withholding on vested rights while in the three months ended June 30, 2017 we used approximately $134,000 in our financing activities also due to the payment of approximately $136,000 for tax withholding on vested rights.

At the date of this filing, we plan to invest significantly into purchases of our raw materials and into our contract manufacturing arrangement subject to successfully raising additional capital.

CRITICAL ACCOUNTING POLICIES

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting 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, 2018.

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 and our Chief Financial Officer, 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 the end of the period covered by this Quarterly Report.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are 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 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 Chief Executive Officer and Chief Financial Officer, 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. We are not presently a party to any pending or threatened legal proceedings.

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 June 30, 2018 and subsequent thereto through the date of filing this report, we issued 15,000 restricted shares of our common stock in July 2018, to an investor relations service provider for services rendered.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

We have no disclosure applicable to this item.

ITEM 4. MINE SAFETY DISCLOSURES.

We have no disclosure applicable to this item.

ITEM 5. OTHER INFORMATION.

We have no disclosure applicable to this item.

ITEM 6. EXHIBITS.

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

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*

| | |
|---|---|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

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: August 8, 2018

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: August 8, 2018

/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: August 8, 2018

/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 June 30, 2018 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. 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: August 8, 2018

/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 June 30, 2018 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. 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: August 8, 2018

/s/ JAMES B. FRAKES
James B. Frakes
Chief Financial 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.